REGIONS FINANCIAL CORP
Form 10-Q
November 05, 2014
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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, 2014

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 (State or other jurisdiction of incorporation or organization)	63-0589368 (IRS Employer Identification No.)
1900 Fifth Avenue North Birmingham, Alabama (Address of principal executive offices)	35203 (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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ý Yes ¨ No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer ý Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨

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

The number of shares outstanding of each of the issuer's classes of common stock was 1,376,475,042 shares of common stock, par value $.01, outstanding as of November 3, 2014.

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Forward-Looking Statements

This Quarterly Report on Form 10-Q, other periodic reports filed by Regions Financial Corporation under the Securities Exchange Act of 1934, as amended, and any other written or oral statements made by us or on our behalf to analysts, investors, the media and others, may include forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. The terms “Regions,” the “Company,” “we,” “us” and “our” mean Regions Financial Corporation, a Delaware corporation, and its subsidiaries when or where appropriate. The words “anticipates,” “intends,” “plans,” “seeks,” “believes,” “estimates,” “expects,” “targets,” “projects,” “outlook,” “forecast,” “will,” “may,” “could,” “shou expressions 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 United States generally or in the communities we serve, including the effects of declines in property values, unemployment rates and potential reduction of economic growth.
- Possible changes in trade, monetary and fiscal policies of, and other activities undertaken by, governments, agencies, central banks and similar organizations.
- The effects of a possible downgrade in the U.S. government’s sovereign credit rating or outlook.
- Possible changes in market interest rates.
- Any impairment of our goodwill or other intangibles, or any adjustment of valuation allowances on our deferred tax assets due to adverse changes in the economic environment, declining operations of the reporting unit, or other factors.
- Possible changes in the creditworthiness of customers and the possible impairment of the collectability of loans.
- Changes in the speed of loan prepayments, loan origination and sale volumes, charge-offs, loan loss provisions or actual loan losses.
- Possible acceleration of prepayments on mortgage-backed securities due to low interest rates, and the related acceleration of premium amortization on those securities.
- Our ability to effectively compete with other financial services companies, some of whom possess greater financial resources than we do and are subject to different regulatory standards than we are.
- Loss of customer checking and savings account deposits as customers pursue other, higher-yield investments.
- Our ability to develop and gain acceptance from current and prospective customers for new products and services in a timely manner.
- Changes in laws and regulations affecting our businesses, including changes in the enforcement and interpretation of such laws and regulations by applicable governmental and self-regulatory agencies.
- Our ability to obtain regulatory approval (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 or future programs, or redeem preferred stock or other regulatory capital instruments.
- Our ability to comply with applicable capital and liquidity requirements (including finalized Basel III capital standards), including our ability to generate capital internally or raise capital on favorable terms.
- The costs and other 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.
- Any adverse change to our ability to collect interchange fees in a profitable manner, whether such change is the result of regulation, litigation, legislation, or other governmental action.
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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.

- Possible changes in consumer and business spending and saving habits and the related effect on our ability to increase assets and to attract deposits.
- 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.
- The inability of our internal disclosure 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.
- The effects of man-made and natural disasters, including fires, floods, droughts, tornadoes, hurricanes and environmental damage.
- Our ability to keep pace with technological changes.

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- Our ability to identify and address cyber-security risks such as data security breaches, “denial of service” attacks, “hacking” and identity theft.
- Possible downgrades in our credit ratings or outlook.
- The effects of problems encountered by other financial institutions that adversely affect us or the banking industry generally.
- The effects of the failure of any component of our business infrastructure which is provided by a third party.
- Our ability to receive dividends from our subsidiaries.
- Changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other regulatory agencies.
- 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. We assume no obligation 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 Securities and Exchange Commission, including the discussion under the “Risk Factors” section of Regions’ Annual Report on Form 10-K for the year ended December 31, 2013 as filed with the Securities and Exchange Commission and available on its website at www.sec.gov.

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PART I
FINANCIAL INFORMATION
Item 1. Financial Statements (Unaudited)
REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	September 30, 2014	December 31, 2013
	(In millions, except share data)	
Assets		
Cash and due from banks	$1,770	$1,661
Interest-bearing deposits in other banks	2,993	3,612
Federal funds sold and securities purchased under agreements to resell	20	—
Trading account securities	103	111
Securities held to maturity (estimated fair value of $2,224 and $2,307, respectively)	2,222	2,353
Securities available for sale	22,379	21,485
Loans held for sale (includes $456 and $429 measured at fair value, respectively)	504	1,055
Loans, net of unearned income	76,607	74,609
Allowance for loan losses	(1,178)	(1,341)
Net loans	75,429	73,268
Other interest-earning assets	91	86
Premises and equipment, net	2,192	2,216
Interest receivable	310	313
Goodwill	4,816	4,816
Residential mortgage servicing rights at fair value	277	297
Other identifiable intangible assets	287	295
Other assets	5,833	5,828
Total assets	$119,226	$117,396
Liabilities and Stockholders' Equity		
Deposits:		
Non-interest-bearing	$31,388	$30,083
Interest-bearing	62,742	62,370
Total deposits	94,130	92,453
Borrowed funds:		
Short-term borrowings:		
Federal funds purchased and securities sold under agreements to repurchase	1,893	2,182
Long-term borrowings	3,813	4,830
Total borrowed funds	5,706	7,012
Other liabilities	2,230	2,163
Total liabilities	102,066	101,628
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 and 500,000 shares, respectively	900	450
Common stock, authorized 3 billion shares, par value $.01 per share:		
Issued including treasury stock—1,419,889,980 and 1,419,006,360 shares, respectively	14	14

Additional paid-in capital	19,069	19,216
Retained earnings (deficit)	(1,272)	(2,216)
Treasury stock, at cost—41,262,629 and 41,285,676 shares, respectively	(1,377)	(1,377)
Accumulated other comprehensive income (loss), net	(174)	(319)
Total stockholders’ equity	17,160	15,768
Total liabilities and stockholders’ equity	$119,226	$117,396

See notes to consolidated financial statements.

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REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
	(In millions, except per share data)			
Interest income on:				
Loans, including fees	$736	$758	$2,205	$2,247
Securities - taxable	154	144	464	452
Loans held for sale	5	6	17	23
Trading account securities	—	1	2	2
Other interest-earning assets	2	2	6	5
Total interest income	897	911	2,694	2,729
Interest expense on:				
Deposits	26	31	78	106
Short-term borrowings	—	1	1	2
Long-term borrowings	50	55	156	191
Total interest expense	76	87	235	299
Net interest income	821	824	2,459	2,430
Provision for loan losses	24	18	61	59
Net interest income after provision for loan losses	797	806	2,398	2,371
Non-interest income:				
Service charges on deposit accounts	181	190	528	549
Card and ATM fees	85	82	248	239
Mortgage income	39	52	122	193
Securities gains (losses), net	7	3	15	26
Other	166	168	460	486
Total non-interest income	478	495	1,373	1,493
Non-interest expense:				
Salaries and employee benefits	456	455	1,354	1,354
Net occupancy expense	92	92	275	274
Furniture and equipment expense	73	71	213	209
Other	205	266	621	773
Total non-interest expense	826	884	2,463	2,610
Income from continuing operations before income taxes	449	417	1,308	1,254
Income tax expense	127	124	380	360
Income from continuing operations	322	293	928	894
Discontinued operations:				
Income (loss) from discontinued operations before income taxes	5	(1)	26	1
Income tax expense (benefit)	2	(1)	10	—
Income (loss) from discontinued operations, net of tax	3	—	16	1
Net income	$325	$293	$944	$895
Net income from continuing operations available to common shareholders	$302	$285	$892	$870
Net income available to common shareholders	$305	$285	$908	$871

Weighted-average number of shares outstanding:				
Basic	1,378	1,388	1,378	1,401
Diluted	1,389	1,405	1,390	1,415
Earnings per common share from continuing operations:				
Basic	$0.22	$0.21	$0.65	$0.62
Diluted	0.22	0.20	0.64	0.61
Earnings per common share:				
Basic	$0.22	$0.21	$0.66	$0.62
Diluted	0.22	0.20	0.65	0.62
Cash dividends declared per common share	0.05	0.03	0.13	0.07

See notes to consolidated financial statements.

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REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended September 30	
	2014	2013
	(In millions)	
Net income	$325	$293
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 ($2) tax effect, respectively)	(2)	(2)
Net change in unrealized losses on securities transferred to held to maturity, net of tax	2	2
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period (net of ($53) and $26 tax effect, respectively)	(87)	43
Less: reclassification adjustments for securities gains (losses) realized in net income (net of $2 and $1 tax effect, respectively)	5	2
Net change in unrealized gains (losses) on securities available for sale, net of tax	(92)	41
Unrealized gains (losses) on derivative instruments designated as cash flow hedges:		
Unrealized holding gains (losses) on derivatives arising during the period (net of ($10) and $18 tax effect, respectively)	(16)	28
Less: reclassification adjustments for gains (losses) realized in net income (net of $13 and $10 tax effect, respectively)	21	16
Net change in unrealized gains (losses) on derivative instruments, net of tax	(37)	12
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)	—	—
Less: reclassification adjustments for amortization of actuarial loss and prior service cost realized in net income, and other (net of ($2) and ($7) tax effect, respectively)	(5)	(12)
Net change from defined benefit pension plans, net of tax	5	12
Other comprehensive income (loss), net of tax	(122)	67
Comprehensive income (loss)	$203	$360

	Nine Months Ended September 30	
	2014	2013
	(In millions)	
Net income	$944	$895
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 ($43) tax effect, respectively)	—	(68)
Less: reclassification adjustments for amortization of unrealized losses on securities transferred to held to maturity (net of ($4) and ($2) tax effect, respectively)	(6)	(2)
Net change in unrealized losses on securities transferred to held to maturity, net of tax	6	(66)
Unrealized gains (losses) on securities available for sale:		

Unrealized holding gains (losses) arising during the period (net of $87 and ($232) tax effect, respectively)	143	(378)
Less: reclassification adjustments for securities gains (losses) realized in net income (net of $5 and $9 tax effect, respectively)	10	17
Net change in unrealized gains (losses) on securities available for sale, net of tax	133	(395)
Unrealized gains (losses) on derivative instruments designated as cash flow hedges:		
Unrealized holding gains (losses) on derivatives arising during the period (net of $30 and ($6) tax effect, respectively)	48	(10)
Less: reclassification adjustments for gains (losses) realized in net income (net of $35 and $22 tax effect, respectively)	56	36
Net change in unrealized gains (losses) on derivative instruments, net of tax	(8)	(46)
Defined benefit pension plans and other post employment benefits:		
Net actuarial gains (losses) arising during the period (net of $2 and zero tax effect, respectively)	1	(2)
Less: reclassification adjustments for amortization of actuarial loss and prior service cost realized in net income, and other (net of ($6) and $(19) tax effect, respectively)	(13)	(33)
Net change from defined benefit pension plans, net of tax	14	31
Other comprehensive income (loss), net of tax	145	(476)
Comprehensive income (loss)	$1,089	$419

See notes to consolidated financial statements.

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REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings (Deficit)	Treasury Stock, At Cost	Accumulated Other Comprehensive Income (Loss), Net	Total
	Shares	Amount	Shares	Amount					
	(In millions, except share and per share data)								
BALANCE AT JANUARY 1, 2013	1	$ 482	1,413	$ 15	$ 19,652	$ (3,338)	$ (1,377)	$ 65	$ 15,499
Net income	—	—	—	—	—	895	—	—	895
Unrealized losses on securities transferred to held to maturity, net of tax	—	—	—	—	—	—	—	(68)	(68)
Amortization of unrealized losses on securities transferred to held to maturity, net of tax	—	—	—	—	—	—	—	2	2
Net change in unrealized gains and losses on securities available for sale, net of tax and reclassification adjustment	—	—	—	—	—	—	—	(395)	(395)
Net change in unrealized gains and losses on derivative instruments, net of tax and reclassification adjustment	—	—	—	—	—	—	—	(46)	(46)
Net change from defined benefit pension plans, net of tax	—	—	—	—	—	—	—	31	31
Cash dividends declared—$0.07 per share	—	—	—	—	(97)	—	—	—	(97)
Preferred stock dividends	—	(24)	—	—	—	—	—	—	(24)
Common stock transactions:									
Impact of share repurchase	—	—	(36)	(1)	(339)	—	—	—	(340)
Impact of stock transactions under compensation plans, net	—	—	1	—	32	—	—	—	32
BALANCE AT SEPTEMBER 30, 2013	1	$ 458	1,378	$ 14	$ 19,248	$ (2,443)	$ (1,377)	$ (411)	$ 15,489
BALANCE AT JANUARY 1, 2014	1	$ 450	1,378	$ 14	$ 19,216	$ (2,216)	$ (1,377)	$ (319)	$ 15,768
Net income	—	—	—	—	—	944	—	—	944
Amortization of unrealized losses on securities transferred to held to	—	—	—	—	—	—	—	6	6

maturity, net of tax									
Net change in unrealized gains and losses on securities available for sale, net of tax and reclassification adjustment	—	—	—	—	—	—	—	133	133
Net change in unrealized gains and losses on derivative instruments, net of tax and reclassification adjustment	—	—	—	—	—	—	—	(8)	(8)
Net change from defined benefit pension plans, net of tax	—	—	—	—	—	—	—	14	14
Cash dividends declared—$0.13 per share	—	—	—	—	(180)	—	—	—	(180)
Preferred stock dividends	—	(36)	—	—	—	—	—	—	(36)
Preferred stock transactions:									
Net proceeds from issuance of 500 thousand shares of Series B, fixed to floating rate, non-cumulative perpetual preferred stock, including related surplus	—	486	—	—	—	—	—	—	486
Common stock transactions:									
Impact of share repurchase	—	—	(1)	—	(8)	—	—	—	(8)
Impact of stock transactions under compensation plans, net	—	—	2	—	41	—	—	—	41
BALANCE AT SEPTEMBER 30, 2014	1	$ 900	1,379	$ 14	$ 19,069	$ (1,272)	$ (1,377)	$ (174)	$ 17,160

See notes to consolidated financial statements.

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REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30	
	2014	2013
	(In millions)	
Operating activities:		
Net income	$944	$895
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	61	59
Depreciation, amortization and accretion, net	391	497
Provision for losses on other real estate, net	(13)	14
Securities (gains) losses, net	(15)	(26)
Deferred income tax expense	176	310
Originations and purchases of loans held for sale	(1,848)	(3,373)
Proceeds from sales of loans held for sale	1,948	4,156
Gain on TDRs held for sale, net	(35)	—
(Gain) loss on sale of loans, net	(89)	(101)
(Gain) loss on early extinguishment of debt	—	61
(Gain) loss on sale of other assets	—	(24)
Net change in operating assets and liabilities:		
Trading account securities	8	(3)
Other interest-earning assets	(5)	795
Interest receivable	3	13
Other assets	(69)	331
Other liabilities	64	(451)
Other	(3)	(7)
Net cash from operating activities	1,518	3,146
Investing activities:		
Proceeds from maturities of securities held to maturity	130	41
Proceeds from sales of securities available for sale	1,384	3,543
Proceeds from maturities of securities available for sale	2,350	4,611
Purchases of securities available for sale	(4,524)	(5,888)
Proceeds from sales of loans	649	152
Purchases of loans	(814)	(733)
Purchases of mortgage servicing rights	(12)	(28)
Net change in loans	(1,662)	(1,970)
Net purchases of premises and equipment and other assets	(164)	(122)
Net cash from investing activities	(2,663)	(394)
Financing activities:		
Net change in deposits	1,677	(3,153)
Net change in short-term borrowings	(289)	199
Proceeds from long-term borrowings	—	750
Payments on long-term borrowings	(1,001)	(1,719)
Cash dividends on common stock	(180)	(97)
Cash dividends on preferred stock	(36)	(24)
Repurchase of common stock	(8)	(340)

Net proceeds from issuance of preferred stock	486	—
Other	6	2
Net cash from financing activities	655	(4,382)
Net change in cash and cash equivalents	(490)	(1,630)
Cash and cash equivalents at beginning of year	5,273	5,489
Cash and cash equivalents at end of period	$4,783	$3,859

See notes to consolidated financial statements.

REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Three and Nine Months Ended September 30, 2014 and 2013

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 primarily in Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, South Carolina, Tennessee, Texas and Virginia. The Company is subject to competition from other financial institutions, is subject to the regulations of certain government agencies and undergoes periodic examinations by certain of those 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 accounting principles generally accepted in the United States ("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' Form 10-K for the year ended December 31, 2013. Regions has evaluated all subsequent events for potential recognition and disclosure through the filing date of this Form 10-Q.

On January 11, 2012, Regions entered into an agreement to sell Morgan Keegan & Company, Inc. ("Morgan Keegan") and related affiliates. The transaction closed on April 2, 2012. See Note 2 and Note 14 for further details. Results of operations for the 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, 2013.

Certain amounts in prior period financial statements have been reclassified to conform to the current period presentation. For example, the "card and ATM fees" line item on the consolidated statements of income represents the combined amounts of credit card/bank card income and debit card and ATM related revenue. Debit card and ATM related revenue was previously included in the "service charges on deposit accounts" line item. Credit card/bank card income was previously included in the "other" non-interest income line item. These reclassifications are immaterial and have no effect on net income, comprehensive income, total assets or total stockholders' equity as previously reported.

NOTE 2. DISCONTINUED OPERATIONS

On January 11, 2012, Regions entered into a stock purchase agreement to sell Morgan Keegan and related affiliates to Raymond James Financial, Inc. ("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 14 for related disclosure.

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The following table represents the condensed results of operations for discontinued operations:

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
	(In millions, except per share data)			
Non-interest income:				
Insurance proceeds	$19	$—	$19	$—
Total non-interest income	19	—	19	—
Non-interest expense:				
Professional and legal expenses	14	3	(8)	(1)
Other	—	(2)	1	—
Total non-interest expense	14	1	(7)	(1)
Income (loss) from discontinued operations before income taxes	5	(1)	26	1
Income tax expense (benefit)	2	(1)	10	—
Income (loss) from discontinued operations, net of tax	$3	$—	$16	$1
Earnings (loss) per common share from discontinued operations:				
Basic	$0.00	$(0.00)	$0.01	$0.00
Diluted	$0.00	$(0.00)	$0.01	$0.00

NOTE 3. SECURITIES

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

	September 30, 2014						
		Recognized in OCI [1]			Not recognized in OCI		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)						
Securities held to maturity:							
U.S. Treasury securities	$1	$—	$—	$1	$—	$—	$1
Federal agency securities	351	—	(13)	338	4	—	342
Mortgage-backed securities:							
Residential agency	1,745	—	(74)	1,671	10	(5)	1,676
Commercial agency	219	—	(7)	212	—	(7)	205
	$2,316	$—	$(94)	$2,222	$14	$(12)	$2,224
Securities available for sale:							
U.S. Treasury securities	$61	$—	$—	$61			$61
Federal agency securities	68	1	—	69			69
Obligations of states and political subdivisions	3	—	—	3			3
Mortgage-backed securities:							
Residential agency	16,362	236	(78)	16,520			16,520
Residential non-agency	8	1	—	9			9

Commercial agency	1,608	7	(12)	1,603	1,603
Commercial non-agency	1,493	11	(16)	1,488	1,488
Corporate and other debt securities	1,973	43	(22)	1,994	1,994
Equity securities	622	10	—	632	632
	$22,198	$309	$(128)	$22,379	$22,379

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

	December 31, 2013						
		Recognized in OCI (1)			Not recognized in OCI		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)						
Securities held to maturity:							
U.S. Treasury securities	$1	$—	$—	$1	$—	$—	$1
Federal agency securities	351	—	(15)	336	—	(3)	333
Mortgage-backed securities:							
Residential agency	1,878	—	(81)	1,797	—	(37)	1,760
Commercial agency	227	—	(8)	219	—	(6)	213
	$2,457	$—	$(104)	$2,353	$—	$(46)	$2,307
Securities available for sale:							
U.S. Treasury securities	$56	$—	$—	$56			$56
Federal agency securities	88	1	—	89			89
Obligations of states and political subdivisions	5	—	—	5			5
Mortgage-backed securities:							
Residential agency	15,664	183	(170)	15,677			15,677
Residential non-agency	8	1	—	9			9
Commercial agency	947	4	(16)	935			935
Commercial non-agency	1,232	12	(33)	1,211			1,211
Corporate and other debt securities	2,855	44	(72)	2,827			2,827
Equity securities	664	12	—	676			676
	$21,519	$257	$(291)	$21,485			$21,485

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

During the second quarter of 2013, Regions transferred securities with a fair value of $2.4 billion from available for sale to held to maturity. Management determined it has both the positive intent and ability to hold these securities to maturity. The securities were reclassified at fair value at the time of transfer and represented a non-cash transaction. Accumulated other comprehensive income included net pre-tax unrealized losses of $111 million on the securities at the date of transfer. These unrealized losses and the offsetting OCI components are being amortized into net interest income over the remaining life of the related securities as a yield adjustment, resulting in no impact on future net income.

Equity securities in the tables above included the following amortized cost related to Federal Reserve Bank stock and Federal Home Loan Bank ("FHLB") stock. Shares in the Federal Reserve Bank and FHLB are accounted for at amortized cost, which approximates fair value.

	September 30, 2014	December 31, 2013
	(In millions)	
Federal Reserve Bank	$477	$472

Federal Home Loan Bank	16	67

Securities with carrying values of $12.5 billion at both September 30, 2014 and December 31, 2013 were pledged to secure public funds, trust deposits and certain borrowing arrangements.

The amortized cost and estimated fair value of securities available for sale and securities held to maturity at September 30, 2014, 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.

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	Amortized Cost	Estimated Fair Value
	(In millions)	
Securities held to maturity:		
Due in one year or less	$1	$1
Due after one year through five years	1	1
Due after five years through ten years	350	341
Mortgage-backed securities:		
Residential agency	1,745	1,676
Commercial agency	219	205
	$2,316	$2,224
Securities available for sale:		
Due in one year or less	$69	$69
Due after one year through five years	749	764
Due after five years through ten years	968	968
Due after ten years	319	326
Mortgage-backed securities:		
Residential agency	16,362	16,520
Residential non-agency	8	9
Commercial agency	1,608	1,603
Commercial non-agency	1,493	1,488
Equity securities	622	632
	$22,198	$22,379

The following tables present gross unrealized losses and the related estimated fair value of securities available for sale and held to maturity at September 30, 2014 and December 31, 2013. For 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, 2014					
	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)					
Securities held to maturity:						
Federal agency securities	$—	$—	$341	$(9)	$341	$(9)
Mortgage-backed securities:						
Residential agency	—	—	1,674	(69)	1,674	(69)
Commercial agency	—	—	205	(14)	205	(14)
	$—	$—	$2,220	$(92)	$2,220	$(92)
Securities available for sale:						
U.S. Treasury securities	$14	$—	$5	$—	$19	$—
Federal agency securities	—	—	8	—	8	—
Mortgage-backed securities:						
Residential agency	3,288	(14)	2,944	(64)	6,232	(78)
Residential non-agency	1	—	—	—	1	—

Commercial agency	556	(4	)	343	(8	)	899	(12	)
Commercial non-agency	320	(2	)	565	(14	)	885	(16	)
All other securities	275	(2	)	492	(20	)	767	(22	)
	$4,454	$(22	)	$4,357	$(106	)	$8,811	$(128	)

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	December 31, 2013					
	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)					
Securities held to maturity:						
Federal agency securities	$190	$(9)	$142	$(8)	$332	$(17)
Mortgage-backed securities:						
Residential agency	1,236	(77)	521	(41)	1,757	(118)
Commercial agency	212	(15)	—	—	212	(15)
	$1,638	$(101)	$663	$(49)	$2,301	$(150)
Securities available for sale:						
U.S. Treasury securities	$15	$—	$1	$—	$16	$—
Federal agency securities	3	—	9	—	12	—
Mortgage-backed securities:						
Residential agency	6,153	(161)	270	(9)	6,423	(170)
Commercial agency	610	(17)	—	—	610	(17)
Commercial non-agency	711	(30)	62	(3)	773	(33)
All other securities	1,422	(58)	209	(13)	1,631	(71)
	$8,914	$(266)	$551	$(25)	$9,465	$(291)

The number of individual securities in an unrealized loss position in the tables above decreased from 1,052 at December 31, 2013 to 834 at September 30, 2014. The decrease in the number of securities and the total amount of unrealized losses from year-end 2013 was primarily due to changes in interest rates. In instances where an unrealized loss did occur, there was no indication of an adverse change in credit on any of the underlying securities in the tables above. Management believes no individual unrealized loss represented an other-than-temporary impairment 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 securities before the recovery of their amortized cost basis, which may be at maturity.

At June 30, 2014, the Company made the decision to sell approximately $328 million of certain other securities available for sale that remained on the Company's balance sheet. As the Company intended to sell these securities, each security reflecting an unrealized loss was considered to have an other-than-temporary impairment. The table below reflects total other-than-temporary impairment losses recorded during the second quarter of 2014. All of these securities were subsequently sold during the third quarter of 2014.

Gross realized gains and gross realized losses on sales of securities available for sale, as well as other-than-temporary impairment losses are shown in the table below. The cost of securities sold is based on the specific identification method.

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
	(In millions)			
Gross realized gains	$9	$7	$25	$52
Gross realized losses	(2)	(4)	(8)	(26)
Other-than-temporary-impairment ("OTTI")	—	—	(2)	—
Securities gains, net	$7	$3	$15	$26

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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, 2014	December 31, 2013
	(In millions, net of unearned income)	
Commercial and industrial	$31,857	$29,413
Commercial real estate mortgage—owner-occupied	8,666	9,495
Commercial real estate construction—owner-occupied	350	310
Total commercial	40,873	39,218
Commercial investor real estate mortgage	4,940	5,318
Commercial investor real estate construction	1,878	1,432
Total investor real estate	6,818	6,750
Residential first mortgage	12,264	12,163
Home equity	10,968	11,294
Indirect	3,543	3,075
Consumer credit card	964	948
Other consumer	1,177	1,161
Total consumer	28,916	28,641
	$76,607	$74,609

During the three months ended September 30, 2014 and 2013, Regions purchased approximately $296 million and $277 million, respectively, in indirect loans from a third party. During the nine months ended September 30, 2014 and 2013, the comparable loan purchase amounts were approximately $814 million and $733 million, respectively.

At September 30, 2014, $13.2 billion in loans held by Regions were pledged to secure borrowings from the FHLB. At September 30, 2014, an additional $29.4 billion of loans held by Regions were pledged to the Federal Reserve Bank.

ALLOWANCE FOR CREDIT LOSSES

Regions determines the appropriate level of the allowance on at least 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, 2013, 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, 2014 and 2013. The total allowance for loan losses and the related loan portfolio ending balances as of September 30, 2014 and 2013 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 loans and leases greater than or equal to $2.5 million and all troubled debt restructurings ("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.

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	Three Months Ended September 30, 2014			
	Commercial	Investor Real Estate	Consumer	Total
	(In millions)			
Allowance for loan losses, July 1, 2014	$705	$190	$334	$1,229
Provision (credit) for loan losses	18	(23)	29	24
Loan losses:				
Charge-offs	(49)	(5)	(66)	(120)
Recoveries	21	6	18	45
Net loan losses	(28)	1	(48)	(75)
Allowance for loan losses, September 30, 2014	695	168	315	1,178
Reserve for unfunded credit commitments, July 1, 2014	$74	$12	$3	$89
Provision (credit) for unfunded credit losses	(21)	(3)	—	(24)
Reserve for unfunded credit commitments, September 30, 2014	53	9	3	65
Allowance for credit losses, September 30, 2014	$748	$177	$318	$1,243

	Three Months Ended September 30, 2013			
	Commercial	Investor Real Estate	Consumer	Total
	(In millions)			
Allowance for loan losses, July 1, 2013	$764	$342	$530	$1,636
Provision (credit) for loan losses	29	(37)	26	18
Loan losses:				
Charge-offs	(54)	(13)	(89)	(156)
Recoveries	17	8	17	42
Net loan losses	(37)	(5)	(72)	(114)
Allowance for loan losses, September 30, 2013	756	300	484	1,540
Reserve for unfunded credit commitments, July 1, 2013	$60	$9	$4	$73
Provision (credit) for unfunded credit losses	3	(1)	(1)	1
Reserve for unfunded credit commitments, September 30, 2013	63	8	3	74
Allowance for credit losses, September 30, 2013	$819	$308	$487	$1,614

	Nine Months Ended September 30, 2014			
	Commercial	Investor Real Estate	Consumer	Total
	(In millions)			
Allowance for loan losses, January 1, 2014	$711	$236	$394	$1,341
Provision (credit) for loan losses	62	(68)	67	61
Loan losses:				
Charge-offs	(130)	(21)	(203)	(354)
Recoveries	52	21	57	130
Net loan losses	(78)	—	(146)	(224)
Allowance for loan losses, September 30, 2014	695	168	315	1,178
Reserve for unfunded credit commitments, January 1, 2014	63	12	3	78
Provision (credit) for unfunded credit losses	(10)	(3)	—	(13)

Reserve for unfunded credit commitments, September 30, 2014	53	9	3	65
Allowance for credit losses, September 30, 2014	$748	$177	$318	$1,243
Portion of ending allowance for loan losses:				
Individually evaluated for impairment	$204	$80	$79	$363
Collectively evaluated for impairment	491	88	236	815
Total allowance for loan losses	$695	$168	$315	$1,178
Portion of loan portfolio ending balance:				
Individually evaluated for impairment	$758	$466	$849	$2,073
Collectively evaluated for impairment	40,115	6,352	28,067	74,534
Total loans evaluated for impairment	$40,873	$6,818	$28,916	$76,607

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	Nine Months Ended September 30, 2013			
	Commercial	Investor Real Estate	Consumer	Total
	(In millions)			
Allowance for loan losses, January 1, 2013	$847	$469	$603	$1,919
Provision (credit) for loan losses	86	(136)	109	59
Loan losses:				
Charge-offs	(230)	(59)	(281)	(570)
Recoveries	53	26	53	132
Net loan losses	(177)	(33)	(228)	(438)
Allowance for loan losses, September 30, 2013	756	300	484	1,540
Reserve for unfunded credit commitments, January 1, 2013	69	10	4	83
Provision (credit) for unfunded credit losses	(6)	(2)	(1)	(9)
Reserve for unfunded credit commitments, September 30, 2013	63	8	3	74
Allowance for credit losses, September 30, 2013	$819	$308	$487	$1,614
Portion of ending allowance for loan losses:				
Individually evaluated for impairment	$261	$159	$162	$582
Collectively evaluated for impairment	495	141	322	958
Total allowance for loan losses	$756	$300	$484	$1,540
Portion of loan portfolio ending balance:				
Individually evaluated for impairment	$1,184	$1,006	$1,589	$3,779
Collectively evaluated for impairment	38,622	5,924	27,567	72,113
Total loans evaluated for impairment	$39,806	$6,930	$29,156	$75,892

PORTFOLIO SEGMENT RISK FACTORS

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

Commercial—The commercial loan 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 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 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.

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 valuation of real estate.

Consumer—The consumer loan portfolio segment includes residential first mortgage, home equity, indirect, 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 lending, which is lending initiated through third-party business partners, largely consists of loans made through automotive dealerships. Consumer credit card includes Regions branded consumer credit card accounts. Other consumer loans include direct consumer installment loans and overdrafts. Loans in this portfolio segment are sensitive to unemployment and other key consumer economic measures.

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CREDIT QUALITY INDICATORS

The following tables present credit quality indicators for the loan portfolio segments and classes, excluding loans held for sale, as of September 30, 2014 and December 31, 2013. Commercial and investor real estate loan 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 which 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 which may, in the future, have an adverse effect on debt service ability;
- Substandard Accrual—includes obligations that exhibit a well-defined weakness which 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.

	September 30, 2014				
	Pass	Special Mention	Substandard Accrual	Non-accrual	Total
	(In millions)				
Commercial and industrial	$30,449	$742	$467	$199	$31,857
Commercial real estate mortgage—owner-occupied	7,750	292	346	278	8,666
Commercial real estate construction—owner-occupied	339	6	3	2	350
Total commercial	$38,538	$1,040	$816	$479	$40,873
Commercial investor real estate mortgage	$4,369	$229	$209	$133	$4,940
Commercial investor real estate construction	1,799	28	49	2	1,878
Total investor real estate	$6,168	$257	$258	$135	$6,818

	Accrual	Non-accrual	Total
	(In millions)		
Residential first mortgage	$12,147	$117	$12,264
Home equity	10,862	106	10,968
Indirect	3,543	—	3,543
Consumer credit card	964	—	964
Other consumer	1,177	—	1,177
Total consumer	$28,693	$223	$28,916
			$76,607

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	December 31, 2013				
	Pass	Special Mention	Substandard Accrual	Non-accrual	Total
	(In millions)				
Commercial and industrial	$28,282	$395	$479	$257	$29,413
Commercial real estate mortgage—owner-occupied	8,593	191	408	303	9,495
Commercial real estate construction—owner-occupied	264	25	4	17	310
Total commercial	$37,139	$611	$891	$577	$39,218
Commercial investor real estate mortgage	$4,479	$269	$332	$238	$5,318
Commercial investor real estate construction	1,335	47	40	10	1,432
Total investor real estate	$5,814	$316	$372	$248	$6,750

	Accrual	Non-accrual	Total
	(In millions)		
Residential first mortgage	$12,017	$146	$12,163
Home equity	11,183	111	11,294
Indirect	3,075	—	3,075
Consumer credit card	948	—	948
Other consumer	1,161	—	1,161
Total consumer	$28,384	$257	$28,641
			$74,609

AGING ANALYSIS

The following tables include an aging analysis of days past due (DPD) for each portfolio segment and class as of September 30, 2014 and December 31, 2013:

	September 30, 2014						
	Accrual Loans						
	30-59 DPD	60-89 DPD	90+ DPD	Total 30+ DPD	Total Accrual	Non-accrual	Total
	(In millions)						
Commercial and industrial	$16	$41	$5	$62	$31,658	$199	$31,857
Commercial real estate mortgage—owner-occupied	26	12	6	44	8,388	278	8,666
Commercial real estate construction—owner-occupied	2	—	—	2	348	2	350
Total commercial	44	53	11	108	40,394	479	40,873
Commercial investor real estate mortgage	16	22	5	43	4,807	133	4,940
Commercial investor real estate construction	10	2	—	12	1,876	2	1,878
Total investor real estate	26	24	5	55	6,683	135	6,818
Residential first mortgage	101	62	252	415	12,147	117	12,264
Home equity	73	42	66	181	10,862	106	10,968
Indirect	38	9	6	53	3,543	—	3,543
Consumer credit card	8	5	11	24	964	—	964

Other consumer	15	3	3	21	1,177	—	1,177
Total consumer	235	121	338	694	28,693	223	28,916
	$305	$198	$354	$857	$75,770	$837	$76,607

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	December 31, 2013						
	Accrual Loans						
	30-59 DPD	60-89 DPD	90+ DPD	Total 30+ DPD	Total Accrual	Non-accrual	Total
	(In millions)						
Commercial and industrial	$29	$14	$6	$49	$29,156	$257	$29,413
Commercial real estate mortgage—owner-occupied	30	26	6	62	9,192	303	9,495
Commercial real estate construction—owner-occupied	—	—	—	—	293	17	310
Total commercial	59	40	12	111	38,641	577	39,218
Commercial investor real estate mortgage	29	6	6	41	5,080	238	5,318
Commercial investor real estate construction	4	1	—	5	1,422	10	1,432
Total investor real estate	33	7	6	46	6,502	248	6,750
Residential first mortgage	130	74	248	452	12,017	146	12,163
Home equity	95	51	75	221	11,183	111	11,294
Indirect	39	11	5	55	3,075	—	3,075
Consumer credit card	8	5	12	25	948	—	948
Other consumer	14	5	4	23	1,161	—	1,161
Total consumer	286	146	344	776	28,384	257	28,641
	$378	$193	$362	$933	$73,527	$1,082	$74,609

IMPAIRED LOANS

The following tables present details related to the Company's impaired loans as of September 30, 2014 and December 31, 2013. Loans deemed to be impaired include all TDRs and all non-accrual commercial and investor real estate loans (including those less than $2.5 million), excluding leases. Loans which have been fully charged-off do not appear in the tables below.

	Non-accrual Impaired Loans As of September 30, 2014						
			Book Value[3]				
	Unpaid Principal Balance[1]	Charge-offs and Payments Applied[2]	Total Impaired Loans on Non-accrual Status	Impaired Loans on Non-accrual Status with No Related Allowance	Impaired Loans on Non-accrual Status with Related Allowance	Related Allowance for Loan Losses	Coverage %[4]
	(Dollars in millions)						
Commercial and industrial	$238	$51	$187	$18	$169	$72	51.7 %
Commercial real estate mortgage—owner-occupied	310	32	278	42	236	87	38.4
Commercial real estate construction—owner-occupied	2	—	2	—	2	1	50.0
Total commercial	550	83	467	60	407	160	44.2
Commercial investor real estate mortgage	177	44	133	13	120	36	45.2
	10	8	2	—	2	1	90.0

Commercial investor real estate construction								
Total investor real estate	187	52	135	13	122	37	47.6	
Residential first mortgage	88	27	61	—	61	8	39.8	
Home equity	24	7	17	—	17	1	33.3	
Total consumer	112	34	78	—	78	9	38.4	
	$849	$ 169	$680	$73	$607	$206	44.2	%

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	Accruing Impaired Loans As of September 30, 2014					
	Unpaid Principal Balance[1]	Charge-offs and Payments Applied[2]	Book Value[3]	Related Allowance for Loan Losses	Coverage %[4]	
	(Dollars in millions)					
Commercial and industrial	$102	$3	$99	$ 21	23.5	%
Commercial real estate mortgage—owner-occupied	177	8	169	22	16.9	
Commercial real estate construction—owner-occupied	23	—	23	1	4.3	
Total commercial	302	11	291	44	18.2	
Commercial investor real estate mortgage	298	10	288	35	15.1	
Commercial investor real estate construction	43	—	43	8	18.6	
Total investor real estate	341	10	331	43	15.5	
Residential first mortgage	399	8	391	55	15.8	
Home equity	365	6	359	15	5.8	
Indirect	1	—	1	—	—	
Consumer credit card	2	—	2	—	—	
Other consumer	18	—	18	—	—	
Total consumer	785	14	771	70	10.7	
	$1,428	$35	$1,393	$ 157	13.4	%

	Total Impaired Loans As of September 30, 2014							
			Book Value[3]					
	Unpaid Principal Balance[1]	Charge-offs and Payments Applied[2]	Total Impaired Loans	Impaired Loans with No Related Allowance	Impaired Loans with Related Allowance	Related Allowance for Loan Losses	Coverage %[4]	
	(Dollars in millions)							
Commercial and industrial	$340	$ 54	$286	$ 18	$268	$93	43.2	%
Commercial real estate mortgage—owner-occupied	487	40	447	42	405	109	30.6	
Commercial real estate construction—owner-occupied	25	—	25	—	25	2	8.0	
Total commercial	852	94	758	60	698	204	35.0	
Commercial investor real estate mortgage	475	54	421	13	408	71	26.3	
Commercial investor real estate construction	53	8	45	—	45	9	32.1	
Total investor real estate	528	62	466	13	453	80	26.9	
Residential first mortgage	487	35	452	—	452	63	20.1	
Home equity	389	13	376	—	376	16	7.5	
Indirect	1	—	1	—	1	—	—	
Consumer credit card	2	—	2	—	2	—	—	
Other consumer	18	—	18	—	18	—	—	
Total consumer	897	48	849	—	849	79	14.2	
	$2,277	$ 204	$2,073	$ 73	$2,000	$363	24.9	%

(1) Unpaid principal balance represents the contractual obligation due from the customer and includes the net book value plus charge-offs and payments applied.

(2) Charge-offs and payments applied represents cumulative partial charge-offs taken, as well as interest payments received that have been applied against the outstanding principal balance.

(3) Book value represents the unpaid principal balance less charge-offs and payments applied; it is shown before any allowance for loan losses.

(4) Coverage % represents charge-offs and payments applied plus the related allowance as a percent of the unpaid principal balance.

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	Non-accrual Impaired Loans As of December 31, 2013							
			Book Value[3]					
	Unpaid Principal Balance[1]	Charge-offs and Payments Applied[2]	Total Impaired Loans on Non-accrual Status	Impaired Loans on Non-accrual Status with No Related Allowance	Impaired Loans on Non-accrual Status with Related Allowance	Related Allowance for Loan Losses	Coverage %[4]	
	(Dollars in millions)							
Commercial and industrial	$280	$48	$232	$45	$187	$72	42.9	%
Commercial real estate mortgage—owner-occupied	343	40	303	54	249	92	38.5	
Commercial real estate construction—owner-occupied	17	—	17	—	17	8	47.1	
Total commercial	640	88	552	99	453	172	40.6	
Commercial investor real estate mortgage	306	68	238	17	221	68	44.4	
Commercial investor real estate construction	15	5	10	—	10	3	53.3	
Total investor real estate	321	73	248	17	231	71	44.9	
Residential first mortgage	112	37	75	—	75	12	43.8	
Home equity	17	—	17	—	17	1	5.9	
Total consumer	129	37	92	—	92	13	38.8	
	$1,090	$198	$892	$116	$776	$256	41.7	%

	Accruing Impaired Loans As of December 31, 2013					
	Unpaid Principal Balance[1]	Charge-offs and Payments Applied[2]	Book Value[3]	Related Allowance for Loan Losses	Coverage %[4]	
	(Dollars in millions)					
Commercial and industrial	$245	$2	$243	$34	14.7	%
Commercial real estate mortgage—owner-occupied	209	7	202	23	14.4	
Commercial real estate construction—owner-occupied	25	—	25	1	4.0	
Total commercial	479	9	470	58	14.0	
Commercial investor real estate mortgage	435	11	424	39	11.5	
Commercial investor real estate construction	89	—	89	8	9.0	
Total investor real estate	524	11	513	47	11.1	
Residential first mortgage	397	8	389	60	17.1	
Home equity	373	—	373	24	6.4	
Indirect	1	—	1	—	—	
Consumer credit card	2	—	2	—	—	
Other consumer	26	—	26	1	3.8	
Total consumer	799	8	791	85	11.6	

$1,802	$28	$1,774	$190	12.1	%

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	Total Impaired Loans As of December 31, 2013						
			Book Value[3]				
	Unpaid Principal Balance[1]	Charge-offs and Payments Applied[2]	Total Impaired Loans	Impaired Loans with No Related Allowance	Impaired Loans with Related Allowance	Related Allowance for Loan Losses	Coverage %[4]
	(Dollars in millions)						
Commercial and industrial	$525	$ 50	$475	$ 45	$430	$ 106	29.7 %
Commercial real estate mortgage—owner-occupied	552	47	505	54	451	115	29.3
Commercial real estate construction—owner-occupied	42	—	42	—	42	9	21.4
Total commercial	1,119	97	1,022	99	923	230	29.2
Commercial investor real estate mortgage	741	79	662	17	645	107	25.1
Commercial investor real estate construction	104	5	99	—	99	11	15.4
Total investor real estate	845	84	761	17	744	118	23.9
Residential first mortgage	509	45	464	—	464	72	23.0
Home equity	390	—	390	—	390	25	6.4
Indirect	1	—	1	—	1	—	—
Consumer credit card	2	—	2	—	2	—	—
Other consumer	26	—	26	—	26	1	3.8
Total consumer	928	45	883	—	883	98	15.4
	$2,892	$ 226	$2,666	$ 116	$2,550	$ 446	23.2 %

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(1) Unpaid principal balance represents the contractual obligation due from the customer and includes the net book value plus charge-offs and payments applied.

(2) Charge-offs and payments applied represents cumulative partial charge-offs taken, as well as interest payments received that have been applied against the outstanding principal balance.

(3) Book value represents the unpaid principal balance less charge-offs and payments applied; it is shown before any allowance for loan losses.

(4) Coverage % represents charge-offs and payments applied plus the related allowance as a percent of the unpaid principal balance.

The following table presents the average balances of total impaired loans and interest income for the three and nine months ended September 30, 2014 and 2013. Interest income recognized represents interest on accruing loans modified in a TDR. TDRs are considered impaired loans.

	Three Months Ended September 30				Nine Months Ended September 30			
	2014		2013		2014		2013	
	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	$296	$ 2	$636	$ 4	$382	$ 7	$649	$ 10
Commercial real estate mortgage—owner-occupied	464	2	551	2	491	9	598	8
	30	1	40	—	36	1	38	1

Commercial real estate construction—owner-occupied								
Total commercial	790	5	1,227	6	909	17	1,285	19
Commercial investor real estate mortgage	446	4	940	7	532	18	1,071	24
Commercial investor real estate construction	44	—	108	1	68	2	121	5
Total investor real estate	490	4	1,048	8	600	20	1,192	29
Residential first mortgage	451	3	1,163	9	454	10	1,176	28
Home equity	379	5	401	5	383	15	411	16
Indirect	1	—	1	—	1	—	1	—
Consumer credit card	2	—	2	—	2	—	1	—
Other consumer	19	—	30	1	22	1	34	2
Total consumer	852	8	1,597	15	862	26	1,623	46
Total impaired loans	$2,132	$ 17	$3,872	$ 29	$2,371	$ 63	$4,100	$ 94

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In addition to the impaired loans detailed in the tables above, there were approximately $38 million in non-performing loans classified as held for sale at September 30, 2014, compared to $82 million at December 31, 2013. The loans are carried at an amount approximating a price which is expected to be recoverable through the loan sale market. During the three months ended September 30, 2014 and 2013, approximately $36 million and $27 million, respectively, in non-performing loans were transferred to held for sale; these amounts are net of charge-offs of $11 million and $14 million, respectively, recorded upon transfer. During the nine months ended September 30, 2014 and 2013, approximately $69 million and $96 million, respectively, in non-performing loans were transferred to held for sale; these amounts are net of charge-offs of $26 million and $55 million, respectively, recorded upon transfer. At September 30, 2014 and December 31, 2013, non-accrual loans including loans held for sale totaled $875 million and $1.2 billion, respectively.

TROUBLED DEBT RESTRUCTURINGS

The majority of Regions' commercial and investor real estate TDRs are the result of renewals of classified loans at an interest rate that is not considered to be a market rate. Consumer TDRs primarily involve an interest rate concession and not a forgiveness of principal. Accordingly, the financial impact of the modifications is best illustrated by the impact to the allowance calculation at the loan or pool level, as a result of the loans being considered impaired due to their status as TDRs. Regions most often does not record a charge-off at the modification date.

None of the modified consumer loans listed in the following TDR disclosures were collateral-dependent at the time of modification. At September 30, 2014, approximately $73 million in residential first mortgage TDRs were in excess of 180 days past due and were considered collateral-dependent. At September 30, 2014, approximately $8 million in home equity first lien TDRs were in excess of 180 days past due and approximately $6 million in home equity second lien TDRs were in excess of 120 days past due, both of which were considered collateral-dependent.

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 in the consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2013.

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. The end of period balance, for the period in which it was added, of total loans first reported as new TDRs totaled approximately $316 million and $607 million for the nine months ended September 30, 2014 and 2013, respectively.

	Three Months Ended September 30, 2014		
	Number of Obligors	Recorded Investment	Financial Impact of Modifications Considered TDRs Increase in Allowance at Modification
	(Dollars in millions)		
Commercial and industrial	67	$72	$2
Commercial real estate mortgage—owner-occupied	61	49	1
Commercial real estate construction—owner-occupied	—	—	—
Total commercial	128	121	3
Commercial investor real estate mortgage	43	66	1
Commercial investor real estate construction	8	24	1
Total investor real estate	51	90	2
Residential first mortgage	144	26	4
Home equity	142	8	—
Consumer credit card	40	1	—

Indirect and other consumer	77	1	—
Total consumer	403	36	4
	582	$247	$9

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	Three Months Ended September 30, 2013		
	Number of Obligors	Recorded Investment	Financial Impact of Modifications Considered TDRs Increase in Allowance at Modification
	(Dollars in millions)		
Commercial and industrial	109	$135	$1
Commercial real estate mortgage—owner-occupied	93	78	1
Commercial real estate construction—owner-occupied	2	3	—
Total commercial	204	216	2
Commercial investor real estate mortgage	98	173	1
Commercial investor real estate construction	21	25	—
Total investor real estate	119	198	1
Residential first mortgage	293	47	5
Home equity	172	10	1
Consumer credit card	57	1	—
Indirect and other consumer	76	1	—
Total consumer	598	59	6
	921	$473	$9

	Nine Months Ended September 30, 2014		
	Number of Obligors	Recorded Investment	Financial Impact of Modifications Considered TDRs Increase in Allowance at Modification
	(Dollars in millions)		
Commercial and industrial	216	$236	$4
Commercial real estate mortgage—owner-occupied	218	196	4
Commercial real estate construction—owner-occupied	3	3	—
Total commercial	437	435	8
Commercial investor real estate mortgage	193	274	5
Commercial investor real estate construction	36	39	1
Total investor real estate	229	313	6
Residential first mortgage	408	71	11
Home equity	481	28	—
Consumer credit card	104	1	—
Indirect and other consumer	194	3	—
Total consumer	1,187	103	11
	1,853	$851	$25

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	Nine Months Ended September 30, 2013		
	Number of Obligors	Recorded Investment	Financial Impact of Modifications Considered TDRs Increase in Allowance at Modification
	(Dollars in millions)		
Commercial and industrial	335	$445	$2
Commercial real estate mortgage—owner-occupied	272	251	3
Commercial real estate construction—owner-occupied	5	30	—
Total commercial	612	726	5
Commercial investor real estate mortgage	321	569	3
Commercial investor real estate construction	64	77	—
Total investor real estate	385	646	3
Residential first mortgage	965	169	19
Home equity	451	29	3
Consumer credit card	202	3	—
Indirect and other consumer	234	3	—
Total consumer	1,852	204	22
	2,849	$1,576	$30

Defaulted TDRs

The following table presents TDRs by portfolio segment and class which defaulted during the three and nine months ended September 30, 2014 and 2013, and which 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 90 days past due and still accruing for the consumer portfolio segment, and placement on non-accrual status for the commercial and investor real estate portfolio segments. 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, 2013.

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
	(In millions)			
Defaulted During the Period, Where Modified in a TDR Twelve Months Prior to Default				
Commercial and industrial	$2	$1	$48	$29
Commercial real estate mortgage—owner-occupied	10	5	17	28
Total commercial	12	6	65	57
Commercial investor real estate mortgage	1	5	5	60
Commercial investor real estate construction	—	19	1	24
Total investor real estate	1	24	6	84
Residential first mortgage	2	11	14	40
Home equity	—	1	2	4
Total consumer	2	12	16	44
	$15	$42	$87	$185

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, 2014, approximately $73 million of commercial and investor real estate loans modified in a TDR during the three months ended September 30, 2014 were on non-accrual status. Approximately 13.1 percent of this amount was 90 days past due.

At September 30, 2014, Regions had restructured binding unfunded commitments totaling $151 million where a concession was granted and the borrower was in financial difficulty.

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NOTE 5. SERVICING OF FINANCIAL ASSETS

RESIDENTIAL MORTGAGE BANKING ACTIVITIES

The fair value of residential mortgage servicing rights 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 mortgage servicing rights. 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 mortgage servicing rights under the fair value measurement method:

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
	(In millions)			
Carrying value, beginning of period	$276	$276	$297	$191
Additions	9	13	24	73
Increase (decrease) in fair value:				
Due to change in valuation inputs or assumptions	(3)	—	(28)	45
Economic amortization associated with borrower repayments	(5)	(8)	(16)	(28)
Carrying value, end of period	$277	$281	$277	$281

On March 29, 2013, the Company completed a transaction to purchase the rights to service approximately $3 billion in residential mortgage loans. The residential mortgage servicing rights asset was increased by the purchase price of approximately $28 million in the first quarter of 2013.

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

	September 30	
	2014	2013
	(Dollars in millions)	
Unpaid principal balance	$26,943	$28,234
Weighted-average prepayment speed (CPR; percentage)	10.9%	9.4%
Estimated impact on fair value of a 10% increase	$(15)	$(12)
Estimated impact on fair value of a 20% increase	$(28)	$(24)
Option-adjusted spread (basis points)	789	1,014
Estimated impact on fair value of a 10% increase	$(8)	$(10)
Estimated impact on fair value of a 20% increase	$(17)	$(20)
Weighted-average coupon interest rate	4.5%	4.5%
Weighted-average remaining maturity (months)	279	279
Weighted-average servicing fee (basis points)	27.8	27.7

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 the residential mortgage servicing rights 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.

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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 Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
	(In millions)			
Servicing related fees and other ancillary income	$21	$22	$64	$64

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 a repurchase liability related to 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. The table below presents an analysis of Regions' repurchase liability related to mortgage loans sold with representations and warranty provisions:

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
	(In millions)			
Beginning balance	$34	$40	$39	$40
Additions (reductions), net	(5)	8	(3)	23
Losses	(1)	(8)	(8)	(23)
Ending balance	$28	$40	$28	$40

For the periods presented, settled repurchase claims were related to one or more of the following alleged breaches: 1) eligibility or guideline violations; 2) missing or incorrect documents per investor guidelines; or 3) misrepresentation or fraud by the borrower. These claims stem primarily from loans originated in the 2006—2008 time period.

COMMERCIAL MORTGAGE BANKING ACTIVITIES

On July 18, 2014, Regions was approved as a Fannie Mae Delegated Underwriting and Servicing ("DUS") lender and acquired a DUS servicing portfolio totaling approximately $1.0 billion. The Fannie Mae DUS program provides liquidity to the multi-family housing market. As part of the transaction, Regions recorded $12 million in commercial mortgage servicing rights and $15 million in intangible assets associated with the DUS license purchased.

As of September 30, 2014, the DUS servicing portfolio remained at approximately $1.0 billion, and the related commercial MSRs and DUS license intangible asset were approximately $12 million and $15 million, respectively. Commercial MSRs are recorded in other assets on the Consolidated Balance Sheets at the lower of cost or market and are amortized in proportion to, and over the estimated period, that net servicing income is expected to be received based on projections of the amount and timing of estimated future net cash flows. The amount and timing of estimated future net cash flows are updated based on actual results and updated projections. Regions will periodically evaluate its commercial MSRs for impairment.

The intangible asset associated with the DUS license purchased is recorded in other identifiable intangible assets on the Consolidated Balance Sheets, and is a non-amortizing intangible asset. This investment will be evaluated for impairment annually or more frequently if events or changes in circumstances indicate that it is more likely than not that the asset is impaired.

NOTE 6. GOODWILL

Goodwill allocated to each reportable segment is presented as follows:

	September 30, 2014	December 31, 2013
	(In millions)	
Business Services	$2,552	$2,552
Consumer Services	1,797	1,797
Wealth Management	467	467
	$4,816	$4,816

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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 in the Annual Report on Form 10-K for the year ended December 31, 2013. 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 2014, Regions assessed events and circumstances for all three reporting units as of September 30, 2014 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.

Results of the 2013 annual test indicated that the estimated fair value of each reporting unit exceeded its carrying amount as of the test date. Additionally, 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 values as of September 30, 2014. Therefore, Regions determined that a test of goodwill impairment was not required for each of Regions’ reporting units for the September 30, 2014 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 as of September 30, 2014:

	As of September 30, 2014				
	Issuance Date	Earliest Redemption Date	Liquidation Amount	Carrying Amount	Dividend Rate
	(Dollars in millions)				
Series A	11/1/2012	12/15/2017	$500	$427	6.375 %
Series B	4/29/2014	9/15/2024	500	473	6.375 %(1)
			$1,000	$900	

(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 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 $8 million in cash dividends on Series A Preferred Stock during each of the first, second, and third quarters of both 2014 and 2013. There were no cash dividends on Series B Preferred Stock during the second quarter of 2014 because the initial quarterly dividend was declared on July 17, 2014. Series B Preferred Stock dividends were $12 million for the third quarter of 2014. Because the Company was in a retained deficit position, preferred dividends were recorded as a reduction of preferred stock, including related surplus.

COMMON STOCK

On March 19, 2013, Regions' Board of Directors authorized a $350 million common stock repurchase plan, permitting repurchases from the beginning of the second quarter of 2013 through the end of the first quarter of 2014. During the first quarter of 2014, Regions repurchased approximately 1 million shares of common stock under this plan at a total cost of approximately $8 million. As of March 31, 2014, Regions had repurchased approximately 37 million shares of common stock at a total cost of approximately $347 million. The total cost paid to repurchase common shares under this plan includes the full amount paid as part

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of a contractual repurchase agreement. All common shares repurchased under this plan were immediately retired and therefore are not included in treasury stock. On April 1, 2014, the remaining approximately $3 million available under this plan expired.

During the first quarter of 2014, Regions received no objection to its 2014 capital plan from the Federal Reserve that was submitted as part of the Comprehensive Capital Analysis and Review ("CCAR") process. On April 24, 2014, Regions' Board of Directors approved an increase of its quarterly common stock dividend to $0.05 per share effective with the quarterly dividend to be paid in July 2014. The Board also authorized a new $350 million common stock repurchase plan, permitting repurchases from the beginning of the second quarter of 2014 through the end of the first quarter of 2015. There were no shares repurchased under this plan as of September 30, 2014. However, the Company began purchasing shares in October 2014, and as of November 4, 2014, Regions had repurchased approximately 11.6 million shares of common stock at a total cost of approximately $114.7 million. These shares were immediately retired upon repurchase and therefore will not be included in treasury stock.

The Board of Directors declared a $0.05 per share cash dividend on common stock for the second and third quarters of 2014, and a $0.03 per share cash dividend for the first quarter of 2014, totaling $0.13 per share cash dividend for the first nine months of 2014. The Board of Directors declared a $0.03 per share cash dividend on common stock for the second and third quarters of 2013 and a $0.01 per share cash dividend for the first quarter of 2013, totaling $0.07 per share cash dividend for the first nine months of 2013.

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	Three Months Ended September 30, 2014				
	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	$(60)	$203	$44	$(239)	$(52)
Net change	2	(92)	(37)	5	(122)
End of period	$(58)	$111	$7	$(234)	$(174)

	Three Months Ended September 30, 2013				
	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	$(68)	$—	$35	$(445)	$(478)
Net change	2	41	12	12	67
End of period	$(66)	$41	$47	$(433)	$(411)

Nine Months Ended September 30, 2014

	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	$(64)	$(22)	$15	$(248)	$ (319)
Net change	6	133	(8)	14	145
End of period	$(58)	$111	$7	$(234)	$ (174)

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	Nine Months Ended September 30, 2013				
	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	$—	$436	$93	$(464)	$ 65
Net change	(66)	(395)	(46)	31	(476)
End of period	$(66)	$41	$47	$(433)	$ (411)

The following tables present amounts reclassified out of accumulated other comprehensive income (loss) for the three and nine months ended September 30, 2014 and 2013:

Details about Accumulated Other Comprehensive Income (Loss) Components	Three Months Ended September 30, 2014 Amount Reclassified from Accumulated Other Comprehensive Income (Loss)[1]	Three Months Ended September 30, 2013 Amount Reclassified from Accumulated Other Comprehensive Income (Loss)[1]	Affected Line Item in the Consolidated Statements of Income
	(In millions)		
Unrealized losses on securities transferred to held to maturity:			
	$(3)	$(4)	Net interest income
	1	2	Tax (expense) or benefit
	$(2)	$(2)	Net of tax
Unrealized gains and (losses) on available-for-sale securities:			
	$7	$3	Securities gains, net
	(2)	(1)	Tax (expense) or benefit
	$5	$2	Net of tax
Gains and (losses) on cash flow hedges:			
Interest rate contracts	$34	$26	Net interest income
	(13)	(10)	Tax (expense) or benefit
	$21	$16	Net of tax
Amortization of defined benefit pension items:			
Prior-service cost	$—	$—	[2]
Actuarial gains/(losses)	(7)	(19)	[2]

	(7)	(19)	Total before tax
	2	7	Tax (expense) or benefit
	$(5)	$(12)	Net of tax
Total reclassifications for the period	$19	$4	Net of tax

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Details about Accumulated Other Comprehensive Income (Loss) Components	Nine Months Ended September 30, 2014 Amount Reclassified from Accumulated Other Comprehensive Income (Loss)[1] (In millions)		Nine Months Ended September 30, 2013 Amount Reclassified from Accumulated Other Comprehensive Income (Loss)[1]		Affected Line Item in the Consolidated Statements of Income
Unrealized losses on securities transferred to held to maturity:					
	$(10	)	$(4	)	Net interest income
	4		2		Tax (expense) or benefit
	$(6	)	$(2	)	Net of tax
Unrealized gains and (losses) on available-for-sale securities:					
	$15		$26		Securities gains, net
	(5	)	(9	)	Tax (expense) or benefit
	$10		$17		Net of tax
Gains and (losses) on cash flow hedges:					
Interest rate contracts	$91		$58		Net interest income
	(35	)	(22	)	Tax (expense) or benefit
	$56		$36		Net of tax
Amortization of defined benefit pension items:					
Prior-service cost	$(1	)	$—		[2]
Actuarial gains/(losses)	(18	)	(52	)	[2]
	(19	)	(52	)	Total before tax
	6		19		Tax (expense) or benefit
	$(13	)	$(33	)	Net of tax
Total reclassifications for the period	$47		$18		Net of tax

(1) Amounts in parentheses indicate reductions to net income.
(2) These accumulated other comprehensive income (loss) components are included in the computation of net periodic pension cost and are included in salaries and employee benefits on the consolidated statements of income (see Note 10 for additional details).

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NOTE 8. EARNINGS PER COMMON SHARE

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
	(In millions, except per share amounts)			
Numerator:				
Income from continuing operations	$322	$293	$928	$894
Preferred stock dividends	(20)	(8)	(36)	(24)
Income from continuing operations available to common shareholders	302	285	892	870
Income (loss) from discontinued operations, net of tax	3	—	16	1
Net income available to common shareholders	$305	$285	$908	$871
Denominator:				
Weighted-average common shares outstanding—basic	1,378	1,388	1,378	1,401
Potential common shares	11	17	12	14
Weighted-average common shares outstanding—diluted	1,389	1,405	1,390	1,415
Earnings per common share from continuing operations available to common shareholders(1):				
Basic	$0.22	$0.21	$0.65	$0.62
Diluted	0.22	0.20	0.64	0.61
Earnings (loss) per common share from discontinued operations(1):				
Basic	0.00	(0.00)	0.01	0.00
Diluted	0.00	(0.00)	0.01	0.00
Earnings per common share(1):				
Basic	0.22	0.21	0.66	0.62
Diluted	0.22	0.20	0.65	0.62

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

For earnings (loss) per common share from discontinued operations, basic and diluted weighted-average common shares outstanding are the same for the three months ended September 30, 2014 due to a net loss.

The effect from the assumed exercise of 23 million and 24 million stock options for the three and nine months ended September 30, 2014, 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 24 million and 25 million stock options for the three and nine months ended September 30, 2013, 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.

NOTE 9. SHARE-BASED PAYMENTS

Regions administers long-term incentive compensation plans that permit the granting of incentive awards in the form of stock options, restricted stock awards, performance awards and stock appreciation rights. While Regions has the ability to issue stock appreciation rights, none have been issued to date. The terms of all awards issued under these plans are determined by the Compensation Committee of the Board of Directors; however, no awards may be granted after the tenth anniversary from the date the plans were initially approved by shareholders. Incentive awards usually vest based on employee service, generally within three years from the date of the grant. The contractual lives of options granted under these plans are typically ten years from the date of the grant.

On May 13, 2010, the shareholders of the Company approved the Regions Financial Corporation 2010 Long-Term Incentive Plan ("2010 LTIP"), which permits the Company to grant to employees and directors various forms of incentive compensation. These forms of incentive compensation are similar to the types of compensation approved in prior plans. The 2010 LTIP authorizes 100 million common share equivalents available for grant, where grants of options count as one share equivalent and grants of full value awards (e.g., shares of restricted stock, restricted stock units and performance stock units) count as 2.25 share equivalents.

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Unless otherwise determined by the Compensation Committee of the Board of Directors, grants of restricted stock, restricted stock units, and performance stock units accrue dividends, or their notional equivalent, as they are declared by the Board of Directors, and are paid upon vesting of the award. Upon adoption of the 2010 LTIP, Regions closed all prior long-term incentive plans to new grants, and, accordingly, prospective grants must be made under the 2010 LTIP or a successor plan. All existing grants under prior long-term incentive plans were unaffected by adoption of the 2010 LTIP. The number of remaining share equivalents available for future issuance under the 2010 LTIP was approximately 42 million at September 30, 2014.

STOCK OPTIONS

The following table summarizes the activity related to stock options:

	Nine Months Ended September 30			
	2014		2013	
	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
Outstanding at beginning of period	32,127,235	$ 22.81	38,258,204	$23.09
Granted	—	—	—	—
Exercised	(2,166,521)	4.52	(810,936)	5.22
Canceled/Forfeited	(4,486,405)	30.44	(3,699,256)	25.91
Outstanding at end of period	25,474,309	$ 23.02	33,748,012	$23.21
Exercisable at end of period	25,474,309	$ 23.02	33,277,791	$23.45

RESTRICTED STOCK AWARDS AND PERFORMANCE STOCK AWARDS

During the first nine months of 2014 and 2013, Regions made restricted stock grants that vest upon service conditions and restricted stock unit and performance stock unit grants that vest based upon service conditions and performance conditions. Dividend payments during the vesting period are deferred to the end of the vesting term. The fair value of these restricted shares, restricted stock units and performance stock units was estimated based upon the fair value of the underlying shares on the date of the grant. The valuation was not adjusted for the deferral of dividends.

The following table summarizes the activity related to restricted stock awards and performance stock awards:

	Nine Months Ended September 30			
	2014		2013	
	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value
Non-vested at beginning of period	16,212,198	$ 6.83	11,945,179	$ 6.15
Granted	5,368,113	11.22	6,327,865	8.04
Vested	(2,623,699)	6.82	(1,481,659)	6.75
Forfeited	(459,102)	8.06	(375,850)	6.38
Non-vested at end of period	18,497,510	$ 8.07	16,415,535	$ 6.82

NOTE 10. PENSION AND OTHER POSTRETIREMENT BENEFITS

Regions has a defined benefit pension plan qualified under the Internal Revenue Code covering only certain employees as the pension plan is closed to new entrants. The Company also sponsors a supplemental executive retirement program (the "SERP"), which is a non-qualified pension plan that provides certain senior executive officers defined benefits in relation to their compensation.

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Net periodic pension cost, which is recorded in salaries and employee benefits on the consolidated statements of income, included the following components:

	Qualified Plan		Non-qualified Plans		Total	
	Three Months Ended September 30					
	2014	2013	2014	2013	2014	2013
	(In millions)					
Service cost	$9	$9	$1	$1	$10	$10
Interest cost	21	21	2	2	23	23
Expected return on plan assets	(34)	(33)	—	—	(34)	(33)
Amortization of actuarial loss	6	18	1	1	7	19
Amortization of prior service cost	—	—	—	—	—	—
Net periodic pension cost	$2	$15	$4	$4	$6	$19

	Qualified Plan		Non-qualified Plans		Total	
	Nine Months Ended September 30					
	2014	2013	2014	2013	2014	2013
	(In millions)					
Service cost	$25	$28	$3	$3	$28	$31
Interest cost	65	63	5	4	70	67
Expected return on plan assets	(103)	(99)	—	—	(103)	(99)
Amortization of actuarial loss	16	50	2	2	18	52
Amortization of prior service cost	—	—	1	—	1	—
Settlement charge	—	—	3	—	3	—
Net periodic pension cost	$3	$42	$14	$9	$17	$51

The settlement charge relates to the settlement of liabilities under the SERP for certain executive officers during the second quarter of 2014.

Regions' policy for funding the qualified pension plan is to contribute annually at least the amount required by Internal Revenue Service minimum funding standards. During the third quarter of 2014, Regions made a contribution of approximately $3 million to the plan.

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, 2014 or 2013.

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NOTE 11. 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, 2014 and December 31, 2013.

	September 30, 2014			December 31, 2013		
	Notional	Estimated Fair Value		Notional	Estimated Fair Value	
	Amount	Gain(1)	Loss(1)	Amount	Gain(1)	Loss(1)
	(In millions)					
Derivatives in fair value hedging relationships:						
Interest rate swaps	$3,388	$15	$29	$4,241	$70	$29
Derivatives in cash flow hedging relationships:						
Interest rate swaps	7,550	10	59	5,800	5	80
Total derivatives designated as hedging instruments	$10,938	$25	$88	$10,041	$75	$109
Derivatives not designated as hedging instruments:						
Interest rate swaps	$46,606	$858	$914	$46,591	$1,078	$1,142
Interest rate options	3,085	12	2	2,865	9	4
Interest rate futures and forward commitments	18,101	1	3	13,357	9	2
Other contracts	2,678	51	43	2,535	48	44
Total derivatives not designated as hedging instruments	$70,470	$922	$962	$65,348	$1,144	$1,192
Total derivatives	$81,408	$947	$1,050	$75,389	$1,219	$1,301

(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.

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, 2013 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, which includes long-term debt and certificates of deposit. 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 securities. These agreements involve the payment of fixed-rate amounts in exchange for floating-rate interest receipts. Regions also enters into forward sale commitments to hedge changes in the fair value of available-for-sale securities.

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 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.
Regions issues long-term fixed-rate debt for various funding needs. Regions may enter into receive LIBOR/pay fixed forward starting swaps to hedge risks of changes in the projected quarterly interest payments attributable to changes in the benchmark interest rate ("LIBOR") during the time leading up to the probable issuance date of the new long-term fixed-rate debt.

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Regions recognized an unrealized after-tax gain of $40 million and $70 million in accumulated other comprehensive income (loss) at September 30, 2014 and 2013, respectively, related to terminated cash flow hedges of loan and debt instruments which will be amortized into earnings in conjunction with the recognition of interest payments through 2017. Regions recognized pre-tax income of $14 million and $12 million during the three months ended September 30, 2014 and 2013, respectively, and pre-tax income of $37 million and $35 million during the nine months ended September 30, 2014 and 2013, respectively, related to the amortization of cash flow hedges of loan and debt instruments.

Regions expects to reclassify out of accumulated other comprehensive income (loss) and into earnings approximately $120 million in pre-tax income due to the receipt or payment of interest payments on all cash flow hedges within the next twelve months. Included in this amount is $44 million in pre-tax net gains 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, 2014.

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

	Gain or (Loss) Recognized in Income on Derivatives		Location of Amounts Recognized in Income on Derivatives and Related Hedged Item	Gain or (Loss) Recognized in Income on Related Hedged Item	
	Three Months Ended September 30			Three Months Ended September 30	
	2014	2013		2014	2013
	(In millions)			(In millions)	
Fair Value Hedges:					
Interest rate swaps on:					
Debt/CDs	$4	$11	Interest expense	$7	$1
Debt/CDs	(11)	7	Other non-interest expense	10	(6)
Securities available for sale	(4)	(1)	Interest expense	—	—
Securities available for sale	—	2	Other non-interest expense	(2)	(2)
Total	$(11)	$19		$15	$(7)

	Effective Portion[3]				
	Gain or (Loss) Recognized in AOCI[1]		Location of Amounts Reclassified from AOCI into Income	Gain or (Loss) Reclassified from AOCI into Income[2]	
	Three Months Ended September 30			Three Months Ended September 30	
	2014	2013		2014	2013
	(In millions)			(In millions)	
Cash Flow Hedges:					
Interest rate swaps	$(37)	$10	Interest income on loans	$34	$30
Forward starting swaps	—	2	Interest expense on debt	—	(4)
Total	$(37)	$12		$34	$26

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	Gain or (Loss) Recognized in Income on Derivatives		Location of Amounts Recognized in Income on Derivatives and Related Hedged Item	Gain or (Loss) Recognized in Income on Related Hedged Item	
	Nine Months Ended September 30			Nine Months Ended September 30	
	2014	2013		2014	2013
	(In millions)			(In millions)	
Fair Value Hedges:					
Interest rate swaps on:					
Debt/CDs	$19	$47	Interest expense	$15	$6
Debt/CDs	(25)	(65)	Other non-interest expense	27	58
Securities available for sale	(12)	(2)	Interest expense	—	—
Securities available for sale	(32)	16	Other non-interest expense	25	(17)
Total	$(50)	$(4)		$67	$47

	Effective Portion[3]				
	Gain or (Loss) Recognized in AOCI[1]		Location of Amounts Reclassified from AOCI into Income	Gain or (Loss) Reclassified from AOCI into Income[2]	
	Nine Months Ended September 30			Nine Months Ended September 30	
	2014	2013		2014	2013
	(In millions)			(In millions)	
Cash Flow Hedges:					
Interest rate swaps	$(11)	$(53)	Interest income on loans	$96	$70
Forward starting swaps	3	7	Interest expense on debt	(5)	(12)
Total	$(8)	$(46)		$91	$58

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(1) After-tax
(2) Pre-tax
(3) All cash flow hedges were highly effective for all periods presented, and the change in fair value attributed to hedge ineffectiveness was not material.

DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS

The Company maintains a derivatives trading portfolio of interest rate swaps, option contracts, and futures and forward commitments used to meet the needs of its customers. The portfolio is primarily used to help clients manage market risk. The Company is subject to the credit risk that a counterparty will fail to perform. The Company is also subject to market risk, which is evaluated by the Company and monitored by the asset/liability management process. Separate derivative contracts are entered into to reduce overall market exposure to pre-defined limits. The contracts in this portfolio do not qualify for hedge accounting and are marked-to-market through earnings and included in other assets and other liabilities.

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, 2014 and December 31, 2013, Regions had $312 million and $267 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, which are recorded at fair value with changes in fair value recorded in mortgage income. At September 30, 2014 and December 31, 2013, Regions had

$697 million and $636 million, respectively, in total notional amount related to these forward sale commitments.
Regions has elected to account for residential mortgage servicing rights at fair market 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 consolidated statement of income effect of changes in the fair value of its residential mortgage servicing rights. As of both September 30, 2014 and December 31, 2013, the total notional amount related to these contracts was $3.4 billion.
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, 2014 and 2013:

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Derivatives Not Designated as Hedging Instruments	Three Months Ended September 30 2014	2013	Nine Months Ended September 30 2014	2013
	(In millions)			
Capital markets fee income and other[1]:				
Interest rate swaps	$5	$5	$10	$17
Interest rate options	—	—	—	2
Interest rate futures and forward commitments	1	—	—	1
Other contracts	2	1	8	10
Total capital markets fee income and other	8	6	18	30
Mortgage income:				
Interest rate swaps	1	1	19	(26)
Interest rate options	(3)	9	3	(10)
Interest rate futures and forward commitments	9	(59)	1	(28)
Total mortgage income	7	(49)	23	(64)
	$15	$(43)	$41	$(34)

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(1) Capital markets fee income and other is included in Other income on the consolidated statements of income.

Credit risk, defined as all positive exposures not collateralized with cash or other assets or reserved for, at September 30, 2014 and December 31, 2013, totaled approximately $343 million and $453 million, respectively. This amount represents 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. Credit derivatives, whereby Regions has purchased credit protection, entitle Regions to receive a payment from the counterparty when the customer fails to make payment on any amounts due to Regions upon early termination of the swap transaction and have maturities between 2015 and 2020. Credit derivatives whereby Regions has sold credit protection have maturities between 2015 and 2020. For contracts where Regions sold credit protection, Regions would be required to make payment to the counterparty when 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.

Regions' maximum potential amount of future payments under these contracts as of September 30, 2014 was approximately $60 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, 2014 and 2013 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.

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 value of all derivative instruments with any credit-risk-related contingent features that were in a liability position on September 30, 2014 and December 31, 2013, was $294 million and $364 million, respectively, for which Regions had posted collateral of $311 million and $409 million, respectively, in the normal course of business.

OFFSETTING

Regions engages in derivatives transactions with dealers and customers. These derivatives transactions are subject to enforceable master netting agreements, which include a right of setoff by the non-defaulting or non-affected party upon early termination of the derivatives transaction. The following table presents the Company's gross derivative positions, including collateral posted or received, as of September 30, 2014 and December 31, 2013.

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	Offsetting Derivative Assets		Offsetting Derivative Liabilities	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
	(In millions)			
Gross amounts subject to offsetting	$903	$1,165	$1,000	$1,257
Gross amounts not subject to offsetting	44	54	50	44
Gross amounts recognized	947	1,219	1,050	1,301
Gross amounts offset in the consolidated balance sheets(1)	595	774	966	1,233
Net amounts presented in the consolidated balance sheets	352	445	84	68
Gross amounts not offset in the consolidated balance sheets:				
Financial instruments	9	10	—	—
Cash collateral received/posted	—	—	52	24
Net amounts	$343	$435	$32	$44

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(1) At September 30, 2014, gross amounts of derivative assets and liabilities offset in the consolidated balance sheets presented above include cash collateral received of $24 million and cash collateral posted of $396 million. At December 31, 2013, gross amounts of derivative assets and liabilities offset in the consolidated balance sheets presented above include cash collateral received of $42 million and cash collateral posted of $501 million.

Gross amounts not subject to offsetting consist primarily of derivatives cleared through central clearing houses and interest rate lock commitments to originate mortgage loans. Regions does not have legal assurance that the clearing house contracts are master netting agreements, and therefore has not offset them on its balance sheet.

NOTE 12. FAIR VALUE MEASUREMENTS

Fair value guidance establishes a framework for using fair value to measure assets and liabilities and defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) as opposed to the price that would be paid to acquire the asset or received to assume the liability (an entry price). A fair value measure should reflect the assumptions that market participants would use in pricing the asset or liability, including the assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset and the risk of nonperformance. Required disclosures include stratification of balance sheet amounts measured at fair value based on inputs the Company uses to derive fair value measurements. These strata include:

- Level 1 valuations, where the valuation is based on quoted market prices for identical assets or liabilities traded in active markets (which include exchanges and over-the-counter markets with sufficient volume),
- Level 2 valuations, where the valuation is based on quoted market prices for similar instruments traded in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market, and
- Level 3 valuations, where the valuation is generated from model-based techniques that use significant assumptions not observable in the market, but observable based on Company-specific data. These unobservable assumptions reflect the Company’s own estimates for assumptions that market participants would use in pricing the asset or liability. Valuation techniques typically include option pricing models, discounted cash flow models and similar techniques, but may also include the use of market prices of assets or liabilities that are not directly comparable to the subject asset or liability.

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, 2013 for a description of valuation methodologies for assets and liabilities measured at fair value on a recurring and non-recurring basis. Regions rarely transfers assets and liabilities measured at fair value between Level 1 and Level 2 measurements. There were no such transfers during the nine month periods ended September 30, 2014 and 2013. Trading account securities and securities available for sale may be periodically transferred to or from Level 3 valuation based on management's conclusion regarding the best method of pricing for an individual security. Such transfers are accounted for as if they occur at the beginning of a reporting period.

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The following table presents assets and liabilities measured at estimated fair value on a recurring basis and non-recurring basis as of September 30, 2014 and December 31, 2013:

	September 30, 2014				December 31, 2013			
	Level 1	Level 2	Level 3	Total Estimated Fair Value	Level 1	Level 2	Level 3	Total Estimated Fair Value
	(In millions)							
Recurring fair value measurements								
Trading account securities	$103	$—	$—	$ 103	$111	$—	$—	$ 111
Securities available for sale:								
U.S. Treasury securities	$61	$—	$—	$ 61	$56	$—	$—	$ 56
Federal agency securities	—	69	—	69	—	89	—	89
Obligations of states and political subdivisions	—	3	—	3	—	5	—	5
Mortgage-backed securities (MBS):								
Residential agency	—	16,520	—	16,520	—	15,677	—	15,677
Residential non-agency	—	—	9	9	—	—	9	9
Commercial agency	—	1,603	—	1,603	—	935	—	935
Commercial non-agency	—	1,488	—	1,488	—	1,211	—	1,211
Corporate and other debt securities	—	1,991	3	1,994	—	2,825	2	2,827
Equity securities[(1)]	139	—	—	139	137	—	—	137
Total securities available for sale	$200	$21,674	$12	$ 21,886	$193	$20,742	$11	$ 20,946
Mortgage loans held for sale	$—	$456	$—	$ 456	$—	$429	$—	$ 429
Residential mortgage servicing rights	$—	$—	$277	$ 277	$—	$—	$297	$ 297
Derivative assets:								
Interest rate swaps	$—	$883	$—	$ 883	$—	$1,153	$—	$ 1,153
Interest rate options	—	3	9	12	—	4	5	9
Interest rate futures and forward commitments	—	1	—	1	—	9	—	9
Other contracts	—	51	—	51	—	48	—	48
Total derivative assets	$—	$938	$9	$ 947	$—	$1,214	$5	$ 1,219
Derivative liabilities:								
Interest rate swaps	$—	$1,002	$—	$ 1,002	$—	$1,251	$—	$ 1,251
Interest rate options	—	2	—	2	—	4	—	4
Interest rate futures and forward commitments	—	3	—	3	—	2	—	2
Other contracts	—	43	—	43	—	44	—	44
Total derivative liabilities	$—	$1,050	$—	$ 1,050	$—	$1,301	$—	$ 1,301
Nonrecurring fair value measurements								
Loans held for sale	$—	$—	$37	$ 37	$—	$—	$596	$ 596
Foreclosed property and other real estate	—	34	8	42	—	49	18	67

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(1) Excludes Federal Reserve Bank and Federal Home Loan Bank Stock totaling $477 million and $16 million at September 30, 2014 and $472 million and $67 million at December 31, 2013, respectively.

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 the Asset and Liability Management Committee of the Company in a holistic approach to managing price fluctuation risks.

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The following tables illustrate a rollforward for all 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, 2014 and 2013. The tables do not reflect the change in fair value attributable to any related economic hedges the Company used to mitigate the interest rate risk associated with these assets and liabilities. The net changes in realized gains (losses) included in earnings related to Level 3 assets and liabilities held at September 30, 2014 and 2013 are not material.

	Three Months Ended September 30, 2014									
		Total Realized / Unrealized Gains or Losses								
	Opening Balance July 1, 2014	Included in Earnings	Included in Other Compre-hensive Income (Loss)	Purchases	Sales	Issuances	Settlements	Transfers into Level 3	Transfers out of Level 3	Closing Balance September 30, 2014
	(In millions)									
Level 3 Instruments Only										
Securities available for sale:										
Residential non-agency MBS	$9	—	—	—	—	—	—	—	—	$ 9
Corporate and other debt securities	2	—	—	1	—	—	—	—	—	3
Total securities available for sale	$11	—	—	1	—	—	—	—	—	$ 12
Residential mortgage servicing rights	$276	(8) (1)	—	9	—	—	—	—	—	$ 277
Total interest rate options derivatives, net	$12	20 (1)	—	—	—	—	(23)	—	—	$ 9

	Three Months Ended September 30, 2013									
	Opening Balance July 1, 2013	Total Realized / Unrealized Gains or Losses		Purchases	Sales	Issuances	Settlements	Transfers into Level 3	Transfers out of Level 3	Closing Balance September 30, 2013
		Included in Earnings	Included in Other Compre-hensive Income							

(Loss)

(In millions)

Level 3 Instruments Only										
Securities available for sale:										
Residential non-agency MBS	$11	—	—	—	—	—	(1)	—	—	$ 10
Corporate and other debt securities	2	—	—	—	—	—	—	—	—	2
Total securities available for sale	$13	—	—	—	—	—	(1)	—	—	$ 12
Residential mortgage servicing rights	$276	(9) [1]	—	14	—	—	—	—	—	$ 281
Total interest rate options derivatives, net	$2	24 [1]	—	—	—	—	(14)	—	—	$ 12

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	Nine Months Ended September 30, 2014									
		Total Realized / Unrealized Gains or Losses								
	Opening Balance January 1, 2014	Included in Earnings	Included in Other Compre-hensive Income (Loss)	Purchases	Sales	Issuances	Settlements	Transfers into Level 3	Transfers out of Level 3	Closing Balance September 30, 2014
	(In millions)									
Level 3 Instruments Only										
Securities available for sale:										
Residential non-agency MBS	$9	—	—	—	—	—	—	—	—	$ 9
Corporate and other debt securities	2	—	—	4	—	—	(3)	—	—	3
Total securities available for sale	$11	—	—	4	—	—	(3)	—	—	$ 12
Residential mortgage servicing rights	$297	(44) [1]	—	24	—	—	—	—	—	$ 277
Total interest rate options derivatives, net	$5	70 [1]	—	—	—	—	(66)	—	—	$ 9

	Nine Months Ended September 30, 2013									
		Total Realized / Unrealized Gains or Losses								
	Opening Balance January 1, 2013	Included in Earnings	Included in Other Compre-hensive Income (Loss)	Purchases	Sales	Issuances	Settlements	Transfers into Level 3	Transfers out of Level 3	Closing Balance September 30, 2013
	(In millions)									
Level 3 Instruments Only										

Securities available for sale:										
Residential non-agency MBS	$13	—	—	—	—	—	(3)	—	—	$ 10
Corporate and other debt securities	2	—	—	—	—	—	—	—	—	2
Total securities available for sale	$15	—	—	—	—	—	(3)	—	—	$ 12
Residential mortgage servicing rights	$191	17 (1)	—	73	—	—	—	—	—	$ 281
Total interest rate options derivatives, net	$22	65 (1)	—	—	—	—	(75)	—	—	$ 12

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(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		Nine Months Ended September 30	
	2014	2013	2014	2013
	(In millions)			
Loans held for sale	$(11)	$(16)	$(34)	$(58)
Foreclosed property and other real estate	(4)	(8)	(18)	(27)

The following tables present detailed information regarding assets and liabilities measured at fair value using significant unobservable inputs (Level 3) as of September 30, 2014 and December 31, 2013. 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, 2014 and December 31, 2013 are included. Following the tables are a description of the valuation technique and the sensitivity of the technique to changes in the significant unobservable input.

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	September 30, 2014 Level 3 Estimated Fair Value at September 30, 2014 (Dollars in millions)	Valuation Technique	Unobservable Input(s)	Quantitative Range of Unobservable Inputs and (Weighted-Average)
Recurring fair value measurements:				
Securities available for sale:				
Residential non-agency MBS	$9	Discounted cash flow	Spread to LIBOR	5.3% - 49.8% (12.8%)
			Weighted-average prepayment speed (CPR; percentage)	6.1% - 13.3% (9.5%)
			Probability of default	1.4%
			Loss severity	36.8%
Corporate and other debt securities	$3	Market comparable	Evaluated quote on same issuer/comparable bond	99.8% - 99.9% (99.8%)
			Comparability adjustments	0.07%
Residential mortgage servicing rights[1]	$277	Discounted cash flow	Weighted-average prepayment speed (CPR; percentage)	9.2% - 25.2% (10.9%)
			Option-adjusted spread (percentage)	6.4% - 13.5% (7.9%)
Derivative assets:				
Interest rate options	$9	Discounted cash flow	Weighted-average prepayment speed (CPR; percentage)	9.2% - 25.2% (10.9%)
			Option-adjusted spread (percentage)	6.4% - 13.5% (7.9%)
			Pull-through	45.9% - 99.1% (85.6%)
Nonrecurring fair value measurements:				
Loans held for sale	$37	Commercial and investor real estate loans held for sale are valued based on multiple data points, including discount to appraised value of collateral based on recent market activity for sales of similar loans	Appraisal comparability adjustment (discount)	13.3% - 97.2% (50.8%)
Foreclosed property and other real estate	$8	Discount to appraised value of	Appraisal comparability adjustment (discount)	25.0% - 100.0% (44.2%)

property based on
recent market activity
for sales of similar
properties

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

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	December 31, 2013 Level 3 Estimated Fair Value at December 31, 2013 (Dollars in millions)	Valuation Technique	Unobservable Input(s)	Quantitative Range of Unobservable Inputs and (Weighted-Average)
Recurring fair value measurements:				
Securities available for sale:				
Residential non-agency MBS	$9	Discounted cash flow	Spread to LIBOR	5.4% - 49.9% (14.9%)
			Weighted-average prepayment speed (CPR; percentage)	8.6% - 13.1% (10.0%)
			Probability of default	1.3%
			Loss severity	38.4%
Corporate and other debt securities	$2	Market comparable	Evaluated quote on same issuer/comparable bond	99.0% - 100.0% (99.6%)
			Comparability adjustments	0.96%
Residential mortgage servicing rights[(1)]	$297	Discounted cash flow	Weighted-average prepayment speed (CPR; percentage)	6.9% - 24.8% (8.2%)
			Option-adjusted spread (percentage)	7.0% - 23.6% (9.0%)
Derivative assets:				
Interest rate options	$5	Discounted cash flow	Weighted-average prepayment speed (CPR; percentage)	6.9% - 24.8% (8.2%)
			Option-adjusted spread (percentage)	7.0% - 23.6% (9.0%)
			Pull-through	10.8% - 99.7% (32.2%)
Nonrecurring fair value measurements:				
Loans held for sale	$61	Commercial and investor real estate loans held for sale are valued based on multiple data points, including discount to appraised value of collateral based on recent market activity for sales of similar loans	Appraisal comparability adjustment (discount)	1.0% - 99.2% (49.6%)
	$535	Residential first mortgage loans held	Estimated third-party valuations utilizing available	17.0% - 26.0% (23.5%)

		for sale not carried at fair value on a recurring basis are valued based on estimated third-party valuations utilizing recent sales data for similar transactions	sales data for similar transactions (discount to par)	
Foreclosed property and other real estate	$18	Discount to appraised value of property based on recent market activity for sales of similar properties	Appraisal comparability adjustment (discount)	30.0% - 100.0% (42.3%)

(1) See Note 7 to the consolidated financial statements of the Annual Report on Form 10-K for the year ended December 31, 2013 for additional disclosures related to assumptions used in the fair value calculation for residential mortgage servicing rights.

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RECURRING FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS

Securities available for sale

Mortgage-backed securities: residential non-agency—The fair value reported in this category relates to retained interests in legacy securitizations. Significant unobservable inputs include the spread to LIBOR, constant prepayment rate, probability of default, and loss severity in the event of default. Significant increases in any of these inputs in isolation would result in significantly lower fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for loss severity and a directionally opposite change in the assumption used for prepayment rates.

Corporate and other debt securities—Significant unobservable inputs include evaluated quotes on comparable bonds for the same issuer and management-determined comparability adjustments. Changes in the evaluated quote on comparable bonds would result in a directionally similar change in the fair value of the other debt securities.

Residential mortgage servicing rights

The significant unobservable inputs used in the fair value measurement of residential mortgage servicing rights ("MSR") are option adjusted spreads (“OAS”) and prepayment speed. This method 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 such as 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. See Note 5 for these amounts and additional disclosures related to assumptions used in the fair value calculation for MSRs.

Derivative assets

Interest rate options—These instruments are interest rate lock agreements made in the normal course of originating residential mortgage loans. Significant unobservable inputs in the fair value measurement are OAS, prepayment speeds, and pull-through. The impact of OAS and prepayment speed inputs in the valuation of these derivative instruments are consistent with the MSR discussion above. Pull-through is an estimate of the number of interest rate lock commitments that will ultimately become funded loans. Increases or decreases in the pull-through assumption will have a corresponding impact on the value of these derivative assets.

NON-RECURRING FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS

Loans held for sale

Commercial and investor real estate loans held for sale are valued based on multiple data points indicating the fair value for each loan. The primary data point for loans held for sale is a discount to the appraised value of the underlying collateral, which considers the return required by potential buyers of the loans. Management establishes this discount or comparability adjustment based on recent sales of loans secured by similar property types. As liquidity in the market increases or decreases, the comparability adjustment and the resulting asset valuation are impacted.

Residential first mortgage loans transferred to held for sale were valued based on estimated third-party valuations utilizing recent sales data from similar transactions. Broker opinion statements were also obtained as additional evidence to support the third-party valuations. The discounts taken were intended to represent the perspective of a market participant, considering among other things, required investor returns which include liquidity discounts reflected in similar bulk transactions.

Foreclosed property and other real estate

Foreclosed property and other real estate are valued based on offered quotes as available. If no sales contract is pending for a specific property, management establishes a comparability adjustment to the appraised value based on historical activity considering proceeds for properties sold versus the corresponding appraised value. Increases or decreases in realization for properties sold impact the comparability adjustment for similar assets remaining on the balance sheet.

FAIR VALUE OPTION

Regions has elected the fair value option for all FNMA and FHLMC eligible residential mortgage loans held for sale. 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 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.

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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, 2014			December 31, 2013		
	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	$456	$441	$ 15	$429	$424	$ 5

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 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, 2014 and 2013, respectively. 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.

	Mortgage loans held for sale, at fair value			
	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
	(In millions)			
Net gains (losses) resulting from changes in fair value	$(6)	$38	$11	$(24)

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, 2014 are as follows:

	September 30, 2014				
	Carrying Amount	Estimated Fair Value(1)	Level 1	Level 2	Level 3
	(In millions)				
Financial assets:					
Cash and cash equivalents	$4,783	$4,783	$4,783	$—	$—
Trading account securities	103	103	103	—	—
Securities held to maturity	2,222	2,224	1	2,223	—
Securities available for sale	22,379	22,379	200	22,167	12
Loans held for sale	504	504	—	456	48
Loans (excluding leases), net of unearned income and allowance for loan losses(2)(3)	73,695	68,691	—	—	68,691
Other interest-earning assets	91	91	—	91	—
Derivative assets	947	947	—	938	9
Financial liabilities:					
Derivative liabilities	1,050	1,050	—	1,050	—
Deposits	94,130	94,104	—	94,104	—
Short-term borrowings	1,893	1,893	—	1,893	—
Long-term borrowings	3,813	4,172	—	3,813	359
Loan commitments and letters of credit	103	578	—	—	578

Indemnification obligation	208	193	—	—	193

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(1) 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 estimating fair value, the Company makes adjustments for interest rates, market liquidity and credit spreads as appropriate.

(2) 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. 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 at September 30, 2014 was $5.0 billion or 6.8 percent.

(3) Excluded from this table is the lease carrying amount of $1.7 billion at September 30, 2014.

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, 2013 are as follows:

	December 31, 2013				
	Carrying Amount	Estimated Fair Value(1)	Level 1	Level 2	Level 3
	(In millions)				
Financial assets:					
Cash and cash equivalents	$5,273	$5,273	$5,273	$—	$—
Trading account securities	111	111	111	—	—
Securities held to maturity	2,353	2,307	1	2,306	—
Securities available for sale	21,485	21,485	193	21,281	11
Loans held for sale	1,055	1,055	—	429	626
Loans (excluding leases), net of unearned income and allowance for loan losses(2)(3)	71,594	66,167	—	—	66,167
Other interest-earning assets	86	86	—	86	—
Derivative assets	1,219	1,219	—	1,214	5
Financial liabilities:					
Derivative liabilities	1,301	1,301	—	1,301	—
Deposits	92,453	92,460	—	92,460	—
Short-term borrowings	2,182	2,182	—	2,182	—
Long-term borrowings	4,830	5,085	—	—	5,085
Loan commitments and letters of credit	117	621	—	—	621
Indemnification obligation	260	243	—	—	243

(1) 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 estimating fair value, the Company makes adjustments for interest rates, market liquidity and credit spreads as appropriate.

(2) 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. 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 at December 31, 2013 was $5.4 billion or 7.6 percent.

(3) Excluded from this table is the lease carrying amount of $1.7 billion at December 31, 2013.

NOTE 13. 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: Business Services, Consumer Services and Wealth Management, with the remainder split between Discontinued Operations and Other. 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 may be periodically revised.

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

	Three Months Ended September 30, 2014						
	Business Services	Consumer Services	Wealth Management	Other	Continuing Operations	Discontinued Operations	Consolidated
	(In millions)						
Net interest income (loss)	$453	$455	$43	$(130)	$821	$—	$821
Provision (credit) for loan losses	27	48	—	(51)	24	—	24
Non-interest income	130	250	90	8	478	19	497
Non-interest expense	241	455	111	19	826	14	840
Income (loss) before income taxes	315	202	22	(90)	449	5	454
Income tax expense (benefit)	120	77	8	(78)	127	2	129
Net income (loss)	$195	$125	$14	$(12)	$322	$3	$325
Average assets	$53,266	$28,781	$2,933	$33,808	$118,788	$—	$118,788

	Three Months Ended September 30, 2013						
	Business Services	Consumer Services	Wealth Management	Other	Continuing Operations	Discontinued Operations	Consolidated
	(In millions)						
Net interest income (loss)	$472	$460	$44	$(152)	$824	$—	$824
Provision (credit) for loan losses	40	67	6	(95)	18	—	18
Non-interest income	114	270	112	(1)	495	—	495
Non-interest expense	252	496	114	22	884	1	885
Income (loss) before income taxes	294	167	36	(80)	417	(1)	416
Income tax expense (benefit)	112	63	14	(65)	124	(1)	123
Net income (loss)	$182	$104	$22	$(15)	$293	$—	$293
Average assets	$52,568	$28,972	$3,002	$32,375	$116,917	$—	$116,917

	Nine Months Ended September 30, 2014						
	Business Services	Consumer Services	Wealth Management	Other	Continuing Operations	Discontinued Operations	Consolidated
	(In millions)						
Net interest income (loss)	$1,361	$1,360	$129	$(391)	$2,459	$—	$2,459
Provision (credit) for loan losses	79	143	1	(162)	61	—	61
	349	739	273	12	1,373	19	1,392

Non-interest income							
Non-interest expense	763	1,336	322	42	2,463	(7)	2,456
Income (loss) before income taxes	868	620	79	(259)	1,308	26	1,334
Income tax expense (benefit)	330	235	30	(215)	380	10	390
Net income (loss)	$538	$385	$49	$(44)	$928	$16	$944
Average assets	$53,182	$28,662	$2,954	$33,409	$118,207	$—	$118,207

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	Nine Months Ended September 30, 2013						
	Business Services	Consumer Services	Wealth Management	Other	Continuing Operations	Discontinued Operations	Consolidated
	(In millions)						
Net interest income (loss)	$1,395	$1,383	$135	$(483)	$2,430	$—	$2,430
Provision (credit) for loan losses	205	215	18	(379)	59	—	59
Non-interest income	343	822	290	38	1,493	—	1,493
Non-interest expense	718	1,442	328	122	2,610	(1)	2,609
Income (loss) before income taxes	815	548	79	(188)	1,254	1	1,255
Income tax expense (benefit)	310	208	30	(188)	360	—	360
Net income	$505	$340	$49	$—	$894	$1	$895
Average assets	$49,081	$29,010	$3,039	$36,958	$118,088	$—	$118,088

NOTE 14. 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, 2014	December 31, 2013
	(In millions)	
Unused commitments to extend credit	$42,657	$41,885
Standby letters of credit	1,608	1,629
Commercial letters of credit	47	36
Liabilities associated with standby letters of credit	37	37
Assets associated with standby letters of credit	36	38
Reserve for unfunded credit commitments	65	78

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, its affiliates and subsidiaries, and current and former officers, directors and employees, are sometimes collectively referred to as Regions and certain Related Persons. 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

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are periodically reviewed and may be adjusted 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, as previously discussed, 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. The indemnification obligation had a carrying amount of approximately $208 million and an estimated fair value of approximately $193 million as of September 30, 2014 (see Note 12).

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 is required to make a disclosure of the aggregate estimation. Regions currently estimates that it is reasonably possible that it may experience losses in excess of what Regions has accrued in an aggregate amount up to approximately $170 million as of September 30, 2014, with it also being reasonably possible that Regions could incur no losses in excess of amounts accrued. 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 if 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 provided above may not include an estimate for every matter disclosed below.

Beginning in December 2007, Regions and certain of its affiliates were named in class-action lawsuits filed in federal and state courts on behalf of investors who purchased shares of certain Regions Morgan Keegan Select Funds (the “Funds”) and stockholders of Regions. These cases have been consolidated into class-actions and stockholder derivative actions for the open-end and closed-end Funds. The Funds were formerly managed by Regions Investment Management, Inc. (“Regions Investment Management”). Regions Investment Management no longer manages these Funds, which were transferred to Hyperion Brookfield Asset Management (“Hyperion”) in 2008. Certain of the Funds have since been terminated by Hyperion. The complaints contain various allegations, including claims that the Funds and the defendants misrepresented or failed to disclose material facts relating to the activities of the Funds. Plaintiffs have requested equitable relief and unspecified monetary damages. Settlement discussions are ongoing in certain cases, and the U.S. District Court for the Western District of Tennessee has granted final approval of a settlement in the closed-end Funds class-action and shareholder derivative case as well as preliminary approval of a settlement in a consolidated class action under the Employment Retirement Income Security Act. Certain of the shareholders in these Funds and other interested parties have entered into arbitration proceedings and individual civil claims, in lieu of participating in the class actions. These lawsuits and proceedings are subject to the indemnification agreement with Raymond James discussed above.

In October 2010, a purported class-action lawsuit was filed by Regions’ stockholders in the U.S. District Court for the Northern District of Alabama (the “District Court”) against Regions and certain former officers of Regions (the "2010 Claim"). The 2010 Claim alleges violations of the federal securities laws, including allegations that materially false and misleading statements were included in filings made with the Securities and Exchange Commission ("SEC"). The plaintiffs have requested equitable relief and unspecified monetary damages. In June 2011, the trial court denied

Regions' motion to dismiss the 2010 Claim. In June 2012, the trial court granted class certification. The Eleventh Circuit Court of Appeals on September 5, 2014, vacated certification in part and remanded the 2010 Claim to District Court for further review of the class certification issue.

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 claims under a civil Racketeer Influenced and Corrupt Organizations ("RICO") statute and claims for commercial disparagement, tortious interference with contractual relationships, tortious interference with prospective economic advantage and common law conspiracy. Plaintiffs allege 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 allege that defendants' actions damaged their reputations and harmed their business relationships. Plaintiffs seek 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 have filed an appeal. This matter is subject to the indemnification agreement with Raymond James.

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The SEC and states of Missouri and Texas are investigating alleged securities law violations by Morgan Keegan in the underwriting and sale of certain municipal bonds. An enforcement action brought by the Missouri Secretary of State in April 2013, seeking monetary penalties and other relief, was dismissed and refiled in November 2013. A civil action was brought by institutional investors of the bonds in March 2012, seeking a return of their investment and unspecified compensatory and punitive damages. Trial of this case is currently set for March 2015 in the Circuit Court for Cole County, Missouri. A class action was brought on behalf of retail purchasers of the bonds in September 2012, seeking unspecified compensatory and punitive damages. In September 2014, the District Court for the Western District of Missouri granted class certification. The trial date which was originally set for September 2014 has been postponed and a new date has not been scheduled at this time. Other individual investors and investor groups have also filed arbitration claims or separate civil claims, which are pending in various stages. These matters are 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.

In 2013, Regions received investigative requests from government agencies regarding its residential mortgage loan origination, underwriting and quality control practices for Federal Housing Administration insured loans made by Regions. More recently, in September 2014, Regions received an investigative request from the Office of Inspector General of the Federal Housing Finance Agency regarding its residential mortgage loan origination, underwriting and quality control practices for loans Regions sold to Fannie Mae and Freddie Mac. These inquiries are part of industry-wide investigations, and Regions is cooperating with the inquiries. Many institutions have settled these matters on terms that included large monetary penalties, including, in some cases, civil money penalties under applicable banking laws. The Company cannot predict the ultimate outcome of the investigations concerning its practices, however it is possible that these investigations could result in the payment of a monetary penalty which may adversely affect results of operations.

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 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. However, Regions expects the majority of ongoing legal matters to be resolved within approximately two years.

As of the Closing Date, the fair value of the indemnification obligation, which includes defense costs and unasserted claims, was approximately $385 million, of which approximately $256 million was recognized as a reduction to the gain on sale of Morgan Keegan. The fair value was determined through the use of a present value calculation that takes into account the future cash flows that a market participant would expect to receive from holding the indemnification liability as an asset. Regions performed a probability-weighted cash flow analysis and discounted the result at a credit-adjusted risk free rate. The fair value of the indemnification liability includes amounts that Regions had previously determined meet the definition of probable and reasonably estimable. Adjustments to the indemnification obligation are recorded within professional and legal expenses within discontinued operations (see Note 2). As of September 30, 2014, the carrying value of the indemnification obligation was approximately $208 million.

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VISA INDEMNIFICATION

As a member of the Visa USA network, Regions, along with other members, indemnified Visa USA against litigation. On October 3, 2007, Visa USA was restructured and acquired several Visa affiliates. In conjunction with this restructuring, Regions' indemnification of Visa USA was modified to cover specific litigation (“covered litigation”). A portion of Visa's proceeds from its initial public offering ("IPO") was escrowed to fund the covered litigation. During the first quarter of 2013, Visa made a settlement payment related to the covered litigation which reduced Regions' share of the escrow account to approximately zero at March 31, 2013. Regions made a corresponding adjustment to reduce its liability to approximately zero at March 31, 2013. The balances related to the escrow and the corresponding liability are approximately zero as of September 30, 2014. To the extent that the amount available under the escrow arrangement, or subsequent fundings of the escrow account via reductions in the class B share conversion ratio, is insufficient to fully resolve the covered litigation, Visa will enforce the indemnification obligations of Visa USA's members for any excess amount. At this time, Regions has concluded that it is not probable that covered litigation exposure will exceed the class B share value.

NOTE 15. RECENT ACCOUNTING PRONOUNCEMENTS

In July 2013, the Financial Accounting Standards Board ("FASB") issued final guidance on the presentation of certain unrecognized tax benefits in the financial statements. This guidance requires unrecognized tax benefits to be presented as a decrease in a deferred tax asset for a net operating loss carryforward, similar tax loss or tax credit carryforward if certain criteria are met. In situations in which a net operating loss carryforward, a similar tax loss or tax credit carryforward is not available at the reporting date under the tax law of the jurisdiction or the tax law of the jurisdiction does not require, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit will be presented in the financial statements as a liability and will not be combined with deferred tax assets. This guidance became effective for fiscal years and interim periods within those years beginning after December 15, 2013 and was adopted by Regions on a prospective basis with the first quarter of 2014 financial reporting. The guidance did not have a material impact upon adoption.

In January 2014, the FASB issued new accounting guidance related to the accounting for investments in qualified affordable housing projects. The guidance allows the holder of low income housing tax credit ("LIHTC") investments to apply a proportional amortization method that would recognize the cost of the investment as a part of income tax expense, provided that the investment meets certain criteria. The guidance is silent regarding statement of financial position classification. Regions believes it would not be appropriate to classify the investment as a deferred tax asset. The decision to apply the proportional amortization method is an accounting policy election. Entities may also elect to continue to account for these investments using the equity method. The guidance will be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. Early adoption is permitted. Regions is in the process of reviewing the potential impact the adoption of this guidance will have to its consolidated financial statements.

In January 2014, the FASB issued new accounting guidance regarding the reclassification of residential real estate collateralized consumer mortgage loans upon foreclosures. The guidance requires reclassification of a consumer mortgage loan to other real estate owned upon obtaining legal title to the residential property, which could occur either through foreclosure or through a deed in lieu of foreclosure or similar legal agreement. The existence of a borrower redemption right will not prevent the lender from reclassifying a loan to other real estate once the lender obtains legal title to the property. In addition, entities are required to disclose the amount of foreclosed residential real estate properties and the recorded investment in residential real estate mortgage loans in the process of foreclosure on both an interim and annual basis. The guidance may be applied prospectively or on a modified retrospective basis in fiscal years, and interim periods within those fiscal years, beginning after December 15, 2014. Early adoption is permitted. Regions believes that adoption of this guidance will not have a material impact to its consolidated financial statements.

In May 2014, the FASB and the International Accounting Standards Board (“IASB”) jointly issued a comprehensive new revenue recognition standard that will supersede nearly all existing revenue recognition guidance under U.S. GAAP and International Financial Reporting Standards ("IFRS"). The standard’s core principle is that an entity will

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 and services. The guidance may be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initial application recognized at the date of initial application for fiscal years and interim periods within those years beginning after December 15, 2016. Early application is not permitted. Regions is in the process of reviewing the potential impact the adoption of this guidance will have to its consolidated financial statements.
In June 2014, the FASB issued new accounting guidance that requires two accounting changes related to the transfer and servicing of repurchase agreements and similar transactions. First, the amendments in the update change the accounting for repurchase-to-maturity transactions to secured borrowing accounting. Second, for repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. The amendments in the update also require certain disclosures for transfers of financial assets and repurchase agreements. The accounting changes

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are effective for fiscal years and interim periods within those years beginning after December 15, 2014. The changes should be applied as a cumulative-effect adjustment to retained earnings at the beginning of the period of adoption. The disclosure of certain transactions accounted for as a sale is required to be presented for fiscal years and interim periods within those years beginning after December 15, 2014 and the disclosure for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowing is required to be presented for fiscal years beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. Early application is not permitted. Regions is in the process of reviewing the potential impact the adoption of this guidance will have to its consolidated financial statements.

In June 2014, the FASB issued new accounting guidance that requires a performance target that affects vesting and that could be achieved after the requisite service period to be treated as a performance condition. An entity should apply existing guidance that relates to awards with performance conditions that affect vesting to account for such awards. The guidance may be applied prospectively or retrospectively and is effective for fiscal years and interim periods within those years beginning after December 15, 2015. Early adoption is permitted. This guidance will not have a material impact upon adoption as Regions has no share-based grants with performance targets that could be achieved after the requisite service period.

In August 2014, the FASB issued new accounting guidance regarding the classification and measurement of foreclosed mortgage loans that are guaranteed by the government (including loans guaranteed by the FHA and the VA). The guidance addresses diversity in practice by requiring creditors to derecognize the mortgage loan upon foreclosure and to recognize a separate other receivable if the following conditions are met: (a) the government guarantee of the loan is not separable from the loan before foreclosure; (b) upon foreclosure, the creditor has the intent to convey the real estate to the guarantor and to make a claim on the guarantee, and also has the ability to make a recovery under the claim; and (c) claim amounts based on the fair value of the property are fixed upon foreclosure. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The guidance may be applied prospectively or on a modified retrospective basis in fiscal years, and interim periods within those fiscal years, beginning after December 15, 2014. The transition method applied should be the same as the transition method applied upon implementation of the new accounting guidance issued in January 2014, described above, regarding the reclassification of residential real estate collateralized consumer mortgage loans upon foreclosures. Early adoption is permitted. Regions believes that adoption of this guidance will not have a material impact to its consolidated financial statements.

In August 2014, the FASB issued new accounting guidance to offer a measurement alternative for reporting entities that consolidate a collateralized financing entity ("CFE") in which the financial assets and financial liabilities are measured at fair value, with changes in fair values reflected in earnings. Under the measurement alternative, the reporting entity could elect to measure both the CFE’s financial assets and financial liabilities using the fair value of either the CFE’s financial assets or financial liabilities, whichever is more observable. Regions is in the process of reviewing the potential impact the adoption of this guidance will have to its consolidated financial statements.

In August 2014, the FASB issued new accounting guidance that requires management to evaluate whether there are conditions and events that raise substantial doubt about an entity’s ability to continue as a going concern. The guidance is intended to incorporate into GAAP a requirement that management perform a going concern evaluation similar to the auditor’s evaluation required by standards issued by the Public Company Accounting Oversight Board ("PCAOB") and American Institute of Certified Public Accountants ("AICPA"). The guidance is effective for all entities for annual periods ending after December 15, 2016 and for annual and interim periods thereafter. Early application is permitted. Regions believes the adoption of this guidance will not have a material impact upon adoption.

Further information related to recent accounting pronouncements and accounting changes adopted by Regions prior to the first quarter of 2014 is included in the Annual Report on Form 10-K for the year ended December 31, 2013.

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 to the Securities and Exchange Commission ("SEC") and updates Regions' Annual Report on Form 10-K for the year ended December 31, 2013, 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. Certain prior period amounts presented in this discussion and analysis have been reclassified to conform to current period classifications, except as otherwise noted. The emphasis of this discussion will be on the three and nine months ended September 30, 2014 compared to the three and nine months ended September 30, 2013 for the consolidated statements of income. For the consolidated balance sheet, the emphasis of this discussion will be the balances as of September 30, 2014 compared to December 31, 2013.

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 3 and 4 for additional information regarding forward-looking statements.

CORPORATE PROFILE

Regions is a financial holding company headquartered in Birmingham, Alabama, which 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, insurance and other specialty financing.

Regions conducts its banking operations through Regions Bank, an Alabama chartered commercial bank that is a member of the Federal Reserve System. At September 30, 2014, Regions operated 1,671 total branch outlets in Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, South Carolina, Tennessee, Texas and Virginia. Regions operates under three reportable business segments: Business Services, Consumer Services, and Wealth Management with the remainder split between Discontinued Operations and Other. See Note 13 "Business Segment Information" to the consolidated financial statements for more information regarding Regions' segment reporting structure. Regions also provides full-line insurance brokerage services primarily through Regions Insurance, Inc. which is included in the Wealth Management segment.

On January 11, 2012, Regions entered into a stock purchase agreement to sell Morgan Keegan & Company, Inc. ("Morgan Keegan") and related affiliates to Raymond James Financial, Inc. ("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 non-interest income sources. Net interest income is 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 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. 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, insurance 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 and legal expenses, deposit administrative fees, 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.
THIRD QUARTER OVERVIEW
Regions reported net income available to common shareholders of $305 million, or $0.22 per diluted share, in the third quarter of 2014 compared to net income available to common shareholders of $285 million, or $0.20 per diluted share, in the third quarter of 2013. Lower non-interest expenses were partially offset by lower non-interest income compared to the prior year period.

For the third quarter of 2014, net interest income (taxable-equivalent basis) from continuing operations totaled $837 million, essentially flat compared to the third quarter of 2013. The net interest margin (taxable-equivalent basis) was 3.18 percent for the third quarter of 2014 and 3.24 percent in the third quarter of 2013. Although the average balance of loans has increased for the third quarter of 2014 compared to the third quarter of 2013, loan yields declined. The average balance of other interest-earning assets, which consists primarily of excess cash held at the Federal Reserve, also increased during this period, but continues to yield only 25 basis points. Rates paid on interest-bearing liabilities also declined during this period, but not enough to offset the reduction in yields on earning assets. These factors collectively drove the 6 basis point compression in net interest margin. Total deposit costs were 11 basis points for the third quarter of 2014, as compared to 13 basis points for the third quarter of 2013. Total funding costs, which include deposits, short-term borrowings and long-term debt, were 30 basis points for the third quarter of 2014, as compared to 35 basis points for the third quarter of 2013.

The provision for loan losses totaled $24 million in the third quarter of 2014 compared to $18 million during the third quarter of 2013. Credit metrics, including net charge-offs and non-accrual loan balances, showed continued improving trends through the first nine months of 2014 compared to 2013.

Net charge-offs totaled $75 million, or an annualized 0.39 percent of average loans, in the third quarter of 2014, compared to $114 million, or an annualized 0.60 percent for the third quarter of 2013. Net charge-offs were lower across most major loan categories when comparing the third quarter of 2014 period to the prior year period.

The allowance for loan losses at September 30, 2014 was 1.54 percent of total loans, net of unearned income, compared to 1.80 percent at December 31, 2013. Total non-performing assets were $1.0 billion at September 30, 2014, compared to $1.3 billion at December 31, 2013.

Non-interest income from continuing operations for the third quarter of 2014 was $478 million, compared to $495 million for the third quarter of 2013. During the third quarter of 2013, the Company divested a non-core portion of a Wealth Management business which resulted in a pre-tax gain of $24 million, and during the third quarter of 2014, certain leveraged leases were terminated resulting in a $9 million pre-tax gain.

Total non-interest expense from continuing operations was $826 million in the third quarter of 2014, a $58 million decrease from the third quarter of 2013, driven primarily by decreased deposit administration fees and a benefit in the provision for unfunded credit losses.

A discussion of activity within discontinued operations is included at the end of the Management’s Discussion and Analysis section of this report.

TOTAL ASSETS

Regions’ total assets at September 30, 2014 were $119.2 billion, compared to $117.4 billion at December 31, 2013. The increase in total assets from year-end 2013 resulted primarily from a $2.0 billion increase in loans and an $894 million increase in securities available for sale. These increases were offset by a $510 million decrease in cash and cash equivalents and a $551 million decrease in loans held for sale as a result of the sale of certain primarily accruing residential first mortgage loans classified as troubled debt restructurings ("TDRs"). See the "Loans Held For Sale" section for further information. Funding for this net asset growth came primarily from increases in low-cost deposits.

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SECURITIES

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

Table 1—Securities

	September 30, 2014	December 31, 2013
	(In millions)	
U.S. Treasury securities	$62	$57
Federal agency securities	407	425
Obligations of states and political subdivisions	3	5
Mortgage-backed securities:		
Residential agency	18,191	17,474
Residential non-agency	9	9
Commercial agency	1,815	1,154
Commercial non-agency	1,488	1,211
Corporate and other debt securities	1,994	2,827
Equity securities	632	676
	$24,601	$23,838

Regions maintains a highly rated securities portfolio consisting primarily of agency mortgage-backed securities. Total securities at September 30, 2014 increased $763 million from year-end 2013 primarily due to market rate improvements in the fair value of the available for sale securities portfolio as well as additional portfolio purchases.

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 $504 million at September 30, 2014, consisting primarily of $457 million of residential real estate mortgage loans and $38 million of non-performing investor real estate loans. At December 31, 2013, loans held for sale totaled $1.1 billion, consisting primarily of $963 million of residential real estate mortgage loans, including $535 million of certain primarily accruing residential first mortgage loans classified as TDRs that were transferred to loans held for sale in the fourth quarter of 2013, and $82 million of non-performing investor real estate loans. Substantially all of the TDR loans held for sale were sold in the first quarter of 2014. The level of residential real estate mortgage loans held for sale that are part of the Company's mortgage originations to be sold in the secondary market fluctuates depending on the timing of origination and sale to third parties.

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LOANS

Loans, net of unearned income, represented approximately 73 percent of Regions' interest-earning assets at September 30, 2014. 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, 2014	December 31, 2013
	(In millions, net of unearned income)	
Commercial and industrial	$31,857	$29,413
Commercial real estate mortgage—owner-occupied	8,666	9,495
Commercial real estate construction—owner-occupied	350	310
Total commercial	40,873	39,218
Commercial investor real estate mortgage	4,940	5,318
Commercial investor real estate construction	1,878	1,432
Total investor real estate	6,818	6,750
Residential first mortgage	12,264	12,163
Home equity	10,968	11,294
Indirect	3,543	3,075
Consumer credit card	964	948
Other consumer	1,177	1,161
Total consumer	28,916	28,641
	$76,607	$74,609

PORTFOLIO CHARACTERISTICS

The following sections describe the composition of the portfolio segments and classes in Table 2 and explain changes in balances from the 2013 year-end. See Note 4 "Loans and the Allowance for Credit Losses" to the consolidated financial statements for additional discussion.

Regions has a diversified loan portfolio, in terms of product type, collateral and geography. At September 30, 2014, commercial loans represented 53 percent of total loans, net of unearned income, investor real estate loans represented 9 percent, residential first mortgage loans totaled 16 percent, home equity lending totaled 14 percent, indirect loans equaled 5 percent, other consumer loans totaled 2 percent and consumer credit card loans made up the remaining 1 percent of loans. Following is a discussion of risk characteristics of each loan type.

Loans, net of unearned income, totaled $76.6 billion at September 30, 2014, an increase of approximately $2.0 billion from year-end 2013 levels. Continued growth in commercial and industrial and indirect auto loan portfolios, along with increases in commercial investor real estate construction loans, more than offset declines in commercial real estate mortgage, investor real estate mortgage and home equity lending during the first nine months of 2014.

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 have increased $2.4 billion or 8 percent since year-end due to Regions' integrated approach to specialized lending. 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. These loans declined $829 million or 9 percent from year-end 2013 as a result of continued customer deleveraging. Owner-occupied 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. During the first nine months of 2014, total commercial loan balances increased approximately $1.7 billion, or 4 percent.

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, 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 $68 million from 2013 year-end balances.

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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 $101 million increase from year-end 2013, as prepayments have slowed. Approximately $277 million of these 10 and 15-year fixed rate loans were retained on the balance sheet through the first nine months of 2014.

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 home. Substantially all of this portfolio was originated through Regions' branch network. During the first nine months, home equity balances decreased $326 million, driven by continued consumer deleveraging and refinancing.

Indirect—Indirect lending, which is lending initiated through third-party business partners, largely consists of loans made through automotive dealerships. This portfolio class increased $468 million from year-end 2013, reflecting continued growing demand for automobile loans.

Consumer Credit Card—Consumer credit card lending represents primarily open-ended variable interest rate consumer credit card loans. These balances increased $16 million during the first nine months of 2014.

Other Consumer—Other consumer loans include direct consumer installment loans, overdrafts and other revolving loans. Other consumer loans increased $16 million during the first nine months of 2014.

CREDIT QUALITY

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.

Commercial

The commercial portfolio segment generated the majority of the Company's loan growth in the first nine months of 2014, particularly commercial and industrial loans. Over half of the Company's total loans are included in the commercial portfolio segment. These balances are spread across numerous industries, as disclosed in "Table 11—Selected Industry Balances" in the Annual Report on Form 10-K for the year ended December 31, 2013. The Company manages the related risks to this portfolio by setting certain lending limits for each significant industry. At September 30, 2014 and December 31, 2013, no single industry exceeded 15 percent of the total commercial portfolio balance.

Home Equity

The home equity portfolio totaled $11.0 billion at September 30, 2014 as compared to $11.3 billion at December 31, 2013. 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, 2014. 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 3—Home Equity Lines of Credit - Future Principal Payment Resets

	First Lien	% of Total		Second Lien	% of Total		Total
	(Dollars in millions)						
2014	$9	0.10	%	$71	0.82	%	$80
2015	23	0.27		166	1.93		189
2016	29	0.34		39	0.45		68
2017	5	0.06		12	0.14		17
2018	15	0.17		26	0.30		41
2019-2023	1,211	14.07		1,079	12.53		2,290
2024-2028	2,749	31.94		3,051	35.45		5,800
Thereafter	70	0.81		53	0.62		123
Total	$4,111	47.76	%	$4,497	52.24	%	$8,608

Of the $11.0 billion home equity portfolio at September 30, 2014, approximately $8.6 billion were home equity lines of credit and $2.4 billion were closed-end home equity loans (primarily originated as amortizing loans). Beginning in May 2009, new home equity lines of credit have a 10-year draw period and a 10-year repayment period. Previously, the home equity lines of credit had a 20-year 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. As of September 30, 2014, none of Regions' home equity lines of credit have converted to mandatory amortization

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under the contractual terms. As presented in the table above, the majority of home equity lines of credit will either mature with a balloon payment or convert to amortizing status after fiscal year 2020.

Of the $8.6 billion of home equity lines of credit as of September 30, 2014, approximately 91 percent require monthly interest-only payments while the remaining approximately 9 percent require a payment equal to 1.5 percent of the outstanding balance, which would include some principal repayment. As of September 30, 2014, approximately 29 percent of borrowers were only paying the minimum amount due on the home equity line. In addition, approximately 58 percent of the home equity lines of credit balances have the option to amortize either all or a portion of their balance. As of September 30, 2014, approximately $277 million of the home equity line of credit balances have elected this option.

Regions is unable to track payment status on first liens held by another institution, including payment status related to loan modifications. When Regions’ second lien position becomes delinquent, an attempt is made to contact the first lien holder and inquire as to the payment status of the first lien. However, Regions does not continuously monitor the payment status of the first lien position. Short sale offers and settlement agreements are often received by the home equity junior lien holders well before the loan balance reaches the delinquency threshold for charge-off consideration, potentially resulting in a full balance payoff/charge-off. Regions is presently monitoring the status of all first lien position loans that the Company owns or services and has a second lien, and is taking appropriate action when delinquent. Regions services the first lien on approximately 23 percent of the entire second lien home equity portfolio as of September 30, 2014. Regions believes that the results related to the non-Regions-serviced first liens would not be significantly different than that of the portfolio which Regions services.

Indirect

Regions re-entered the indirect automotive lending market in October 2010 and has experienced steady portfolio growth. Regions is focused on prudent growth strategies by establishing mutually beneficial, prime lending relationships with a select group of franchised new car dealers. Regions' credit policy stipulates that it originates only prime quality auto loans. Purchased loans, which are primarily prime quality auto loans, are monitored on a regular basis with performance having been consistent with the originated portfolio.

Other Consumer Credit Quality Data

The Company calculates an estimate of the current value of property secured as collateral for both home equity and residential first mortgage lending products (“current LTV”). The estimate is based on home price indices compiled by a third party. The third party data indicates trends for Metropolitan Statistical Areas (“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 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. The balances in the “Above 100%” category as a percentage of the portfolio balances decreased from 6 percent to 4 percent in the residential first mortgage portfolio and from 13 percent to 7 percent in the home equity portfolio when comparing December 31, 2013 to September 30, 2014, respectively.

Table 4—Estimated Current Loan to Value Ranges

	September 30, 2014			December 31, 2013		
	Residential	Home Equity		Residential	Home Equity	
	First Mortgage	1st Lien	2nd Lien	First Mortgage	1st Lien	2nd Lien
	(In millions)					
Estimated current loan to value:						
Above 100%	$430	$187	$617	$733	$416	$1,034

80% - 100%	1,695	527	1,107	2,050	737	1,294
Below 80%	9,613	5,210	2,771	8,899	4,646	2,501
Data not available	526	190	359	481	199	467
	$12,264	$6,114	$4,854	$12,163	$5,998	$5,296

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 as part of Regions' formal underwriting process. Refreshed FICO scores are obtained by the Company quarterly for all revolving accounts and home equity lines of credit

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and semi-annually for all other 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 7 percent of the combined portfolios for both September 30, 2014 and December 31, 2013.

Table 5—Estimated Current FICO Score Ranges

	September 30, 2014					
	Residential First Mortgage	Home Equity 1st Lien	2nd Lien	Indirect	Consumer Credit Card	Other Consumer
	(In millions)					
Below 620	$869	$354	$338	$330	$45	$77
620 - 680	994	552	504	500	143	137
681-720	1,355	754	631	569	225	176
Above 720	8,036	4,209	3,212	1,969	550	474
Data not available	1,010	245	169	175	1	313
	$12,264	$6,114	$4,854	$3,543	$964	$1,177

	December 31, 2013					
	Residential First Mortgage	Home Equity 1st Lien	2nd Lien	Indirect	Consumer Credit Card	Other Consumer
	(In millions)					
Below 620	$886	$324	$322	$312	$38	$87
620 - 680	1,022	533	527	470	130	142
681-720	1,341	725	672	511	216	177
Above 720	8,091	4,052	3,491	1,599	563	