REGIONS FINANCIAL CORP
Form 10-Q
November 04, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

ý Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2016
or
.. Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission File Number: 001-34034

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

Delaware (State or other jurisdiction of incorporation or organization)	63-0589368 (I.R.S. Employer Identification No.)
1900 Fifth Avenue North Birmingham, Alabama (Address of principal executive offices)	35203 (Zip Code)

(800) 734-4667
(Registrant's telephone number, including area code)
NOT APPLICABLE
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ý Yes ¨ No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

to submit and post such files). ý Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer ý Accelerated filer ¨ Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨

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

The number of shares outstanding of each of the issuer’s classes of common stock was 1,230,974,878 shares of common stock, par value $.01, outstanding as of November 2, 2016.

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

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

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Forward-Looking Statements

This Quarterly Report on Form 10-Q, other periodic reports filed by Regions Financial Corporation under the Securities Exchange Act of 1934, as amended, and any other written or oral statements made by us or on our behalf to analysts, investors, the media and others, may include forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. The terms “Regions,” the “Company,” “we,” “us” and “our” mean Regions Financial Corporation, a Delaware corporation, and its subsidiaries when or where appropriate. The words “anticipates,” “intends,” “plans,” “seeks,” “believes,” “estimates,” “expects,” “targets,” “projects,” “outlook,” “forecast,” “will,” “may,” “could,” “shou expressions often signify forward-looking statements. Forward-looking statements are not based on historical information, but rather are related to future operations, strategies, financial results or other developments.

Forward-looking statements are based on management’s current expectations as well as certain assumptions and estimates made by, and information available to, management at the time the statements are made. Those statements are based on general assumptions and are subject to various risks, and because they also relate to the future they are likewise subject to inherent uncertainties and other factors that may cause actual results to differ materially from the views, beliefs and projections expressed in such statements. Therefore, we caution you against relying on any of these forward-looking statements. These risks, uncertainties and other factors include, but are not limited to, those described below:

- Current and future economic and market conditions in the United States generally or in the communities we serve, including the effects of declines in property values, unemployment rates and potential reductions of economic growth, which may adversely affect our lending and other businesses and our financial results and conditions.
- Possible changes in trade, monetary and fiscal policies of, and other activities undertaken by, governments, agencies, central banks and similar organizations, which could have a material adverse effect on our earnings.
- The effects of a possible downgrade in the U.S. government’s sovereign credit rating or outlook, which could result in risks to us and general economic conditions that we are not able to predict.
- Possible changes in market interest rates or capital markets could adversely affect our revenue and expense, the value of assets and obligations, and the availability and cost of capital and liquidity.
- Any impairment of our goodwill or other intangibles, or any adjustment of valuation allowances on our deferred tax assets due to adverse changes in the economic environment, declining operations of the reporting unit, or other factors.
- Possible changes in the creditworthiness of customers and the possible impairment of the collectability of loans.
- Changes in the speed of loan prepayments, loan origination and sale volumes, charge-offs, loan loss provisions or actual loan losses where our allowance for loan losses may not be adequate to cover our eventual losses.
- Possible acceleration of prepayments on mortgage-backed securities due to low interest rates, and the related acceleration of premium amortization on those securities.
- Our ability to effectively compete with other financial services companies, some of whom possess greater financial resources than we do and are subject to different regulatory standards than we are.
- Loss of customer checking and savings account deposits as customers pursue other, higher-yield investments, which could increase our funding costs.
- Our inability to develop and gain acceptance from current and prospective customers for new products and services in a timely manner could have a negative impact on our revenue.
- The effects of any developments, changes or actions relating to any litigation or regulatory proceedings brought against us or any of our subsidiaries.
- Changes in laws and regulations affecting our businesses, such as the Dodd-Frank Act and other legislation and regulations relating to bank products and services, as well as changes in the enforcement and interpretation of such laws and regulations by applicable governmental and self-regulatory agencies, which could require us to change certain business practices, increase compliance risk, reduce our revenue, impose additional costs on us, or otherwise negatively affect our businesses.
- Our ability to obtain a regulatory non-objection (as part of the CCAR process or otherwise) to take certain capital actions, including paying dividends and any plans to increase common stock dividends, repurchase common stock

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

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

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

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

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

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

See also the reports filed with the Securities and Exchange Commission, including the discussion under the "Risk Factors" section of Regions' Annual Report on Form 10-K for the year ended December 31, 2015 as filed with the Securities and Exchange Commission and available on its website at www.sec.gov.

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

	September 30, 2016	December 31, 2015
	(In millions, except share data)	
Assets		
Cash and due from banks	$ 1,928	$ 1,382
Interest-bearing deposits in other banks	2,310	3,932
Trading account securities	120	143
Securities held to maturity (estimated fair value of $1,485 and $1,969, respectively)	1,431	1,946
Securities available for sale	23,859	22,710
Loans held for sale (includes $549 and $353 measured at fair value, respectively)	571	448
Loans, net of unearned income	80,883	81,162
Allowance for loan losses	(1,126)	(1,106)
Net loans	79,757	80,056
Other earning assets	1,505	1,652
Premises and equipment, net	2,075	2,152
Interest receivable	305	319
Goodwill	4,882	4,878
Residential mortgage servicing rights at fair value	238	252
Other identifiable intangible assets	228	259
Other assets	5,968	5,921
Total assets	$ 125,177	$ 126,050
Liabilities and Stockholders' Equity		
Deposits:		
Non-interest-bearing	$ 36,321	$ 34,862
Interest-bearing	62,968	63,568
Total deposits	99,289	98,430
Borrowed funds:		
Short-term borrowings:		
Other short-term borrowings	—	10
Total short-term borrowings	—	10
Long-term borrowings	6,054	8,349
Total borrowed funds	6,054	8,359
Other liabilities	2,469	2,417
Total liabilities	107,812	109,206
Stockholders' equity:		
Preferred stock, authorized 10 million shares, par value $1.00 per share		
Non-cumulative perpetual, liquidation preference $1,000.00 per share, including related surplus, net of issuance costs; issued—1,000,000 shares	820	820
Common stock, authorized 3 billion shares, par value $.01 per share:		
Issued including treasury stock—1,277,600,517 and 1,338,591,703 shares, respectively	13	13
Additional paid-in capital	17,339	17,883
Retained earnings (deficit)	465	(115)

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

See notes to consolidated financial statements.

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REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

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

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

See notes to consolidated financial statements.

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REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	Nine Months Ended September 30	
	2016	2015
	(In millions)	
Net income	$868	$777
Other comprehensive income (loss), net of tax:		
Unrealized losses on securities transferred to held to maturity:		
Unrealized losses on securities transferred to held to maturity during the period (net of zero and zero tax effect, respectively)	—	—
Less: reclassification adjustments for amortization of unrealized losses on securities transferred to held to maturity (net of ($8) and ($4) tax effect, respectively)	(12)	(6)
Net change in unrealized losses on securities transferred to held to maturity, net of tax	12	6

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

See notes to consolidated financial statements.

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

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

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

See notes to consolidated financial statements.

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REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30	
	2016	2015
	(In millions)	
Operating activities:		
Net income	$868	$777
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	214	172
Depreciation, amortization and accretion, net	425	384
Securities (gains) losses, net	(1)	(18)
Deferred income tax expense	18	68
Originations and purchases of loans held for sale	(2,767)	(1,931)
Proceeds from sales of loans held for sale	2,711	2,087
(Gain) loss on sale of loans, net	(95)	(70)
(Gain) loss on early extinguishment of debt	14	43
Net change in operating assets and liabilities:		
Trading account securities	23	—
Other earning assets	69	(158)
Interest receivable and other assets	28	116
Other liabilities	157	(95)
Other	76	36
Net cash from operating activities	1,740	1,411
Investing activities:		
Proceeds from maturities of securities held to maturity	522	174
Proceeds from sales of securities available for sale	1,873	1,142
Proceeds from maturities of securities available for sale	3,325	2,958
Purchases of securities available for sale	(6,108)	(4,169)
Proceeds from sales of loans	86	59
Purchases of loans	(779)	(857)
Purchases of mortgage servicing rights	(35)	(4)
Net change in loans	720	(3,291)
Net purchases of other assets	(107)	(193)
Net cash from investing activities	(503)	(4,181)
Financing activities:		
Net change in deposits	859	2,978
Net change in short-term borrowings	(10)	(2,253)
Proceeds from long-term borrowings	1,607	4,997
Payments on long-term borrowings	(3,910)	(1,142)
Cash dividends on common stock	(236)	(226)
Cash dividends on preferred stock	(48)	(48)
Repurchase of common stock	(569)	(544)
Other	(6)	12
Net cash from financing activities	(2,313)	3,774
Net change in cash and cash equivalents	(1,076)	1,004

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

See notes to consolidated financial statements.

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

NOTE 1. BASIS OF PRESENTATION

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

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

On January 11, 2012, Regions entered into an agreement to sell Morgan Keegan and related affiliates. The transaction closed on April 2, 2012. See Note 2 and Note 14 for further details. Results of operations for the entities sold are presented separately as discontinued operations for all periods presented on the consolidated statements of income. This presentation is consistent with the consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2015.

During the fourth quarter of 2015, Regions reclassified its investments in FRB and FHLB stock from securities available for sale to other earning assets on its consolidated balance sheets. This reclassification has been made for all periods presented. Certain other prior period amounts have also been reclassified to conform to the current period presentation. These reclassifications are immaterial and have no effect on net income, comprehensive income, total assets, or total stockholders’ equity as previously reported.

NOTE 2. DISCONTINUED OPERATIONS

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

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

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

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

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NOTE 3. SECURITIES

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

	September 30, 2016						
		Recognized in OCI [1]			Not Recognized in OCI		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)						
Securities held to maturity:							
Mortgage-backed securities:							
Residential agency	$1,316	—	(52)	1,264	53	—	$ 1,317
Commercial agency	171	—	(4)	167	1	—	168
	$1,487	$—	$ (56)	$1,431	$ 54	$ —	$ 1,485
Securities available for sale:							
U.S. Treasury securities	$237	$5	$ —	$242			$ 242
Federal agency securities	37	1	—	38			38
Mortgage-backed securities:							
Residential agency	17,189	328	(11)	17,506			17,506
Residential non-agency	4	1	—	5			5
Commercial agency	3,333	81	(1)	3,413			3,413
Commercial non-agency	1,125	19	(3)	1,141			1,141
Corporate and other debt securities	1,304	47	(17)	1,334			1,334
Equity securities	170	10	—	180			180
	$23,399	$492	$ (32)	$23,859			$ 23,859

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	December 31, 2015						
		Recognized in OCI (1)			Not Recognized in OCI		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)						
Securities held to maturity:							
U.S. Treasury securities	$1	$—	$ —	$ 1	$—	$ —	$ 1
Federal agency securities	350	—	(10)	340	9	—	349
Mortgage-backed securities:							
Residential agency	1,490	—	(61)	1,429	18	(2)	1,445
Commercial agency	181	—	(5)	176	—	(2)	174
	$2,022	$—	$ (76)	$ 1,946	$ 27	$ (4)	$ 1,969
Securities available for sale:							
U.S. Treasury securities	$228	$ 1	$ (1)	$ 228			$ 228
Federal agency securities	219	—	(1)	218			218
Obligations of states and political subdivisions	1	—	—	1			1
Mortgage-backed securities:							
Residential agency	16,003	149	(90)	16,062			16,062
Residential non-agency	5	—	—	5			5
Commercial agency	3,033	10	(25)	3,018			3,018
Commercial non-agency	1,245						