REGIONS FINANCIAL CORP
Form 10-Q
November 07, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

ýQuarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2018
or
¨Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission File Number: 001-34034

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

Delaware (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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ý Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ý Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨ Emerging growth company ¨
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes ý No
The number of shares outstanding of each of the issuer’s classes of common stock was 1,033,870,240 shares of common stock, par value $.01, outstanding as of November 5, 2018.

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

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GAAP - Generally Accepted Accounting Principles in the United States.
GCM - Guideline Public Company Method.
GDP - Gross Domestic Product.
GNMA - Government National Mortgage Association.
GTM - Guideline Transaction Method.
HUD - U.S. Department of Housing and Urban Development.
HVCRE - High Volatility Commercial Real Estate.
IP - Intellectual Property.
IPO - Initial public offering.
IRS - Internal Revenue Service.
LCR - Liquidity coverage ratio.
LIBOR - London InterBank Offered Rates.
LTIP - Long-term incentive plan.
LTV - Loan to value.
MBS - Mortgage-backed securities.
Morgan Keegan - Morgan Keegan & Company, Inc.
MSAs - Metropolitan Statistical Areas.
MSR - Mortgage servicing right.
NM - Not meaningful.
NPR - Notice of Proposed Rulemaking.
OAS - Option-Adjusted Spread.
OCC - Office of the Comptroller of the Currency.
OCI - Other comprehensive income.
OIS - Overnight indexed swap.
OTTI - Other-than-temporary impairment.
Raymond James - Raymond James Financial, Inc.
RICO - Racketeer Influenced and Corrupt Organizations Act.
SEC - U.S. Securities and Exchange Commission.
SERP - Supplemental Executive Retirement Plan.
SSFA - Simplified Supervisory Formula Approach.
Tax Reform - H.R.1, An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018.
TDR - Troubled debt restructuring.
U.S. - United States.
U.S. Treasury - United States Department of the Treasury.
UTB - Unrecognized tax benefits.
VIE - Variable interest entity.

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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" used herein mean collectively Regions Financial Corporation, a Delaware corporation, together with its subsidiaries when or where appropriate. The words "future," "anticipates," "assumes," "intends," "plans," "seeks," "believes," "predicts," "potential," "objectives," "estima "targets," "projects," "outlook," "forecast," "would," "will," "may," "might," "could," "should," "can," and similar terms and e often signify forward-looking statements. Forward-looking statements are not based on historical information, but rather are related to future operations, strategies, financial results or other developments. Forward-looking statements are based on management's current expectations as well as certain assumptions and estimates made by, and information available to, management at the time the statements are made. Those statements are based on general assumptions and are subject to various risks, and because they also relate to the future they are likewise subject to inherent uncertainties and other factors that may cause actual results to differ materially from the views, beliefs and projections expressed in such statements. Therefore, we caution you against relying on any of these forward-looking statements. These risks, uncertainties and other factors include, but are not limited to, those described below:

- Current and future economic and market conditions in the U.S. generally or in the communities we serve, including the effects of possible declines in property values, increases in unemployment rates and potential reductions of economic growth, which may adversely affect our lending and other businesses and our financial results and conditions.
- Possible changes in trade, monetary and fiscal policies of, and other activities undertaken by, governments, agencies, central banks and similar organizations, which could have a material adverse effect on our earnings.
- The effects of a possible downgrade in the U.S. government's sovereign credit rating or outlook, which could result in risks to us and general economic conditions that we are not able to predict.
- Possible changes in market interest rates or capital markets could adversely affect our revenue and expense, the value of assets and obligations, and the availability and cost of capital and liquidity.
- Any impairment of our goodwill or other intangibles, any repricing of assets, or any adjustment of valuation allowances on our deferred tax assets due to changes in law, adverse changes in the economic environment, declining operations of the reporting unit or other factors.
- The effect of changes in tax laws, including the effect of Tax Reform and any future interpretations of or amendments to Tax Reform, which may impact our earnings, capital ratios and our ability to return capital to shareholders.
- Possible changes in the creditworthiness of customers and the possible impairment of the collectability of loans and leases, including operating leases.
- Changes in the speed of loan prepayments, loan origination and sale volumes, charge-offs, loan loss provisions or actual loan losses where our allowance for loan losses may not be adequate to cover our eventual losses.
- Possible acceleration of prepayments on mortgage-backed securities due to low interest rates, and the related acceleration of premium amortization on those securities.
- Loss of customer checking and savings account deposits as customers pursue other, higher-yield investments, which could increase our funding costs.
- Possible changes in consumer and business spending and saving habits and the related effect on our ability to increase assets and to attract deposits, which could adversely affect our net income.
- Our ability to effectively compete with other traditional and non-traditional financial services companies, some of whom possess greater financial resources than we do or are subject to different regulatory standards than we are.
- Our inability to develop and gain acceptance from current and prospective customers for new products and services and the enhancement of existing products and services to meet customers' needs and respond to emerging technological trends in a timely manner could have a negative impact on our revenue.
- Our inability to keep pace with technological changes could result in losing business to competitors.
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Changes in laws and regulations affecting our businesses, including legislation and regulations relating to bank products and services, as well as changes in the enforcement and interpretation of such laws and regulations by applicable governmental and self-regulatory agencies, which could require us to change certain business practices, increase compliance risk, reduce our revenue, impose additional costs on us, or otherwise negatively affect our businesses.

- Our ability to obtain a regulatory non-objection (as part of the CCAR process or otherwise) to take certain capital actions, including paying dividends and any plans to increase common stock dividends, repurchase common stock under current

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

- Our ability to comply with stress testing and capital planning requirements (as part of the CCAR process or otherwise) may continue to require a significant investment of our managerial resources due to the importance and intensity of such tests and requirements.
- Our ability to comply with applicable capital and liquidity requirements (including, among other things, the Basel III capital standards and the LCR rule), including our ability to generate capital internally or raise capital on favorable terms, and if we fail to meet requirements, our financial condition could be negatively impacted.
- The effects of any developments, changes or actions relating to any litigation or regulatory proceedings brought against us or any of our subsidiaries.
- The costs, including possibly incurring fines, penalties, or other negative effects (including reputational harm) of any adverse judicial, administrative, or arbitral rulings or proceedings, regulatory enforcement actions, or other legal actions to which we or any of our subsidiaries are a party, and which may adversely affect our results.
- Our ability to manage fluctuations in the value of assets and liabilities and off-balance sheet exposure so as to maintain sufficient capital and liquidity to support our business.
- Our ability to execute on our strategic and operational plans, including our ability to fully realize the financial and non-financial benefits relating to our strategic initiatives.
- The risks and uncertainties related to our acquisition or divestiture of businesses.
- The success of our marketing efforts in attracting and retaining customers.
- Our ability to recruit and retain talented and experienced personnel to assist in the development, management and operation of our products and services may be affected by changes in laws and regulations in effect from time to time.
- Fraud or misconduct by our customers, employees or business partners.
- Any inaccurate or incomplete information provided to us by our customers or counterparties.
- Inability of our framework to manage risks associated with our business such as credit risk and operational risk, including third-party vendors and other service providers, which could, among other things, result in a breach of operating or security systems as a result of a cyber attack or similar act or failure to deliver our services effectively.
- Dependence on key suppliers or vendors to obtain equipment and other supplies for our business on acceptable terms.
- The inability of our internal controls and procedures to prevent, detect or mitigate any material errors or fraudulent acts.
- The effects of geopolitical instability, including wars, conflicts and terrorist attacks and the potential impact, directly or indirectly, on our businesses.
- The effects of man-made and natural disasters, including fires, floods, droughts, tornadoes, hurricanes, and environmental damage, which may negatively affect our operations and/or our loan portfolios and increase our cost of conducting business.
- Changes in commodity market prices and conditions could adversely affect the cash flows of our borrowers operating in industries that are impacted by changes in commodity prices (including businesses indirectly impacted by commodities prices such as businesses that transport commodities or manufacture equipment used in the production of commodities), which could impair their ability to service any loans outstanding to them and/or reduce demand for loans in those industries.
- Our ability to identify and address cyber-security risks such as data security breaches, malware, “denial of service” attacks, “hacking” and identity theft, a failure of which could disrupt our business and result in the disclosure of and/or misuse or misappropriation of confidential or proprietary information, disruption or damage to our systems, increased costs, losses, or adverse effects to our reputation.
- Our ability to realize our adjusted efficiency ratio target as part of our expense management initiatives.
- Possible downgrades in our credit ratings or outlook could increase the costs of funding from capital markets.
- The effects of problems encountered by other financial institutions that adversely affect us or the banking industry generally could require us to change certain business practices, reduce our revenue, impose additional costs on us, or otherwise negatively affect our businesses.

- The effects of the failure of any component of our business infrastructure provided by a third party could disrupt our businesses, result in the disclosure of and/or misuse of confidential information or proprietary information, increase our costs, negatively affect our reputation, and cause losses.
- Our ability to receive dividends from our subsidiaries could affect our liquidity and ability to pay dividends to stockholders.

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- Changes in accounting policies or procedures as may be required by the FASB or other regulatory agencies could materially affect how we report our financial results.
- Other risks identified from time to time in reports that we file with the SEC.
- Fluctuations in the price of our common stock and inability to complete stock repurchases in the time frame and/or on the terms anticipated.
- The effects of any damage to our reputation resulting from developments related to any of the items identified above.

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

See also the reports filed with the SEC, including the discussion under the “Risk Factors” section of Regions’ Annual Report on Form 10-K for the year ended December 31, 2017 as filed with the SEC and available on its website at www.sec.gov.

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

	September 30, 2018	December 31, 2017
	(In millions, except share data)	
Assets		
Cash and due from banks	$ 1,911	$ 2,012
Interest-bearing deposits in other banks	1,584	1,899
Federal funds sold and securities purchased under agreements to resell	—	70
Debt securities held to maturity (estimated fair value of $1,472 and $1,667, respectively)	1,524	1,658
Debt securities available for sale	22,671	23,403
Loans held for sale (includes $293 and $325 measured at fair value, respectively)	331	348
Loans, net of unearned income	81,821	79,947
Allowance for loan losses	(840)	(934)
Net loans	80,981	79,013
Other earning assets	1,801	1,891
Premises and equipment, net	2,051	2,064
Interest receivable	360	337
Goodwill	4,829	4,904
Residential mortgage servicing rights at fair value	406	336
Other identifiable intangible assets	122	177
Other assets	6,007	6,182
Total assets	$ 124,578	$ 124,294
Liabilities and Stockholders' Equity		
Deposits:		
Non-interest-bearing	$ 35,354	$ 36,127
Interest-bearing	57,901	60,762
Total deposits	93,255	96,889
Borrowed funds:		
Short-term borrowings:		
Other short-term borrowings	3,250	500
Total short-term borrowings	3,250	500
Long-term borrowings	11,178	8,132
Total borrowed funds	14,428	8,632
Other liabilities	2,125	2,581
Total liabilities	109,808	108,102
Stockholders' equity:		
Preferred stock, authorized 10 million shares, par value $1.00 per share		
Non-cumulative perpetual, liquidation preference $1,000.00 per share, including related surplus, net of issuance costs; issued—1,000,000 shares	820	820
Common stock, authorized 3 billion shares, par value $.01 per share:		
Issued including treasury stock—1,096,458,732 and 1,175,327,565 shares, respectively	11	12
Additional paid-in capital	14,122	15,858

Retained earnings	2,582	1,628
Treasury stock, at cost—41,032,675 and 41,259,320 shares, respectively	(1,371)	(1,377)
Accumulated other comprehensive income (loss), net	(1,394)	(749)
Total stockholders' equity	14,770	16,192
Total liabilities and stockholders' equity	$ 124,578	$ 124,294

See notes to consolidated financial statements.

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REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
	(In millions, except per share data)			
Interest income, including other financing income on:				
Loans, including fees	$919	$827	$2,651	$2,401
Debt securities - taxable	155	148	465	445
Loans held for sale	4	3	11	11
Other earning assets	17	13	53	38
Operating lease assets	17	21	55	72
Total interest income, including other financing income	1,112	1,012	3,235	2,967
Interest expense on:				
Deposits	64	42	170	114
Short-term borrowings	8	2	15	4
Long-term borrowings	84	53	229	153
Total interest expense	156	97	414	271
Depreciation expense on operating lease assets	14	18	44	58
Total interest expense and depreciation expense on operating lease assets	170	115	458	329
Net interest income and other financing income	942	897	2,777	2,638
Provision for loan losses	84	76	134	194
Net interest income and other financing income after provision for loan losses	858	821	2,643	2,444
Non-interest income:				
Service charges on deposit accounts	179	175	525	512
Card and ATM fees	111	103	327	311
Investment management and trust fee income	59	58	175	171
Capital markets income	45	35	152	105
Mortgage income	32	32	107	113
Securities gains, net	—	8	1	9
Other	93	71	251	225
Total non-interest income	519	482	1,538	1,446
Non-interest expense:				
Salaries and employee benefits	473	464	1,479	1,395
Net occupancy expense	82	89	249	257
Furniture and equipment expense	81	83	243	246
Other	286	217	746	673
Total non-interest expense	922	853	2,717	2,571
Income from continuing operations before income taxes	455	450	1,464	1,319
Income tax expense	85	138	302	398
Income from continuing operations	370	312	1,162	921
Discontinued operations:				
Income from discontinued operations before income taxes	274	—	271	13
Income tax expense	80	1	80	6
Income (loss) from discontinued operations, net of tax	194	(1)	191	7

Net income	$564	$311	$1,353	$928
Net income from continuing operations available to common shareholders	$354	$296	$1,114	$873
Net income available to common shareholders	$548	$295	$1,305	$880
Weighted-average number of shares outstanding:				
Basic	1,086	1,182	1,111	1,197
Diluted	1,095	1,193	1,121	1,209
Earnings per common share from continuing operations:				
Basic	$0.33	$0.25	$1.00	$0.73
Diluted	0.32	0.25	0.99	0.72
Earnings per common share:				
Basic	$0.50	$0.25	$1.18	$0.74
Diluted	0.50	0.25	1.16	0.73
Cash dividends declared per common share	0.14	0.09	0.32	0.225

See notes to consolidated financial statements.

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REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	Nine Months Ended September 30	
	2018	2017
	(In millions)	
Net income	$1,353	$928
Other comprehensive income (loss), net of tax:		
Unrealized losses on securities transferred to held to maturity:		
Unrealized losses on securities transferred to held to maturity during the period (net of zero and zero tax effect, respectively)	—	—
Less: reclassification adjustments for amortization of unrealized losses on securities transferred to held to maturity (net of ($2) and ($3) tax effect, respectively)	(5)	(4)
Net change in unrealized losses on securities transferred to held to maturity, net of tax	5	4

Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period (net of ($162) and $47 tax effect, respectively)	(479)	75
Less: reclassification adjustments for securities gains (losses) realized in net income (net of zero and $2 tax effect, respectively)	—	3
Net change in unrealized gains (losses) on securities available for sale, net of tax	(479)	72
Unrealized gains (losses) on derivative instruments designated as cash flow hedges:		
Unrealized holding gains (losses) on derivatives arising during the period (net of ($60) and $24 tax effect, respectively)	(178)	39
Less: reclassification adjustments for gains (losses) on derivative instruments realized in net income (net of $4 and $27 tax effect, respectively)	12	43
Net change in unrealized gains (losses) on derivative instruments, net of tax	(190)	(4)
Defined benefit pension plans and other post employment benefits:		
Net actuarial gains (losses) arising during the period (net of zero and zero tax effect, respectively)	(2)	(1)
Less: reclassification adjustments for amortization of actuarial loss and settlements realized in net income (net of ($6) and ($14) tax effect, respectively)	(21)	(25)
Net change from defined benefit pension plans and other post employment benefits, net of tax	19	24
Other comprehensive income (loss), net of tax	(645)	96
Comprehensive income	$708	$1,024

See notes to consolidated financial statements.

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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	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, 2017	1	$ 820	1,214	$ 13	$ 17,092	$ 666	$ (1,377)	$ (550)	$ 16,664
Net income	—	—	—	—	—	928	—	—	928
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	—	96	96
Cash dividends declared—$0.225 per share	—	—	—	—	—	(267)	—	—	(267)
Preferred stock dividends	—	—	—	—	—	(48)	—	—	(48)
Common stock transactions:									
Impact of share repurchases	—	—	(54)	(1)	(774)	—	—	—	(775)
Impact of stock transactions under compensation plans, net and other	—	—	5	—	26	—	—	—	26
BALANCE AT SEPTEMBER 30, 2017	1	$ 820	1,165	$ 12	$ 16,344	$ 1,279	$ (1,377)	$ (454)	$ 16,624
BALANCE AT JANUARY 1, 2018	1	$ 820	1,133	$ 12	$ 15,858	$ 1,628	$ (1,377)	$ (749)	$ 16,192
Cumulative effect from change in accounting guidance	—	—	—	—	—	(2)	—	—	(2)
Net income	—	—	—	—	—	1,353	—	—	1,353
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	—	(645)	(645)
Cash dividends declared—$0.32 per share	—	—	—	—	—	(349)	—	—	(349)
Preferred stock dividends	—	—	—	—	—	(48)	—	—	(48)
Common stock transactions:									
Impact of share repurchases	—	—	(84)	(1)	(1,751)	—	—	—	(1,752)
Impact of stock transactions under compensation plans, net and other	—	—	6	—	15	—	6	—	21
BALANCE AT SEPTEMBER 30, 2018	1	$ 820	1,055	$ 11	$ 14,122	$ 2,582	$ (1,371)	$ (1,394)	$ 14,770

See notes to consolidated financial statements.

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REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30	
	2018	2017
	(In millions)	
Operating activities:		
Net income	$1,353	$928
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	134	194
Depreciation, amortization and accretion, net	355	410
Securities (gains) losses, net	(1)	(9)
(Gain) on sale of business	(281)	—
Deferred income tax expense	146	63
Originations and purchases of loans held for sale	(2,419)	(2,667)
Proceeds from sales of loans held for sale	2,480	3,074
(Gain) loss on sale of loans, net	(55)	(78)
Net change in operating assets and liabilities:		
Other earning assets	46	145
Interest receivable and other assets	(39)	(85)
Other liabilities	(432)	(9)
Other	(16)	38
Net cash from operating activities	1,271	2,004
Investing activities:		
Proceeds from maturities of debt securities held to maturity	132	152
Proceeds from sales of debt securities available for sale	186	704
Proceeds from maturities of debt securities available for sale	2,569	2,673
Net proceeds from (purchases of) bank-owned life insurance	(3)	—
Purchases of debt securities available for sale	(2,760)	(3,303)
Purchases of debt securities held to maturity	—	(494)
Proceeds from sales of loans	290	45
Purchases of loans	(403)	(153)
Purchases of mortgage servicing rights	(37)	(40)
Net change in loans	(2,036)	498
Net purchases of other assets	(129)	(81)
Proceeds from disposition of business, net of cash transferred	357	—
Net cash from investing activities	(1,834)	1
Financing activities:		
Net change in deposits	(3,634)	(1,444)
Net change in short-term borrowings	2,750	600
Proceeds from long-term borrowings	10,800	2,844
Payments on long-term borrowings	(7,700)	(4,504)
Cash dividends on common stock	(304)	(346)
Cash dividends on preferred stock	(48)	(48)
Repurchases of common stock	(1,752)	(775)
Taxes paid related to net share settlement of equity awards	(34)	(22)

Other	(1)	—
Net cash from financing activities	77	(3,695)
Net change in cash and cash equivalents	(486)	(1,690)
Cash and cash equivalents at beginning of year	3,981	5,451
Cash and cash equivalents at end of period	$3,495	$3,761

See notes to consolidated financial statements.

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REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Three and Nine Months Ended September 30, 2018 and 2017

NOTE 1. BASIS OF PRESENTATION

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

The accounting and reporting policies of Regions and the methods of applying those policies that materially affect the consolidated financial statements conform with GAAP and with general financial services industry practices. The accompanying interim financial statements have been prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all information and notes to the consolidated financial statements necessary for a complete presentation of financial position, results of operations, comprehensive income and cash flows in conformity with GAAP. In the opinion of management, all adjustments, consisting of normal and recurring items, necessary for the fair presentation of the consolidated financial statements have been included. These interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto in Regions’ Annual Report on Form 10-K for the year ended December 31, 2017. Regions has evaluated all subsequent events for potential recognition and disclosure through the filing date of this Form 10-Q.

On April 4, 2018, Regions entered into a stock purchase agreement to sell Regions Insurance Group, Inc. and related affiliates to BB&T Holdings, Inc. The transaction closed on July 2, 2018. Regions sold Morgan Keegan and related affiliates in April 2012. See Note 2 and Note 13 for related disclosure.

Effective January 1, 2018, the Company adopted new guidance related to several accounting topics. The cumulative effect of the retrospective application was a total reduction to retained earnings of $2 million, of which the individual components were immaterial. All prior period amounts impacted by guidance that required retrospective application have been revised. See Note 15 for related disclosure.

NOTE 2. DISCONTINUED OPERATIONS

On April 4, 2018, Regions entered into a stock purchase agreement to sell Regions Insurance Group, Inc. and related affiliates to BB&T Insurance Holdings, Inc. The transaction closed on July 2, 2018. The gain associated with the transaction amounted to $281 million ($196 million after-tax).

In connection with the agreement, the results of the entities sold are reported in the Company's consolidated statements of income separately as discontinued operations for all periods presented.

On January 11, 2012, Regions entered into a stock purchase agreement to sell Morgan Keegan and related affiliates to Raymond James. The transaction closed on April 2, 2012. Regions Investment Management, Inc. (formerly known as Morgan Asset Management, Inc.) and Regions Trust were not included in the sale. In connection with the closing of the sale, Regions agreed to indemnify Raymond James for all litigation matters related to pre-closing activities. See Note 13 for related disclosure.

Results of operations for the Morgan Keegan entities sold are presented separately as discontinued operations for all periods presented on the consolidated statements of income. This presentation is consistent with the consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2017.

The following table represents the condensed results of operations for the Regions Insurance Group, Inc. entities sold as discontinued operations:

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	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
	(In millions)			
Interest income	$1	$ 1	$1	$ 1
Interest expense	—	—	—	—
Net interest income	1	1	1	1
Non-interest income:				
Securities gains (losses), net	(1)	—	(1)	—
Insurance commissions and fees	—	33	69	104
Gain on sale of business	281	—	281	—
Other	—	1	—	2
Total non-interest income	280	34	349	106
Non-interest expense:				
Salaries and employee benefits	—	24	49	73
Net occupancy expense	—	2	3	5
Furniture and equipment expense	—	1	2	3
Other	1	7	16	22
Total non-interest expense	1	34	70	103
Income from discontinued operations before income taxes	280	1	280	4
Income tax expense	84	1	84	2
Income from discontinued operations, net of tax	$196	$ —	$196	$ 2

The following table represents the condensed results of operations for both the Regions Insurance Group, Inc. entities being sold and Morgan Keegan and Company, Inc. and related affiliates as discontinued operations:

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
	(In millions, except per share data)			
Income from discontinued operations before income taxes	$274	$—	$271	$13
Income tax expense	80	1	80	6
Income (loss) from discontinued operations, net of tax	$194	$(1)	$191	$7
Earnings (loss) per common share from discontinued operations:				
Basic	$0.18	$(0.00)	$0.17	$0.01
Diluted	$0.18	$(0.00)	$0.17	$0.01

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NOTE 3. SECURITIES

DEBT SECURITIES

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

	September 30, 2018						
		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)						
Debt securities held to maturity:							
Mortgage-backed securities:							
Residential agency	$923	$—	$ (34)	$889	$ —	$ (27)	$ 862
Commercial agency	638	—	(3)	635	—	(25)	610
	$1,561	$—	$ (37)	$1,524	$ —	$ (52)	$ 1,472
Debt securities available for sale:							
U.S. Treasury securities	$282	$—	$ (6)	$276			$ 276
Federal agency securities	46	—	—	46			46
Mortgage-backed securities:							
Residential agency	17,363	12	(706)	16,669			16,669
Residential non-agency	2	—	—	2			2
Commercial agency	3,885	—	(110)	3,775			3,775
Commercial non-agency	785	2	(14)	773			773
Corporate and other debt securities	1,151	2	(23)	1,130			1,130
	$23,514	$16	$ (859)	$22,671			$ 22,671

	December 31, 2017						
		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)						
Debt securities held to maturity:							
Mortgage-backed securities:							
Residential agency	$1,051	$—	$ (40)	$1,011	$ 12	$ (4)	$ 1,019
Commercial agency	651	—	(4)	647	5	(4)	648
	$1,702	$—	$ (44)	$1,658	$ 17	$ (8)	$ 1,667
Debt securities available for sale:							
U.S. Treasury securities	$333	$—	$ (2)	$331			$ 331
Federal agency securities	28	—	—	28			28
Mortgage-backed securities:							
Residential agency	17,622	53	(244)	17,431			17,431
Residential non-agency	3	—	—	3			3
Commercial agency	3,739	5	(30)	3,714			3,714

Commercial non-agency	787	4	(3)	788	788
Corporate and other debt securities	1,093	20	(5)	1,108	1,108
	$23,605	$82	$ (284)	$23,403	$ 23,403

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

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Debt securities with carrying values of $7.6 billion and $8.1 billion at September 30, 2018 and December 31, 2017, respectively, were pledged to secure public funds, trust deposits and certain borrowing arrangements. Included within total pledged securities is approximately $24 million and $50 million of encumbered U.S. Treasury securities at September 30, 2018 and December 31, 2017, respectively.

The amortized cost and estimated fair value of debt securities held to maturity and debt securities available for sale at September 30, 2018, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
	(In millions)	
Debt securities held to maturity:		
Mortgage-backed securities:		
Residential agency	$923	$ 862
Commercial agency	638	610
	$1,561	$ 1,472
Debt securities available for sale:		
Due in one year or less	$65	$ 65
Due after one year through five years	980	964
Due after five years through ten years	385	374
Due after ten years	49	49
Mortgage-backed securities:		
Residential agency	17,363	16,669
Residential non-agency	2	2
Commercial agency	3,885	3,775
Commercial non-agency	785	773
	$23,514	$ 22,671

The following tables present gross unrealized losses and the related estimated fair value of debt securities held to maturity and debt securities available for sale at September 30, 2018 and December 31, 2017. For debt securities transferred to held to maturity from available for sale, the analysis in the tables below is comparing the securities' original amortized cost to its current estimated fair value. These securities are segregated between investments that have been in a continuous unrealized loss position for less than twelve months and for twelve months or more.

	September 30, 2018					
	Less Than Twelve Months		Twelve Months or More		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
	(In millions)					
Debt securities held to maturity:						
Mortgage-backed securities:						
Residential agency	$—	$ —	$862	$ (61)	$862	$ (61)
Commercial agency	475	(18)	135	(10)	610	(28)
	$475	$ (18)	$997	$ (71)	$1,472	$ (89)
Debt securities available for sale:						
U.S. Treasury securities	$199	$ (3)	$72	$ (3)	$271	$ (6)

Mortgage-backed securities:						
Residential agency	6,407	(169)	9,091	(537)	15,498	(706)
Commercial agency	2,162	(51)	1,441	(59)	3,603	(110)
Commercial non-agency	515	(11)	105	(3)	620	(14)
Corporate and other debt securities	772	(15)	163	(8)	935	(23)
	$10,055	$ (249)	$10,872	$ (610)	$20,927	$ (859)

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	December 31, 2017					
	Less Than Twelve Months		Twelve Months or More		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
	(In millions)					
Debt securities held to maturity:						
Mortgage-backed securities:						
Residential agency	$—	$ —	$1,019	$ (32)	$1,019	$ (32)
Commercial agency	—	—	150	(7)	150	(7)
	$—	$ —	$1,169	$ (39)	$1,169	$ (39)
Debt securities available for sale:						
U.S. Treasury securities	$221	$ (1)	$84	$ (1)	$305	$ (2)
Mortgage-backed securities:						
Residential agency	5,157	(40)	8,195	(204)	13,352	(244)
Commercial agency	1,666	(10)	904	(20)	2,570	(30)
Commercial non-agency	393	(2)	61	(1)	454	(3)
Corporate and other debt securities	306	(2)	105	(3)	411	(5)
	$7,743	$ (55)	$9,349	$ (229)	$17,092	$ (284)

The number of individual debt positions in an unrealized loss position in the tables above increased from 1,059 at December 31, 2017 to 1,459 at September 30, 2018. The increase in the number of securities and the total amount of unrealized losses from year-end 2017 was primarily due to changes in market interest rates. In instances where an unrealized loss existed, there was no indication of an adverse change in credit on the underlying positions in the tables above. As it relates to these positions, management believes no individual unrealized loss, other than those discussed below, represented an OTTI as of those dates. The Company does not intend to sell, and it is not more likely than not that the Company will be required to sell, the positions before the recovery of their amortized cost basis, which may be at maturity.

As part of the Company's normal process for evaluating OTTI, management did identify a limited number of positions where an OTTI was believed to exist as of September 30, 2018.

Gross realized gains and gross realized losses on sales of debt securities available for sale from continuing operations are shown in the table below. The cost of securities sold is based on the specific identification method.

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
	(In millions)			
Gross realized gains	$1	$ 5	$ 4	$ 9
Gross realized losses	(1)	—	(1)	(3)
OTTI	—	(1)	(2)	(1)
Debt securities available for sale gains (losses), net [(1)]	$—	$ 4	$ 1	$ 5

(1) The securities gains (losses), net balances above exclude net trading securities gains of $4 million recognized during the third quarter of 2017.

EQUITY INVESTMENTS

Effective January 1, 2018, Regions adopted new accounting guidance that requires equity investments to be recorded at fair value with changes in fair value reported in net income. Regions elected a measurement alternative to fair value for certain equity investments without a readily determinable fair value. See Note 15 for related disclosure.

Marketable equity securities carried at fair value, which primarily consist of assets held for certain employee benefits and money market funds, are reported in other earning assets in the consolidated balance sheets. Total marketable equity securities were $475 million and $414 million at September 30, 2018 and December 31, 2017, respectively. Net unrealized holding gains for marketable equity securities were $7 million at September 30, 2018.

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Equity investments without a readily determinable fair value primarily consist of investments in strategic partners and certain CRA projects. The carrying amount of equity investments measured under the measurement alternative, downward and upward adjustments for impairments and price changes from observable transactions are as follows:

	Three Months Ended	Nine Months Ended
	September 30, 2018	
	(In millions)	
Carrying value, beginning of period	$39	$ 31
Net additions	9	9
Downward adjustments for price changes and impairment	(2)	(2)
Upward adjustments for price changes	7	15
Carrying value, end of period	$53	$ 53

Total cumulative downward adjustments for equity investments without a determinable fair value for impairments and observable price changes were $6 million. Total cumulative upward adjustments for price changes from observable transactions were $15 million as of September 30, 2018.

NOTE 4. LOANS AND THE ALLOWANCE FOR CREDIT LOSSES

LOANS

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

	September 30, 2018	December 31, 2017
	(In millions, net of unearned income)	
Commercial and industrial	$ 38,036	$ 36,115
Commercial real estate mortgage—owner-occupied	5,943	6,193
Commercial real estate construction—owner-occupied	326	332
Total commercial	44,305	42,640
Commercial investor real estate mortgage	4,205	4,062
Commercial investor real estate construction	1,838	1,772
Total investor real estate	6,043	5,834
Residential first mortgage	14,220	14,061
Home equity	9,435	10,164
Indirect—vehicles	3,146	3,326
Indirect—other consumer	2,179	1,467
Consumer credit card	1,273	1,290
Other consumer	1,220	1,165
Total consumer	31,473	31,473
	$ 81,821	$ 79,947

During the three months ended September 30, 2018 and 2017, Regions purchased approximately $188 million and $6 million in indirect-other consumer loans from third parties, respectively. During the nine months ended September 30, 2018 and 2017, the comparable loan purchase amounts were approximately $403 million and $153 million, respectively.

At September 30, 2018, $22.0 billion in securities and net eligible loans held by Regions were pledged to secure current and potential borrowings from the FHLB. At September 30, 2018, an additional $24.1 billion in net eligible loans held by Regions were pledged to the FRB for potential borrowings.

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ALLOWANCE FOR CREDIT LOSSES

Regions determines the appropriate level of the allowance on a quarterly basis. Refer to Note 1 “Summary of Significant Accounting Policies” to the consolidated financial statements to the Annual Report on Form 10-K for the year ended December 31, 2017, for a description of the methodology.

ROLLFORWARD OF ALLOWANCE FOR CREDIT LOSSES

The following tables present analyses of the allowance for credit losses by portfolio segment for the three and nine months ended September 30, 2018 and 2017. The total allowance for loan losses and the related loan portfolio ending balances are disaggregated to detail the amounts derived through individual evaluation and collective evaluation for impairment. The allowance for loan losses related to individually evaluated loans is attributable to reserves for non-accrual commercial and investor real estate loans and all TDRs. The allowance for loan losses and the loan portfolio ending balances related to collectively evaluated loans is attributable to the remainder of the portfolio.

	Three Months Ended September 30, 2018			
	Commercial	Investor Real Estate	Consumer	Total
	(In millions)			
Allowance for loan losses, July 1, 2018	$551	$ 48	$ 239	$838
Provision (credit) for loan losses	12	(1)	73	84
Loan losses:				
Charge-offs	(41)	(1)	(65)	(107)
Recoveries	10	2	13	25
Net loan (losses) recoveries	(31)	1	(52)	(82)
Allowance for loan losses, September 30, 2018	532	48	260	840
Reserve for unfunded credit commitments, July 1, 2018	44	4	—	48
Provision (credit) for unfunded credit losses	2	—	—	2
Reserve for unfunded credit commitments, September 30, 2018	46	4	—	50
Allowance for credit losses, September 30, 2018	$578	$ 52	$ 260	$890

	Three Months Ended September 30, 2017			
	Commercial	Investor Real Estate	Consumer	Total
	(In millions)			
Allowance for loan losses, July 1, 2017	$707	$ 82	$ 252	$1,041
Provision (credit) for loan losses	8	(8)	76	76
Loan losses:				
Charge-offs	(43)	—	(63)	(106)
Recoveries	11	3	16	30
Net loan (losses) recoveries	(32)	3	(47)	(76)
Allowance for loan losses, September 30, 2017	683	77	281	1,041
Reserve for unfunded credit commitments, July 1, 2017	63	4	—	67
Provision (credit) for unfunded credit losses	(8)	—	—	(8)
Reserve for unfunded credit commitments, September 30, 2017	55	4	—	59
Allowance for credit losses, September 30, 2017	$738	$ 81	$ 281	$1,100

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	Nine Months Ended September 30, 2018			
	Commercial	Investor Real Estate	Consumer	Total
	(In millions)			
Allowance for loan losses, January 1, 2018	$591	$ 64	$279	$934
Provision (credit) for loan losses	12	(13)	135	134
Loan losses:				
Charge-offs	(105)	(9)	(200)	(314)
Recoveries	34	6	46	86
Net loan (losses) recoveries	(71)	(3)	(154)	(228)
Allowance for loan losses, September 30, 2018	532	48	260	840
Reserve for unfunded credit commitments, January 1, 2018	49	4	—	53
Provision (credit) for unfunded credit losses	(3)	—	—	(3)
Reserve for unfunded credit commitments, September 30, 2018	46	4	—	50
Allowance for credit losses, September 30, 2018	$578	$ 52	$260	$890
Portion of ending allowance for loan losses:				
Individually evaluated for impairment	$119	$ 5	$26	$150
Collectively evaluated for impairment	413	43	234	690
Total allowance for loan losses	$532	$ 48	$260	$840
Portion of loan portfolio ending balance:				
Individually evaluated for impairment	$599	$ 51	$438	$1,088
Collectively evaluated for impairment	43,706	5,992	31,035	80,733
Total loans evaluated for impairment	$44,305	$ 6,043	$31,473	$81,821

	Nine Months Ended September 30, 2017			
	Commercial	Investor Real Estate	Consumer	Total
	(In millions)			
Allowance for loan losses, January 1, 2017	$753	$ 85	$253	$1,091
Provision (credit) for loan losses	41	(16)	169	194
Loan losses:				
Charge-offs	(139)	(2)	(188)	(329)
Recoveries	28	10	47	85
Net loan (losses) recoveries	(111)	8	(141)	(244)
Allowance for loan losses, September 30, 2017	683	77	281	1,041
Reserve for unfunded credit commitments, January 1, 2017	64	5	—	69
Provision (credit) for unfunded credit losses	(9)	(1)	—	(10)
Reserve for unfunded credit commitments, September 30, 2017	55	4	—	59
Allowance for credit losses, September 30, 2017	$738	$ 81	$281	$1,100
Portion of ending allowance for loan losses:				
Individually evaluated for impairment	$202	$ 19	$52	$273
Collectively evaluated for impairment	481	58	229	768
Total allowance for loan losses	$683	$ 77	$281	$1,041
Portion of loan portfolio ending balance:				
Individually evaluated for impairment	$898	$ 108	$727	$1,733
Collectively evaluated for impairment	41,164	5,827	30,632	77,623
Total loans evaluated for impairment	$42,062	$ 5,935	$31,359	$79,356

PORTFOLIO SEGMENT RISK FACTORS

The following describe the risk characteristics relevant to each of the portfolio segments.
Commercial—The commercial portfolio segment includes commercial and industrial loans to commercial customers for use in normal business operations to finance working capital needs, equipment purchases or other expansion projects. Commercial also includes owner-occupied commercial real estate mortgage loans to operating businesses, which are loans for long-term financing of land and buildings, and are repaid by cash flow generated by business operations. Owner-occupied construction loans

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are made to commercial businesses for the development of land or construction of a building where the repayment is derived from revenues generated from the business of the borrower. Collection risk in this portfolio is driven by the creditworthiness of underlying borrowers, particularly cash flow from customers' business operations, and the sensitivity to market fluctuations in commodity prices.

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

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

CREDIT QUALITY INDICATORS

The following tables present credit quality indicators for portfolio segments and classes, excluding loans held for sale, as of September 30, 2018, and December 31, 2017. Commercial and investor real estate portfolio segments are detailed by categories related to underlying credit quality and probability of default. Regions assigns these categories at loan origination and reviews the relationship utilizing a risk-based approach on, at minimum, an annual basis or at any time management becomes aware of information affecting the borrowers' ability to fulfill their obligations. Both quantitative and qualitative factors are considered in this review process. These categories are utilized to develop the associated allowance for credit losses.

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

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

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	September 30, 2018				
	Pass	Special Mention	Substandard Accrual	Non-accrual	Total
	(In millions)				
Commercial and industrial	$36,582	$ 751	$362	$ 341	$38,036
Commercial real estate mortgage—owner-occupied	5,547	200	116	80	5,943
Commercial real estate construction—owner-occupied	299	3	16	8	326
Total commercial	$42,428	$ 954	$494	$ 429	$44,305
Commercial investor real estate mortgage	$4,072	$ 82	$49	$ 2	$4,205
Commercial investor real estate construction	1,819	12	7	—	1,838
Total investor real estate	$5,891	$ 94	$56	$ 2	$6,043

	Accrual	Non-accrual	Total
	(In millions)		
Residential first mortgage	$14,178	$ 42	$14,220
Home equity	9,369	66	9,435
Indirect—vehicles	3,146	—	3,146
Indirect—other consumer	2,179	—	2,179
Consumer credit card	1,273	—	1,273
Other consumer	1,220	—	1,220
Total consumer	$31,365	$ 108	$31,473
			$81,821

	December 31, 2017				
	Pass	Special Mention	Substandard Accrual	Non-accrual	Total
	(In millions)				
Commercial and industrial	$34,420	$ 686	$ 605	$ 404	$36,115
Commercial real estate mortgage—owner-occupied	5,674	236	165	118	6,193
Commercial real estate construction—owner-occupied	313				