REGIONS FINANCIAL CORP
Form 10-Q
November 04, 2016
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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, 2016
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 (I.R.S. 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 1,230,974,878 shares of common stock, par value $.01, outstanding as of November 2, 2016.

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Glossary of Defined Terms
Agencies - collectively, FNMA, FHLMC and GNMA.
ALCO - Asset/Liability Management Committee.
AOCI - Accumulated other comprehensive income.
ATM - Automated teller machine.
Basel I - Basel Committee's 1988 Regulatory Capital Framework (First Accord).
Basel III - Basel Committee's 2010 Regulatory Capital Framework (Third Accord).
Basel III Rules - Final capital rules adopting the Basel III capital framework approved by U.S. federal regulators in 2013.
Basel Committee - Basel Committee on Banking Supervision.
BHC - Bank Holding Company.
BITS - Technology arm of the Financial Services Roundtable.
Bank - Regions Bank.
Board - The Company’s Board of Directors.
CAP - Customer Assistance Program.
CCAR - Comprehensive Capital Analysis and Review.
CD - Certificate of deposit.
CEO - Chief Executive Officer.
CET1 - Common Equity Tier 1.
CFPB - Consumer Financial Protection Bureau.
Company - Regions Financial Corporation and its subsidiaries.
CPR - Constant (or Conditional) Prepayment Rate.
CRA - Community Reinvestment Act of 1977.
Dodd-Frank Act - The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.
DPD - Days Past Due.
DUS - Fannie Mae Delegated Underwriting & Servicing.
FASB - Financial Accounting Standards Board.
FDIC - Federal Deposit Insurance Corporation.
Federal Reserve - Board of Governors of the Federal Reserve System.
FHA - Federal Housing Administration.
FHLB - Federal Home Loan Bank.
FHLMC - Federal Home Loan Mortgage Corporation, known as Freddie Mac.
FNMA - Federal National Mortgage Association, known as Fannie Mae.
FS-ISAC - Financial Services - Information Sharing & Analysis Center.
FRB - Federal Reserve Bank.
GAAP - Generally Accepted Accounting Principles in the United States.
GCM - Guideline Public Company Method.
GNMA - Government National Mortgage Association.
GTM - Guideline Transaction Method.
HUD - U.S. Department of Housing and Urban Development.

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IP - Intellectual Property.
IPO - Initial public offering.
LCR - Liquidity coverage ratio.
LIBOR - London InterBank Offered Rates.
LTIP - Long-term incentive plan.
LTV - Loan to value.
MBS - Mortgage-backed securities.
Morgan Keegan - Morgan Keegan & Company, Inc.
MSAs - Metropolitan Statistical Areas.
MSR - Mortgage servicing right.
NM - Not meaningful.
NPR - Notice of Proposed Rulemaking.
OAS - Option-Adjusted Spread.
OCC - Office of the Comptroller of the Currency.
OCI - Other comprehensive income.
OIS - Overnight indexed swap.
OTTI - Other-than-temporary impairment.
Raymond James - Raymond James Financial, Inc.
RICO - Racketeer Influenced and Corrupt Organizations Act.
SEC - U.S. Securities and Exchange Commission.
SERP - Supplemental Executive Retirement Plan.
SSFA - Simplified Supervisory Formula Approach.
TDR - Troubled debt restructuring.
U.S. - United States.
U.S. Treasury - United States Department of the Treasury.
UTB - Unrecognized tax benefits.
VIE - Variable interest entity.

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Forward-Looking Statements

This Quarterly Report on Form 10-Q, other periodic reports filed by Regions Financial Corporation under the Securities Exchange Act of 1934, as amended, and any other written or oral statements made by us or on our behalf to analysts, investors, the media and others, may include forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. The terms "Regions," the "Company," "we," "us" and "our" 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 reductions of economic growth, which may adversely affect our lending and other businesses and our financial results and conditions.
- Possible changes in trade, monetary and fiscal policies of, and other activities undertaken by, governments, agencies, central banks and similar organizations, which could have a material adverse effect on our earnings.
- The effects of a possible downgrade in the U.S. government's sovereign credit rating or outlook, which could result in risks to us and general economic conditions that we are not able to predict.
- Possible changes in market interest rates or capital markets could adversely affect our revenue and expense, the value of assets and obligations, and the availability and cost of capital and liquidity.
- Any impairment of our goodwill or other intangibles, 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 where our allowance for loan losses may not be adequate to cover our eventual losses.
- Possible acceleration of prepayments on mortgage-backed securities due to low interest rates, and the related acceleration of premium amortization on those securities.
- 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, which could increase our funding costs.
- Our inability to develop and gain acceptance from current and prospective customers for new products and services in a timely manner could have a negative impact on our revenue.
- The effects of any developments, changes or actions relating to any litigation or regulatory proceedings brought against us or any of our subsidiaries.
- Changes in laws and regulations affecting our businesses, such as the Dodd-Frank Act and other legislation and regulations relating to bank products and services, as well as changes in the enforcement and interpretation of such laws and regulations by applicable governmental and self-regulatory agencies, which could require us to change certain business practices, increase compliance risk, reduce our revenue, impose additional costs on us, or otherwise negatively affect our businesses.
- Our ability to obtain a regulatory non-objection (as part of the CCAR process or otherwise) to take certain capital actions, including paying dividends and any plans to increase common stock dividends, repurchase common stock

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

- Our ability to comply with stress testing and capital planning requirements (as part of the CCAR process or otherwise) may continue to require a significant investment of our managerial resources due to the importance and intensity of such tests and requirements.
- Our ability to comply with applicable capital and liquidity requirements (including, among other things, the Basel III capital standards and the LCR rule), including our ability to generate capital internally or raise capital on favorable terms, and if we fail to meet requirements, our financial condition could be negatively impacted.

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- The Basel III framework calls for additional risk-based capital surcharges for globally systemically important banks. Although we are not subject to such surcharges, it is possible that in the future we may become subject to similar surcharges.
- The costs, including possibly incurring fines, penalties, or other negative effects (including reputational harm) of any adverse judicial, administrative, or arbitral rulings or proceedings, regulatory enforcement actions, or other legal actions to which we or any of our subsidiaries are a party, and which may adversely affect our results.
- Our ability to manage fluctuations in the value of assets and liabilities and off-balance sheet exposure so as to maintain sufficient capital and liquidity to support our business.
- Our ability to execute on our strategic and operational plans, including our ability to fully realize the financial and non-financial benefits relating to our strategic initiatives.
- The success of our marketing efforts in attracting and retaining customers.
- Possible changes in consumer and business spending and saving habits and the related effect on our ability to increase assets and to attract deposits, which could adversely affect our net income.
- Our ability to recruit and retain talented and experienced personnel to assist in the development, management and operation of our products and services may be affected by changes in laws and regulations in effect from time to time.
- Fraud or misconduct by our customers, employees or business partners.
- Any inaccurate or incomplete information provided to us by our customers or counterparties.
- The risks and uncertainties related to our acquisition and integration of other companies.
- Inability of our framework to manage risks associated with our business such as credit risk and operational risk, including third-party vendors and other service providers, which could, among other things, result in a breach of operating or security systems as a result of a cyber attack or similar act.
- 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 and the potential impact, directly or indirectly, on our businesses.
- The effects of man-made and natural disasters, including fires, floods, droughts, tornadoes, hurricanes, and environmental damage, which may negatively affect our operations and/or our loan portfolios and increase our cost of conducting business.
- Changes in commodity market prices and conditions could adversely affect the cash flows of our borrowers operating in industries that are impacted by changes in commodity prices (including businesses indirectly impacted by commodities prices such as businesses that transport commodities or manufacture equipment used in the production of commodities), which could impair their ability to service any loans outstanding to them and/or reduce demand for loans in those industries.
- Our inability to keep pace with technological changes could result in losing business to competitors.
- Our ability to identify and address cyber-security risks such as data security breaches, “denial of service” attacks, “hacking” and identity theft, a failure of which could disrupt our business and result in the disclosure of and/or misuse or misappropriation of confidential or proprietary information; disruption or damage to our systems; increased costs; losses; or adverse effects to our reputation.
- Our ability to realize our efficiency ratio target as part of our expense management initiatives.
- Significant disruption of, or loss of public confidence in, the Internet and services and devices used to access the Internet could affect the ability of our customers to access their accounts and conduct banking transactions.
- Possible downgrades in our credit ratings or outlook could increase the costs of funding from capital markets.
- The effects of problems encountered by other financial institutions that adversely affect us or the banking industry generally could require us to change certain business practices, reduce our revenue, impose additional costs on us, or otherwise negatively affect our businesses.
- The effects of the failure of any component of our business infrastructure provided by a third party could disrupt our businesses; result in the disclosure of and/or misuse of confidential information or proprietary information; increase our costs; negatively affect our reputation; and cause losses.

- Our ability to receive dividends from our subsidiaries could affect our liquidity and ability to pay dividends to stockholders.
- Changes in accounting policies or procedures as may be required by the FASB or other regulatory agencies could materially affect how we report our financial results.

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- Other risks identified from time to time in reports that we file with the SEC.
- The effects of any damage to our reputation resulting from developments related to any of the items identified above.

You should not place undue reliance on any forward-looking statements, which speak only as of the date made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible to predict all of them. We assume no obligation 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, 2015 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, 2016	December 31, 2015
	(In millions, except share data)	
Assets		
Cash and due from banks	$ 1,928	$ 1,382
Interest-bearing deposits in other banks	2,310	3,932
Trading account securities	120	143
Securities held to maturity (estimated fair value of $1,485 and $1,969, respectively)	1,431	1,946
Securities available for sale	23,859	22,710
Loans held for sale (includes $549 and $353 measured at fair value, respectively)	571	448
Loans, net of unearned income	80,883	81,162
Allowance for loan losses	(1,126)	(1,106)
Net loans	79,757	80,056
Other earning assets	1,505	1,652
Premises and equipment, net	2,075	2,152
Interest receivable	305	319
Goodwill	4,882	4,878
Residential mortgage servicing rights at fair value	238	252
Other identifiable intangible assets	228	259
Other assets	5,968	5,921
Total assets	$ 125,177	$ 126,050
Liabilities and Stockholders' Equity		
Deposits:		
Non-interest-bearing	$ 36,321	$ 34,862
Interest-bearing	62,968	63,568
Total deposits	99,289	98,430
Borrowed funds:		
Short-term borrowings:		
Other short-term borrowings	—	10
Total short-term borrowings	—	10
Long-term borrowings	6,054	8,349
Total borrowed funds	6,054	8,359
Other liabilities	2,469	2,417
Total liabilities	107,812	109,206
Stockholders' equity:		
Preferred stock, authorized 10 million shares, par value $1.00 per share		
Non-cumulative perpetual, liquidation preference $1,000.00 per share, including related surplus, net of issuance costs; issued—1,000,000 shares	820	820
Common stock, authorized 3 billion shares, par value $.01 per share:		
Issued including treasury stock—1,277,600,517 and 1,338,591,703 shares, respectively	13	13
Additional paid-in capital	17,339	17,883
Retained earnings (deficit)	465	(115)

Treasury stock, at cost—41,259,320 and 41,261,018 shares, respectively	(1,377)	(1,377)
Accumulated other comprehensive income (loss), net	105	(380)
Total stockholders' equity	17,365	16,844
Total liabilities and stockholders' equity	$ 125,177	$ 126,050

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	
	2016	2015	2016	2015
	(In millions, except per share data)			
Interest income, including other financing income on:				
Loans, including fees	$763	$748	$2,293	$2,201
Securities - taxable	135	137	427	423
Loans held for sale	4	5	11	12
Trading account securities	—	—	4	4
Other earning assets	9	11	27	30
Operating lease assets	31	—	95	—
Total interest income, including other financing income	942	901	2,857	2,670
Interest expense on:				
Deposits	31	27	86	82
Short-term borrowings	—	—	—	1
Long-term borrowings	51	38	148	116
Total interest expense	82	65	234	199
Depreciation expense on operating lease assets	25	—	78	—
Total interest expense and depreciation expense on operating lease assets	107	65	312	199
Net interest income and other financing income	835	836	2,545	2,471
Provision for loan losses	29	60	214	172
Net interest income and other financing income after provision for loan losses	806	776	2,331	2,299
Non-interest income:				
Service charges on deposit accounts	166	167	491	496
Card and ATM fees	105	93	299	268
Mortgage income	46	39	130	125
Securities gains, net	—	7	1	18
Other	282	191	710	650
Total non-interest income	599	497	1,631	1,557
Non-interest expense:				
Salaries and employee benefits	486	470	1,441	1,405
Net occupancy expense	87	90	259	270
Furniture and equipment expense	80	77	237	224
Other	281	258	781	835
Total non-interest expense	934	895	2,718	2,734
Income from continuing operations before income taxes	471	378	1,244	1,122
Income tax expense	152	116	380	335
Income from continuing operations	319	262	864	787
Discontinued operations:				
Income (loss) from discontinued operations before income taxes	2	(6)	7	(16)
Income tax expense (benefit)	1	(2)	3	(6)
Income (loss) from discontinued operations, net of tax	1	(4)	4	(10)
Net income	$320	$258	$868	$777

Net income from continuing operations available to common shareholders	$303	$246	$816	$739
Net income available to common shareholders	$304	$242	$820	$729
Weighted-average number of shares outstanding:				
Basic	1,246	1,319	1,266	1,333
Diluted	1,252	1,326	1,270	1,343
Earnings per common share from continuing operations:				
Basic	$0.24	$0.19	$0.64	$0.55
Diluted	0.24	0.19	0.64	0.55
Earnings per common share:				
Basic	$0.24	$0.18	$0.65	$0.55
Diluted	0.24	0.18	0.65	0.54
Cash dividends declared per common share	0.065	0.06	0.19	0.17

See notes to consolidated financial statements.

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REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended September 30	
	2016	2015
	(In millions)	
Net income	$320	$258
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 ($4) and ($1) tax effect, respectively)	(5)	(2)
Net change in unrealized losses on securities transferred to held to maturity, net of tax	5	2
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period (net of ($7) and $28 tax effect, respectively)	(13)	47
Less: reclassification adjustments for securities gains (losses) realized in net income (net of zero and $2 tax effect, respectively)	—	5
Net change in unrealized gains (losses) on securities available for sale, net of tax	(13)	42
Unrealized gains (losses) on derivative instruments designated as cash flow hedges:		
Unrealized holding gains (losses) on derivatives arising during the period (net of ($12) and $75 tax effect, respectively)	(18)	121
Less: reclassification adjustments for gains (losses) on derivative instruments realized in net income (net of $13 and $16 tax effect, respectively)	22	25
Net change in unrealized gains (losses) on derivative instruments, net of tax	(40)	96
Defined benefit pension plans and other post employment benefits:		
Net actuarial gains (losses) arising during the period (net of zero and zero tax effect, respectively)	(1)	(1)
Less: reclassification adjustments for amortization of actuarial loss and prior service cost realized in net income (net of ($3) and ($4) tax effect, respectively)	(6)	(9)
Net change from defined benefit pension plans and other post employment benefits, net of tax	5	8
Other comprehensive income (loss), net of tax	(43)	148
Comprehensive income	$277	$406

	Nine Months Ended September 30	
	2016	2015
	(In millions)	
Net income	$868	$777
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 ($8) and ($4) tax effect, respectively)	(12)	(6)
Net change in unrealized losses on securities transferred to held to maturity, net of tax	12	6

Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period (net of $180 and ($17) tax effect, respectively)	295	(25)
Less: reclassification adjustments for securities gains (losses) realized in net income (net of zero and $6 tax effect, respectively)	1	12
Net change in unrealized gains (losses) on securities available for sale, net of tax	294	(37)
Unrealized gains (losses) on derivative instruments designated as cash flow hedges:		
Unrealized holding gains (losses) on derivatives arising during the period (net of $141 and $107 tax effect, respectively)	231	175
Less: reclassification adjustments for gains (losses) on derivative instruments realized in net income (net of $41 and $41 tax effect, respectively)	68	67
Net change in unrealized gains (losses) on derivative instruments, net of tax	163	108
Defined benefit pension plans and other post employment benefits:		
Net actuarial gains (losses) arising during the period (net of $1 and zero tax effect, respectively)	(1)	(2)
Less: reclassification adjustments for amortization of actuarial loss and prior service cost realized in net income (net of ($9) and ($13) tax effect, respectively)	(17)	(24)
Net change from defined benefit pension plans and other post employment benefits, net of tax	16	22
Other comprehensive income (loss), net of tax	485	99
Comprehensive income	$1,353	$876

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 per share data)								
BALANCE AT JANUARY 1, 2015	1	$ 884	1,354	$ 14	$ 18,767	$ (1,177)	$ (1,377)	$ (238)	$ 16,873
Net income	—	—	—	—	—	777	—	—	777
Amortization of unrealized losses on securities transferred to held to maturity, net of tax	—	—	—	—	—	—	—	6	6
Net change in unrealized gains and losses on securities available for sale, net of tax and reclassification adjustment	—	—	—	—	—	—	—	(37)	(37)
Net change in unrealized gains and losses on derivative instruments, net of tax and reclassification adjustment	—	—	—	—	—	—	—	108	108
Net change from employee benefit plans, net of tax	—	—	—	—	—	—	—	22	22
Cash dividends declared—$0.17 per share	—	—	—	—	(226)	—	—	—	(226)
Preferred stock dividends	—	(48)	—	—	—	—	—	—	(48)
Common stock transactions:									
Impact of share repurchase	—	—	(55)	(1)	(544)	—	—	—	(545)
Impact of stock transactions under compensation plans, net and other	—	—	5	—	22	—	—	—	22
BALANCE AT SEPTEMBER 30, 2015	1	$ 836	1,304	$ 13	$ 18,019	$ (400)	$ (1,377)	$ (139)	$ 16,952
BALANCE AT JANUARY 1, 2016	1	$ 820	1,297	$ 13	$ 17,883	$ (115)	$ (1,377)	$ (380)	$ 16,844
Net income	—	—	—	—	—	868	—	—	868
Amortization of unrealized losses on securities transferred to held to maturity, net of tax	—	—	—	—	—	—	—	12	12
Net change in unrealized gains and losses on securities available for sale, net of tax and reclassification adjustment	—	—	—	—	—	—	—	294	294
Net change in unrealized gains and losses on derivative instruments, net of tax and reclassification adjustment	—	—	—	—	—	—	—	163	163
	—	—	—	—	—	—	—	16	16

Net change from employee benefit plans, net of tax									
Cash dividends declared—$0.19 per share	—	—	—	—	—	(240)	—	—	(240)
Preferred stock dividends	—	—	—	—	—	(48)	—	—	(48)
Common stock transactions:									
Impact of share repurchase	—	—	(65)	—	(569)	—	—	—	(569)
Impact of stock transactions under compensation plans, net and other	—	—	4	—	25	—	—	—	25
BALANCE AT SEPTEMBER 30, 2016	1	$ 820	1,236	$ 13	$ 17,339	$ 465	$ (1,377)	$ 105	$ 17,365

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	
	2016	2015
	(In millions)	
Operating activities:		
Net income	$868	$777
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	214	172
Depreciation, amortization and accretion, net	425	384
Securities (gains) losses, net	(1)	(18)
Deferred income tax expense	18	68
Originations and purchases of loans held for sale	(2,767)	(1,931)
Proceeds from sales of loans held for sale	2,711	2,087
(Gain) loss on sale of loans, net	(95)	(70)
(Gain) loss on early extinguishment of debt	14	43
Net change in operating assets and liabilities:		
Trading account securities	23	—
Other earning assets	69	(158)
Interest receivable and other assets	28	116
Other liabilities	157	(95)
Other	76	36
Net cash from operating activities	1,740	1,411
Investing activities:		
Proceeds from maturities of securities held to maturity	522	174
Proceeds from sales of securities available for sale	1,873	1,142
Proceeds from maturities of securities available for sale	3,325	2,958
Purchases of securities available for sale	(6,108)	(4,169)
Proceeds from sales of loans	86	59
Purchases of loans	(779)	(857)
Purchases of mortgage servicing rights	(35)	(4)
Net change in loans	720	(3,291)
Net purchases of other assets	(107)	(193)
Net cash from investing activities	(503)	(4,181)
Financing activities:		
Net change in deposits	859	2,978
Net change in short-term borrowings	(10)	(2,253)
Proceeds from long-term borrowings	1,607	4,997
Payments on long-term borrowings	(3,910)	(1,142)
Cash dividends on common stock	(236)	(226)
Cash dividends on preferred stock	(48)	(48)
Repurchase of common stock	(569)	(544)
Other	(6)	12
Net cash from financing activities	(2,313)	3,774
Net change in cash and cash equivalents	(1,076)	1,004

Cash and cash equivalents at beginning of year	5,314	4,004
Cash and cash equivalents at end of period	$4,238	$5,008

See notes to consolidated financial statements.

REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Three and Nine Months Ended September 30, 2016 and 2015

NOTE 1. BASIS OF PRESENTATION

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

The accounting and reporting policies of Regions and the methods of applying those policies that materially affect the consolidated financial statements conform with GAAP and with general financial services industry practices. The accompanying interim financial statements have been prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all information and notes to the consolidated financial statements necessary for a complete presentation of financial position, results of operations, comprehensive income and cash flows in conformity with GAAP. In the opinion of management, all adjustments, consisting of normal and recurring items, necessary for the fair presentation of the consolidated financial statements have been included. These interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto in Regions' Annual Report on Form 10-K for the year ended December 31, 2015. 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 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, 2015.

During the fourth quarter of 2015, Regions reclassified its investments in FRB and FHLB stock from securities available for sale to other earning assets on its consolidated balance sheets. This reclassification has been made for all periods presented. Certain other prior period amounts have also been reclassified to conform to the current period presentation. 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. 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.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
	(In millions, except per share data)			
Non-interest expense:				
Professional and legal expenses/(recoveries)	$(2)	$7	$(8)	$16
Other	—	(1)	1	—
Total non-interest expense	(2)	6	(7)	16
Income (loss) from discontinued operations before income taxes	2	(6)	7	(16)

Income tax expense (benefit)	1	(2)	3	(6)
Income (loss) from discontinued operations, net of tax	$1	$(4)	$4	$(10)
Earnings (loss) per common share from discontinued operations:				
Basic	$0.00	$(0.00)	$0.00	$(0.01)
Diluted	$0.00	$(0.00)	$0.00	$(0.01)

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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, 2016						
		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:							
Mortgage-backed securities:							
Residential agency	$1,316	—	(52)	1,264	53	—	$ 1,317
Commercial agency	171	—	(4)	167	1	—	168
	$1,487	$—	$ (56)	$1,431	$ 54	$ —	$ 1,485
Securities available for sale:							
U.S. Treasury securities	$237	$5	$ —	$242			$ 242
Federal agency securities	37	1	—	38			38
Mortgage-backed securities:							
Residential agency	17,189	328	(11)	17,506			17,506
Residential non-agency	4	1	—	5			5
Commercial agency	3,333	81	(1)	3,413			3,413
Commercial non-agency	1,125	19	(3)	1,141			1,141
Corporate and other debt securities	1,304	47	(17)	1,334			1,334
Equity securities	170	10	—	180			180
	$23,399	$492	$ (32)	$23,859			$ 23,859

	December 31, 2015						
		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	350	—	(10)	340	9	—	349
Mortgage-backed securities:							
Residential agency	1,490	—	(61)	1,429	18	(2)	1,445
Commercial agency	181	—	(5)	176	—	(2)	174
	$2,022	$—	$ (76)	$1,946	$ 27	$ (4)	$ 1,969
Securities available for sale:							
U.S. Treasury securities	$228	$1	$ (1)	$228			$ 228
Federal agency securities	219	—	(1)	218			218
Obligations of states and political subdivisions	1	—	—	1			1
Mortgage-backed securities:							
Residential agency	16,003	149	(90)	16,062			16,062
Residential non-agency	5	—	—	5			5
Commercial agency	3,033	10	(25)	3,018			3,018
Commercial non-agency	1,245	3	(17)	1,231			1,231
Corporate and other debt securities	1,718	12	(63)	1,667			1,667
Equity securities	272	10	(2)	280			280
	$22,724	$185	$ (199)	$22,710			$ 22,710

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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.

Securities with carrying values of $10.9 billion and $11.9 billion at September 30, 2016 and December 31, 2015, respectively, were pledged to secure public funds, trust deposits and certain borrowing arrangements. Included within total pledged securities is approximately $51 million and $50 million of encumbered U.S. Treasury securities at September 30, 2016 and December 31, 2015, respectively.

The amortized cost and estimated fair value of securities available for sale and securities held to maturity at September 30, 2016, 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:		
Mortgage-backed securities:		
Residential agency	$1,316	$ 1,317
Commercial agency	171	168
	$1,487	$ 1,485
Securities available for sale:		
Due in one year or less	$52	$ 52
Due after one year through five years	463	475
Due after five years through ten years	808	836
Due after ten years	255	251
Mortgage-backed securities:		
Residential agency	17,189	17,506
Residential non-agency	4	5
Commercial agency	3,333	3,413
Commercial non-agency	1,125	1,141
Equity securities	170	180
	$23,399	$ 23,859

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, 2016 and December 31, 2015. 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, 2016					
	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:						
Mortgage-backed securities:						
Residential agency	$—	$ —	$388	$ (4)	$388	$ (4)
Commercial agency	—	—	169	(3)	169	(3)
	$—	$ —	$557	$ (7)	$557	$ (7)
Securities available for sale:						
U.S. Treasury securities	$4	$ —	$2	$ —	$6	$ —
Federal agency securities	—	—	2	—	2	—
Mortgage-backed securities:						
Residential agency	1,491	(4)	604	(7)	2,095	(11)
Residential non-agency	3	—	—	—	3	—
Commercial agency	282	(1)	46	—	328	(1)
Commercial non-agency	94	(1)	245	(2)	339	(3)
All other securities	23	—	253	(17)	276	(17)
	$1,897	$ (6)	$1,152	$ (26)	$3,049	$ (32)

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	December 31, 2015					
	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	$198	$ (1)	$—	$ —	$198	$ (1)
Mortgage-backed securities:						
Residential agency	322	(7)	1,121	(38)	1,443	(45)
Commercial agency	—	—	174	(7)	174	(7)
	$520	$ (8)	$1,295	$ (45)	$1,815	$ (53)
Securities available for sale:						
U.S. Treasury securities	$59	$ (1)	$8	$ —	$67	$ (1)
Federal agency securities	74	—	7	—	81	—
Mortgage-backed securities:						
Residential agency	8,037	(73)	791	(17)	8,828	(90)
Residential non-agency	3	—	—	—	3	—
Commercial agency	1,695	(20)	273	(5)	1,968	(25)
Commercial non-agency	684	(12)	264	(6)	948	(18)
All other securities	805	(36)	307	(29)	1,112	(65)
	$11,357	$ (142)	$1,650	$ (57)	$13,007	$ (199)

The number of individual positions in an unrealized loss position in the tables above decreased from 1,081 at December 31, 2015 to 520 at September 30, 2016. The decrease in the number of securities and the total amount of unrealized losses from year-end 2015 was primarily due to changes in market interest rates. In instances where an unrealized loss existed, there was no indication of an adverse change in credit on the underlying positions in the tables above. As it relates to these positions, management believes no individual unrealized loss, other than those discussed below, represented an 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 positions before the recovery of their amortized cost basis, which may be at maturity.

As part of the Company's normal process for evaluating other-than-temporary impairments, management did identify a limited number of positions where an other-than-temporary impairment was believed to exist as of September 30, 2016. Such impairments were related to available for sale equity securities with current market values below the highest traded price in the last six months. For the nine months ended September 30, 2016, such impairments totaled $1 million, and have been reflected as a reduction of net securities gains (losses) on the consolidated statements of income.

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	
	2016	2015	2016	2015
	(In millions)			

Gross realized gains	$1	$15	$30	$29
Gross realized losses	(1)	(2)	(28)	(5)
OTTI	—	(6)	(1)	(6)
Securities gains (losses), net	$—	$7	$1	$18

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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, 2016	December 31, 2015
	(In millions, net of unearned income)	
Commercial and industrial	$ 35,388	$ 35,821
Commercial real estate mortgage—owner-occupied	7,007	7,538
Commercial real estate construction—owner-occupied	349	423
Total commercial	42,744	43,782
Commercial investor real estate mortgage	4,306	4,255
Commercial investor real estate construction	2,458	2,692
Total investor real estate	6,764	6,947
Residential first mortgage	13,402	12,811
Home equity	10,749	10,978
Indirect—vehicles	4,076	3,984
Indirect—other consumer	838	545
Consumer credit card	1,123	1,075
Other consumer	1,187	1,040
Total consumer	31,375	30,433
	$ 80,883	$ 81,162

During the three months ended September 30, 2016 and 2015, Regions purchased approximately $200 million and $310 million, respectively, in indirect-vehicles and indirect-other consumer loans from third parties. During the nine months ended September 30, 2016 and 2015, the comparable loan purchase amounts were approximately $779 million and $857 million, respectively.

At September 30, 2016, $14.7 billion in securities and net eligible loans held by Regions were pledged to secure current and potential borrowings from the FHLB. At September 30, 2016, an additional $19.7 billion in net eligible loans held by Regions were pledged to the Federal Reserve Bank for potential borrowings.

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, 2015, 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, 2016 and 2015. The total allowance for loan losses and the related loan portfolio ending balances as of September 30, 2016 and 2015, are disaggregated to detail the amounts derived through individual evaluation and collective evaluation for impairment. The allowance for loan losses related to individually evaluated loans is attributable to reserves for non-accrual commercial and investor real estate loans and all TDRs. The allowance for loan losses and the loan portfolio ending balances related to collectively evaluated loans is attributable to the remainder of the portfolio.

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	Three Months Ended September 30, 2016			
	Commercial	Investor Real Estate	Consumer	Total
	(In millions)			
Allowance for loan losses, July 1, 2016	$825	$ 87	$ 239	$1,151
Provision (credit) for loan losses	(15)	(7)	51	29
Loan losses:				
Charge-offs	(31)	(1)	(62)	(94)
Recoveries	19	5	16	40
Net loan losses	(12)	4	(46)	(54)
Allowance for loan losses, September 30, 2016	798	84	244	1,126
Reserve for unfunded credit commitments, July 1, 2016	59	5	—	64
Provision (credit) for unfunded credit losses	8	—	—	8
Reserve for unfunded credit commitments, September 30, 2016	67	5	—	72
Allowance for credit losses, September 30, 2016	$865	$ 89	$ 244	$1,198

	Three Months Ended September 30, 2015			
	Commercial	Investor Real Estate	Consumer	Total
	(In millions)			
Allowance for loan losses, July 1, 2015	$740	$ 123	$ 252	$1,115
Provision (credit) for loan losses	32	(16)	44	60
Loan losses:				
Charge-offs	(33)	(3)	(59)	(95)
Recoveries	14	5	16	35
Net loan losses	(19)	2	(43)	(60)
Allowance for loan losses, September 30, 2015	753	109	253	1,115
Reserve for unfunded credit commitments, July 1, 2015	59	5	—	64
Provision (credit) for unfunded credit losses	—	—	—	—
Reserve for unfunded credit commitments, September 30, 2015	59	5	—	64
Allowance for credit losses, September 30, 2015	$812	$ 114	$ 253	$1,179

	Nine Months Ended September 30, 2016			
	Commercial	Investor Real Estate	Consumer	Total
	(In millions)			
Allowance for loan losses, January 1, 2016	$758	$ 97	$251	$1,106
Provision (credit) for loan losses	108	(21)	127	214
Loan losses:				
Charge-offs	(102)	(2)	(184)	(288)
Recoveries	34	10	50	94
Net loan losses	(68)	8	(134)	(194)
Allowance for loan losses, September 30, 2016	798	84	244	1,126
Reserve for unfunded credit commitments, January 1, 2016	47	5	—	52
Provision (credit) for unfunded credit losses	20	—	—	20
Reserve for unfunded credit commitments, September 30, 2016	67	5	—	72
Allowance for credit losses, September 30, 2016	$865	$ 89	$244	$1,198
Portion of ending allowance for loan losses:				

Individually evaluated for impairment	$252	$ 19	$62	$333
Collectively evaluated for impairment	546	65	182	793
Total allowance for loan losses	$798	$ 84	$244	$1,126
Portion of loan portfolio ending balance:				
Individually evaluated for impairment	$1,119	$ 140	$785	$2,044
Collectively evaluated for impairment	41,625	6,624	30,590	78,839
Total loans evaluated for impairment	$42,744	$ 6,764	$31,375	$80,883

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	Nine Months Ended September 30, 2015			
	Commercial	Investor Real Estate	Consumer	Total
	(In millions)			
Allowance for loan losses, January 1, 2015	$654	$ 150	$299	$1,103
Provision (credit) for loan losses	142	(44)	74	172
Loan losses:				
Charge-offs	(92)	(15)	(175)	(282)
Recoveries	49	18	55	122
Net loan losses	(43)	3	(120)	(160)
Allowance for loan losses, September 30, 2015	753	109	253	1,115
Reserve for unfunded credit commitments, January 1, 2015	57	8	—	65
Provision (credit) for unfunded credit losses	2	(3)	—	(1)
Reserve for unfunded credit commitments, September 30, 2015	59	5	—	64
Allowance for credit losses, September 30, 2015	$812	$ 114	$253	$1,179
Portion of ending allowance for loan losses:				
Individually evaluated for impairment	$187	$ 27	$70	$284
Collectively evaluated for impairment	566	82	183	831
Total allowance for loan losses	$753	$ 109	$253	$1,115
Portion of loan portfolio ending balance:				
Individually evaluated for impairment	$744	$ 192	$846	$1,782
Collectively evaluated for impairment	43,309	6,719	29,253	79,281
Total loans evaluated for impairment	$44,053	$ 6,911	$30,099	$81,063

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 mortgage loans to operating businesses, which are loans for long-term financing of land and buildings, and are repaid by cash flow generated by business operations. Owner-occupied construction loans are made to commercial businesses for the development of land or construction of a building where the repayment is derived from revenues generated from the business of the borrower. Collection risk in this portfolio is driven by the creditworthiness of underlying borrowers, particularly cash flow from customers' business operations, and the sensitivity to market fluctuations in commodity prices.

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

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

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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, 2016, and December 31, 2015. 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 that may, if not reversed or corrected, weaken the credit or inadequately protect the Company's position at some future date. Obligations in this category may also be subject to economic or market conditions that may, in the future, have an adverse effect on debt service ability;
- Substandard Accrual—includes obligations that exhibit a well-defined weakness that presently jeopardizes debt repayment, even though they are currently performing. These obligations are characterized by the distinct possibility that the Company may incur a loss in the future if these weaknesses are not corrected;
- Non-accrual—includes obligations where management has determined that full payment of principal and interest is in doubt.

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

	September 30, 2016				
	Pass	Special Mention	Substandard Accrual	Non-accrual	Total
	(In millions)				
Commercial and industrial	$32,854	$ 744	$1,097	$ 693	$35,388
Commercial real estate mortgage—owner-occupied	6,288	257	241	221	7,007
Commercial real estate construction—owner-occupied	326	10	10	3	349
Total commercial	$39,468	$ 1,011	$1,348	$ 917	$42,744
Commercial investor real estate mortgage	$4,056	$ 129	$103	$ 18	$4,306
Commercial investor real estate construction	2,242	189	26	1	2,458
Total investor real estate	$6,298	$ 318	$129	$ 19	$6,764

	Accrual	Non-accrual	Total
	(In millions)		
Residential first mortgage	$13,352	$ 50	$13,402
Home equity	10,657	92	10,749
Indirect—vehicles	4,076	—	4,076
Indirect—other consumer	838	—	838
Consumer credit card	1,123	—	1,123
Other consumer	1,187	—	1,187
Total consumer	$31,233	$ 142	$31,375
			$80,883

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	December 31, 2015				
	Pass	Special Mention	Substandard Accrual	Non-accrual	Total
	(In millions)				
Commercial and industrial	$33,639	$963	$894	$ 325	$35,821
Commercial real estate mortgage—owner-occupied	6,750	306	214	268	7,538
Commercial real estate construction—owner-occupied	385	21	15	2	423
Total commercial	$40,774	$1,290	$1,123	$ 595	$43,782
Commercial investor real estate mortgage	$3,926	$140	$158	$ 31	$4,255
Commercial investor real estate construction	2,658	4	30	—	2,692
Total investor real estate	$6,584	$144	$188	$ 31	$6,947

	Accrual	Non-accrual	Total
	(In millions)		
Residential first mortgage	$12,748	$ 63	$12,811
Home equity	10,885	93	10,978
Indirect—vehicles	3,984	—	3,984
Indirect—other consumer	545	—	545
Consumer credit card	1,075	—	1,075
Other consumer	1,040	—	1,040
Total consumer	$30,277	$ 156	$30,433
			$81,162

AGING ANALYSIS

The following tables include an aging analysis of days past due (DPD) for each portfolio segment and class as of September 30, 2016 and December 31, 2015:

	September 30, 2016						
	Accrual Loans						
	30-59 DPD	60-89 DPD	90+ DPD	Total 30+ DPD	Total Accrual	Non-accrual	Total
	(In millions)						
Commercial and industrial	$14	$ 7	$ 5	$ 26	$34,695	$ 693	$35,388
Commercial real estate mortgage—owner-occupied	50	9	3	62	6,786	221	7,007
Commercial real estate construction—owner-occupied	1	1	—	2	346	3	349
Total commercial	65	17	8	90	41,827	917	42,744
Commercial investor real estate mortgage	5	1	—	6	4,288	18	4,306
Commercial investor real estate construction	—	—	—	—	2,457	1	2,458
Total investor real estate	5	1	—	6	6,745	19	6,764
Residential first mortgage	87	58	205	350	13,352	50	13,402
Home equity	54	25	39	118	10,657	92	10,749
Indirect—vehicles	46	11	9	66	4,076	—	4,076
Indirect—other consumer	3	2	—	5	838	—	838
Consumer credit card	8	7	13	28	1,123	—	1,123
Other consumer	14	5	3	22	1,187	—	1,187
Total consumer	212	108	269	589	31,233	142	31,375
	$282	$ 126	$ 277	$ 685	$79,805	$ 1,078	$80,883

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	December 31, 2015						
	Accrual Loans						
	30-59 DPD	60-89 DPD	90+ DPD	Total 30+ DPD	Total Accrual	Non-accrual	Total
	(In millions)						
Commercial and industrial	$11	$ 6	$ 9	$ 26	$35,496	$ 325	$35,821
Commercial real estate mortgage—owner-occupied	24	7	3	34	7,270	268	7,538
Commercial real estate construction—owner-occupied	—	1	—	1	421	2	423
Total commercial	35	14	12	61	43,187	595	43,782
Commercial investor real estate mortgage	14	13	4	31	4,224	31	4,255
Commercial investor real estate construction	2	—	—	2	2,692	—	2,692
Total investor real estate	16	13	4	33	6,916	31	6,947
Residential first mortgage	88	60	220	368	12,748	63	12,811
Home equity	58	26	59	143	10,885	93	10,978
Indirect—vehicles	49	14	9	72	3,984	—	3,984
Indirect—other consumer	2	1	—	3	545	—	545
Consumer credit card	7	5	12	24	1,075	—	1,075
Other consumer	11	4	4	19	1,040	—	1,040
Total consumer	215	110	304	629	30,277	156	30,433
	$266	$ 137	$ 320	$ 723	$80,380	$ 782	$81,162

IMPAIRED LOANS

The following tables present details related to the Company's impaired loans as of September 30, 2016 and December 31, 2015. Loans deemed to be impaired include all TDRs and all non-accrual commercial and investor real estate loans, excluding leases. Loans that have been fully charged-off do not appear in the tables below.

	Non-accrual Impaired Loans As of September 30, 2016						
			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	$733	$ 49	$684	$ 81	$ 603	$ 162	28.8 %
Commercial real estate mortgage—owner-occupied	239	18	221	38	183	56	31.0
Commercial real estate construction—owner-occupied	4	1	3	—	3	2	75.0
Total commercial	976	68	908	119	789	220	29.5
Commercial investor real estate mortgage	21	3	18	5	13	6	42.9
Commercial investor real estate construction	1	—	1	—	1	—	—
Total investor real estate	22	3	19	5	14	6	40.9
Residential first mortgage	43	13	30	—	30	4	39.5

Home equity	12	1	11	—	11	—	8.3	
Total consumer	55	14	41	—	41	4	32.7	
	$1,053	$ 85	$968	$ 124	$ 844	$ 230	29.9	%

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	Accruing Impaired Loans As of September 30, 2016					
	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	$150	$ 2	$ 148	$ 26	18.7	%
Commercial real estate mortgage—owner-occupied	68	5	63	6	16.2	
Total commercial	218	7	211	32	17.9	
Commercial investor real estate mortgage	93	7	86	9	17.2	
Commercial investor real estate construction	35	—	35	4	11.4	
Total investor real estate	128	7	121	13	15.6	
Residential first mortgage	441	12	429	52	14.5	
Home equity	302	—	302	6	2.0	
Consumer credit card	2	—	2	—	—	
Other consumer	11	—	11	—	—	
Total consumer	756	12	744	58	9.3	
	$1,102	$ 26	$ 1,076	$ 103	11.7	%

	Total Impaired Loans As of September 30, 2016							
			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	$883	$ 51	$832	$ 81	$ 751	$ 188	27.1	%
Commercial real estate mortgage—owner-occupied	307	23	284	38	246	62	27.7	
Commercial real estate construction—owner-occupied	4	1	3	—	3	2	75.0	
Total commercial	1,194	75	1,119	119	1,000	252	27.4	
Commercial investor real estate mortgage	114	10	104	5	99	15	21.9	
Commercial investor real estate construction	36	—	36	—	36	4	11.1	
Total investor real estate	150	10	140	5	135	19	19.3	
Residential first mortgage	484	25	459	—	459	56	16.7	
Home equity	314	1	313	—	313	6	2.2	
Consumer credit card	2	—	2	—	2	—	—	
Other consumer	11	—	11	—	11	—	—	
Total consumer	811	26	785	—	785	62	10.9	
	$2,155	$ 111	$2,044	$ 124	$ 1,920	$ 333	20.6	%

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	Non-accrual Impaired Loans As of December 31, 2015						
			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	$363	$ 41	$322	$ 26	$ 296	$ 98	38.3 %
Commercial real estate mortgage—owner-occupied	286	18	268	36	232	69	30.4
Commercial real estate construction—owner-occupied	2	—	2	—	2	1	50.0
Total commercial	651	59	592	62	530	168	34.9
Commercial investor real estate mortgage	36	5	31	13	18	8	36.1
Total investor real estate	36	5	31	13	18	8	36.1
Residential first mortgage	51	16	35	—	35	4	39.2
Home equity	14	1	13	—	13	—	7.1
Total consumer	65	17	48	—	48	4	32.3
	$752	$ 81	$671	$ 75	$ 596	$ 180	34.7 %

	Accruing Impaired Loans As of December 31, 2015				
	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	$68	$ 1	$ 67	$ 13	20.6 %
Commercial real estate mortgage—owner-occupied	89	6	83	8	15.7
Commercial real estate construction—owner-occupied	1	—	1	—	—
Total commercial	158	7	151	21	17.7
Commercial investor real estate mortgage	141	8	133	13	14.9
Commercial investor real estate construction	27	—	27	5	18.5
Total investor real estate	168	8	160	18	15.5
Residential first mortgage	457	13	444	57	15.3
Home equity	328	—	328	7	2.1
Indirect—vehicles	1	—	1	—	—
Consumer credit card	2	—	2	—	—
Other consumer	12	—	12	—	—
Total consumer	800	13	787	64	9.6
	$1,126	$ 28	$ 1,098	$ 103	11.6 %

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Total Impaired Loans As of December 31, 2015

	Unpaid Principal Balance(1)	Charge-offs and Payments Applied(2)	Book Value(3) 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	$431	$ 42	$389	$ 26	$ 363	$ 111	35.5 %
Commercial real estate mortgage—owner-occupied	375	24	351	36	315	77	26.9
Commercial real estate construction—owner-occupied	3	—	3	—	3	1	33.3
Total commercial	809	66	743	62	681	189	31.5
Commercial investor real estate mortgage	177	13	164	13	151	21	19.2
Commercial investor real estate construction	27	—	27	—	27	5	18.5
Total investor real estate	204	13	191	13	178	26	19.1
Residential first mortgage	508	29	479	—	479	61	17.7
Home equity	342	1	341	—	341	7	2.3
Indirect—vehicles	1	—	1	—	1	—	—
Consumer credit card	2	—	2	—	2	—	—
Other consumer	12	—	12	—	12	—	—
Total consumer	865	30	835	—	835	68	11.3
	$1,878	$ 109	$1,769	$ 75	$ 1,694	$ 283	20.9 %

(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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The following table presents the average balances of total impaired loans and interest income for the three and nine months ended September 30, 2016 and 2015. 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			
	2016		2015		2016		2015	
	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	$816	$ 1	$379	$ 1	$670	$ 4	$378	$ 4
Commercial real estate mortgage—owner-occupied	296	1	322	2	313	3	350	7
Commercial real estate construction—owner-occupied	4	—	4	—	3	—	4	—
Total commercial	1,116	2	705	3	986	7	732	11
Commercial investor real estate mortgage	117	1	210	2	128	4	266	8
Commercial investor real estate construction	36	1	14	—	31	1	26	1
Total investor real estate	153	2	224	2	159	5	292	9
Residential first mortgage	464	4	477	3	473	12	476	11
Home equity	317	3	352	5	328	12	357	14
Indirect—vehicles	—	—	1	—	—	—	1	—
Consumer credit card	2	—	2	—	2	—	2	—
Other consumer	11	1	13	1	12	1	15	1
Total consumer	794	8	845	9	815	25	851	26
Total impaired loans	$2,063	$ 12	$1,774	$ 14	$1,960	$ 37	$1,875	$ 46

TROUBLED DEBT RESTRUCTURINGS

Regions regularly modifies commercial and investor real estate loans in order to facilitate a workout strategy. Similarly, Regions works to meet the individual needs of consumer borrowers to stem foreclosure through its CAP program. Refer to Note 6 "Allowance For Credit Losses" in the 2015 Annual Report on Form 10-K for additional information regarding the Company's TDRs.

None of the modified consumer loans listed in the following TDR disclosures were collateral-dependent at the time of modification. At September 30, 2016, approximately $38 million in residential first mortgage TDRs were in excess of 180 days past due and were considered collateral-dependent. At September 30, 2016, approximately $5 million in home equity first lien TDRs were in excess of 180 days past due and approximately $4 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 "Summary of Significant Accounting Policies" in the 2015 Annual Report on Form 10-K.

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The following tables present the end of period balance for loans modified in a TDR during the periods presented by portfolio segment and class, and the financial impact of those modifications. The tables include modifications made to new TDRs, as well as renewals of existing TDRs. Loans first reported as TDRs during the nine months ended September 30, 2016 and 2015 totaled approximately $347 million and $217 million, respectively.

	Three Months Ended September 30, 2016		
			Financial Impact of Modifications Considered TDRs
	Number of Obligors	Recorded Investment	Increase in Allowance at Modification
	(Dollars in millions)		
Commercial and industrial	47	$ 117	$ 2
Commercial real estate mortgage—owner-occupied	22	26	1
Total commercial	69	143	3
Commercial investor real estate mortgage	19	27	—
Commercial investor real estate construction	3	25	1
Total investor real estate	22	52	1
Residential first mortgage	51	9	1
Home equity	57	2	—
Consumer credit card	14	1	—
Indirect—vehicles and other consumer	47	1	—
Total consumer	169	13	1
	260	$ 208	$ 5

	Three Months Ended September 30, 2015		
			Financial Impact of Modifications Considered TDRs
	Number of Obligors	Recorded Investment	Increase in Allowance at Modification
	(Dollars in millions)		
Commercial and industrial	47	$ 43	$ 1
Commercial real estate mortgage—owner-occupied	44	26	1
Total commercial	91	69	2
Commercial investor real estate mortgage	32	68	2
Commercial investor real estate construction	1	1	—
Total investor real estate	33	69	2
Residential first mortgage	92	31	4
Home equity	139	8	—
Consumer credit card	30	—	—
Indirect—vehicles and other consumer	69	1	—
Total consumer	330	40	4
	454	$ 178	$ 8

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	Nine Months Ended September 30, 2016		
			Financial Impact of Modifications Considered TDRs
	Number of Obligors	Recorded Investment	Increase in Allowance at Modification
	(Dollars in millions)		
Commercial and industrial	142	$ 298	$ 8
Commercial real estate mortgage—owner-occupied	98	60	2
Total commercial	240	358	10
Commercial investor real estate mortgage	68	87	1
Commercial investor real estate construction	8	36	1
Total investor real estate	76	123	2
Residential first mortgage	189	38	5
Home equity	263	13	—
Consumer credit card	65	1	—
Indirect—vehicles and other consumer	148	2	—
Total consumer	665	54	5
	981	$ 535	$ 17

	Nine Months Ended September 30, 2015		
			Financial Impact of Modifications Considered TDRs
	Number of Obligors	Recorded Investment	Increase in Allowance at Modification
	(Dollars in millions)		
Commercial and industrial	150	$ 145	$ 3
Commercial real estate mortgage—owner-occupied	147	88	3
Total commercial	297	233	6
Commercial investor real estate mortgage	92	107	3
Commercial investor real estate construction	14	8	—
Total investor real estate	106	115	3
Residential first mortgage	321	83	11
Home equity	451	23	—
Consumer credit card	103	1	—
Indirect—vehicles and other consumer	265	3	—
Total consumer	1,140	110	11
	1,543	$ 458	$ 20

Defaulted TDRs

The following table presents, by portfolio segment and class, TDRs that defaulted during the three and nine months ended September 30, 2016 and 2015, and that were modified in the previous twelve months (i.e., the twelve months prior to the default). For purposes of this disclosure, default is defined as 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, 2015.

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	Three Months Ended September 30 2016	2015	Nine Months Ended September 30 2016	2015
	(In millions)			
Defaulted During the Period, Where Modified in a TDR Twelve Months Prior to Default				
Commercial and industrial	$ 16	$ 4	$ 28	$ 8
Commercial real estate mortgage—owner-occupied	1	3	2	6
Total commercial	17	7	30	14
Commercial investor real estate mortgage	1	—	2	1
Commercial investor real estate construction	1	—	1	—
Total investor real estate	2	—	3	1
Residential first mortgage	7	7	18	15
Home equity	—	1	1	2
Total consumer	7	8	19	17
	$ 26	$ 15	$ 52	$ 32

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, 2016, approximately $66 million of commercial and investor real estate loans modified in a TDR during the three months ended September 30, 2016 were on non-accrual status. Approximately 1.2 percent of this amount was 90 days past due.

At September 30, 2016, Regions had restructured binding unfunded commitments totaling $51 million where a concession was granted and the borrower was in financial difficulty.

NOTE 5. SERVICING OF FINANCIAL ASSETS

RESIDENTIAL MORTGAGE BANKING ACTIVITIES

The fair value of residential MSRs 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 MSRs. 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 MSRs under the fair value measurement method:

	Three Months Ended September 30 2016	2015	Nine Months Ended September 30 2016	2015
	(In millions)			
Carrying value, beginning of period	$216	$268	$252	$257
Additions	34	9	73	28
Increase (decrease) in fair value[1]:				
Due to change in valuation inputs or assumptions	(2)	(25)	(60)	(14)
Economic amortization associated with borrower repayments	(10)	(11)	(27)	(30)
Carrying value, end of period	$238	$241	$238	$241

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

On February 29, 2016, the Company purchased the rights to service approximately $2.6 billion in residential mortgage loans for approximately $24 million.

On September 1, 2016, the Company purchased the rights to service approximately $2.8 billion in residential mortgage loans for approximately $22 million. However, the Company paid $11 million as of September 30, 2016 and the balance of $11 million will be paid in the fourth quarter of 2016.

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

	September 30	
	2016	2015
	(Dollars in millions)	
Unpaid principal balance	$29,657	$26,220
Weighted-average prepayment speed (CPR; percentage)	12.3 %	12.0 %
Estimated impact on fair value of a 10% increase	$(13)	$(13)
Estimated impact on fair value of a 20% increase	$(24)	$(25)
Option-adjusted spread (basis points)	1,060	999
Estimated impact on fair value of a 10% increase	$(9)	$(9)
Estimated impact on fair value of a 20% increase	$(18)	$(18)
Weighted-average coupon interest rate	4.2 %	4.4 %
Weighted-average remaining maturity (months)	280	279
Weighted-average servicing fee (basis points)	27.6	27.9

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
	(In millions)			
Servicing related fees and other ancillary income	$21	$ 21	$ 63	$ 62

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

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

COMMERCIAL MORTGAGE BANKING ACTIVITIES

On July 18, 2014, Regions was approved as a Fannie Mae 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 MSRs and $15 million in intangible assets associated with the DUS license purchased. Regions also assumed a loss share guarantee associated with the purchased portfolio and any future originations. Regions estimated the fair value of the loss share guarantee to be approximately $4 million. See Note 1 "Summary of Significant Accounting Policies" in the 2015 Annual Report on

Form 10-K for additional information. Also see Note 14 herein for additional information related to the guarantee.
As of September 30, 2016 and December 31, 2015, the DUS servicing portfolio was approximately $1.7 billion and $1.2 billion, respectively. The related commercial MSRs were valued at approximately $28 million and $16 million at September 30, 2016 and December 31, 2015, respectively. The loss share guarantee was valued at approximately $3 million at both September 30, 2016 and December 31, 2015.

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NOTE 6. GOODWILL

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

	September 30, 2016	December 31, 2015
	(In millions)	
Corporate Bank	$2,452	$ 2,305
Consumer Bank	1,978	2,095
Wealth Management	452	478
	$4,882	$ 4,878

Regions evaluates each reporting unit's goodwill for impairment on an annual basis in the fourth quarter, or more often if events or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. A detailed description of the Company's methodology and valuation approaches used to determine the estimated fair value of each reporting unit is included in the consolidated financial statements of the Annual Report on Form 10-K for the year ended December 31, 2015. 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 2016, Regions assessed events and circumstances for all three reporting units as of September 30, 2016, 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.

During the first quarter of 2016, Regions reorganized its internal management structure and, accordingly, its segment reporting structure. Due to the organizational realignment, Regions determined that quantitative testing of goodwill was required for all reporting units, and goodwill was reallocated to each reporting unit using a relative fair value approach. Results of the first quarter 2016 goodwill test indicated that the estimated fair value of each reporting unit exceeded its carrying amounts 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 value as of September 30, 2016. Therefore, Regions determined that a test of goodwill impairment was not required for each of Regions' reporting units for the September 30, 2016 interim period.

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NOTE 7. STOCKHOLDERS' EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
PREFERRED STOCK
The following table presents a summary of the non-cumulative perpetual preferred stock:

	Issuance Date	Earliest Redemption Date	Dividend Rate	Liquidation Amount	September 30, 2016 Carrying Amount	December 31, 2015 Carrying Amount
	(Dollars in millions)					
Series A	11/1/2012	12/15/2017	6.375%	$ 500	$ 387	$ 387
Series B	4/29/2014	9/15/2024	6.375% (1)	500	433	433
				$ 1,000	$ 820	$ 820

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(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 three quarters of 2016 and 2015. Series B Preferred Stock dividends were also $8 million for each of the first three quarters of 2016 and 2015. Prior to the first quarter of 2016, the Company was in a retained deficit position and preferred dividends were recorded as a reduction of preferred stock, including related surplus. During the first quarter of 2016, the Company achieved positive retained earnings and preferred dividends were recorded as a reduction of retained earnings.

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

COMMON STOCK

On June 29, 2016, Regions received no objection from the Federal Reserve to its 2016 capital plan that was submitted as part of the CCAR process. In addition to continuing the $0.065 quarterly common stock dividend, actions that Regions may undertake as outlined in its capital plan include the repurchase of up to $640 million in common shares. The capital plan also provides the potential for a dividend increase beginning in the second quarter of 2017, which is expected to be considered by the Board in early 2017.

On July 14, 2016, Regions' Board authorized a new $640 million common stock repurchase plan, permitting repurchases from the beginning of the third quarter of 2016 through the second quarter of 2017. As of September 30, 2016, Regions had repurchased approximately 23.1 million shares of common stock at a total cost of approximately $215 million. On October 12, 2016, Regions' Board authorized an additional $120 million repurchase, which increases the total amount authorized under the plan to $760 million. The Company continued to repurchase shares under this plan in the fourth quarter of 2016, and as of November 3, 2016, Regions had additional repurchases of approximately 10.9 million shares of common stock at a total cost of approximately $116.7 million. All of these shares were immediately retired upon repurchase and therefore will not be included in treasury stock.

The Board declared a $0.065 per share cash dividend on common stock for the second and third quarters of 2016 and $0.06 per common share for the first quarter of 2016, totaling $0.19 per share cash dividend for the first nine months of 2016. The Board declared a $0.06 per share cash dividend on common stock for the second and third quarters of 2015, and a $0.05 per share cash dividend for the first quarter of 2015, totaling $0.17 per share cash dividend for the first nine months of 2015. Prior to the first quarter of 2016, the Company was in a retained deficit position and common stock dividends were recorded as a reduction of additional paid-in capital. During the first quarter of 2016, the Company achieved positive retained earnings and common stock dividends were recorded as a reduction of retained earnings.

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ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	Three Months Ended September 30, 2016				
	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	$(40)	$ 297	$ 278	$ (387)	$ 148
Net change	5	(13)	(40)	5	(43)
End of period	$(35)	$ 284	$ 238	$ (382)	$ 105

	Three Months Ended September 30, 2015				
	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	$(51)	$ 96	$ 45	$ (377)	$ (287)
Net change	2	42	96	8	148
End of period	$(49)	$ 138	$ 141	$ (369)	$ (139)

	Nine Months Ended September 30, 2016				
	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	$(47)	$ (10)	$ 75	$ (398)	$ (380)
Net change	12	294	163	16	485
End of period	$(35)	$ 284	$ 238	$ (382)	$ 105

	Nine Months Ended September 30, 2015				
	Unrealized losses on	Unrealized gains (losses) on	Unrealized gains (losses) on	Defined benefit pension	Accumulated other comprehensive

	securities transferred to held to maturity	securities available for sale	derivative instruments designated as cash flow hedges	plans and other post employment benefits	income (loss), net of tax
	(In millions)				
Beginning of period	$(55)	$ 175	$ 33	$ (391)	$ (238)
Net change	6	(37)	108	22	99
End of period	$(49)	$ 138	$ 141	$ (369)	$ (139)

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The following tables present amounts reclassified out of accumulated other comprehensive income (loss) for the three and nine months ended September 30, 2016 and 2015:

Details about Accumulated Other Comprehensive Income (Loss) Components	Three Months Ended September 30, 2016 Amount Reclassified from Accumulated Other Comprehensive Income (Loss)[1]	Three Months Ended September 30, 2015 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:			
	$ (9)	$ (3)	Net interest income and other financing income
	4	1	Tax (expense) or benefit
	$ (5)	$ (2)	Net of tax
Unrealized gains and (losses) on available for sale securities:			
	$ —	$ 7	Securities gains (losses), net
	—	(2)	Tax (expense) or benefit
	$ —	$ 5	Net of tax
Gains and (losses) on cash flow hedges:			
Interest rate contracts	$ 35	$ 41	Net interest income and other financing income
	(13)	(16)	Tax (expense) or benefit
	$ 22	$ 25	Net of tax
Amortization of defined benefit pension plans and other post employment benefits:			
Prior-service cost	$ —	$ (1)	[2]
Actuarial gains (losses)	(9)	(12)	[2]
	(9)	(13)	Total before tax
	3	4	Tax (expense) or benefit
	$ (6)	$ (9)	Net of tax
Total reclassifications for the period	$ 11	$ 19	Net of tax

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Details about Accumulated Other Comprehensive Income (Loss) Components	Nine Months Ended September 30, 2016 Amount Reclassified from Accumulated Other Comprehensive Income (Loss)[1]	Nine Months Ended September 30, 2015 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:			
	$ (20)	$ (10)	Net interest income and other financing income
	8	4	Tax (expense) or benefit
	$ (12)	$ (6)	Net of tax
Unrealized gains and (losses) on available for sale securities:			
	$ 1	$ 18	Securities gains (losses), net
	—	(6)	Tax (expense) or benefit
	$ 1	$ 12	Net of tax
Gains and (losses) on cash flow hedges:			
Interest rate contracts	$ 109	$ 108	Net interest income and other financing income
	(41)	(41)	Tax (expense) or benefit
	$ 68	$ 67	Net of tax
Amortization of defined benefit pension plans and other post employment benefits:			
Prior-service cost	$ —	$ (1)	[2]
Actuarial gains (losses)	(26)	(36)	[2]
	(26)	(37)	Total before tax
	9	13	Tax (expense) or benefit
	$ (17)	$ (24)	Net of tax
Total reclassifications for the period	$ 40	$ 49	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 (LOSS) PER COMMON SHARE

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
	(In millions, except per share amounts)			
Numerator:				
Income from continuing operations	$319	$262	$864	$787
Preferred stock dividends	(16)	(16)	(48)	(48)
Income from continuing operations available to common shareholders	303	246	816	739
Income (loss) from discontinued operations, net of tax	1	(4)	4	(10)
Net income available to common shareholders	$304	$242	$820	$729
Denominator:				
Weighted-average common shares outstanding—basic	1,246	1,319	1,266	1,333
Potential common shares	6	7	4	10
Weighted-average common shares outstanding—diluted	1,252	1,326	1,270	1,343
Earnings per common share from continuing operations available to common shareholders(1):				
Basic	$0.24	$0.19	$0.64	$0.55
Diluted	0.24	0.19	0.64	0.55
Earnings (loss) per common share from discontinued operations(1):				
Basic	0.00	(0.00)	0.00	(0.01)
Diluted	0.00	(0.00)	0.00	(0.01)
Earnings per common share(1):				
Basic	0.24	0.18	0.65	0.55
Diluted	0.24	0.18	0.65	0.54

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(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 and nine months ended September 30, 2015 due to a net loss.

The effect from the assumed exercise of 27 million and 29 million stock options for the three and nine months ended September 30, 2016, 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 29 million stock options for both the three and nine months ended September 30, 2015 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; however, no awards may be granted after the tenth anniversary from the date the plans were initially approved by stockholders. 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 April 23, 2015, the stockholders of the Company approved the Regions Financial Corporation 2015 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 2015 LTIP authorizes 60 million common share equivalents

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available for grant, where grants of options and grants of full value awards (e.g., shares of restricted stock, restricted stock units and performance stock units) count as one share equivalent. Unless otherwise determined by the Compensation Committee of the Board, grants of restricted stock, restricted stock units, and performance stock units accrue dividends, or their notional equivalent, as they are declared by the Board, and are paid upon vesting of the award. Upon adoption of the 2015 LTIP, Regions closed the prior long-term incentive plan to new grants, and, accordingly, prospective grants must be made under the 2015 LTIP or a successor plan. All existing grants under prior long-term incentive plans are unaffected by adoption of the 2015 LTIP. The number of remaining share equivalents available for future issuance under the 2015 LTIP was approximately 48 million at September 30, 2016.

STOCK OPTIONS

The following table summarizes the activity related to stock options:

	Nine Months Ended September 30			
	2016		2015	
	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
Outstanding at beginning of period	19,350,157	$ 21.06	25,316,676	$ 23.07
Exercised	(568,882)	5.86	(535,107)	6.92
Forfeited or expired	(3,840,704)	34.68	(5,410,769)	31.82
Outstanding at end of period	14,940,571	$ 18.14	19,370,800	$ 21.07
Exercisable at end of period	14,940,571	$ 18.14	19,370,800	$ 21.07

RESTRICTED STOCK AWARDS AND PERFORMANCE STOCK AWARDS

Regions periodically grants restricted stock awards that vest upon service conditions. Regions also periodically grants restricted stock awards and performance stock awards that vest based upon service conditions and performance conditions. Incremental shares earned above the performance target associated with previous performance stock awards are included when and if performance targets are achieved. 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			
	2016		2015	
	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value
Non-vested at beginning of period	16,374,242	$ 9.51	18,427,409	$ 8.07
Granted	6,840,385	7.92	6,622,682	9.90
Vested	(5,735,271)	8.25	(8,106,010)	6.07
Forfeited	(686,347)	9.18	(506,271)	8.54
Non-vested at end of period	16,793,009	$ 9.31	16,437,810	$ 9.51

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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 SERP, which is a non-qualified pension plan that provides certain senior executive officers defined benefits in relation to their compensation.

Net periodic pension cost, 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					
	2016	2015	2016	2015	2016	2015
	(In millions)					
Service cost	$9	$10	$ 1	$ 1	$10	$11
Interest cost	19	21	1	2	20	23
Expected return on plan assets	(36)	(38)	—	—	(36)	(38)
Amortization of actuarial loss	8	11	1	1	9	12
Amortization of prior service cost	—	—	—	1	—	1
Net periodic pension cost (credit)	$—	$4	$ 3	$ 5	$3	$9

	Qualified Plan		Non-qualified Plans		Total	
	Nine Months Ended September 30					
	2016	2015	2016	2015	2016	2015
	(In millions)					
Service cost	$26	$30	$ 3	$ 4	$29	$34
Interest cost	55	63	4	5	59	68
Expected return on plan	(108)	(112)	—	—	(108)	(112)

assets						
Amortization of actuarial loss	24	33	2	3	26	36
Amortization of prior service cost	—	—	1	—	1	
Net periodic pension cost (credit)	$(3)	$14	$ 9	$ 13	$6	$27

On December 31, 2015, Regions changed the basis for determining the assumption used to estimate the service and interest components of net periodic pension costs for pension and other postretirement benefits. This change provides a more precise measurement of service and interest costs and resulted in an immaterial impact to the pension benefit obligation as of December 31, 2015. Additionally, Regions separated the Regions Financial Corporation Retirement Plan into two plans, effective January 1, 2016, creating a new plan primarily for participants who remained actively employed as of that date. The corresponding assets and liabilities of these participants will be transferred to the new plan in 2016. All other participants will remain in the existing plan. See Note 18 "Employee Benefit Plans" of the Annual Report on Form 10-K for the year ended December 31, 2015 for further discussion.
Regions' policy for funding the qualified pension plan is to contribute annually at least the amount required by the IRS minimum funding standards. Regions made no contribution to the plan during the first nine months of 2016.
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, 2016 or 2015.

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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, 2016 and December 31, 2015.

	September 30, 2016			December 31, 2015		
	Notional Amount	Estimated Fair Value		Notional Amount	Estimated Fair Value	
		Gain(1)	Loss(1)		Gain(1)	Loss(1)
	(In millions)					
Derivatives in fair value hedging relationships:						
Interest rate swaps	$2,310	$6	$ 45	$2,450	$5	$ 27
Derivatives in cash flow hedging relationships:						
Interest rate swaps	9,000	97	2	9,800	109	9
Total derivatives designated as hedging instruments	$11,310	$103	$ 47	$12,250	$114	$ 36
Derivatives not designated as hedging instruments:						
Interest rate swaps	$41,529	$641	$ 655	$40,612	$496	$ 528
Interest rate options	3,723	18	1	3,441	11	1
Interest rate futures and forward commitments	20,693	3	8	17,288	5	6
Other contracts	5,255	90	81	4,367	200	187
Total derivatives not designated as hedging instruments	$71,200	$752	$ 745	$65,708	$712	$ 722
Total derivatives	$82,510	$855	$ 792	$77,958	$826	$ 758

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(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, 2015, 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 include 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 debt securities. These agreements involve the payment of fixed-rate amounts in exchange for floating-rate interest receipts.

CASH FLOW HEDGES

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

Regions enters into interest rate swap 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.

Regions recognized an unrealized after-tax gain of $179 million and $24 million in accumulated other comprehensive income (loss) at September 30, 2016 and 2015, respectively, related to terminated cash flow hedges of loan instruments, which will be

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amortized into earnings in conjunction with the recognition of interest payments through 2025. Regions recognized pre-tax income of $22 million and $11 million during the three months ended September 30, 2016 and 2015, respectively, and pre-tax income of $46 million and $33 million during the nine months ended September 30, 2016 and 2015, respectively, related to the amortization of cash flow hedges of loan instruments.

Regions expects to reclassify out of accumulated other comprehensive income (loss) and into earnings approximately $123 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 $76 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 nine years as of September 30, 2016.

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	
	2016	2015		2016	2015
	(In millions)			(In millions)	
Fair Value Hedges:					
Interest rate swaps on:					
Debt/CDs	$2	$5	Interest expense	$—	$(1)
Debt/CDs	(23)	10	Other non-interest expense	24	(11)
Securities available for sale	(2)	(3)	Interest income	—	—
Securities available for sale	2	(23)	Other non-interest expense	(5)	21
Total	$(21)	$(11)		$19	$9

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	
2016	2015		2016	2015
			(In millions)	

	(In millions)				
Cash Flow Hedges:					
Interest rate swaps	$(40)	$ 96	Interest income on loans	$ 35	$ 41
Total	$(40)	$ 96		$ 35	$ 41

	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	
	2016	2015		2016	2015
	(In millions)			(In millions)	
Fair Value Hedges:					
Interest rate swaps on:					
Debt/CDs	$10	$13	Interest expense	$(2)	$ 5
Debt/CDs	4	14	Other non-interest expense	(3)	(15)
Securities available for sale	(7)	(11)	Interest income	—	—
Securities available for sale	(36)	(18)	Other non-interest expense	32	15
Total	$(29)	$(2)		$ 27	$ 5

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	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	
	2016	2015		2016	2015
	(In millions)			(In millions)	
Cash Flow Hedges:					
Interest rate swaps	$ 163	$ 108	Interest income on loans	$ 109	$ 108
Total	$ 163	$ 108		$ 109	$ 108

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

Regions enters into interest rate lock commitments, which are commitments to originate mortgage loans whereby the interest rate on the loan is determined prior to funding and the customers have locked into that interest rate. At September 30, 2016 and December 31, 2015, Regions had $446 million and $322 million, respectively, in total notional amount of interest rate lock commitments. Regions manages market risk on interest rate lock commitments and mortgage loans held for sale with corresponding forward sale commitments. Residential mortgage loans held for sale are recorded at fair value with changes in fair value recorded in mortgage income. Commercial mortgage loans held for sale are recorded at either the lower of cost or market or at fair value based on management's election. At September 30, 2016 and December 31, 2015, Regions had $802 million and $666 million, respectively, in total notional amounts related to these forward sale commitments. Changes in mark-to-market from both interest rate lock commitments and corresponding forward sale commitments related to residential mortgage loans are included in mortgage income. Changes in mark-to-market from both interest rate lock commitments and corresponding forward sale commitments related to commercial mortgage loans are included in capital markets fee income and other.

Regions has elected to account for residential MSRs at fair value with any changes to fair value being recorded within mortgage income. Concurrent with the election to use the fair value measurement method, Regions began using various derivative instruments, in the form of forward rate commitments, futures contracts, swaps and swaptions to mitigate the effect of changes in the fair value of its residential MSRs on its consolidated statements of income. As of September 30, 2016 and December 31, 2015, the total notional amount related to these contracts was $5.8 billion and $3.6 billion, respectively.

The following table presents the location and amount of gain or (loss) recognized in income on derivatives not designated as hedging instruments in the consolidated statements of income for the three and nine months ended September 30, 2016 and 2015:

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Derivatives Not Designated as Hedging Instruments	Three Months Ended September 30 2016	2015	Nine Months Ended September 30 2016	2015
	(In millions)			
Capital markets fee income and other[1]:				
Interest rate swaps	$4	$3	$7	$11
Interest rate options	2	5	16	9
Interest rate futures and forward commitments	1	1	4	—
Other contracts	(11)	8	(9)	1
Total capital markets fee income and other	(4)	17	18	21
Mortgage income:				
Interest rate swaps	(3)	22	45	19
Interest rate options	(1)	—	7	4
Interest rate futures and forward commitments	8	(8)	9	(1)
Total mortgage income	4	14	61	22
	$—	$31	$79	$43

(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, 2016 and December 31, 2015, totaled approximately $463 million and $406 million, respectively. These amounts represent the net credit risk on all trading and other derivative positions held by Regions.

CREDIT DERIVATIVES

Regions has both bought and sold credit protection in the form of participations on interest rate swaps (swap participations). These swap participations, which meet the definition of credit derivatives, were entered into in the ordinary course of business to serve the credit needs of customers. Credit derivatives, whereby Regions has purchased credit protection, entitle Regions to receive a payment from the counterparty if the customer fails to make payment on any amounts due to Regions upon early termination of the swap transaction and have maturities between 2016 and 2023. Credit derivatives whereby Regions has sold credit protection have maturities between 2016 and 2025. For contracts where Regions sold credit protection, Regions would be required to make payment to the counterparty if the customer fails to make payment on any amounts due to the counterparty upon early termination of the swap transaction. Regions bases the current status of the prepayment/performance risk on bought and sold credit derivatives on recently issued internal risk ratings consistent with the risk management practices of unfunded commitments.

Regions' maximum potential amount of future payments under these contracts as of September 30, 2016 was approximately $90 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, 2016 and 2015 was immaterial. In transactions where Regions has sold credit protection, recourse to collateral associated with the original swap transaction is available to offset some or all of Regions' obligation.

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

CONTINGENT FEATURES

Certain of Regions' derivative instrument contracts with broker-dealers contain credit-related termination provisions and/or credit-related provisions regarding the posting of collateral, allowing those broker-dealers to terminate the contracts in the event that Regions’ and/or Regions Bank’s credit ratings falls below specified ratings from certain major credit rating agencies. The aggregate fair values of all derivative instruments with any credit-risk-related contingent features that were in a liability position on September 30, 2016 and December 31, 2015, were $193 million and $180 million, respectively, for which Regions had posted collateral of $191 million and $180 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, 2016 and December 31, 2015.

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	Offsetting Derivative Assets		Offsetting Derivative Liabilities	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
	(In millions)			
Gross amounts subject to offsetting	$712	$ 718	$616	$ 677
Gross amounts not subject to offsetting	143	108	176	81
Gross amounts recognized	855	826	792	758
Gross amounts offset in the consolidated balance sheets(1)	388	409	571	558
Net amounts presented in the consolidated balance sheets	467	417	221	200
Gross amounts not offset in the consolidated balance sheets:				
Financial instruments	4	5	51	50
Cash collateral received/posted	—	6	129	52
Net amounts	$463	$ 406	$41	$ 98

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(1) At September 30, 2016, gross amounts of derivative assets and liabilities offset in the consolidated balance sheets presented above include cash collateral received of $271 million and cash collateral posted of $88 million. At December 31, 2015, gross amounts of derivative assets and liabilities offset in the consolidated balance sheets presented above include cash collateral received of $108 million and cash collateral posted of $256 million.

Gross amounts of derivatives not subject to offsetting primarily consist of derivatives cleared through a Central Counterparty Clearing House and interest rate lock commitments to originate mortgage loans.

NOTE 12. FAIR VALUE MEASUREMENTS

See Note 1 “Summary of Significant Accounting Policies” to the consolidated financial statements of the Annual Report on Form 10-K for the year ended December 31, 2015 for a description of valuation methodologies for assets and liabilities measured at fair value on a recurring and non-recurring basis. In the third quarter of 2016, Regions began utilizing OIS curves as fair value measurement inputs for the valuation of interest rate and commodity derivatives. Assets and liabilities measured at fair value rarely transfer between Level 1 and Level 2 measurements. There were no such transfers during the nine month periods ended September 30, 2016 and 2015. 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 observability of inputs used in valuing the securities. 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, 2016 and December 31, 2015:

	September 30, 2016				December 31, 2015			
	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	$120	$—	$ —	$ 120	$110	$—	$ 33	$ 143
Securities available for sale:								
U.S. Treasury securities	$242	$—	$ —	$ 242	$228	$—	$ —	$ 228
Federal agency securities	—	38	—	38	—	218	—	218
Obligations of states and political subdivisions	—	—	—	—	—	1	—	1
Mortgage-backed securities (MBS):								
Residential agency	—	17,506	—	17,506	—	16,062	—	16,062
Residential non-agency	—	—	5	5	—	—	5	5
Commercial agency	—	3,413	—	3,413	—	3,018	—	3,018
Commercial non-agency	—	1,141	—	1,141	—	1,231	—	1,231
Corporate and other debt securities	—	1,331	3	1,334	—	1,664	3	1,667
Equity securities	180	—	—	180	280	—	—	280
Total securities available for sale	$422	$23,429	$ 8	$ 23,859	$508	$22,194	$ 8	$ 22,710
Mortgage loans held for sale	$—	$459	$ 90	$ 549	$—	$353	$ —	$ 353
Residential mortgage servicing rights	$—	$—	$ 238	$ 238	$—	$—	$ 252	$ 252
Derivative assets:								
Interest rate swaps	$—	$744	$ —	$ 744	$—	$610	$ —	$ 610
Interest rate options	—	2	16	18	—	1	10	11
Interest rate futures and forward commitments	—	3	—	3	—	5	—	5
Other contracts	4	86	—	90	—	200	—	200
Total derivative assets	$4	$835	$ 16	$ 855	$—	$816	$ 10	$ 826
Derivative liabilities:								
Interest rate swaps	$—	$702	$ —	$ 702	$—	$564	$ —	$ 564
Interest rate options	—	1	—	1	—	1	—	1
Interest rate futures and forward commitments	—	8	—	8	—	6	—	6
Other contracts	—	81	—	81	—	187	—	187
Total derivative liabilities	$—	$792	$ —	$ 792	$—	$758	$ —	$ 758
Non-recurring fair value measurements								
Loans held for sale	$—	$—	$ 11	$ 11	$—	$—	$ 36	$ 36
Foreclosed property and other real estate	—	38	12	50	—	30	8	38

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 ALCO of the Company in a holistic approach to managing price fluctuation risks.

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The following tables illustrate rollforwards 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, 2016 and 2015. 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, 2016 and 2015 are not material.

Three Months Ended September 30, 2016

	Opening Balance July 1, 2016	Total Realized / Unrealized Gains or Losses: Included in Earnings	Total Realized / Unrealized Gains or Losses: Included in Other Compre-hensive Income (Loss)	Purchases	Sales	Issuances	Settlements	Transfers into Level 3	Transfers out of Level 3	Closing Balance September 30, 2016
	(In millions)									
Level 3 Instruments Only										
Securities available for sale:										
Residential non-agency MBS	$5	—	—	—	—	—	—	—	—	$ 5
Corporate and other debt securities	3	—	—	—	—	—	—	—	—	3
Total securities available for sale	$8	—	—	—	—	—	—	—	—	$ 8
Commercial mortgage loans held for sale	$30	—	—	—	—	60	—	—	—	$ 90
Residential mortgage servicing rights	$216	(12) (1)	—	34	—	—	—	—	—	$ 238
Total derivatives, net	$17	32 (2)	—	—	—	—	(33)	—	—	$ 16

Three Months Ended September 30, 2015

	Opening Balance July 1, 2015	Total Realized / Unrealized Gains or Losses: Included in Earnings	Total Realized / Unrealized Gains or Losses: Included in Other Compre-hensive Income (Loss)	Purchases	Sales	Issuances	Settlements	Transfers into Level 3	Transfers out of Level 3	Closing Balance September 30, 2015
	(In millions)									
Level 3 Instruments Only										
Securities available for sale:										
Residential non-agency MBS	$6	—	—	—	—	—	—	—	—	$ 6
Corporate and other debt securities	3	—	—	—	—	—	—	—	—	3
	$9	—	—	—	—	—	—	—	—	$ 9

Total securities available for sale										
Residential mortgage servicing rights	$268	(36) [1]	—	9	—	—	—	—	—	$ 241
Total derivatives, net	$13	32 [3]	—	—	—	—	(32)	—	—	$ 13

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	Nine Months Ended September 30, 2016									
		Total Realized / Unrealized Gains or Losses								
	Opening Balance January 1, 2016	Included in Earnings	Included in Other Comprehensive Income (Loss)	Purchases	Sales	Issuances	Settlements	Transfers into Level 3	Transfers out of Level 3	Closing Balance September 30, 2016
	(In millions)									
Level 3 Instruments Only										
Trading account securities	$33	(2) [4]	—	—	(31)	—	—	—	—	$ —
Securities available for sale:										
Residential non-agency MBS	$5	—	—	—	—	—	—	—	—	$ 5
Corporate and other debt securities	3	—	—	—	—	—	—	—	—	3
Total securities available for sale	$8	—	—	—	—	—	—	—	—	$ 8
Commercial mortgage loans held for sale	$—	—	—	—	—	90	—	—	—	$ 90
Residential mortgage servicing rights	$252	(87) [1]	—	73	—	—	—	—	—	$ 238
Total derivatives, net	$10	105 [5]	—	—	—	—	(99)	—	—	$ 16

	Nine Months Ended September 30, 2015									
		Total Realized / Unrealized Gains or Losses								
	Opening Balance January 1, 2015	Included in Earnings	Included in Other Comprehensive Income (Loss)	Purchases	Sales	Issuances	Settlements	Transfers into Level 3	Transfers out of Level 3	Closing Balance September 30, 2015
	(In millions)									
Level 3 Instruments Only										
Securities available for sale:										
Residential non-agency MBS	$8	—	—	—	—	—	(2)	—	—	$ 6
Corporate and other debt securities	3	—	—	—	—	—	—	—	—	3
Total securities available for sale	$11	—	—	—	—	—	(2)	—	—	$ 9
Residential mortgage servicing rights	$257	(44) [1]	—	28	—	—	—	—	—	$ 241
Total derivatives, net	$8	85 [6]	—	—	—	—	(80)	—	—	$ 13

(1) Included in mortgage income.
(2) Approximately $3 million was included in capital markets fee income and other and $29 million was included in mortgage income.
(3) Approximately $1 million was included in capital markets fee income and other and $31 million was included in mortgage income.
(4) Included in capital markets fee income and other.
(5) Approximately $16 million was included in capital markets fee income and other and $89 million was included in mortgage income.
(6) Approximately $5 million was included in capital markets fee income and other and $80 million was 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	
	2016	2015	2016	2015
	(In millions)			
Loans held for sale	$(3)	$(5)	$(25)	$(16)
Foreclosed property and other real estate	(8)	(9)	(35)	(56)

The following tables present detailed information regarding assets and liabilities measured at fair value using significant unobservable inputs (Level 3) as of September 30, 2016, and December 31, 2015. 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, 2016, and December 31, 2015, are included. Following the tables are descriptions of the valuation techniques and the sensitivity of the techniques to changes in the significant unobservable inputs.

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	September 30, 2016 Level 3 Estimated Fair Value at September 30, 2016 (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	$5	Discounted cash flow	Spread to LIBOR	5.5% - 70.0% (23.0%)
			Weighted-average prepayment speed (CPR; percentage)	3.8% - 27.2% (11.9%)
			Probability of default	3.4%
			Loss severity	55.9%
Corporate and other debt securities	$3	Market comparable	Evaluated quote on same issuer/comparable bond	100.3%
Commercial mortgage loans held for sale	$90	Market comparable	Credit spreads for bonds in the commercial MBS	0.4% - 6.0% (1.4%)
Residential mortgage servicing rights[1]	$238	Discounted cash flow	Weighted-average prepayment speed (CPR; percentage)	10.4% - 28.8% (12.3%)
			OAS (percentage)	8.2% - 13.5% (10.6%)
Derivative assets:				
Interest rate options	$15	Interest rate lock commitments on the residential mortgage loans are valued using discounted cash flows	Weighted-average prepayment speed (CPR; percentage)	10.4% - 28.8% (12.3%)
			OAS (percentage)	8.2% - 13.5% (10.6%)
			Pull-through	28.5% - 99.4% (77.6%)
	$1	Interest rate lock commitments on the commercial mortgage loans are valued using discounted cash flows	Internal rate of return	7.0% - 17.0% (12.0%)
Nonrecurring fair value measurements:				
Loans held for sale	$11	Commercial loans held for sale are valued based on multiple data points, including	Appraisal comparability adjustment (discount)	4.0% - 96.0% (56.2%)

		discount to appraised value of collateral based on recent market activity for sales of similar loans		
Foreclosed property and other real estate	$8	Property in foreclosure is valued by discount to appraised value of property based on recent market activity for sales of similar properties	Appraisal comparability adjustment (discount)	25.0% - 80.9% (54.0%)
	$4	Bank owned property valuations are based on comparable sales and local broker network estimates provided by a third-party real estate services provider	Estimated third-party valuations utilizing available sales data for similar transactions (discount)	35.0%

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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, 2015 Level 3 Estimated Fair Value at December 31, 2015 (Dollars in millions)	Valuation Technique	Unobservable Input(s)	Quantitative Range of Unobservable Inputs and (Weighted-Average)
Recurring fair value measurements:				
Trading account securities	$33	Market comparable	Spread from US High Yield B Effective Yield Index	4.7%
Securities available for sale:				
Residential non-agency MBS	$5	Discounted cash flow	Spread to LIBOR	5.5% - 70.1% (23.0%)
			Weighted-average prepayment speed (CPR; percentage)	5.6% - 11.9% (9.9%)
			Probability of default	2.2%
			Loss severity	74.3%
Corporate and other debt securities	$3	Market comparable	Evaluated quote on same issuer/comparable bond	100.2%
Residential mortgage servicing rights[(1)]	$252	Discounted cash flow	Weighted-average prepayment speed (CPR; percentage)	10.5% - 11.5% (10.9%)
			OAS (percentage)	8.7% - 13.3% (10.0%)
Derivative assets:				
Interest rate options	$9	Interest rate lock commitments on the residential loans are valued using discounted cash flows	Weighted-average prepayment speed (CPR; percentage)	10.5% - 11.5% (10.9%)
			OAS (percentage)	8.7% - 13.3% (10.0%)
			Pull-through	18.9% - 99.4% (80.7%)
	$1	Interest rate lock commitments on the commercial mortgage loans are valued using discounted cash flows	Internal rate of return	12.0%
Nonrecurring fair value measurements:				
Loans held for sale	$36	Commercial loans held for sale are valued based on multiple data points, including discount to appraised value of collateral based on recent market activity	Appraisal comparability adjustment (discount)	11.1% - 85.7% (69.0%)

		for sales of similar loans		
Foreclosed property and other real estate	$5	Property in foreclosure is valued by discount to appraised value of property based on recent market activity for sales of similar properties	Appraisal comparability adjustment (discount)	25.0% - 44.0% (30.3%)
	$3	Bank owned property valuations are based on comparable sales and local broker network estimates provided by a third-party real estate services provider	Estimated third-party valuations utilizing available sales data for similar transactions (discount)	3.0% - 58.8% (39.2%)

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(1) See Note 7 to the consolidated financial statements of the Annual Report on Form 10-K for the year ended December 31, 2015 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

Trading account securities

The fair value in this category relates to high yield corporate securities. Significant unobservable inputs include the spread to High Yield Index. A significant increase in this input would result in a significantly lower fair value measurement.

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, CPR, probability of default, and loss severity in the event of default. Significant increases in spread to LIBOR, probability of default and loss given default in isolation would result in significantly lower fair value. A significant increase in CPR in isolation would result in an increase to fair value.

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 corporate and other debt securities.

Commercial mortgage loans held for sale

Commercial mortgage loans held for sale are based on traded market prices for comparable commercial mortgage-backed securitizations, into which the loans will be placed, adjusted for movements of interest rates and credit spreads. Significant unobservable inputs include credit spreads for bonds in commercial mortgage-backed securitizations.

Residential mortgage servicing rights

The significant unobservable inputs used in the fair value measurement of residential MSRs are OAS and prepayment speed. This valuation requires generating cash flow projections over multiple interest rate scenarios and discounting those cash flows at a risk adjusted rate. Additionally, the impact of prepayments and changes in the OAS are based on a variety of underlying inputs 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 included in the MSR rollforward table in Note 5. See Note 5 for these amounts and additional disclosures related to assumptions used in the fair value calculation for MSRs.

Derivative assets

Residential mortgage 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.

Commercial mortgage interest rate options—These instruments are interest rate lock agreements made in the normal course of originating commercial mortgage loans. The significant unobservable input in the fair value measurement using discounted cash flows is the internal rate of return. The Company's internal rates of return are compared against those of market competitors, and should those rates change the Company's rates would also change in a similar direction.

NON-RECURRING FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS

Loans held for sale

Commercial 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. These non-recurring fair value measurements are typically recorded on the date an updated appraisal is received.

Foreclosed property and other real estate

Property in foreclosure is 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. These non-recurring fair value measurements are typically recorded on the date an updated offered quote or appraisal is received.

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Bank owned property available for sale is valued based on estimated third-party valuations utilizing recent sales data from similar transactions. A broker's opinion of value is obtained to further support the asset valuations. Updated valuations along with actual sales results of similar properties can further impact these values. These non-recurring fair value measurements are typically recorded on the date an updated third-party valuation is received.

FAIR VALUE OPTION

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

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, 2016			December 31, 2015		
	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	$549	$ 529	$ 20	$353	$ 341	$ 12

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 (losses) resulting from changes in fair value of these loans, which were recorded in mortgage income in the consolidated statements of income during the three and nine months ended September 30, 2016 and 2015. 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	
	2016	2015	2016	2015
	(In millions)			
Net gains (losses) resulting from changes in fair value	$ —	$ 8	$ 9	$ —

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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, 2016 are as follows:

	September 30, 2016				
	Carrying Amount	Estimated Fair Value(1)	Level 1	Level 2	Level 3
	(In millions)				
Financial assets:					
Cash and cash equivalents	$4,238	$ 4,238	$4,238	$ —	$ —
Trading account securities	120	120	120	—	—
Securities held to maturity	1,431	1,485	—	1,485	—
Securities available for sale	23,859	23,859	422	23,429	8
Loans held for sale	571	549	—	459	90
Loans (excluding leases), net of unearned income and allowance for loan losses(2)(3)	78,821	74,713	—	—	74,713
Other earning assets(4)	771	771	—	771	—
Derivative assets	855	855	4	835	16
Financial liabilities:					
Derivative liabilities	792	792	—	792	—
Deposits	99,289	99,375	—	99,375	—
Short-term borrowings	—	—	—	—	—
Long-term borrowings	6,054	6,369	—	4,102	2,267
Loan commitments and letters of credit	105	512	—	—	512
Indemnification obligation	32	30	—	—	30

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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, 2016 was $4.1 billion or 5.2 percent.

(3) Excluded from this table is the capital lease carrying amount of $936 million at September 30, 2016.

(4) Excluded from this table is the operating lease carrying amount of $734 million at September 30, 2016.

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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, 2015 are as follows:

	December 31, 2015				
	Carrying Amount	Estimated Fair Value(1)	Level 1	Level 2	Level 3
	(In millions)				
Financial assets:					
Cash and cash equivalents	$5,314	$ 5,314	$5,314	$ —	$ —
Trading account securities	143	143	110	—	33
Securities held to maturity	1,946	1,969	1	1,968	—
Securities available for sale	22,710	22,710	508	22,194	8
Loans held for sale	448	448	—	353	95
Loans (excluding leases), net of unearned income and allowance for loan losses(2)(3)	79,140	75,399	—	—	75,399
Other earning assets(4)	818	818	—	818	—
Derivative assets	826	826	—	816	10
Financial liabilities:					
Derivative liabilities	758	758	—	758	—
Deposits	98,430	98,464	—	98,464	—
Short-term borrowings	10	10	—	10	—
Long-term borrowings	8,349	8,615	—	5,775	2,840
Loan commitments and letters of credit	85	495	—	—	495
Indemnification obligation	77	67	—	—	67

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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 December 31, 2015 was $3.7 billion or 4.7 percent.

(3) Excluded from this table is the capital lease carrying amount of $916 million at December 31, 2015.

(4) Excluded from this table is the operating lease carrying amount of $834 million at December 31, 2015.

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: Corporate Bank, Consumer Bank, and Wealth Management, with the remainder split between Discontinued Operations and Other. During the first quarter of 2016, Regions reorganized its internal management structure and, accordingly, its segment reporting structure. Under the organizational realignment, Regions will continue to operate with the same three reporting units with the Relationship Management component of Business Banking moving to the Corporate Bank and the Branch Small Business component of Business Banking remaining part of the Consumer Bank. Previously, all of Business Banking was included within the Consumer Bank. The Wealth Management segment remained unchanged during the organizational realignment. Additionally, in prior years the provision for loan losses was allocated to each segment based on actual net charge-offs that had been recognized by the segment. During the first quarter of 2016, Regions began allocating the provision for loan losses to each segment using an estimated loss methodology with the difference between the consolidated provision for loan losses and the segments' estimated loss reflected in Other. Lastly, allocations of operational and overhead cost pools among the segments were modified during the first quarter of 2016 to better align the total costs to support each segment in accordance with the reorganized management structure. Segment results for all periods presented have been recast to reflect this organizational realignment, as well as the provision for loan losses methodology change and the cost allocation modifications. Additional information about the Company's reportable segments is included in Regions' Annual Report on Form 10-K for the year ended December 31, 2015.

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

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

Three Months Ended September 30, 2016	Corporate Bank	Consumer Bank	Wealth Management	Other	Continuing Operations	Discontinued Operations	Consolidated
	(In millions)						
Net interest income and other financing income (loss)	$352	$514	$ 43	$(74)	$835	$ —	$835
Provision (credit) for loan losses	72	74	5	(122)	29	—	29
Non-interest income	130	291	107	71	599	—	599
Non-interest expense	220	532	120	62	934	(2)	932
Income (loss) before income taxes	190	199	25	57	471	2	473
Income tax expense (benefit)	72	76	10	(6)	152	1	153
Net income (loss)	$118	$123	$ 15	$63	$319	$ 1	$320
Average assets	$53,798	$34,843	$ 3,233	$33,955	$125,829	$ —	$125,829

Three Months Ended September 30, 2015	Corporate Bank	Consumer Bank	Wealth Management	Other	Continuing Operations	Discontinued Operations	Consolidated
	(In millions)						
Net interest income and other financing income (loss)	$385	$507	$ 41	$(97)	$836	$ —	$836
Provision (credit) for loan losses	77	70	6	(93)	60	—	60
Non-interest income	112	272	104	9	497	—	497
Non-interest expense	226	522	115	32	895	6	901
Income (loss) before income taxes	194	187	24	(27)	378	(6)	372
Income tax expense (benefit)	74	71	9	(38)	116	(2)	114
Net income (loss)	$120	$116	$ 15	$11	$262	$ (4)	$258
Average assets	$53,647	$33,710	$ 3,161	$32,402	$122,920	$ —	$122,920

Nine Months Ended September 30, 2016	Corporate Bank	Consumer Bank	Wealth Management	Other	Continuing Operations	Discontinued Operations	Consolidated
	(In millions)						
Net interest income and other financing income (loss)	$1,087	$1,529	$ 131	$(202)	$2,545	$ —	$2,545
Provision (credit) for loan losses	216	215	17	(234)	214	—	214
Non-interest income	380	831	321	99	1,631	—	1,631
Non-interest expense	645	1,552	350	171	2,718	(7)	2,711
Income (loss) before income taxes	606	593	85	(40)	1,244	7	1,251
Income tax expense (benefit)	230	225	33	(108)	380	3	383
Net income (loss)	$376	$368	$ 52	$68	$864	$ 4	$868
Average assets	$54,420	$34,373	$ 3,235	$33,706	$125,734	$ —	$125,734

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	Nine Months Ended September 30, 2015						
	Corporate Bank	Consumer Bank	Wealth Management	Other	Continuing Operations	Discontinued Operations	Consolidated
	(In millions)						
Net interest income and other financing income (loss)	$1,141	$1,510	$ 125	$(305)	$2,471	$ —	$2,471
Provision (credit) for loan losses	225	206	17	(276)	172	—	172
Non-interest income	318	806	303	130	1,557	—	1,557
Non-interest expense	662	1,547	335	190	2,734	16	2,750
Income (loss) before income taxes	572	563	76	(89)	1,122	(16)	1,106
Income tax expense (benefit)	218	214	29	(126)	335	(6)	329
Net income (loss)	$354	$349	$ 47	$37	$787	$ (10)	$777
Average assets	$53,016	$33,288	$ 3,150	$32,008	$121,462	$ —	$121,462

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, 2016	December 31, 2015
	(In millions)	
Unused commitments to extend credit	$44,330	$ 45,516
Standby letters of credit	1,423	1,477
Commercial letters of credit	88	63
Liabilities associated with standby letters of credit	33	32
Assets associated with standby letters of credit	33	33
Reserve for unfunded credit commitments	72	52

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

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

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

LEGAL CONTINGENCIES

Regions and its subsidiaries are subject to loss contingencies related to litigation, claims, investigations and legal and administrative cases and proceedings arising in the ordinary course of business. Regions evaluates these contingencies based on information currently available, including advice of counsel. Regions establishes accruals for those matters when a loss contingency is considered probable and the related amount is reasonably estimable. Any accruals are periodically reviewed and may be adjusted 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 $32 million and an estimated fair value of approximately $30 million as of September 30, 2016 (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 discloses the aggregate estimation of such possible losses. Regions currently estimates that any such losses in excess of amounts accrued, including legal contingencies that are subject to the indemnification agreement with Raymond James, would be immaterial to Regions' financial statements as a whole. However, as available information changes, the matters for which Regions is able to estimate, as well as the estimates themselves will be adjusted accordingly.

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

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 class-action lawsuits have all been resolved among the parties. Final court approvals for settlements in the open-end Funds class action and for the investors represented by the Trustee Ad Litem have been granted. 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 July 2006, Morgan Keegan and a former Morgan Keegan analyst were named as defendants in a lawsuit filed by a Canadian insurance and financial services company and its American subsidiary in the Circuit Court of Morris County, New Jersey. Plaintiffs alleged civil claims under the RICO Act and claims for commercial disparagement, tortious interference with contractual relationships, tortious interference with prospective economic advantage and common law conspiracy. Plaintiffs 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. Oral argument was held on October 17, 2016. This matter is subject to the indemnification agreement with Raymond James.

A previously dismissed shareholder derivative action was refiled in June 2015. The original action alleged mismanagement, waste of corporate assets, breach of fiduciary duty and unjust enrichment relating to bonuses and other benefits received by executive management. The named defendants filed an opposition to the action, and on April 5, 2016, the court dismissed the action with prejudice. On May 5, 2016, plaintiffs filed a motion asking the court

to reconsider the dismissal, which was denied by the court on June 24, 2016. The plaintiffs filed an appeal with the Alabama Supreme Court, which dismissed the appeal on October 14, 2016.
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.

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Regions entered into a final Settlement Agreement, dated September 13, 2016, with the Department of Justice on behalf of HUD to settle and fully release previously disclosed potential claims related to Regions Bank's underwriting and origination of FHA insured mortgage loans endorsed for FHA insurance between January 1, 2006 and December 31, 2011 that resulted in claims submitted through January 7, 2015. Regions had previously disclosed that it had reached an agreement in principle with the Department of Justice relating to this matter. Regions settled this matter for $52.4 million, without admitting liability, in order to avoid the expense and distraction of potential litigation. Regions was fully reserved for the entire settlement amount as of the end of the second quarter of 2016. Further, Regions' insurers reimbursed Regions approximately $47 million of such amount, which was recognized within non-interest income in the third quarter of 2016.

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. Regions has fully cooperated with the inquiry, which is part of an industry-wide investigation.

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 one to 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, 2016, the carrying value of the indemnification obligation was approximately $32 million.

FANNIE MAE DUS LOSS SHARE GUARANTEE

Regions is a Fannie Mae DUS lender. The Fannie Mae DUS program provides liquidity to the multi-family housing market. Regions services loans sold to Fannie Mae and is required to provide a loss share guarantee equal to one-third of the majority of its DUS servicing portfolio. At September 30, 2016, and December 31, 2015, the Company's DUS servicing portfolio totaled approximately $1.7 billion and $1.2 billion, respectively. Regions' maximum quantifiable contingent liability related to its loss share guarantee was approximately $516 million and $356 million at September 30, 2016 and December 31, 2015, respectively. The Company would be liable for this amount only if all of the loans it services for Fannie Mae, for which the Company retains some risk of loss, were to default and all of the collateral underlying these loans was determined to be without value at the time of settlement. Therefore, the maximum quantifiable contingent liability is not representative of the actual loss the Company would be expected to incur. The estimated fair value of the associated loss share guarantee recorded as a liability on the Company's consolidated balance sheets was approximately $3 million at both September 30, 2016 and December 31, 2015. Refer to Note 1 "Summary of Significant Accounting Policies" to the consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2015, for additional information.

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NOTE 15. RECENT ACCOUNTING PRONOUNCEMENTS

In August 2015, the FASB issued a standard that defers the effective date of the new revenue recognition standard, issued in May 2014, by one year. The new revenue recognition standard is discussed in the Annual Report on Form 10-K for the year ended December 31, 2014. The new guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted as of the date of the original effective date, for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Regions is in the process of reviewing the potential impact the adoption of this guidance will have to its consolidated financial statements.

In January 2016, the FASB issued accounting guidance on the recognition and measurement of financial assets and financial liabilities that supersedes existing guidance. The new guidance: (a) requires equity investments (except for those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in the fair value recognized through net income; (b) simplifies the impairment assessment of equity securities without readily determinable fair values by requiring a qualitative assessment to identify impairment; (c) eliminates the requirement for public business entities to disclose the method and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (d) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (e) requires an entity to present separately in other comprehensive income, the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (f) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial assets on the balance sheet or the notes to the financial statements; and (g) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available for sale securities in combination with the entity’s other deferred tax assets. This guidance is effective for annual and interim periods beginning after December 15, 2017. Early adoption is not permitted except for the amendment related to separate presentation in other comprehensive income discussed above in (e). Entities should apply the amendments by means of cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption. Regions is evaluating the impact to its consolidated financial statements upon adoption.

In February 2016, the FASB issued accounting guidance intended to improve the understanding and comparability of financial statements by providing users with more information relating primarily to a lessee’s leasing activities. There are no significant changes expected to the income statement but lessees will be required to record a right-of-use asset and a corresponding liability equal to the present value of future rental payments on their balance sheets for all leases with a term greater than one year. Management will also be required under the new guidance to make significant judgments regarding the likelihood of exercising lease renewal or extension options in order to determine the appropriate lease term and amount of future minimum lease payments. While the new guidance removes the current bright lines used to classify leases, the criteria are largely similar to current lease accounting. Additionally, the new standard substantially changes sale-leaseback accounting requiring the lessee to record a right-of-use asset and aligning sale criteria with revenue recognition guidance. This guidance expands both quantitative and qualitative required disclosures in order to provide financial statement users information on the timing, amount, and uncertainty of future cash flows from leases. The revised leasing guidance is effective for fiscal years and interim periods beginning after December 15, 2018, with early application permitted. Regions is evaluating the impact to its consolidated financial statements upon adoption.

In March 2016, the FASB issued accounting guidance that clarifies and enhances the implementation guidance on principal versus agent considerations within the new revenue recognition standard. The amendments are as follows: (a) clarification regarding how an entity should identify the unit of accounting for the principal versus agent evaluation; (b) clarification regarding how the control principle applies to transactions such as service arrangements; (c) control indicators reframed to focus on evidence of a principal relationship rather than an agency relationship, as

well as clarification added regarding the relationship between the control principle and the indicators; and (d) revisions to the examples presented in current guidance as well as the addition of new examples. The guidance is effective for annual and interim periods beginning after December 15, 2017. Regions is evaluating the impact to its consolidated financial statements upon adoption.
In March 2016, the FASB issued new accounting guidance that addresses how a change in the counterparty to a derivative contract affects a hedging relationship. This guidance clarifies that a novation (defined as replacing one counterparty to a derivative instrument with a new counterparty) of a derivative contract does not, in and of itself, require dedesignation of a hedging relationship or represent a change in the critical terms of the hedge relationship so long as (a) all other hedge accounting criteria are still met, (b) the hedging relationship is expected to remain highly effective, and (c) there are no concerns about the collectability of the derivative's cash flows (i.e. the creditworthiness of the new counterparty is similar to the one being replaced). The guidance is effective for annual and interim periods beginning after December 15, 2016. The amendments may be applied prospectively or on a modified retrospective basis to all existing and new hedge accounting relationships in which a novation occurs after the effective date of the new guidance. Regions believes the adoption of this guidance will not have a material impact to its consolidated financial statements.

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In March 2016, the FASB issued new accounting guidance that clarifies that entities should solely use the four-step decision sequence described in current derivatives accounting guidance. This sequence should be used when assessing whether contingent exercise provisions associated with a put or call option are clearly and closely related to their debt hosts. Based on differences in interpretation, some entities have also included an additional assessment that considers whether the event that triggers the ability to exercise the put or call is indexed only to interest rates or credit risk of the entity. This additional assessment potentially results in bifurcation of more embedded options than would occur when solely applying the decision sequence outlined in the guidance. This guidance should be applied to existing debt instruments on a modified retrospective basis and is effective for annual, and interim periods therein, beginning after December 15, 2016. Regions believes the adoption of this guidance will not have a material impact to its consolidated financial statements.

In March 2016, the FASB issued new accounting guidance that eliminates the requirement for an investor to retrospectively apply the equity method to investments when its ownership interest (or degree of influence in an investee) increases to a level that triggers the equity method of accounting. Currently, an entity must retrospectively adjust the investment, results of operations, and retained earnings as if the equity method had been in effect during all previous periods the investment was held. By eliminating this requirement, the FASB expects to reduce the cost and complexity when transitioning to the equity method. The guidance is effective for annual and interim periods beginning after December 15, 2016. Early adoption is permitted. Regions believes the adoption of this guidance will not have a material impact to its consolidated financial statements.

In March 2016, the FASB issued new accounting guidance that intends to improve and simplify accounting for employee shared-based payments. The new guidance: (a) eliminates additional paid-in capital pools and designates that all excess tax benefits and deficiencies should be recorded in the income statement as income tax expense or benefit when the awards vest or are settled; entities should account for these income tax effects as discrete items in the reporting period in which they occur and exclude them from the estimated annual effective tax rate; (b) increases the permitted tax withholding limits from the employer's statutory minimum rate to the employee's maximum statutory rate before triggering liability classification; (c) changes the classification of excess tax benefits from a financing activity to an operating activity; (d) clarifies that cash paid to a tax authority when shares are withheld to satisfy an employer's statutory income tax withholding obligation is a financing activity; (e) allows an entity to make an entity-wide accounting policy election to either account for forfeitures based on the number of awards that are expected to vest or account for forfeitures as they occur. The guidance is effective for interim and annual periods beginning after December 31, 2016. The transition method of accounting application (i.e. prospective, retrospective or modified retrospective application) differs by amendment and is defined in the guidance. Early adoption is permitted, but entities must adopt all of the guidance in the same period. Regions is not early adopting and believes the adoption of this guidance will not have a material impact to its consolidated financial statements.

In April 2016, the FASB issued new accounting guidance for revenue recognition that is related to contracts with customers. This guidance is expected to clarify how an entity should evaluate revenue in circumstances regarding granting licenses of intellectual property. The guidance also includes information regarding identifying differences when dealing with promised goods and services. The guidance is effective for annual and interim periods beginning after December 15, 2017. Regions is evaluating the impact to its consolidated financial statements upon adoption.

In May 2016, the FASB issued additional new accounting guidance for revenue recognition that is also related to contracts with customers. This guidance, as well as the guidance issued in April 2016, is intended to promote more consistent application of the standards as well as reduce the cost and complexity of applying the revenue guidance. The guidance contains amendments related to collectability, noncash consideration, and completed contracts at transition. The guidance is effective for annual and interim periods beginning after December 15, 2017. Regions is evaluating the impact to its consolidated financial statements upon adoption.

In June 2016, the FASB issued new accounting guidance regarding the measurement of credit losses on financial instruments. The new guidance will apply to most financial assets measured at amortized cost and certain other instruments including loans, debt securities held to maturity, net investments in leases and off-balance-sheet credit exposures (e.g., loan commitments, standby letters of credit, etc.). The guidance will replace the current incurred loss accounting model with an expected loss approach, whereby entities must consider all available relevant information when estimating those expected credit losses, including details about past events, current conditions and reasonable and supportable forecasts. The guidance eliminates the current accounting model for purchased credit impaired loans and debt securities. Regarding securities available for sale, credit losses are to be recognized as allowances rather than reductions in the amortized cost of the securities, which will require remeasurement of the related allowance at each reporting period. The guidance includes enhanced disclosure requirements intended to help financial statement users better understand estimates and judgments used in estimating credit losses. The guidance is effective for annual and interim periods beginning after December 15, 2019. However, entities can apply these amendments as early as fiscal years beginning after December 15, 2018. Regions is evaluating the impact to its consolidated financial statements upon adoption.

In August 2016, the FASB issued new accounting guidance regarding the classification and presentation of certain cash receipts and cash payments. The guidance makes targeted improvements where current guidance is either unclear or silent in order to reduce areas where diversity in practice exists with respect to classification within the statement of cash flows. Specifically, clarification on classification and presentation of the following cash receipts and payments is addressed: (a) cash payments made

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in connection with settling a debt arrangement before its maturity date and related debt extinguishment costs; (b) cash payments made at maturity of a zero-coupon debt instrument; (c) cash payments made to settle a contingent consideration liability arising from a business combination that are not made within a relatively short time period after the acquisition date; (d) cash proceeds received from the settlement of insurance claims, including lump-sum settlements; (e) cash proceeds received from the settlement of corporate-owned or bank-owned life insurance policies, as well as premiums paid on these policies; (f) distributions received from equity method investees not accounted for under the fair value option and; (g) treatment of a transferor's beneficial interest obtained in a financial asset securitization. The guidance also clarifies the application of the predominance principle when cash receipts or payments have separately identifiable cash flows. The guidance should be applied on a retrospective basis, unless impracticable, for periods beginning after December 15, 2017. Early adoption is permitted, including in an interim period, given all amendments are adopted in the same period. Regions is evaluating the impact to its consolidated financial statements upon adoption.

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 SEC and updates Regions’ Annual Report on Form 10-K for the year ended December 31, 2015, 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 other 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, 2016 compared to the three and nine months ended September 30, 2015 for the consolidated statements of income. For the consolidated balance sheets, the emphasis of this discussion will be the balances as of September 30, 2016 compared to December 31, 2015.

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

CORPORATE PROFILE

Regions is a financial holding company headquartered in Birmingham, Alabama, 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, trust services, merger and acquisition advisory services and other specialty financing.

Regions conducts its banking operations through Regions Bank, an Alabama state-chartered commercial bank that is a member of the Federal Reserve System. At September 30, 2016, Regions operated 1,597 total branch outlets across the South, Midwest and Texas. Regions operates under three reportable business segments: Corporate Bank, Consumer Bank, and Wealth Management with the remainder split between Discontinued Operations and Other. See Note 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 and related affiliates to Raymond James. The sale closed on April 2, 2012. Regions Investment Management, Inc. and Regions Trust were not included in the sale; they are included in the Wealth Management segment. See Note 2 “Discontinued Operations” to the consolidated financial statements for further discussion.

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

Economic conditions, competition, new legislation and related rules impacting regulation of the financial services industry and the monetary and fiscal policies of the Federal government significantly affect most, if not all, financial institutions, including Regions. Lending and deposit activities and fee income generation are influenced by levels of business spending and investment, consumer income, consumer spending and savings, capital market activities, and competition among financial institutions, as well as customer preferences, interest rate conditions and prevailing market rates on competing products in Regions' market areas.

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

Recent Acquisitions

On October 17, 2016, Regions announced the acquisition of the low income housing tax credit corporate fund syndication and asset management businesses of First Sterling Financial, Inc., which is one of the leading national syndicators of investment funds benefiting from low income housing tax credits. The acquisition complements Regions' existing low income housing tax credit origination business and further expands the Company's capabilities to serve more clients and communities.

THIRD QUARTER OVERVIEW

Regions reported net income available to common shareholders of $304 million, or $0.24 per diluted share, in the third quarter of 2016 compared to $242 million, or $0.18 per diluted share, in the third quarter of 2015. Net income available to common shareholders from continuing operations was $303 million, or $0.24 per diluted share, compared to $246 million, or $0.19 per diluted share, over these same periods. Net interest income and other financing income remained relatively flat period over period. Non-interest income increased in the third quarter of 2016, but was partially offset by an increase in non-interest expense.

For the third quarter of 2016, net interest income and other financing income (taxable-equivalent basis) from continuing operations totaled $856 million, up $1 million compared to the third quarter of 2015. The net interest margin (taxable-equivalent basis) was 3.06 percent for the third quarter of 2016 and 3.13 percent in the third quarter of 2015. The average balance of total earning assets increased in the third quarter of 2016 compared to the third quarter of 2015, while the related yields decreased for the comparable quarters. The average balance of total interest-bearing liabilities increased period over period primarily due to an increase in long-term borrowings. These increases were partially offset by a decrease in average interest bearing deposits, all of which resulted in an increase in total funding costs from 25 to 30 basis points for the third quarter of 2016.

The provision for loan losses totaled $29 million in the third quarter of 2016 compared to $60 million during the third quarter of 2015. The decrease is attributable to a reduction in loans outstanding and credit quality improvements in the energy portfolio. Given the current phase of the credit cycle, volatility in certain credit metrics is to be expected, especially related to large dollar commercial credits and fluctuating commodity prices.

Net charge-offs totaled $54 million, or an annualized 0.26 percent of average loans, in the third quarter of 2016, compared to $60 million, or an annualized 0.30 percent for the third quarter of 2015. Commercial and industrial loan net charge-offs decreased, while total consumer net charge-offs increased slightly, when comparing the third quarter of 2016 to the prior year. See Note 4 "Loans and the Allowance for Credit Losses" to the consolidated financial statements for additional information.

The allowance for loan losses at September 30, 2016, was 1.39 percent of total loans, net of unearned income, compared to 1.36 percent at December 31, 2015. Total non-performing assets were $1.2 billion at September 30, 2016, compared to $920 million at December 31, 2015. While the overall credit quality of the energy portfolio has improved with energy prices beginning to stabilize, this increase was driven primarily by a select few large energy and energy-related loans.

Non-interest income from continuing operations was $599 million for the third quarter of 2016 compared to $497 million for the third quarter of 2015. This increase was primarily driven by $47 million of insurance proceeds that were received in the third quarter of 2016, a recovery of $10 million related to the 2010 Gulf of Mexico oil spill, increases in card and ATM fees, and an increase in capital markets fee income and other. See Table 21 "Non-Interest Income from Continuing Operations" for more detail.

Total non-interest expense from continuing operations was $934 million in the third quarter of 2016, a $39 million increase from the third quarter of 2015. The increase was driven by an additional work day, an increase in incentives related to capital markets income growth, a $14 million charge related to the early extinguishment of debt , and expenses related to VISA class B shares that were sold in a prior year. These increases were partially offset by a decrease in FDIC insurance assessments related to additional assessments incurred during the third quarter of 2015 for prior period assessment adjustments. See Table 22 "Non-Interest Expense from Continuing Operations" for more detail.

Income tax expense from continuing operations for the three months ended September 30, 2016 was $152 million compared to income tax expense of $116 million for the same period in 2015. See "Income Taxes" toward the end of the Management's Discussion and Analysis section of this report for more detail.

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

2016 Expectations

Management expectations for 2016 are noted below:

- Average loan growth relatively stable compared to fourth quarter of 2015 average balances; change from previous guidance expecting growth of 3 to 5 percent and tracking to the lower end of the range. Change in guidance results from several factors including a decrease in average direct energy loans, a continued strategy to limit exposure with regard to investor real estate loans, loan growth being impacted by continued softness in demand for middle market commercial and small business loans, management of concentration risk limits, and a continued focus on achieving appropriate risk-adjusted returns.
- Average deposits relatively stable compared to fourth quarter of 2015 average balances
- Net interest income and other financing income up 2 to 4 percent

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- Adjusted non-interest income (non-GAAP) growth of more than 6 percent; change from previous guidance of up 4 to 6 percent on a full year basis, and expectation to be at the high end of the range resulting from fee-based revenue strategic initiatives exceeding expectations
- Plan to eliminate $300 million of existing non-interest expenses between 2016 and 2018, with a target to eliminate an additional $100 million by 2019; change from previous guidance of $300 million expense eliminations between 2016 and 2018, with 35 to 45 percent of that reduction in 2016
- Adjusted non-interest expenses (non-GAAP) flat to up modestly on a full year basis
- Full year adjusted efficiency ratio (non-GAAP) of approximately 63 percent; change from the previous guidance of less than 63 percent
- Positive adjusted operating leverage (non-GAAP) of 2 to 4 percent on a full year basis
- Full year net charge-offs of 25 to 35 basis points

The reconciliation with respect to these forward-looking non-GAAP measures is expected to be consistent with the actual non-GAAP reconciliations within Management's Discussion and Analysis of this Form 10-Q. For more information related to the Company's 2016 expectations, including additional guidance within the ranges disclosed above, refer to the related sub-sections discussed in more detail within Management's Discussion and Analysis of this Form 10-Q.

BALANCE SHEET ANALYSIS

CASH AND CASH EQUIVALENTS

Cash and cash equivalents decreased approximately $1.1 billion from year-end 2015 to September 30, 2016, due primarily to a decrease in interest-bearing deposits in other banks as a result of normal day-to-day operating variations. This decrease was partially offset by an increase in cash and due from banks.

SECURITIES

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

Table 1—Securities

	September 30, 2016	December 31, 2015
	(In millions)	
U.S. Treasury securities	$242	$ 229
Federal agency securities	38	558
Obligations of states and political subdivisions	—	1
Mortgage-backed securities:		
Residential agency	18,770	17,491
Residential non-agency	5	5
Commercial agency	3,580	3,194
Commercial non-agency	1,141	1,231
Corporate and other debt securities	1,334	1,667
Equity securities	180	280
	$25,290	$ 24,656

Regions maintains a highly rated securities portfolio consisting primarily of agency mortgage-backed securities. Total securities at September 30, 2016 increased slightly from year-end 2015. See Note 3 "Securities" to the consolidated financial statements for additional information.

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.

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LOANS HELD FOR SALE

Loans held for sale totaled $571 million at September 30, 2016, consisting primarily of $460 million of residential real estate mortgage loans, $96 million of commercial mortgage loans and $15 million of non-performing loans. At December 31, 2015, loans held for sale totaled $448 million, consisting of $354 million of residential real estate mortgage loans, $56 million of commercial mortgage loans, and $38 million of non-performing loans. 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.

LOANS

Loans, net of unearned income, represented approximately 73 percent of Regions' interest-earning assets at September 30, 2016. 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, 2016	December 31, 2015
	(In millions, net of unearned income)	
Commercial and industrial	$ 35,388	$ 35,821
Commercial real estate mortgage—owner-occupied	7,007	7,538
Commercial real estate construction—owner-occupied	349	423
Total commercial	42,744	43,782
Commercial investor real estate mortgage	4,306	4,255
Commercial investor real estate construction	2,458	2,692
Total investor real estate	6,764	6,947
Residential first mortgage	13,402	12,811
Home equity	10,749	10,978
Indirect—vehicles	4,076	3,984
Indirect—other consumer	838	545
Consumer credit card	1,123	1,075
Other consumer	1,187	1,040
Total consumer	31,375	30,433
	$ 80,883	$ 81,162

PORTFOLIO CHARACTERISTICS

The following sections describe the composition of the portfolio segments and classes disclosed in Table 2, explain changes in balances from 2015 year-end, and highlight the related risk characteristics. Regions believes that its loan portfolio is well diversified by product, client, and geography throughout its footprint. However, the loan portfolio may be exposed to certain concentrations of credit risk which exist in relation to individual borrowers or groups of borrowers, certain types of collateral, certain types of industries, certain loan products, or certain regions of the country. See Note 4 "Loans and the Allowance for Credit Losses" to the consolidated financial statements for additional discussion.

Commercial

The commercial portfolio segment includes commercial and industrial loans to commercial customers for use in normal business operations to finance working capital needs, equipment purchases and other expansion projects. Commercial and industrial loans decreased $433 million since year-end 2015 driven primarily by declines in direct energy loans, softness in demand for middle market commercial small business loans, management of concentration risk limits, and a continued focus on achieving appropriate risk-adjusted returns. 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 $531 million from year-end 2015 as a result of continued customer deleveraging. Owner-occupied commercial real estate construction loans are made to commercial businesses for the development of land or construction of a building where the repayment is derived from revenues generated from the business of the borrower.

Over half of the Company's total loans are included in the commercial portfolio segment. These balances are spread across numerous industries, as noted in the table below. The Company manages the related risks to this portfolio by setting certain lending limits for each significant industry. No single industry exceeded 15 percent of the total commercial portfolio balance at September 30, 2016 or December 31, 2015.

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Table 3—Selected Industry Exposure

	September 30, 2016		
	Loans	Unfunded Commitments	Total Exposure
	(In millions)		
Administrative, support, waste and repair	$909	$ 473	$ 1,382
Agriculture	692	251	943
Educational services	1,840	252	2,092
Energy	2,237	2,032	4,269
Financial services (1)	3,651	3,090	6,741
Government and public sector	2,414	54	2,468
Healthcare	4,216	1,470	5,686
Information	1,252	823	2,075
Manufacturing (1)	3,984	4,061	8,045
Professional, scientific and technical services (1)	1,698	1,143	2,841
Real estate (1)	6,450	5,375	11,825
Religious, leisure, personal and non-profit services	1,974	528	2,502
Restaurant, accommodation and lodging	2,434	694	3,128
Retail trade	2,786	2,332	5,118
Transportation and warehousing (1)	2,153	1,018	3,171
Utilities	1,092	1,812	2,904
Wholesale goods (1)	2,837	2,485	5,322
Other	125	887	1,012
Total commercial	$42,744	$ 28,780	$ 71,524

	December 31, 2015 (2)		
	Loans	Unfunded Commitments	Total Exposure
	(In millions)		
Administrative, support, waste and repair	$901	$ 575	$ 1,476
Agriculture	747	295	1,042
Educational services	1,846	312	2,158
Energy	2,533	2,461	4,994
Financial services (3)	3,556	2,984	6,540
Government and public sector	2,408	238	2,646
Healthcare	4,322	1,407	5,729
Information	1,281	744	2,025
Manufacturing (3)	4,407	3,938	8,345
Professional, scientific and technical services (3)	1,730	1,114	2,844
Real estate	6,427	5,046	11,473
Religious, leisure, personal and non-profit services	2,165	600	2,765
Restaurant, accommodation and lodging	2,489	633	3,122
Retail trade	2,492	2,507	4,999
Transportation and warehousing (3)	2,228	1,084	3,312
Utilities	1,047	1,674	2,721
Wholesale goods (3)	2,981	2,588	5,569
Other	222	1,600	1,822
Total commercial	$43,782	$ 29,800	$ 73,582

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(1) Regions' definition of indirect energy-related lending includes certain balances within each of these selected industry categories. As of September 30, 2016, total indirect energy-related loans were approximately $514 million, with approximately $483 million included in commercial loans and $31 million in investor real estate loans. Total unfunded commitments for indirect energy-related lending were $432 million as of September 30, 2016.

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

(3) Regions' definition of indirect energy-related lending includes certain balances within each of these selected industry categories. As of December 31, 2015, total indirect energy-related loans were approximately $519 million, with approximately $497 million included in commercial loans and $22 million in investor real estate loans. Total unfunded commitments for indirect energy-related lending were $446 million as of December 31, 2015.

Regions continues to monitor the impacts of low oil prices on both its direct and indirect energy lending portfolios. Regions’ direct energy loan balances at September 30, 2016 amounted to approximately $2.2 billion, consisting of loans such as oilfield services, exploration and production, and pipeline transportation of gas and crude oil. Other types of lending are tangentially impacted by the energy portfolio, such as petroleum wholesalers, oil and gas equipment manufacturing, air transportation, and petroleum bulk stations and terminals. These indirect energy loan balances were approximately $514 million at September 30, 2016. The entire energy-related portfolio, combining direct and indirect loans, was approximately $2.8 billion or 3 percent of total loans at September 30, 2016. Regions also has $145 million of energy-related operating leases.

Regions’ energy-related portfolio is geographically concentrated primarily in Texas and, to a lesser extent, in South Louisiana. Regions employs a variety of risk management strategies, including the use of concentration limits and continuous monitoring, as well as utilizing underwriting with borrowing base structures tied to energy commodity reserve bases or other tangible assets. Additionally, heightened credit requirements have been adopted for select segments of the portfolio. Regions also employs experienced lending and underwriting teams including petroleum engineers, all with extensive energy sector experience through multiple economic cycles. Given the recent volatility in oil prices, this energy-related portfolio may be subject to additional pressure on credit quality metrics including past due, criticized, and non-performing loans, as well as net charge-offs. Regions' energy-related portfolio consists of a relatively small number of customers, which provides the Company granular insight into the financial health of those borrowers. Through its on-going portfolio credit quality assessment, Regions will continue to assess the impact to the allowance for loan losses and make adjustments as appropriate.

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 decreased $183 million from 2015 year-end balances.

Due to the nature of the cash flows typically used to repay investor real estate loans, these loans are particularly vulnerable to weak economic conditions. As a result, this loan type has a higher risk of non-collection than other loans.

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 $591 million increase from year-end 2015, as prepayments have slowed. Approximately

$2.4 billion in new loan originations were retained on the balance sheet through the first nine months of 2016.

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Home Equity

Home equity lending includes both home equity loans and lines of credit. This type of lending, which is secured by a first or second mortgage on the borrower's residence, allows customers to borrow against the equity in their homes. The home equity portfolio totaled $10.7 billion at September 30, 2016 as compared to $11.0 billion at December 31, 2015. 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, 2016. The balances presented are based on maturity date for lines with a balloon payment and draw period expiration date for lines that convert to a repayment period.

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

	First Lien	% of Total	Second Lien	% of Total	Total
	(Dollars in millions)				
2016	$11	0.15 %	$20	0.26 %	$31
2017	4	0.06	8	0.11	12
2018	12	0.17	18	0.24	30
2019	80	1.08	72	0.98	152
2020	166	2.24	129	1.75	295
2021-2025	1,422	19.24	1,410	19.08	2,832
2026-2030	2,044	27.65	1,993	26.97	4,037
Thereafter	—	—	1	0.02	1
Total	$3,739	50.59%	$3,651	49.41%	$7,390

Of the $10.7 billion home equity portfolio at September 30, 2016, approximately $7.4 billion were home equity lines of credit and $3.3 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, 2016, none of Regions' home equity lines of credit have converted to mandatory amortization 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.

Other Consumer Credit Quality Data

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

The following table presents current LTV data for components of the residential first mortgage and home equity classes of the consumer portfolio segment. Current LTV data for the remaining loans in the portfolio is not available, primarily because some 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 declined to 1 percent in the residential first mortgage portfolio and to 3 percent in the home equity portfolio at September 30, 2016.

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Table 5—Estimated Current Loan to Value Ranges

	September 30, 2016			December 31, 2015		
	Residential First Mortgage	Home Equity 1st Lien	Home Equity 2nd Lien	Residential First Mortgage	Home Equity 1st Lien	Home Equity 2nd Lien
	(In millions)					
Estimated current loan to value:						
Above 100%	$157	$91	$263	$267	$127	$417
80% - 100%	1,723	384	719	1,703	497	886
Below 80%	10,988	6,184	2,835	10,288	5,965	2,785
Data not available	534	103	170	553	107	194
	$13,402	$6,762	$3,987	$12,811	$6,696	$4,282

Indirect—Vehicles

Indirect-vehicles lending, which is lending initiated through third-party business partners, largely consists of loans made through automotive dealerships. This portfolio class increased $92 million from year-end 2015.

Indirect—Other Consumer

Indirect-other consumer lending represents other point of sale lending through third parties. This portfolio class increased $293 million from year-end 2015 primarily due to new point of sale initiatives.

Consumer Credit Card

Consumer credit card lending represents primarily open-ended variable interest rate consumer credit card loans. These balances increased $48 million from year-end 2015.

Other Consumer

Other consumer loans primarily include direct consumer loans, overdrafts and other revolving loans. Other consumer loans increased $147 million from year-end 2015.

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 and semi-annually for all other consumer loans. Residential first mortgage FICO scores are refreshed semiannually. 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 6 percent of the combined portfolios for both September 30, 2016 and December 31, 2015.

Table 6—Estimated Current FICO Score Ranges

	September 30, 2016						
	Residential First Mortgage	Home Equity 1st Lien	Home Equity 2nd Lien	Indirect—Vehicles	Indirect—Other Consumer	Consumer Credit Card	Other Consumer
	(In millions)						
Below 620	$819	$307	$220	$ 438	$ 22	$ 60	$ 82
620-680	949	538	368	536	83	194	157
681-720	1,455	850	511	566	126	261	210
Above 720	9,408	4,924	2,826	2,437	333	607	557
Data not available	771	143	62	99	274	1	181
	$13,402	$6,762	$3,987	$ 4,076	$ 838	$ 1,123	$ 1,187

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	December 31, 2015					
	Residential First Mortgage	Home Equity 1st Lien	Home Equity 2nd Lien	Indirect[1]	Consumer Credit Card	Other Consumer
	(In millions)					
Below 620	$768	$311	$249	$ 421	$ 55	$ 86
620-680	1,013	531	415	549	158	150
681-720	1,489	789	530	611	247	191
Above 720	8,487	4,808	2,938	2,409	614	526
Data not available	1,054	257	150	539	1	87
	$12,811	$6,696	$4,282	$ 4,529	$ 1,075	$ 1,040

(1) Amount represents both indirect-vehicles and indirect-other consumer portfolio classes.

ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses ("allowance") consists of two components: the allowance for loan losses and the reserve for unfunded credit commitments. The allowance represents management's estimate of probable credit losses inherent in the loan and credit commitment portfolios as of period end. Regions determines its allowance in accordance with applicable accounting literature as well as regulatory guidance related to receivables and contingencies. Binding unfunded credit commitments include items such as letters of credit, financial guarantees and binding unfunded loan commitments. Additional discussion of the methodology used to calculate the allowance is included in Note 1 "Summary of Significant Accounting Policies" and Note 6 "Allowance for Credit Losses" to the consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2015, as well as related discussion in Management's Discussion and Analysis.

The allowance for loan losses totaled $1.1 billion at both September 30, 2016 and December 31, 2015. The allowance for loan losses as a percentage of net loans increased from 1.36 percent at December 31, 2015 to 1.39 percent at September 30, 2016. The increase in the percentage is primarily attributable to the migration of energy loans, resulting in an increase in energy related allowance for loan losses. Total allowance for loan losses for the direct energy portfolio was approximately 8 percent at September 30, 2016 compared to approximately 6 percent at year-end 2015. Management expects that net loan charge-offs will be in the 0.25 percent to 0.35 percent range for the 2016 year. Economic trends such as interest rates, unemployment, volatility in commodity prices and collateral valuations will impact the future levels of net charge-offs and may result in volatility during the remainder of 2016.

The provision for loan losses increased for the first nine months of 2016 as compared to the same period in 2015. During the first nine months of 2016, the provision for loan losses exceeded net charge-offs by approximately $20 million. The increase in loan loss provision reflects an increase in the allowance for loan losses for energy-related loans.

Management considers the current level of the allowance appropriate to absorb losses inherent in the loan and credit commitment portfolios. Management's determination of the appropriateness of the allowance requires the use of judgments and estimations that may change in the future. Changes in the factors used by management to determine the appropriateness of the allowance or the availability of new information could cause the allowance to be increased or decreased in future periods. Management expects the allowance for credit losses to total loans ratio to vary over time due to changes in portfolio balances, economic conditions, loan mix and collateral values, or variations in other factors that may affect inherent losses. In addition, bank regulatory agencies, as part of their examination process, may require changes in the level of the allowance based on their judgments and estimates. Management attributes portions of the allowance to loans that it evaluates and determines to be impaired and to groups of loans that it evaluates collectively. However, the entire allowance is available to cover all charge-offs that arise from the loan portfolio. Given the current phase of the credit cycle, volatility in certain credit metrics is to be expected. Additionally, changes in circumstances related to individually large credits or certain portfolios may result in volatility.

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

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Activity in the allowance for credit losses is summarized as follows:
Table 7—Allowance for Credit Losses

	Nine Months Ended September 30	
	2016	2015
	(Dollars in millions)	
Allowance for loan losses at beginning of year	$1,106	$1,103
Loans charged-off:		
Commercial and industrial	82	73
Commercial real estate mortgage—owner-occupied	19	19
Commercial real estate construction—owner-occupied	1	—
Commercial investor real estate mortgage	2	14
Commercial investor real estate construction	—	1
Residential first mortgage	11	20
Home equity	45	54
Indirect—vehicles	36	29
Indirect—other consumer	10	—
Consumer credit card	30	27
Other consumer	52	45
	288	282
Recoveries of loans previously charged-off:		
Commercial and industrial	25	37
Commercial real estate mortgage—owner-occupied	9	12
Commercial real estate construction—owner-occupied	—	—
Commercial investor real estate mortgage	8	13
Commercial investor real estate construction	2	5
Residential first mortgage	2	7
Home equity	21	21
Indirect—vehicles	14	12
Indirect—other consumer	—	—
Consumer credit card	4	4
Other consumer	9	11
	94	122
Net charge-offs:		
Commercial and industrial	57	36
Commercial real estate mortgage—owner-occupied	10	7
Commercial real estate construction—owner-occupied	1	—
Commercial investor real estate mortgage	(6)	1
Commercial investor real estate construction	(2)	(4)
Residential first mortgage	9	13
Home equity	24	33
Indirect—vehicles	22	17
Indirect—other consumer	10	—
Consumer credit card	26	23
Other consumer	43	34
	194	160
Provision for loan losses	214	172
Allowance for loan losses at September 30	$1,126	$1,115

Reserve for unfunded credit commitments at beginning of year	$52	$65
Provision (credit) for unfunded credit losses	20	(1)
Reserve for unfunded credit commitments at September 30	$72	$64
Allowance for credit losses at September 30	$1,198	$1,179
Loans, net of unearned income, outstanding at end of period	$80,883	$81,063
Average loans, net of unearned income, outstanding for the period	$81,583	$79,254
Ratios:		
Allowance for loan losses at end of period to loans, net of unearned income	1.39 %	1.38 %
Allowance for loan losses at end of period to non-performing loans, excluding loans held for sale	1.04x	1.41x
Net charge-offs as percentage of average loans, net of unearned income (annualized)	0.32 %	0.27 %

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TROUBLED DEBT RESTRUCTURINGS (TDRs)

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

Table 8—Troubled Debt Restructurings

	September 30, 2016		December 31, 2015	
	Loan Balance	Allowance for Loan Losses	Loan Balance	Allowance for Loan Losses
	(In millions)			
Accruing:				
Commercial	$211	$ 32	$146	$ 20
Investor real estate	120	13	157	17
Residential first mortgage	383	47	398	52
Home equity	296	5	323	7
Indirect—vehicles	—	—	1	—
Consumer credit card	2	—	2	—
Other consumer	11	—	12	—
	1,023	97	1,039	96
Non-accrual status or 90 days past due and still accruing:				
Commercial	194	39	135	37
Investor real estate	9	3	22	3
Residential first mortgage	76	9	81	10
Home equity	17	—	18	—
	296	51	256	50
Total TDRs - Loans	$1,319	$ 148	$1,295	$ 146
TDRs - Held For Sale	6	—	8	—
Total TDRs	$1,325	$ 148	$1,303	$ 146

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

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

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

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

	Nine Months Ended September 30, 2016	
	Commercial	Investor Real Estate
	(In millions)	
Balance, beginning of period	$281	$ 179
Inflows	299	27
Outflows		
Charge-offs	(15)	—
Payments, sales and other [1]	(160)	(77)
Balance, end of period	$405	$ 129

	Nine Months Ended September 30, 2015	
	Commercial	Investor Real Estate
	(In millions)	
Balance, beginning of period	$344	$ 357
Inflows	128	27
Outflows		
Charge-offs	(9)	(8)
Foreclosure	—	(31)
Payments, sales and other [1]	(186)	(169)
Balance, end of period	$277	$ 176

(1) The majority of this category consists of payments and sales. "Other" outflows include normal amortization/accretion of loan basis adjustments and loans transferred to held for sale. It also includes $31 million of commercial loans and $7 million of investor real estate loans refinanced or restructured as new loans and removed from TDR classification for the nine months ended September 30, 2016. During the nine months ended September 30, 2015, $36 million of commercial loans and $48 million of investor real estate loans were refinanced or restructured as new loans and removed from TDR classification.

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NON-PERFORMING ASSETS

Non-performing assets are summarized as follows:

Table 10—Non-Performing Assets

	September 30, 2016		December 31, 2015	
	(Dollars in millions)			
Non-performing loans:				
Commercial and industrial	$693		$ 325	
Commercial real estate mortgage—owner-occupied	221		268	
Commercial real estate construction—owner-occupied	3		2	
Total commercial	917		595	
Commercial investor real estate mortgage	18		31	
Commercial investor real estate construction	1		—	
Total investor real estate	19		31	
Residential first mortgage	50		63	
Home equity	92		93	
Total consumer	142		156	
Total non-performing loans, excluding loans held for sale	1,078		782	
Non-performing loans held for sale	15		38	
Total non-performing loans(1)	1,093		820	
Foreclosed properties	95		100	
Total non-performing assets(1)	$1,188		$ 920	
Accruing loans 90 days past due:				
Commercial and industrial	$5		$ 9	
Commercial real estate mortgage—owner-occupied	3		3	
Total commercial	8		12	
Commercial investor real estate mortgage	—		4	
Total investor real estate	—		4	
Residential first mortgage(2)	106		113	
Home equity	39		59	
Indirect—vehicles	9		9	
Consumer credit card	13		12	
Other consumer	3		4	
Total consumer	170		197	
	$178		$ 213	
Restructured loans not included in the categories above	$1,023		$ 1,039	
Non-performing loans(1) to loans and non-performing loans held for sale	1.35	%	1.01	%
Non-performing assets(1) to loans, foreclosed properties and non-performing loans held for sale	1.47	%	1.13	%

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(1) Excludes accruing loans 90 days past due.

(2) Excludes residential first mortgage loans that are 100% guaranteed by the FHA and all guaranteed loans sold to the GNMA where Regions has the right but not the obligation to repurchase. Total 90 days or more past due guaranteed loans excluded were $99 million at September 30, 2016 and $107 million at December 31, 2015.

Non-performing loans have increased during 2016 primarily as a result of pressure on the energy lending portfolio as discussed in the "Portfolio Characteristics" section. Economic trends such as interest rates, unemployment, volatility in commodity prices and collateral valuations will impact the future level of non-performing assets. Circumstances related to individually large credits could also result in volatility throughout 2016.

Loans past due 90 days or more and still accruing, excluding government guaranteed loans, were $178 million at September 30, 2016, a decrease from $213 million at December 31, 2015.

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At September 30, 2016, Regions had approximately $200 million to $275 million of potential problem commercial and investor real estate loans that were not included in non-accrual loans, but for which management had concerns as to the ability of such borrowers to comply with their present loan repayment terms. This is a likely estimate of the amount of commercial and investor real estate loans that have the potential to migrate to non-accrual status in the next quarter.

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

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

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

Table 11—Analysis of Non-Accrual Loans

	Non-Accrual Loans, Excluding Loans Held for Sale			
	Nine Months Ended September 30, 2016			
	Commercial	Investor Real Estate	Consumer[1]	Total
	(In millions)			
Balance at beginning of period	$595	$ 31	$ 156	$782
Additions	724	16	(13)	727
Net payments/other activity	(223)	(12)	—	(235)
Return to accrual	(34)	(12)	—	(46)
Charge-offs on non-accrual loans[2]	(97)	(2)	—	(99)
Transfers to held for sale[3]	(40)	(1)	(1)	(42)
Transfers to foreclosed properties	(3)	—	—	(3)
Sales	(5)	(1)	—	(6)
Balance at end of period	$917	$ 19	$ 142	$1,078

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	Non-Accrual Loans, Excluding Loans Held for Sale Nine Months Ended September 30, 2015			
	Commercial	Investor Real Estate	Consumer[1]	Total
	(In millions)			
Balance at beginning of period	$ 493	$ 125	$ 211	$ 829
Additions	505	27	(46)	486
Net payments/other activity	(169)	(43)	—	(212)
Return to accrual	(119)	(16)	—	(135)
Charge-offs on non-accrual loans[2]	(88)	(14)	(1)	(103)
Transfers to held for sale[3]	(28)	(6)	(1)	(35)
Transfers to foreclosed properties	(6)	(33)	—	(39)
Sales	(2)	—	—	(2)
Balance at end of period	$ 586	$ 40	$ 163	$ 789

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

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

(3) Transfers to held for sale are shown net of charge-offs of $19 million and $16 million recorded upon transfer for the nine months ended September 30, 2016 and 2015, respectively.

GOODWILL

Goodwill totaled $4.9 billion at both September 30, 2016 and December 31, 2015 and is allocated to each of Regions' reportable segments (each a reporting unit), at which level goodwill is tested for impairment on an annual basis or more often if events and circumstances indicate the fair value of the reporting unit may have declined below the carrying value (refer to Note 1 "Summary of Significant Accounting Policies" to the 2015 consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2015 for further discussion of when Regions tests goodwill for impairment and the Company's methodology and valuation approaches used to determine the estimated fair value of each reporting unit).

The result of the assessment performed for the third quarter of 2016 did not indicate that the estimated fair values of the Company's reporting units (Corporate Bank, Consumer Bank and Wealth Management) had declined below their respective carrying values. Therefore, Regions determined that a test of goodwill impairment was not required for each of Regions' reporting units for the September 30, 2016 interim period.

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DEPOSITS

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

The following table summarizes deposits by category:

Table 12—Deposits

	September 30, 2016	December 31, 2015
	(In millions)	
Non-interest-bearing demand	$36,321	$ 34,862
Savings	7,786	7,287
Interest-bearing transaction	20,016	21,902
Money market—domestic	27,534	26,468
Money market—foreign	237	243
Low-cost deposits	91,894	90,762
Time deposits	7,366	7,468
Customer deposits	99,260	98,230
Corporate treasury time deposits	29	200
	$99,289	$ 98,430

Total deposits at September 30, 2016 increased approximately $859 million compared to year-end 2015 levels. The increase was driven by growth in non-interest-bearing demand and money market—domestic accounts. These increases were partially offset by a continued decline in interest-bearing transaction accounts as a result of certain trust customer deposits, which require collateralization by securities, continuing to shift out of deposits and into other fee income-producing customer investments.

SHORT-TERM BORROWINGS

Table 13—Short-Term Borrowings

	September 30, 2016	December 31, 2015
	(In millions)	
Customer-related borrowings:		
Customer collateral	$ —	$ 10
	$ —	$ 10

Customer-Related Borrowings

Customer collateral includes cash collateral posted by customers related to derivative transactions.

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LONG-TERM BORROWINGS

Table 14—Long-Term Borrowings

	September 30, 2016	December 31, 2015
	(In millions)	
Regions Financial Corporation (Parent):		
2.00% senior notes due May 2018	$100	$ 749
3.20% senior notes due February 2021	1,102	—
7.75% subordinated notes due September 2024	100	100
6.75% subordinated debentures due November 2025	159	159
7.375% subordinated notes due December 2037	297	300
Valuation adjustments on hedged long-term debt	—	(7)
	1,758	1,301
Regions Bank:		
Federal Home Loan Bank advances	2,504	5,255
2.25% senior notes due September 2018	747	749
7.50% subordinated notes due May 2018	499	500
6.45% subordinated notes due June 2037	495	497
3.80% affiliate subordinated notes due February 2025	150	150
Other long-term debt	46	48
Valuation adjustments on hedged long-term debt	5	(1)
	4,446	7,198
Elimination of 3.80% affiliate subordinated notes due February 2025	(150)	(150)
Total consolidated	$6,054	$ 8,349

Long-term borrowings decreased approximately $2.3 billion since year-end 2015. The decrease was primarily the result of a $2.8 billion decrease in the FHLB advances and the repurchase, through a tender offer, of approximately $649 million of the outstanding 2.00% senior notes due May 2018. Pre-tax losses on the repurchase related to the execution of this tender offer were approximately $14 million. Offsetting these decreases was the issuance of $1.1 billion of 3.20% senior notes. Regions issued $500 million of 3.20% senior notes in the first quarter of 2016 and an additional $600 million of 3.20% senior notes during the second quarter of 2016.

Effective January 1, 2016, the Company adopted new FASB guidance related to the accounting for debt issuance costs. All existing debt issuance costs were reclassified from other assets to long-term borrowings as direct deductions of the related debt instruments. The impact of the adoption of this guidance was not material to prior periods and therefore was not applied retrospectively.

Long-term FHLB advances have a weighted-average interest rate of 1.0 percent for September 30, 2016 and 0.7 percent for December 31, 2015 with remaining maturities ranging from less than one year to fourteen years and a weighted-average of 0.9 years.

STOCKHOLDERS’ EQUITY

Stockholders’ equity was $17.4 billion at September 30, 2016 as compared to $16.8 billion at December 31, 2015. During the first nine months of 2016, net income increased stockholders’ equity by $868 million, while cash dividends on common stock reduced stockholders' equity by $240 million and cash dividends on preferred stock reduced stockholder's equity by $48 million. Changes in accumulated other comprehensive income increased stockholders' equity by $485 million, primarily due to the net change in the value of securities available for sale and derivative instruments. Common stock repurchased during the first nine months of 2016 reduced stockholders' equity by $569 million. These shares were immediately retired and therefore are not included in treasury stock.

On June 29, 2016, Regions received no objection from the Federal Reserve to its 2016 capital plan that was submitted as part of the CCAR process. In addition to continuing the $0.065 quarterly common stock dividend, actions that Regions may undertake as outlined in its capital plan include the repurchase of up to $640 million in common shares.

The capital plan also provides the potential for a dividend increase beginning in the second quarter of 2017, which is expected to be considered by the Board in early 2017.

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On July 14, 2016, Regions' Board authorized a new $640 million common stock repurchase plan, permitting repurchases from the beginning of the third quarter of 2016 through the second quarter of 2017. As of September 30, 2016, Regions had repurchased approximately 23.1 million shares of common stock at a total cost of approximately $215 million under this plan. On October 12, 2016, Regions' Board authorized an additional $120 million repurchase, which increases the total amount authorized under the plan to $760 million. The Company continued to repurchase shares under this plan in the fourth quarter of 2016, and as of November 3, 2016, Regions had additional repurchases of approximately 10.9 million shares of common stock at a total cost of approximately $116.7 million. All of these shares were immediately retired upon repurchase and, therefore, will not be included in treasury stock.

Regions' Board declared a cash dividend for the second and third quarters of 2016 of $0.065 per common share and $0.06 per common share for the first quarter of 2016. The Board declared a $0.05 per share cash dividend for the first quarter of 2015 and $0.06 per share cash dividend for the second and third quarters of 2015. The Board also declared $48 million in cash dividends on preferred stock for the first nine months of 2016 and 2015. Prior to the first quarter of 2016, the Company was in a retained deficit position and common stock dividends were recorded as a reduction of additional paid-in capital, while preferred dividends were recorded as a reduction of preferred stock, including related surplus. During the first quarter of 2016, the Company achieved positive retained earnings and both common stock and preferred dividends were recorded as a reduction of retained earnings.

See Note 7 “Stockholders’ Equity and Accumulated Other Comprehensive Income (Loss)” for additional information.

REGULATORY REQUIREMENTS

CAPITAL RULES

Regions and Regions Bank are required to comply with regulatory capital requirements established by federal and state banking agencies. These regulatory capital requirements involve quantitative measures of assets, liabilities and certain off-balance sheet items, and also qualitative judgments by the regulators. Failure to meet minimum capital requirements can subject the Company to a series of increasingly restrictive regulatory actions.

In 2013, the Federal Reserve released its final rules detailing the U.S. implementation of the Basel III Rules. Under the Basel III Rules, Regions is designated as a standardized approach bank and, as such, began transitioning to the Basel III Rules in January 2015 subject to a phase-in period extending to January 2019. When fully phased in, the Basel III Rules will increase capital requirements through higher minimum capital levels as well as through increases in risk-weights for certain exposures. Additionally, the Basel III Rules place greater emphasis on common equity. The Basel III Rules substantially revise the regulatory capital requirements applicable to BHCs and depository institutions, including Regions and Regions Bank. The Basel III Rules define the components of capital and address other issues affecting the numerator in banking institutions' regulatory capital ratios. The Basel III Rules also address risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios to incorporate a more risk-sensitive approach. The Basel III Rules also implement the requirements of Section 939A of the Dodd-Frank Act to remove references to credit ratings from the federal banking agencies' rules.

The Basel III Rules, among other things, (i) introduce a measure called CET1, (ii) specify that Tier 1 capital consists of CET1 and “Additional Tier 1 capital” instruments meeting specified requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expand the scope of the deductions/adjustments to capital as compared to prior regulations.

Under the Basel III Rules, the initial minimum capital ratios as of January 1, 2015 were as follows:

- 4.5% CET1 to risk-weighted assets.
- 6.0% Tier 1 capital to risk-weighted assets.
- 8.0% Total capital to risk-weighted assets.

The Basel III Rules also introduce a new capital conservation buffer designed to absorb losses during periods of economic stress. The capital conservation buffer is on top of these minimum risk-weighted asset ratios. In addition, the Basel III Rules provide for a countercyclical capital buffer applicable only to advanced approach institutions. Currently the countercyclical capital buffer is not applicable to Regions or Regions Bank. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the combined capital conservation buffer and

countercyclical capital buffer (where applicable) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.
When fully phased in on January 1, 2019, the Basel III Rules will require Regions and Regions Bank to maintain an additional capital conservation buffer of 2.5% of CET1 to risk-weighted assets, effectively resulting in minimum ratios of (i) CET1 to risk-weighted assets of at least 7%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, and (iii) Total capital to risk-weighted assets of at least 10.5%.
The Basel III Rules provide for a number of deductions from and adjustments to CET1. For example, goodwill and certain other intangible assets, as well as certain deferred tax assets are deducted. MSRs, certain other deferred tax assets and significant investments in non-consolidated financial entities are also deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. Under the Basel III Rules, the effects of certain

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accumulated other comprehensive items are included; however, standardized approach banking organizations, including Regions and Regions Bank, may make a one-time permanent election to exclude these items. Regions and Regions Bank made this election in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of their securities portfolios.

Implementation of the deductions and other adjustments to CET1 began on January 1, 2015 and will be phased in over a 4- year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter). The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and will be phased in over a remaining 3-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019).

With respect to Regions Bank, the Basel III Rules also revise the prompt corrective action regulations pursuant to Section 38 of the Federal Deposit Insurance Act, by (i) introducing a CET1 ratio requirement at each level (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the required Tier 1 capital ratio for well-capitalized status being 8% (as compared to the previous 6%); and (iii) eliminating the provision that provides that a bank with a composite supervisory rating of 1 may have a 3% leverage ratio and still be adequately capitalized. The Basel III Rules do not change the total capital requirement for any prompt corrective action category.

The Basel III Rules prescribe a standardized approach for risk weightings that expands the risk-weighting categories from the previous four Basel I-derived categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 1,250% for certain equity exposures, and resulting in higher risk weights for a variety of asset categories. Specific changes to the prior capital rules impacting Regions' determination of risk-weighted assets include, among other things:

- Applying a 150% risk weight for certain high volatility commercial real estate acquisition, development and construction exposures (previously set at 100%).
- Assigning a 150% risk weight to exposures (other than residential mortgage exposures) that are on non-accrual status or 90 days or more past due (previously set at 100%).
- Providing for a 20% credit conversion factor for the unused portion of a loan commitment with an original maturity of less than one year that is not unconditionally cancellable (previously set at 0%).
- Eliminating the previous 50% cap on the risk weight for derivative exposures.
- Replacing the previous Ratings Based Approach for certain asset-backed securities with a SSFA, which results in risk weights ranging from 20% to 1,250% (previously ranged from 100% to 1,250%).
- Effective January 1, 2018, applying a 250% risk weight to the portion of MSRs and certain deferred tax assets that are includible in capital (previously set at 100%).

In addition, the Basel III Rules also provide more advantageous risk weights for derivatives and repurchase-style transactions cleared through a qualifying central counterparty and increase the scope of eligible guarantors and eligible collateral for purposes of credit risk mitigation.

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Table 15—Regulatory Capital Requirements

Transitional Basis Basel III Regulatory Capital Rules (1)	September 30, 2016 Ratio (2)		December 31, 2015 Ratio		To Be Well Capitalized	
Basel III common equity Tier 1 capital:						
Regions Financial Corporation	11.16	%	10.93	%	N/A	
Regions Bank	12.04		11.68		6.50	%
Tier 1 capital:						
Regions Financial Corporation	11.93	%	11.65	%	6.00	%
Regions Bank	12.04		11.68		8.00	
Total capital:						
Regions Financial Corporation	14.12	%	13.88	%	10.00	%
Regions Bank	13.92		13.59		10.00	
Leverage capital:						
Regions Financial Corporation	10.20	%	10.25	%	N/A	
Regions Bank	10.31		10.28		5.00	%

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(1) The 2016 and 2015 capital ratios were calculated at different points of the phase-in period under the Basel III Rules and therefore are not directly comparable.

(2) The current quarter Basel III CET1 capital, Tier 1 capital, Total capital, and Leverage capital ratios are estimated.

LIQUIDITY COVERAGE RATIO

The Federal Reserve, the OCC and the FDIC approved a final rule in 2014 implementing a minimum LCR requirement for certain large BHCs, savings and loan holding companies and depository institutions, and a less stringent LCR requirement (the "modified LCR") for other banking organizations, such as Regions, with $50 billion or more in total consolidated assets. The final rule imposes a monthly calculation requirement. In January 2016, the minimum phased-in LCR requirement was 90 percent, to be followed by 100 percent in January 2017. The regulatory agencies have released an NPR that would require public disclosures of certain LCR measures beginning in 2018. The comment period for this NPR ended in February 2016.

At September 30, 2016, the Company was fully compliant with the LCR requirements. However, should the Company's cash position or investment mix change in the future, the Company's ability to meet the LCR requirement may be impacted, and additional funding would need to be sourced to remain compliant.

See the “Supervision and Regulation—Liquidity Regulation” subsection of the “Business” section and the “Risk Factors” section of the Company's Annual Report on Form 10-K for the year ended December 31, 2015 for more information.

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RATINGS

Table 16 “Credit Ratings” reflects the debt ratings information of Regions Financial Corporation and Regions Bank by Standard and Poor's ("S&P"), Moody’s, Fitch and Dominion Bond Rating Service ("DBRS") as of September 30, 2016 and December 31, 2015.

Table 16—Credit Ratings

	As of September 30, 2016			
	S&P	Moody’s	Fitch	DBRS
Regions Financial Corporation				
Senior unsecured debt	BBB	Baa3	BBB	BBB
Subordinated debt	BBB-	Baa3	BBB-	BBBL
Regions Bank				
Short-term				