

REGIONS FINANCIAL CORP

Form 10-Q

November 05, 2014

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

ý Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended September 30, 2014

or

¨ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from to

Commission File Number: 001-34034

Regions Financial Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

63-0589368

(IRS Employer  
Identification No.)

1900 Fifth Avenue North

Birmingham, Alabama

(Address of principal executive offices)

(800) 734-4667

(Registrant's telephone number, including area code)

35203

(Zip 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 ¨

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

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

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Table of Contents

REGIONS FINANCIAL CORPORATION  
FORM 10-Q  
INDEX

|                                                                                                                       | Page      |
|-----------------------------------------------------------------------------------------------------------------------|-----------|
| Part I. Financial Information                                                                                         |           |
| Item 1. Financial Statements (Unaudited)                                                                              |           |
| <u>Consolidated Balance Sheets—September 30, 2014 and December 31, 2013</u>                                           | <u>5</u>  |
| <u>Consolidated Statements of Income—Three and nine months ended September 30, 2014 and 2013</u>                      | <u>6</u>  |
| <u>Consolidated Statements of Comprehensive Income (Loss)—Three and nine months ended September 30, 2014 and 2013</u> | <u>7</u>  |
| <u>Consolidated Statements of Changes in Stockholders' Equity—Nine months ended September 30, 2014 and 2013</u>       | <u>8</u>  |
| <u>Consolidated Statements of Cash Flows—Nine months ended September 30, 2014 and 2013</u>                            | <u>9</u>  |
| <u>Notes to Consolidated Financial Statements</u>                                                                     | <u>10</u> |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations                         | <u>55</u> |
| Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>                                             | <u>91</u> |
| Item 4. <u>Controls and Procedures</u>                                                                                | <u>91</u> |
| Part II. Other Information                                                                                            |           |
| Item 1. <u>Legal Proceedings</u>                                                                                      | <u>92</u> |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                                            | <u>92</u> |
| Item 6. <u>Exhibits</u>                                                                                               | <u>93</u> |
| <u>Signatures</u>                                                                                                     | <u>94</u> |

## Table of Contents

### Forward-Looking Statements

This Quarterly Report on Form 10-Q, other periodic reports filed by Regions Financial Corporation under the Securities Exchange Act of 1934, as amended, and any other written or oral statements made by us or on our behalf to analysts, investors, the media and others, may include forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. The terms “Regions,” the “Company,” “we,” “us” and “our” 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,” “should” expressions often signify forward-looking statements. Forward-looking statements are not based on historical information, but rather are related to future operations, strategies, financial results or other developments. Forward-looking statements are based on management’s current expectations as well as certain assumptions and estimates made by, and information available to, management at the time the statements are made. Those statements are based on general assumptions and are subject to various risks, and because they also relate to the future they are likewise subject to inherent uncertainties and other factors that may cause actual results to differ materially from the views, beliefs and projections expressed in such statements. Therefore, we caution you against relying on any of these forward-looking statements. These risks, uncertainties and other factors include, but are not limited to, those described below:

- Current and future economic and market conditions in the United States generally or in the communities we serve, including the effects of declines in property values, unemployment rates and potential reduction of economic growth.
- Possible changes in trade, monetary and fiscal policies of, and other activities undertaken by, governments, agencies, central banks and similar organizations.

- The effects of a possible downgrade in the U.S. government’s sovereign credit rating or outlook.

- Possible changes in market interest rates.

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

- Possible changes in the creditworthiness of customers and the possible impairment of the collectability of loans.

- Changes in the speed of loan prepayments, loan origination and sale volumes, charge-offs, loan loss provisions or actual loan losses.

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

- Our ability to effectively compete with other financial services companies, some of whom possess greater financial resources than we do and are subject to different regulatory standards than we are.

- Loss of customer checking and savings account deposits as customers pursue other, higher-yield investments.

- Our ability to develop and gain acceptance from current and prospective customers for new products and services in a timely manner.

- Changes in laws and regulations affecting our businesses, including changes in the enforcement and interpretation of such laws and regulations by applicable governmental and self-regulatory agencies.

- Our ability to obtain regulatory approval (as part of the CCAR process or otherwise) to take certain capital actions, including paying dividends and any plans to increase common stock dividends, repurchase common stock under current or future programs, or redeem preferred stock or other regulatory capital instruments.

- Our ability to comply with applicable capital and liquidity requirements (including finalized Basel III capital standards), including our ability to generate capital internally or raise capital on favorable terms.

- The costs and other effects (including reputational harm) of any adverse judicial, administrative, or arbitral rulings or proceedings, regulatory enforcement actions, or other legal actions to which we or any of our subsidiaries are a party.

- Any adverse change to our ability to collect interchange fees in a profitable manner, whether such change is the result of regulation, litigation, legislation, or other governmental action.

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

Possible changes in consumer and business spending and saving habits and the related effect on our ability to increase assets and to attract deposits.

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

Inability of our framework to manage risks associated with our business such as credit risk and operational risk, including third-party vendors and other service providers.

- The inability of our internal disclosure controls and procedures to prevent, detect or mitigate any material errors or fraudulent acts.
- The effects of geopolitical instability, including wars, conflicts and terrorist attacks.

The effects of man-made and natural disasters, including fires, floods, droughts, tornadoes, hurricanes and environmental damage.

Our ability to keep pace with technological changes.

Table of Contents

• Our ability to identify and address cyber-security risks such as data security breaches, “denial of service” attacks, “hacking” and identity theft.

• Possible downgrades in our credit ratings or outlook.

• The effects of problems encountered by other financial institutions that adversely affect us or the banking industry generally.

• The effects of the failure of any component of our business infrastructure which is provided by a third party.

• Our ability to receive dividends from our subsidiaries.

• Changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other regulatory agencies.

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

You should not place undue reliance on any forward-looking statements, which speak only as of the date made. We assume no obligation to update or revise any forward-looking statements that are made from time to time, either as a result of future developments, new information or otherwise, except as may be required by law.

See also the reports filed with the Securities and Exchange Commission, including the discussion under the “Risk Factors” section of Regions’ Annual Report on Form 10-K for the year ended December 31, 2013 as filed with the Securities and Exchange Commission and available on its website at [www.sec.gov](http://www.sec.gov).

Table of Contents

## PART I

## FINANCIAL INFORMATION

## Item 1. Financial Statements (Unaudited)

## REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

|                                                                                                                                                                            | September 30,<br>2014            | December 31,<br>2013 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|----------------------|
|                                                                                                                                                                            | (In millions, except share data) |                      |
| Assets                                                                                                                                                                     |                                  |                      |
| Cash and due from banks                                                                                                                                                    | \$1,770                          | \$1,661              |
| Interest-bearing deposits in other banks                                                                                                                                   | 2,993                            | 3,612                |
| Federal funds sold and securities purchased under agreements to resell                                                                                                     | 20                               | —                    |
| Trading account securities                                                                                                                                                 | 103                              | 111                  |
| Securities held to maturity (estimated fair value of \$2,224 and \$2,307, respectively)                                                                                    | 2,222                            | 2,353                |
| Securities available for sale                                                                                                                                              | 22,379                           | 21,485               |
| Loans held for sale (includes \$456 and \$429 measured at fair value, respectively)                                                                                        | 504                              | 1,055                |
| Loans, net of unearned income                                                                                                                                              | 76,607                           | 74,609               |
| Allowance for loan losses                                                                                                                                                  | (1,178)                          | (1,341)              |
| Net loans                                                                                                                                                                  | 75,429                           | 73,268               |
| Other interest-earning assets                                                                                                                                              | 91                               | 86                   |
| Premises and equipment, net                                                                                                                                                | 2,192                            | 2,216                |
| Interest receivable                                                                                                                                                        | 310                              | 313                  |
| Goodwill                                                                                                                                                                   | 4,816                            | 4,816                |
| Residential mortgage servicing rights at fair value                                                                                                                        | 277                              | 297                  |
| Other identifiable intangible assets                                                                                                                                       | 287                              | 295                  |
| Other assets                                                                                                                                                               | 5,833                            | 5,828                |
| Total assets                                                                                                                                                               | \$119,226                        | \$117,396            |
| Liabilities and Stockholders' Equity                                                                                                                                       |                                  |                      |
| Deposits:                                                                                                                                                                  |                                  |                      |
| Non-interest-bearing                                                                                                                                                       | \$31,388                         | \$30,083             |
| Interest-bearing                                                                                                                                                           | 62,742                           | 62,370               |
| Total deposits                                                                                                                                                             | 94,130                           | 92,453               |
| Borrowed funds:                                                                                                                                                            |                                  |                      |
| Short-term borrowings:                                                                                                                                                     |                                  |                      |
| Federal funds purchased and securities sold under agreements to repurchase                                                                                                 | 1,893                            | 2,182                |
| Long-term borrowings                                                                                                                                                       | 3,813                            | 4,830                |
| Total borrowed funds                                                                                                                                                       | 5,706                            | 7,012                |
| Other liabilities                                                                                                                                                          | 2,230                            | 2,163                |
| Total liabilities                                                                                                                                                          | 102,066                          | 101,628              |
| Stockholders' equity:                                                                                                                                                      |                                  |                      |
| Preferred stock, authorized 10 million shares, par value \$1.00 per share                                                                                                  |                                  |                      |
| Non-cumulative perpetual, liquidation preference \$1,000.00 per share, including related surplus, net of issuance costs; issued—1,000,000 and 500,000 shares, respectively | 900                              | 450                  |
| Common stock, authorized 3 billion shares, par value \$.01 per share:                                                                                                      |                                  |                      |
| Issued including treasury stock—1,419,889,980 and 1,419,006,360 shares, respectively                                                                                       | 14                               | 14                   |

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

See notes to consolidated financial statements.

Table of ContentsREGIONS FINANCIAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME

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

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Weighted-average number of shares outstanding:

|         |       |       |       |       |
|---------|-------|-------|-------|-------|
| Basic   | 1,378 | 1,388 | 1,378 | 1,401 |
| Diluted | 1,389 | 1,405 | 1,390 | 1,415 |

Earnings per common share from continuing operations:

|         |        |        |        |        |
|---------|--------|--------|--------|--------|
| Basic   | \$0.22 | \$0.21 | \$0.65 | \$0.62 |
| Diluted | 0.22   | 0.20   | 0.64   | 0.61   |

Earnings per common share:

|         |        |        |        |        |
|---------|--------|--------|--------|--------|
| Basic   | \$0.22 | \$0.21 | \$0.66 | \$0.62 |
| Diluted | 0.22   | 0.20   | 0.65   | 0.62   |

|                                          |      |      |      |      |
|------------------------------------------|------|------|------|------|
| Cash dividends declared per common share | 0.05 | 0.03 | 0.13 | 0.07 |
|------------------------------------------|------|------|------|------|

See notes to consolidated financial statements.

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

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

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

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

Table of Contents

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

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

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

See notes to consolidated financial statements.

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

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

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

See notes to consolidated financial statements.

Table of Contents

REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Three and Nine Months Ended September 30, 2014 and 2013

NOTE 1. BASIS OF PRESENTATION

Regions Financial Corporation ("Regions" or "the Company") provides a full range of banking and bank-related services to individual and corporate customers through its subsidiaries and branch offices located primarily in Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, South Carolina, Tennessee, Texas and Virginia. The Company is subject to competition from other financial institutions, is subject to the regulations of certain government agencies and undergoes periodic examinations by certain of those regulatory authorities.

The accounting and reporting policies of Regions and the methods of applying those policies that materially affect the consolidated financial statements conform with accounting principles generally accepted in the United States ("GAAP") and with general financial services industry practices. The accompanying interim financial statements have been prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all information and notes to the consolidated financial statements necessary for a complete presentation of financial position, results of operations, comprehensive income and cash flows in conformity with GAAP. In the opinion of management, all adjustments, consisting of normal and recurring items, necessary for the fair presentation of the consolidated financial statements have been included. These interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto in Regions' Form 10-K for the year ended December 31, 2013. Regions has evaluated all subsequent events for potential recognition and disclosure through the filing date of this Form 10-Q.

On January 11, 2012, Regions entered into an agreement to sell Morgan Keegan & Company, Inc. ("Morgan Keegan") and related affiliates. The transaction closed on April 2, 2012. See Note 2 and Note 14 for further details. Results of operations for the entities sold are presented separately as discontinued operations for all periods presented on the consolidated statements of income. This presentation is consistent with the consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2013.

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

NOTE 2. DISCONTINUED OPERATIONS

On January 11, 2012, Regions entered into a stock purchase agreement to sell Morgan Keegan and related affiliates to Raymond James Financial, Inc. ("Raymond James"). The transaction closed on April 2, 2012. Regions Investment Management, Inc. (formerly known as Morgan Asset Management, Inc.) and Regions Trust were not included in the sale. In connection with the closing of the sale, Regions agreed to indemnify Raymond James for all litigation matters related to pre-closing activities. See Note 14 for related disclosure.

Table of Contents

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

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

**NOTE 3. SECURITIES**

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

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

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

Table of Contents

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

December 31, 2013

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

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

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

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

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

Federal Home Loan Bank

16

67

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

The amortized cost and estimated fair value of securities available for sale and securities held to maturity at September 30, 2014, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Table of Contents

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

The following tables present gross unrealized losses and the related estimated fair value of securities available for sale and held to maturity at September 30, 2014 and December 31, 2013. For securities transferred to held to maturity from available for sale, the analysis in the tables below is comparing the securities' original amortized cost to its current estimated fair value. These securities are segregated between investments that have been in a continuous unrealized loss position for less than twelve months and for twelve months or more.

|                                | September 30, 2014                          |                               |                            |                               |                            |                               |
|--------------------------------|---------------------------------------------|-------------------------------|----------------------------|-------------------------------|----------------------------|-------------------------------|
|                                | Less Than Twelve<br>Months                  |                               | Twelve Months or More      |                               | Total                      |                               |
|                                | Estimated<br>Fair<br>Value<br>(In millions) | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value | Gross<br>Unrealized<br>Losses |
| Securities held to maturity:   |                                             |                               |                            |                               |                            |                               |
| Federal agency securities      | \$—                                         | \$—                           | \$ 341                     | \$(9 )                        | \$ 341                     | \$(9 )                        |
| Mortgage-backed securities:    |                                             |                               |                            |                               |                            |                               |
| Residential agency             | —                                           | —                             | 1,674                      | (69 )                         | 1,674                      | (69 )                         |
| Commercial agency              | —                                           | —                             | 205                        | (14 )                         | 205                        | (14 )                         |
|                                | \$—                                         | \$—                           | \$2,220                    | \$(92 )                       | \$2,220                    | \$(92 )                       |
| Securities available for sale: |                                             |                               |                            |                               |                            |                               |
| U.S. Treasury securities       | \$14                                        | \$—                           | \$ 5                       | \$—                           | \$19                       | \$—                           |
| Federal agency securities      | —                                           | —                             | 8                          | —                             | 8                          | —                             |
| Mortgage-backed securities:    |                                             |                               |                            |                               |                            |                               |
| Residential agency             | 3,288                                       | (14 )                         | 2,944                      | (64 )                         | 6,232                      | (78 )                         |
| Residential non-agency         | 1                                           | —                             | —                          | —                             | 1                          | —                             |

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

Table of Contents

|                                | December 31, 2013       |                         |   | Twelve Months or More |                         | Total |
|--------------------------------|-------------------------|-------------------------|---|-----------------------|-------------------------|-------|
|                                | Less Than Twelve Months |                         |   | Twelve Months or More |                         |       |
|                                | Estimated Fair Value    | Gross Unrealized Losses |   | Estimated Fair Value  | Gross Unrealized Losses |       |
|                                | (In millions)           |                         |   |                       |                         |       |
| Securities held to maturity:   |                         |                         |   |                       |                         |       |
| Federal agency securities      | \$190                   | \$(9                    | ) | \$142                 | \$(8                    | )     |
| Mortgage-backed securities:    |                         |                         |   |                       |                         |       |
| Residential agency             | 1,236                   | (77                     | ) | 521                   | (41                     | )     |
| Commercial agency              | 212                     | (15                     | ) | —                     | —                       | )     |
|                                | \$1,638                 | \$(101                  | ) | \$663                 | \$(49                   | )     |
|                                |                         |                         |   |                       |                         |       |
| Securities available for sale: |                         |                         |   |                       |                         |       |
| U.S. Treasury securities       | \$15                    | \$—                     |   | \$1                   | \$—                     |       |
| Federal agency securities      | 3                       | —                       |   | 9                     | —                       |       |
| Mortgage-backed securities:    |                         |                         |   |                       |                         |       |
| Residential agency             | 6,153                   | (161                    | ) | 270                   | (9                      | )     |
| Commercial agency              | 610                     | (17                     | ) | —                     | —                       | )     |
| Commercial non-agency          | 711                     | (30                     | ) | 62                    | (3                      | )     |
| All other securities           | 1,422                   | (58                     | ) | 209                   | (13                     | )     |
|                                | \$8,914                 | \$(266                  | ) | \$551                 | \$(25                   | )     |

The number of individual securities in an unrealized loss position in the tables above decreased from 1,052 at December 31, 2013 to 834 at September 30, 2014. The decrease in the number of securities and the total amount of unrealized losses from year-end 2013 was primarily due to changes in interest rates. In instances where an unrealized loss did occur, there was no indication of an adverse change in credit on any of the underlying securities in the tables above. Management believes no individual unrealized loss represented an other-than-temporary impairment as of those dates. The Company does not intend to sell, and it is not more likely than not that the Company will be required to sell, the securities before the recovery of their amortized cost basis, which may be at maturity.

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

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

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



Table of Contents

## NOTE 4. LOANS AND THE ALLOWANCE FOR CREDIT LOSSES

## LOANS

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

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

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

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

## ALLOWANCE FOR CREDIT LOSSES

Regions determines the appropriate level of the allowance on at least a quarterly basis. Refer to Note 1 “Summary of Significant Accounting Policies” to the consolidated financial statements to the Annual Report on Form 10-K for the year ended December 31, 2013, for a description of the methodology.

## ROLLFORWARD OF ALLOWANCE FOR CREDIT LOSSES

The following tables present analyses of the allowance for credit losses by portfolio segment for the three and nine months ended September 30, 2014 and 2013. The total allowance for loan losses and the related loan portfolio ending balances as of September 30, 2014 and 2013 are disaggregated to detail the amounts derived through individual evaluation and collective evaluation for impairment. The allowance for loan losses related to individually evaluated loans is attributable to reserves for non-accrual loans and leases greater than or equal to \$2.5 million and all troubled debt restructurings ("TDRs"). The allowance for loan losses and the loan portfolio ending balances related to collectively evaluated loans is attributable to the remainder of the portfolio.

Table of Contents

|                                                             | Three Months Ended September 30, 2014 |                      |          |         |
|-------------------------------------------------------------|---------------------------------------|----------------------|----------|---------|
|                                                             | Commercial                            | Investor Real Estate | Consumer | Total   |
|                                                             | (In millions)                         |                      |          |         |
| Allowance for loan losses, July 1, 2014                     | \$705                                 | \$190                | \$334    | \$1,229 |
| Provision (credit) for loan losses                          | 18                                    | (23                  | ) 29     | 24      |
| Loan losses:                                                |                                       |                      |          |         |
| Charge-offs                                                 | (49                                   | ) (5                 | ) (66    | ) (120  |
| Recoveries                                                  | 21                                    | 6                    | 18       | 45      |
| Net loan losses                                             | (28                                   | ) 1                  | (48      | ) (75   |
| Allowance for loan losses, September 30, 2014               | 695                                   | 168                  | 315      | 1,178   |
| Reserve for unfunded credit commitments, July 1, 2014       | \$74                                  | \$12                 | \$3      | \$89    |
| Provision (credit) for unfunded credit losses               | (21                                   | ) (3                 | ) —      | (24     |
| Reserve for unfunded credit commitments, September 30, 2014 | 53                                    | 9                    | 3        | 65      |
| Allowance for credit losses, September 30, 2014             | \$748                                 | \$177                | \$318    | \$1,243 |
|                                                             | Three Months Ended September 30, 2013 |                      |          |         |
|                                                             | Commercial                            | Investor Real Estate | Consumer | Total   |
|                                                             | (In millions)                         |                      |          |         |
| Allowance for loan losses, July 1, 2013                     | \$764                                 | \$342                | \$530    | \$1,636 |
| Provision (credit) for loan losses                          | 29                                    | (37                  | ) 26     | 18      |
| Loan losses:                                                |                                       |                      |          |         |
| Charge-offs                                                 | (54                                   | ) (13                | ) (89    | ) (156  |
| Recoveries                                                  | 17                                    | 8                    | 17       | 42      |
| Net loan losses                                             | (37                                   | ) (5                 | ) (72    | ) (114  |
| Allowance for loan losses, September 30, 2013               | 756                                   | 300                  | 484      | 1,540   |
| Reserve for unfunded credit commitments, July 1, 2013       | \$60                                  | \$9                  | \$4      | \$73    |
| Provision (credit) for unfunded credit losses               | 3                                     | (1                   | ) (1     | ) 1     |
| Reserve for unfunded credit commitments, September 30, 2013 | 63                                    | 8                    | 3        | 74      |
| Allowance for credit losses, September 30, 2013             | \$819                                 | \$308                | \$487    | \$1,614 |
|                                                             | Nine Months Ended September 30, 2014  |                      |          |         |
|                                                             | Commercial                            | Investor Real Estate | Consumer | Total   |
|                                                             | (In millions)                         |                      |          |         |
| Allowance for loan losses, January 1, 2014                  | \$711                                 | \$236                | \$394    | \$1,341 |
| Provision (credit) for loan losses                          | 62                                    | (68                  | ) 67     | 61      |
| Loan losses:                                                |                                       |                      |          |         |
| Charge-offs                                                 | (130                                  | ) (21                | ) (203   | ) (354  |
| Recoveries                                                  | 52                                    | 21                   | 57       | 130     |
| Net loan losses                                             | (78                                   | ) —                  | (146     | ) (224  |
| Allowance for loan losses, September 30, 2014               | 695                                   | 168                  | 315      | 1,178   |
| Reserve for unfunded credit commitments, January 1, 2014    | 63                                    | 12                   | 3        | 78      |
| Provision (credit) for unfunded credit losses               | (10                                   | ) (3                 | ) —      | (13     |

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

Table of Contents

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

**PORTFOLIO SEGMENT RISK FACTORS**

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

**Commercial**—The commercial loan portfolio segment includes commercial and industrial loans to commercial customers for use in normal business operations to finance working capital needs, equipment purchases or other expansion projects. Commercial also includes owner-occupied commercial real estate loans to operating businesses, which are loans for long-term financing of land and buildings, and are repaid by cash flow generated by business operations. Owner-occupied construction loans are made to commercial businesses for the development of land or construction of a building where the repayment is derived from revenues generated from the business of the borrower. Collection risk in this portfolio is driven by the creditworthiness of underlying borrowers, particularly cash flow from customers' business operations.

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

**Consumer**—The consumer loan portfolio segment includes residential first mortgage, home equity, indirect, consumer credit card, and other consumer loans. Residential first mortgage loans represent loans to consumers to finance a residence. These loans are typically financed over a 15 to 30 year term and, in most cases, are extended to borrowers to finance their primary residence. Home equity lending includes both home equity loans and lines of credit. This type of lending, which is secured by a first or second mortgage on the borrower's residence, allows customers to borrow

against the equity in their home. Real estate market values as of the time the loan or line is secured directly affect the amount of credit extended and, in addition, changes in these values impact the depth of potential losses. Indirect lending, which is lending initiated through third-party business partners, largely consists of loans made through automotive dealerships. Consumer credit card includes Regions branded consumer credit card accounts. Other consumer loans include direct consumer installment loans and overdrafts. Loans in this portfolio segment are sensitive to unemployment and other key consumer economic measures.

The following tables present credit quality indicators for the loan portfolio segments and classes, excluding loans held for sale, as of September 30, 2014 and December 31, 2013. Commercial and investor real estate loan portfolio segments are detailed by categories related to underlying credit quality and probability of default. Regions assigns these categories at loan origination and reviews the relationship utilizing a risk-based approach on, at minimum, an annual basis or at any time management becomes aware of information affecting the borrowers' ability to fulfill their obligations. Both quantitative and qualitative factors are considered in this review process. These categories are utilized to develop the associated allowance for credit losses.

Special Mention—includes obligations that have potential weakness which may, if not reversed or corrected, weaken the credit or inadequately protect the Company's position at some future date. Obligations in this category may also be

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

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.

|                            | Accrual<br>(In millions) | Non-accrual | Total    |
|----------------------------|--------------------------|-------------|----------|
| Residential first mortgage | \$12,147                 | \$117       | \$12,264 |
| Home equity                | 10,862                   | 106         | 10,968   |
| Indirect                   | 3,543                    | —           | 3,543    |
| Consumer credit card       | 964                      | —           | 964      |
| Other consumer             | 1,177                    | —           | 1,177    |
| Total consumer             | \$28,693                 | \$223       | \$28,916 |
|                            |                          |             | \$76.607 |



Table of Contents

|                                                       | December 31, 2013 |                    |                          |             |          |
|-------------------------------------------------------|-------------------|--------------------|--------------------------|-------------|----------|
|                                                       | Pass              | Special<br>Mention | Substandard<br>Accrual   | Non-accrual | Total    |
|                                                       | (In millions)     |                    |                          |             |          |
| Commercial and industrial                             | \$28,282          | \$395              | \$479                    | \$257       | \$29,413 |
| Commercial real estate<br>mortgage—owner-occupied     | 8,593             | 191                | 408                      | 303         | 9,495    |
| Commercial real estate<br>construction—owner-occupied | 264               | 25                 | 4                        | 17          | 310      |
| Total commercial                                      | \$37,139          | \$611              | \$891                    | \$577       | \$39,218 |
| Commercial investor real estate mortgage              | \$4,479           | \$269              | \$332                    | \$238       | \$5,318  |
| Commercial investor real estate<br>construction       | 1,335             | 47                 | 40                       | 10          | 1,432    |
| Total investor real estate                            | \$5,814           | \$316              | \$372                    | \$248       | \$6,750  |
|                                                       |                   |                    | Accrual<br>(In millions) | Non-accrual | Total    |
| Residential first mortgage                            |                   |                    | \$12,017                 | \$146       | \$12,163 |
| Home equity                                           |                   |                    | 11,183                   | 111         | 11,294   |
| Indirect                                              |                   |                    | 3,075                    | —           | 3,075    |
| Consumer credit card                                  |                   |                    | 948                      | —           | 948      |
| Other consumer                                        |                   |                    | 1,161                    | —           | 1,161    |
| Total consumer                                        |                   |                    | \$28,384                 | \$257       | \$28,641 |
|                                                       |                   |                    |                          |             | \$74,609 |

## AGING ANALYSIS

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

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

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

Table of Contents

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

**IMPAIRED LOANS**

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

**Non-accrual Impaired Loans As of September 30, 2014**

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

Commercial investor real  
estate construction

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

Table of Contents

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

## Total Impaired Loans As of September 30, 2014

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

|                                                    | Unpaid Principal Balance <sup>(1)</sup> | Charge-offs and Payments Applied <sup>(2)</sup> | Total Impaired Loans | Impaired Loans with Related Allowance | Impaired Loans with Related Allowance | Related Allowance for Loan Losses | Coverage % <sup>(4)</sup> |
|----------------------------------------------------|-----------------------------------------|-------------------------------------------------|----------------------|---------------------------------------|---------------------------------------|-----------------------------------|---------------------------|
|                                                    | (Dollars in millions)                   |                                                 |                      |                                       |                                       |                                   |                           |
| Commercial and industrial                          | \$340                                   | \$54                                            | \$286                | \$18                                  | \$268                                 | \$93                              | 43.2 %                    |
| Commercial real estate mortgage—owner-occupied     | 487                                     | 40                                              | 447                  | 42                                    | 405                                   | 109                               | 30.6                      |
| Commercial real estate construction—owner-occupied | 25                                      | —                                               | 25                   | —                                     | 25                                    | 2                                 | 8.0                       |
| Total commercial                                   | 852                                     | 94                                              | 758                  | 60                                    | 698                                   | 204                               | 35.0                      |
| Commercial investor real estate mortgage           | 475                                     | 54                                              | 421                  | 13                                    | 408                                   | 71                                | 26.3                      |
| Commercial investor real estate construction       | 53                                      | 8                                               | 45                   | —                                     | 45                                    | 9                                 | 32.1                      |
| Total investor real estate                         | 528                                     | 62                                              | 466                  | 13                                    | 453                                   | 80                                | 26.9                      |
| Residential first mortgage                         | 487                                     | 35                                              | 452                  | —                                     | 452                                   | 63                                | 20.1                      |
| Home equity                                        | 389                                     | 13                                              | 376                  | —                                     | 376                                   | 16                                | 7.5                       |
| Indirect                                           | 1                                       | —                                               | 1                    | —                                     | 1                                     | —                                 | —                         |