REGIONS FINANCIAL CORP
Form 10-Q
August 08, 2013
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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 June 30, 2013
or
¨ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to

Commission File Number: 001-34034

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ý Yes ¨ No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ý Yes ¨ No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer ý Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨

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

The number of shares outstanding of each of the issuer's classes of common stock was 1,395,843,017 shares of common stock, par value $.01, outstanding as of August 2, 2013.

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Forward-Looking Statements

This Quarterly Report on Form 10-Q, other periodic reports filed by Regions Financial Corporation ("Regions") under the Securities Exchange Act of 1934, as amended, and any other written or oral statements made by or on behalf of Regions may include forward-looking statements. The Private Securities Litigation Reform Act of 1995 (the "Act") provides a "safe harbor" for forward-looking statements which are identified as such and are accompanied by the identification of important factors that could cause actual results to differ materially from the forward-looking statements. For these statements, we, together with our subsidiaries, unless the context implies otherwise, claim the protection afforded by the safe harbor in the Act. 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 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, uncertainties and other factors that may cause actual results to differ materially from the views, beliefs and projections expressed in such statements. These risks, uncertainties and other factors include, but are not limited to, those described below:

- The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") became law in July 2010, and a number of legislative, regulatory and tax proposals remain pending. Future and proposed rules may have significant effects on Regions and the financial services industry, the exact nature and extent of which cannot be determined at this time.
- Current developments in recent litigation against the Board of Governors of the Federal Reserve System could result in possible reductions in the maximum permissible interchange fee that an issuer may receive for electronic debit transactions and/or the possible expansion of providing merchants with the choice of multiple unaffiliated payment networks for each transaction, each of which could negatively impact the income Regions currently receives with respect to those transactions.
- Possible additional loan losses, impairment of goodwill and other intangibles, and adjustment of valuation allowances on deferred tax assets and the impact on earnings and capital.
- Possible changes in interest rates may increase funding costs and reduce earning asset yields, thus reducing margins. Increases in benchmark interest rates could also increase debt service requirements for customers whose terms include a variable interest rate, which may negatively impact the ability of borrowers to pay as contractually obligated.
- Possible adverse changes in general economic and business conditions in the United States in general and in the communities Regions serves in particular.
- Possible changes in the creditworthiness of customers and the possible impairment of the collectability of loans.
- Possible changes in trade, monetary and fiscal policies, laws and regulations and other activities of governments, agencies, and similar organizations, may have an adverse effect on business.
- Possible regulations issued by the Consumer Financial Protection Bureau or other regulators which might adversely impact Regions' business model or products and services.
- Regions' ability 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 issue or redeem preferred stock or other regulatory capital instruments, is subject to the review of such proposed actions by the Federal Reserve as part of Regions' comprehensive capital plan for applicable period in the connection with the regulators' Comprehensive Capital Analysis and Review (CCAR) process and to the acceptance of such capital plan and non-objection to such capital actions by the Federal Reserve.
- Possible stresses in the financial and real estate markets, including possible deterioration in property values.
- Regions' 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 Regions' business.
- Regions' ability to expand into new markets and to maintain profit margins in the face of competitive pressures.
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Regions’ ability to develop competitive new products and services in a timely manner and the acceptance of such products and services by Regions’ customers and potential customers.

- Cyber-security risks, including "denial of service," "hacking" and "identity theft," that could adversely affect our business and financial performance, or our reputation.
- Regions’ ability to keep pace with technological changes.
- Regions’ ability to effectively identify and manage credit risk, interest rate risk, market risk, operational risk, legal risk, liquidity risk, reputational risk, counterparty risk, international risk, regulatory risk, and compliance risk.
- Regions’ ability to ensure adequate capitalization which is impacted by inherent uncertainties in forecasting credit losses.
- The cost and other effects of material contingencies, including litigation contingencies, and any adverse judicial, administrative, or arbitral rulings or proceedings.
- The effects of increased competition from both banks and non-banks.
- The effects of geopolitical instability and risks such as terrorist attacks.

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- Regions' ability to identify and address data security breaches.
- Possible changes in consumer and business spending and saving habits could affect Regions' ability to increase assets and to attract deposits.
- The effects of weather and natural disasters such as floods, droughts, wind, tornadoes and hurricanes, and the effects of man-made disasters.
- Possible downgrades in ratings issued by rating agencies.
- Possible changes in the speed of loan prepayments by Regions' customers and loan origination or sales volumes.
- Possible acceleration of prepayments on mortgage-backed securities due to low interest rates, and the related acceleration of premium amortization on those securities.
- The effects of problems encountered by larger or similar financial institutions that adversely affect Regions or the banking industry generally.
- Regions' ability to receive dividends from its subsidiaries.
- The effects of the failure of any component of Regions' business infrastructure which is provided by a third party.
- Changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other regulatory agencies.
- The effects of any damage to Regions' reputation resulting from developments related to any of the items identified above.

The words "believe," "expect," "anticipate," "project," and similar expressions often signify forward-looking statements. You should not place undue reliance on any forward-looking statements, which speak only as of the date made. We assume no obligation to update or revise any forward-looking statements that are made from time to time.

See also the "Forward-Looking Statements" and "Risk Factors" sections of Regions' Annual Report on Form 10-K for the year ended December 31, 2012 as filed with the Securities and Exchange Commission.

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

	June 30, 2013	December 31, 2012
	(In millions, except share data)	
Assets		
Cash and due from banks	$2,112	$1,979
Interest-bearing deposits in other banks	2,168	3,510
Trading account securities	102	116
Securities held to maturity (estimated fair value of $2,425 and $11, respectively)	2,425	10
Securities available for sale	22,001	27,244
Loans held for sale (includes $752 and $1,282 measured at fair value, respectively)	839	1,383
Loans, net of unearned income	74,990	73,995
Allowance for loan losses	(1,636)	(1,919)
Net loans	73,354	72,076
Other interest-earning assets	135	900
Premises and equipment, net	2,228	2,279
Interest receivable	326	344
Goodwill	4,816	4,816
Mortgage servicing rights at fair value	276	191
Other identifiable intangible assets	318	345
Other assets	7,607	6,154
Total assets	$118,707	$121,347
Liabilities and Stockholders' Equity		
Deposits:		
Non-interest-bearing	$29,464	$29,963
Interest-bearing	62,990	65,511
Total deposits	92,454	95,474
Borrowed funds:		
Short-term borrowings:		
Federal funds purchased and securities sold under agreements to repurchase	2,877	1,449
Other short-term borrowings	1,000	125
Total short-term borrowings	3,877	1,574
Long-term borrowings	4,856	5,861
Total borrowed funds	8,733	7,435
Other liabilities	2,191	2,939
Total liabilities	103,378	105,848
Stockholders' equity:		
Preferred stock, authorized 10 million shares:		
Series A, non-cumulative perpetual, par value $1.00 (liquidation preference $1,000.00) per share, including related surplus, net of discount; Issued—500,000 shares	466	482
Common stock, par value $.01 per share:		

Authorized 3 billion shares		
Issued including treasury stock—1,436,521,088 and 1,454,626,952 shares, respectively	14	15
Additional paid-in capital	19,440	19,652
Retained earnings (deficit)	(2,736)	(3,338)
Treasury stock, at cost—41,287,282 and 41,287,460 shares, respectively	(1,377)	(1,377)
Accumulated other comprehensive income (loss), net	(478)	65
Total stockholders' equity	15,329	15,499
Total liabilities and stockholders' equity	$118,707	$121,347

See notes to consolidated financial statements.

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REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
	(In millions, except per share data)			
Interest income on:				
Loans, including fees	$746	$806	$1,489	$1,618
Securities - taxable	152	179	308	353
Loans held for sale	8	7	17	14
Trading account securities	—	—	1	1
Other interest-earning assets	1	2	3	5
Total interest income	907	994	1,818	1,991
Interest expense on:				
Deposits	33	76	75	164
Short-term borrowings	1	—	1	—
Long-term borrowings	65	80	136	162
Total interest expense	99	156	212	326
Net interest income	808	838	1,606	1,665
Provision for loan losses	31	26	41	143
Net interest income after provision for loan losses	777	812	1,565	1,522
Non-interest income:				
Service charges on deposit accounts	237	233	479	487
Investment fee income	29	17	56	45
Mortgage income	69	90	141	167
Trust department income	49	50	98	99
Securities gains, net	8	12	23	24
Other	105	105	201	209
Total non-interest income	497	507	998	1,031
Non-interest expense:				
Salaries and employee benefits	452	434	899	876
Net occupancy expense	92	92	182	186
Furniture and equipment expense	69	67	138	131
Other	271	249	507	562
Total non-interest expense	884	842	1,726	1,755
Income from continuing operations before income taxes	390	477	837	798
Income tax expense	122	126	236	208
Income from continuing operations	268	351	601	590
Discontinued operations:				
Income (loss) from discontinued operations before income taxes	(2)	4	2	(61)
Income tax expense (benefit)	(1)	—	1	(25)
Income (loss) from discontinued operations, net of tax	(1)	4	1	(36)
Net income	$267	$355	$602	$554
Net income from continuing operations available to common shareholders	$260	$280	$585	$465
Net income available to common shareholders	$259	$284	$586	$429

Weighted-average number of shares outstanding:				
Basic	1,401	1,414	1,407	1,348
Diluted	1,418	1,418	1,421	1,350
Earnings per common share from continuing operations:				
Basic	$0.19	$0.20	$0.42	$0.34
Diluted	0.18	0.20	0.41	0.34
Earnings per common share:				
Basic	$0.18	$0.20	$0.42	$0.32
Diluted	0.18	0.20	0.41	0.32
Cash dividends declared per common share	0.03	0.01	0.04	0.02

See notes to consolidated financial statements.

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

	Three Months Ended June 30	
	2013	2012
	(In millions)	
Net income	$267	$355
Other comprehensive income (loss), net of tax:*		
Unrealized losses on securities transferred to held to maturity during the period (net of $(43) and zero tax effect for the three months ended June 30, 2013 and 2012, respectively)	(68)	—
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period (net of $(215) and $52 tax effect for the three months ended June 30, 2013 and 2012, respectively)	(353)	86
Less: reclassification adjustments for securities gains realized in net income (net of $3 and $4 tax effect for the three months ended June 30, 2013 and 2012, respectively)	5	8
Net change in unrealized gains (losses) on securities available for sale, net of tax	(358)	78
Unrealized gains (losses) on derivative instruments designated as cash flow hedges:		
Unrealized holding gains (losses) on derivatives arising during the period (net of $(25) and $22 tax effect for the three months ended June 30, 2013 and 2012, respectively)	(39)	37
Less: reclassification adjustments for gains realized in net income (net of $6 and $6 tax effect for the three months ended June 30, 2013 and 2012, respectively)	11	11
Net change in unrealized gains (losses) on derivative instruments, net of tax	(50)	26
Defined benefit pension plans and other post employment benefits:		
Net actuarial gains (losses) arising during the period (net of zero and $1 tax effect for the three months ended June 30, 2013 and 2012, respectively)	(1)	(2)
Less: reclassification adjustments for amortization of actuarial loss and prior service cost realized in net income, and other (net of $(6) and $(6) tax effect for the three months ended June 30, 2013 and 2012, respectively)	(11)	(12)
Net change from defined benefit pension plans, net of tax	10	10
Other comprehensive income (loss), net of tax*	$(466)	$114
Comprehensive income (loss)	$(199)	$469

	Six Months Ended June 30	
	2013	2012
	(In millions)	
Net income	$602	$554
Other comprehensive income (loss), net of tax:*		
Unrealized losses on securities transferred to held to maturity during the period (net of $(43) and zero tax effect for the six months ended June 30, 2013 and 2012, respectively)	(68)	—
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period (net of $(258) and $52 tax effect for the six months ended June 30, 2013 and 2012, respectively)	(421)	88
Less: reclassification adjustments for securities gains realized in net income (net of $8 and $8 tax effect for the six months ended June 30, 2013 and 2012, respectively)	15	16
Net change in unrealized gains (losses) on securities available for sale	(436)	72
Unrealized gains (losses) on derivative instruments designated as cash flow hedges:		

Unrealized holding gains (losses) on derivatives arising during the period (net of $(24) and $29 tax effect for the six months ended June 30, 2013 and 2012 respectively)	(38)	47
Less: reclassification adjustments for gains realized in net income (net of $12 and $13 tax effect for the six months ended June 30, 2012 and 2011, respectively)	20	21
Net change in unrealized gains (losses) on derivative instruments	(58)	26
Defined benefit pension plans and other post employment benefits:		
Net actuarial gains (losses) arising during the period (net of zero and $2 tax effect for the six months ended June 30, 2013 and 2012, respectively)	(2)	2
Less: reclassification adjustments for amortization of actuarial loss and prior service cost realized in net income, and other (net of $(12) and $(13) tax effect for the six months ended June 30, 2013 and 2012, respectively)	(21)	(23)
Net change from defined benefit pension plans	19	25
Other comprehensive income (loss), net of tax*	$(543)	$123
Comprehensive income	$59	$677

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* All other comprehensive amounts are shown net of tax.

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						
	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Retained Earnings (Deficit)	Treasury Stock, At Cost	Accumulated Other Comprehensive Income (Loss), Net	Total
	(In millions, except share and per share data)								
BALANCE AT JANUARY 1, 2012[1]	4	$3,419	1,259	$ 13	$ 18,855	$(4,322)	$(1,397)	$ (69)	$16,499
Net income	—	—	—	—	—	554	—	—	554
Net change in unrealized gains and losses on securities available for sale, net of tax and reclassification adjustment	—	—	—	—	—	—	—	72	72
Net change in unrealized gains and losses on derivative instruments, net of tax and reclassification adjustment	—	—	—	—	—	—	—	26	26
Net change from defined benefit pension plans, net of tax	—	—	—	—	—	—	—	25	25
Cash dividends declared—$0.02 per share[1]	—	—	—	—	(27)	—	—	—	(27)
Preferred dividends:									
U.S. Treasury preferred stock dividends	—	—	—	—	—	(44)	—	—	(44)
Preferred stock transactions:									
Discount accretion	—	10	—	—	—	(10)	—	—	—
Repurchase of Series A preferred stock issued to the U.S. Treasury and associated accelerated accretion	(4)	(3,429)	—	—	—	(71)	—	—	(3,500)
Repurchase of warrant from the U.S. Treasury	—	—	—	—	(45)	—	—	—	(45)
Common stock transactions:									
Net proceeds from issuance of 153 million shares of common stock	—	—	153	2	873	—	—	—	875
Impact of stock transactions under compensation plans, net	—	—	1	—	10	(11)	21	—	20
BALANCE AT JUNE 30, 2012[1]	—	$—	1,413	$ 15	$ 19,666	$(3,904)	$(1,376)	$ 54	$14,455

BALANCE AT JANUARY 1, 2013	1	$482	1,413	$15	$19,652	$(3,338)	$(1,377)	$65	$15,499
Net income	—	—	—	—	—	602	—	—	602
Unrealized losses on securities transferred to held to maturity[2]	—	—	—	—	—	—	—	(68)	(68)
Net change in unrealized gains and losses on securities available for sale, net of tax and reclassification adjustment	—	—	—	—	—	—	—	(436)	(436)
Net change in unrealized gains and losses on derivative instruments, net of tax and reclassification adjustment	—	—	—	—	—	—	—	(58)	(58)
Net change from defined benefit pension plans, net of tax	—	—	—	—	—	—	—	19	19
Cash dividends declared—$0.04 per share	—	—	—	—	(56)	—	—	—	(56)
Series A preferred stock dividends	—	(16)	—	—	—	—	—	—	(16)
Common stock transactions:									
Impact of share repurchase	—	—	(18)	—	(173)	—	—	—	(173)
Impact of stock transactions under compensation plans, net	—	—	—	(1)	17	—	—	—	16
BALANCE AT JUNE 30, 2013	1	$466	1,395	$14	$19,440	$(2,736)	$(1,377)	$(478)	$15,329

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(1) Prior period cash dividends declared on common stock have been reclassified from retained earnings (deficit) to additional paid-in capital to correct an error in classification. Refer to Note 14 "Stockholder's Equity and Accumulated Other Comprehensive Income (Loss)" in Regions' Annual Report on Form 10-K for the year ended December 31, 2012 for further discussion.

(2) Represents unrealized losses on certain securities previously classified as available for sale securities that were transferred to held to maturity classification. Refer to Note 3 "Securities" for further details.

See notes to consolidated financial statements.

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REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30	
	2013	2012
	(In millions)	
Operating activities:		
Net income	$602	$554
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	41	143
Depreciation, amortization and accretion, net	342	348
Provision for losses on other real estate, net	10	18
Securities (gains) losses, net	(23)	(24)
Gain on disposition of business	—	(15)
Deferred income tax expense	216	201
Originations and purchases of loans held for sale	(2,423)	(2,834)
Proceeds from sales of loans held for sale	3,027	2,732
(Gain) loss on sale of loans, net	(77)	(62)
Valuation charges on loans held for sale	1	8
(Gain) loss on early extinguishment of debt	56	—
Net change in operating assets and liabilities:		
Trading account assets	14	193
Other interest-earning assets	765	(182)
Interest receivable	18	17
Other assets	343	(102)
Other liabilities	(720)	39
Other	(25)	3
Net cash from operating activities	2,167	1,037
Investing activities:		
Proceeds from sales of securities available for sale	1,372	1,670
Proceeds from maturities of securities available for sale	3,377	3,209
Proceeds from maturities of securities held to maturity	3	3
Purchases of securities available for sale	(4,654)	(6,970)
Proceeds from sales of loans	107	411
Purchases of loans	(456)	(407)
Purchases of servicing rights	(28)	—
Net change in loans	(1,115)	746
Net purchases of premises and equipment	(71)	(79)
Proceeds from disposition of business, net of cash transferred	—	855
Net cash from investing activities	(1,465)	(562)
Financing activities:		
Net change in deposits	(3,020)	(529)
Net change in short-term borrowings	2,303	1,168
Proceeds from long-term borrowings	750	—
Payments on long-term borrowings	(1,698)	(1,853)
Cash dividends on common stock	(56)	(27)
Cash dividends on Series A preferred stock issued to the U.S. Treasury	—	(44)
Cash dividends on Series A preferred stock	(16)	—
Net proceeds from issuance of common stock	—	875

Repurchase of common stock	(173)	—
Repurchase of Series A preferred stock issued to the U.S. Treasury	—	(3,500)
Repurchase of warrant	—	(45)
Other	(1)	1
Net cash from financing activities	(1,911)	(3,954)
Net change in cash and cash equivalents	(1,209)	(3,479)
Cash and cash equivalents at beginning of year	5,489	7,245
Cash and cash equivalents at end of period	$4,280	$3,766

See notes to consolidated financial statements.

REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Three and Six Months Ended June 30, 2013 and 2012

NOTE 1. BASIS OF PRESENTATION

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

The accounting and reporting policies of Regions and the methods of applying those policies that materially affect the consolidated financial statements conform with accounting principles generally accepted in the United States ("GAAP") and with general financial services industry practices. The accompanying interim financial statements have been prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all information and notes to the consolidated financial statements necessary for a complete presentation of financial position, results of operations, comprehensive income and cash flows in conformity with GAAP. In the opinion of management, all adjustments, consisting of normal and recurring items, necessary for the fair presentation of the consolidated financial statements have been included. These interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto in Regions' Form 10-K for the year ended December 31, 2012. Regions has evaluated all subsequent events for potential recognition and disclosure through the filing date of this Form 10-Q.

On January 11, 2012, Regions entered into an agreement to sell Morgan Keegan & Company, Inc. ("Morgan Keegan") and related affiliates. The transaction closed on April 2, 2012. See Note 2 and Note 15 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. Other expenses related to the transaction are also included in discontinued operations. This presentation is consistent with the consolidated financial statements included in the 2012 Form 10-K.

Certain amounts in prior period financial statements have been reclassified to conform to the current period presentation, except as otherwise noted. These reclassifications are immaterial and have no effect on net income, comprehensive income, total assets or total stockholders' equity as previously reported.

NOTE 2. DISCONTINUED OPERATIONS

On January 11, 2012, Regions entered into a stock purchase agreement to sell Morgan Keegan and related affiliates to Raymond James Financial, Inc. ("Raymond James"). The transaction closed on April 2, 2012. Regions Investment Management, Inc. (formerly known as Morgan Asset Management, Inc.) and Regions Trust were not included in the sale. In connection with the closing of the sale, Regions agreed to indemnify Raymond James for all litigation matters related to pre-closing activities. See Note 15 for related disclosure.

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The following table represents the condensed results of operations for discontinued operations for the three and six months ended June 30:

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
	(In millions, except per share data)			
Interest income	$—	$—	$—	$8
Interest expense	—	—	—	1
Net interest income	—	—	—	7
Non-interest income:				
Brokerage, investment banking and capital markets	—	—	—	233
Gain on sale	—	15	—	15
Other	—	—	—	7
Total non-interest income	—	15	—	255
Non-interest expense:				
Salaries and employee benefits	—	—	—	171
Net occupancy expense	—	—	—	9
Furniture and equipment expense	—	—	—	8
Professional and legal expenses	1	10	(4)	106
Other	1	1	2	29
Total non-interest expense	2	11	(2)	323
Income (loss) from discontinued operations before income taxes	(2)	4	2	(61)
Income tax expense (benefit)	(1)	—	1	(25)
Income (loss) from discontinued operations, net of tax	$(1)	$4	$1	$(36)
Earnings (loss) per common share from discontinued operations:				
Basic	$(0.00)	$0.00	$0.00	$(0.03)
Diluted	$(0.00)	$0.00	$0.00	$(0.03)

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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:

	June 30, 2013						
		Recognized in OCI [1]			Not recognized in OCI		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)						
Securities held to maturity:							
U.S. Treasury securities	$2	$—	$—	$2	$—	$—	$2
Federal agency securities	351	—	(16)	335	1	—	336
Mortgage-backed securities:							
Residential agency	1,953	—	(85)	1,868	1	(1)	1,868
Commercial agency	230	—	(10)	220	—	(1)	219
	$2,536	$—	$(111)	$2,425	$2	$(2)	$2,425
Securities available for sale:							
U.S. Treasury securities	$51	$1	$—	$52			$52
Federal agency securities	117	1	—	118			118
Obligations of states and political subdivisions	7	—	—	7			7
Mortgage-backed securities:							
Residential agency	16,332	204	(117)	16,419			16,419
Residential non-agency	10	1	—	11			11
Commercial agency	758	5	(14)	749			749
Commercial non-agency	1,136	12	(38)	1,110			1,110
Corporate and other debt securities	2,875	26	(91)	2,810			2,810
Equity securities	716	9	—	725			725
	$22,002	$259	$(260)	$22,001			$22,001

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

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	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)			
Securities held to maturity:				
U.S. Treasury securities	$2	$—	$—	$2
Federal agency securities	2	—	—	2
Mortgage-backed securities:				
Residential agency	6	1	—	7
	$10	$1	$—	$11
Securities available for sale:				
U.S. Treasury securities	$50	$2	$—	$52
Federal agency securities	550	4	(1)	553
Obligations of states and political subdivisions	9	—	—	9
Mortgage-backed securities:				
Residential agency	20,721	574	(18)	21,277
Residential non-agency	12	1	—	13
Commercial agency	705	20	—	725
Commercial non-agency	1,055	43	—	1,098
Corporate and other debt securities	2,762	81	(8)	2,835
Equity securities	679	4	(1)	682
	$26,543	$729	$(28)	$27,244

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

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

	June 30, 2013	December 31, 2012
	(In millions)	
Federal Reserve Bank	$495	$484
Federal Home Loan Bank	112	73

Securities with carrying values of $14.3 billion and $11.8 billion at June 30, 2013 and December 31, 2012, respectively, were pledged to secure public funds, trust deposits and certain borrowing arrangements.

The amortized cost and estimated fair value of securities available for sale and securities held to maturity at June 30, 2013, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

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	Amortized Cost	Estimated Fair Value
	(In millions)	
Securities held to maturity:		
Due in one year or less	$1	$1
Due after one year through five years	2	2
Due after five years through ten years	350	335
Mortgage-backed securities:		
Residential agency	1,953	1,868
Commercial agency	230	219
	$2,536	$2,425
Securities available for sale:		
Due in one year or less	$50	$51
Due after one year through five years	1,029	1,033
Due after five years through ten years	1,578	1,521
Due after ten years	393	382
Mortgage-backed securities:		
Residential agency	16,332	16,419
Residential non-agency	10	11
Commercial agency	758	749
Commercial non-agency	1,136	1,110
Equity securities	716	725
	$22,002	$22,001

The following tables present gross unrealized losses and the related estimated fair value of securities available for sale and held to maturity at June 30, 2013 and for securities available for sale at December 31, 2012. There were no gross unrealized losses on debt securities held to maturity at December 31, 2012. For securities transferred to held for 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 twelve months or more.

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	June 30, 2013					
	Less Than Twelve Months		Twelve Months or More		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
	(In millions)					
Securities held to maturity:						
Federal agency securities	$334	$(15)	$—	$—	$334	$(15)
Mortgage-backed securities:						
Residential agency	1,864	(85)	—	—	1,864	(85)
Commercial agency	220	(11)	—	—	220	(11)
	$2,418	$(111)	$—	$—	$2,418	$(111)
Securities available for sale:						
U.S. Treasury securities	$11	$—	$1	$—	$12	$—
Federal agency securities	1	—	9	—	10	—
Mortgage-backed securities:						
Residential agency	5,272	(111)	272	(6)	5,544	(117)
Commercial agency	444	(13)	—	—	444	(13)
Commercial non-agency	726	(38)	—	—	726	(38)
All other securities	1,944	(90)	18	(2)	1,962	(92)
	$8,398	$(252)	$300	$(8)	$8,698	$(260)

	December 31, 2012					
	Less Than Twelve Months		Twelve Months or More		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
	(In millions)					
Securities available for sale:						
Federal agency securities	$350	$(1)	$—	$—	$350	$(1)
Mortgage-backed securities:						
Residential agency	1,777	(16)	157	(2)	1,934	(18)
All other securities	884	(9)	—	—	884	(9)
	$3,011	$(26)	$157	$(2)	$3,168	$(28)

The number of individual securities in an unrealized loss position in the tables above increased from 378 at December 31, 2012 to 943 at June 30, 2013. The increase in the number of securities and the total amount of unrealized losses from year-end 2012 was primarily due to changes in interest rates. Widening of spreads also contributed to some degradation; however, there was no indication of an adverse change in credit on any of the underlying securities in the tables above. Management believes no individual unrealized loss represented an other-than-temporary impairment as of those dates. The Company does not intend to sell, and it is not more likely than not that the Company will be required to sell, the securities before the recovery of their amortized cost basis, which may be at maturity.

Credit-related impairment charges were immaterial for the three and six months ended June 30, 2013. For the three and six months ended June 30, 2012, Regions recorded a credit-related impairment charge of approximately $2

million.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
	(In millions)			
Gross realized gains	$29	$12	$45	$24
Gross realized losses	(21)	—	(22)	—
Securities gains, net	$8	$12	$23	$24

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:

	June 30, 2013	December 31, 2012
	(In millions, net of unearned income)	
Commercial and industrial	$28,954	$26,674
Commercial real estate mortgage—owner-occupied	9,731	10,095
Commercial real estate construction—owner-occupied	345	302
Total commercial	39,030	37,071
Commercial investor real estate mortgage	5,806	6,808
Commercial investor real estate construction	1,208	914
Total investor real estate	7,014	7,722
Residential first mortgage	12,839	12,963
Home equity	11,410	11,800
Indirect	2,693	2,336
Consumer credit card	866	906
Other consumer	1,138	1,197
Total consumer	28,946	29,202
	$74,990	$73,995

During the three months ended June 30, 2013 and 2012, Regions purchased approximately $236 million and $233 million, respectively, in indirect loans from a third party. During the six months ended June 30, 2013 and 2012, the comparable loan purchase amounts were approximately $456 million and $407 million, respectively.

At June 30, 2013, $11.4 billion in loans held by Regions were pledged to secure borrowings from the FHLB. At June 30, 2013, an additional $26.4 billion of loans held by Regions were pledged to the Federal Reserve Bank.

ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses represents management’s estimate of credit losses inherent in the loan and credit commitment portfolios as of period-end. The allowance for credit losses consists of two components: the allowance for loan and lease losses and the reserve for unfunded credit commitments. Management’s assessment of the appropriateness of the allowance for credit losses is based on a combination of both of these components. Regions determines its allowance for credit losses in accordance with applicable accounting literature as well as regulatory guidance related to receivables and contingencies. Binding unfunded credit commitments include items such as letters of credit, financial guarantees and binding unfunded loan commitments.

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ROLLFORWARD OF ALLOWANCE FOR CREDIT LOSSES

The following tables present analyses of the allowance for credit losses by portfolio segment for the three and six months ended June 30, 2013 and 2012. The total allowance for loan losses and the related loan portfolio ending balances as of June 30, 2013 and 2012 are disaggregated to detail the amounts derived through individual evaluation and collective evaluation for impairment. Prior to the second quarter of 2013, loans and their related allowance that were individually measured with a specific evaluation (i.e. those non-accrual commercial and investor real-estate loans equal to or greater than $2.5 million) were the only loans reported as individually evaluated in the tables below. Regions also individually evaluates all troubled debt restructurings (“TDRs”) for impairment, as described in Note 1 to the Annual Report on Form 10-K for the year ended December 31, 2012. Beginning in the second quarter of 2013, Regions revised its presentation in the tables below to reflect all non-accrual commercial and investor real-estate loans equal to or greater than $2.5 million and all TDRs as individually evaluated for impairment. The allowance for loan losses and the loan portfolio ending balances related to collectively evaluated loans include the remainder of the portfolio. Prior period amounts have been reclassified to conform to this presentation.

	Three Months Ended June 30, 2013			
	Commercial	Investor Real Estate	Consumer	Total
	(In millions)			
Allowance for loan losses, April 1, 2013	$782	$424	$543	$1,749
Provision (credit) for loan losses	40	(68)	59	31
Loan losses:				
Charge-offs	(77)	(23)	(90)	(190)
Recoveries	19	9	18	46
Net loan losses	(58)	(14)	(72)	(144)
Allowance for loan losses, June 30, 2013	764	342	530	1,636
Reserve for unfunded credit commitments, April 1, 2013	$74	$10	$4	$88
Credit for unfunded credit losses	(14)	(1)	—	(15)
Reserve for unfunded credit commitments, June 30, 2013	60	9	4	73
Allowance for credit losses, June 30, 2013	$824	$351	$534	$1,709

	Three Months Ended June 30, 2012			
	Commercial	Investor Real Estate	Consumer	Total
	(In millions)			
Allowance for loan losses, April 1, 2012	$982	$898	$650	$2,530
Provision (credit) for loan losses	(16)	(80)	122	26
Loan losses:				
Charge-offs	(107)	(62)	(146)	(315)
Recoveries	25	10	15	50
Net loan losses	(82)	(52)	(131)	(265)
Allowance for loan losses, June 30, 2012	884	766	641	2,291
Reserve for unfunded credit commitments, April 1, 2012	$44	$26	$21	$91
Provision (credit) for unfunded credit losses	17	—	(17)	—
Reserve for unfunded credit commitments, June 30, 2012	61	26	4	91
Allowance for credit losses, June 30, 2012	$945	$792	$645	$2,382

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	Six Months Ended June 30, 2013			
	Commercial	Investor Real Estate	Consumer	Total
	(In millions)			
Allowance for loan losses, January 1, 2013	$847	$469	$603	$1,919
Provision (credit) for loan losses	57	(99)	83	41
Loan losses:				
Charge-offs	(176)	(46)	(192)	(414)
Recoveries	36	18	36	90
Net loan losses	(140)	(28)	(156)	(324)
Allowance for loan losses, June 30, 2013	764	342	530	1,636
Reserve for unfunded credit commitments, January 1, 2013	69	10	4	83
Credit for unfunded credit losses	(9)	(1)	—	(10)
Reserve for unfunded credit commitments, June 30, 2013	60	9	4	73
Allowance for credit losses, June 30, 2013	$824	$351	$534	$1,709
Portion of ending allowance for loan losses:				
Individually evaluated for impairment	$157	$154	$175	$486
Collectively evaluated for impairment	607	188	355	1,150
Total allowance for loan losses	$764	$342	$530	$1,636
Portion of loan portfolio ending balance:				
Individually evaluated for impairment	$1,000	$1,044	$1,608	$3,652
Collectively evaluated for impairment	38,030	5,970	27,338	71,338
Total loans evaluated for impairment	$39,030	$7,014	$28,946	$74,990

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	Six Months Ended June 30, 2012			
	Commercial	Investor Real Estate	Consumer	Total
	(In millions)			
Allowance for loan losses, January 1, 2012	$1,030	$991	$724	$2,745
Provision (credit) for loan losses	45	(90)	188	143
Loan losses:				
Charge-offs	(232)	(157)	(302)	(691)
Recoveries	41	22	31	94
Net loan losses	(191)	(135)	(271)	(597)
Allowance for loan losses, June 30, 2012	884	766	641	2,291
Reserve for unfunded credit commitments, January 1, 2012	30	26	22	78
Provision (credit) for unfunded credit losses	31	—	(18)	13
Reserve for unfunded credit commitments, June 30, 2012	61	26	4	91
Allowance for credit losses, June 30, 2012	$945	$792	$645	$2,382
Portion of ending allowance for loan losses:				
Individually evaluated for impairment*	$223	$380	$213	$816
Collectively evaluated for impairment*	661	386	428	1,475
Total allowance for loan losses	$884	$766	$641	$2,291
Portion of loan portfolio ending balance:				
Individually evaluated for impairment*	$1,061	$1,600	$1,649	$4,310
Collectively evaluated for impairment*	35,816	7,847	28,229	71,892
Total loans evaluated for impairment	$36,877	$9,447	$29,878	$76,202

*Prior period amounts have been reclassified to conform to the current period classification.

PORTFOLIO SEGMENT RISK FACTORS

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

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

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

Consumer—The consumer loan portfolio segment includes residential first mortgage, home equity, indirect, consumer credit card, and other consumer loans. Residential first mortgage loans represent loans to consumers to finance a residence. These loans are typically financed over a 15 to 30 year term and, in most cases, are extended to borrowers to finance their primary residence. Home equity lending includes both home equity loans and lines of credit. This type

of lending, which is secured by a first or second mortgage on the borrower's residence, allows customers to borrow against the equity in their home. Real estate market values as of the time the loan or line is secured directly affect the amount of credit extended and, in addition, changes in these values impact the depth of potential losses. Indirect lending, which is lending initiated through third-party business partners, is largely comprised of loans made through automotive dealerships. Consumer credit card includes Regions branded consumer credit card accounts.

Other consumer loans include direct consumer installment loans and overdrafts. Loans in this portfolio segment are sensitive to unemployment and other key consumer economic measures.

CREDIT QUALITY INDICATORS

The following tables present credit quality indicators for the loan portfolio segments and classes, excluding loans held for sale, as of June 30, 2013 and December 31, 2012. Commercial and investor real estate loan portfolio segments are detailed by categories related to underlying credit quality and probability of default. Regions assigns these categories at loan origination and reviews the relationship utilizing a risk-based approach on, at minimum, an annual basis or at any time management becomes aware of information affecting the borrowers' ability to fulfill their obligations. Both quantitative and qualitative factors are considered in this review process. These categories are utilized to develop the associated allowance for credit losses.

- Pass—includes obligations where the probability of default is considered low;

- Special Mention—includes obligations that have potential weakness which may, if not reversed or corrected, weaken the credit or inadequately protect the Company’s position at some future date. Obligations in this category may also be subject to economic or market conditions which may, in the future, have an adverse effect on debt service ability;

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

- Non-accrual—includes obligations where management has determined that full payment of principal and interest is in doubt.

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

	June 30, 2013				
	Pass	Special Mention	Substandard Accrual	Non-accrual	Total
	(In millions)				
Commercial and industrial	$27,449	$ 562	$535	$408	$28,954
Commercial real estate mortgage—owner-occupied	8,796	201	336	398	9,731
Commercial real estate construction—owner-occupied	298	2	30	15	345
Total commercial	$36,543	$ 765	$901	$821	$39,030
Commercial investor real estate mortgage	$4,502	$ 315	$637	$352	$5,806
Commercial investor real estate construction	1,081	62	49	16	1,208
Total investor real estate	$5,583	$ 377	$686	$368	$7,014

	Accrual	Non-accrual	Total
	(In millions)		
Residential first mortgage	$12,653	$186	$12,839
Home equity	11,280	130	11,410
Indirect	2,692	1	2,693

Consumer credit card	866	—	866
Other consumer	1,138	—	1,138
Total consumer	$28,629	$317	$28,946
			$74,990

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	December 31, 2012				
	Pass	Special Mention	Substandard Accrual	Non-accrual	Total
	(In millions)				
Commercial and industrial	$25,225	$560	$480	$409	$26,674
Commercial real estate mortgage—owner-occupied	8,976	240	440	439	10,095
Commercial real estate construction—owner-occupied	278	3	7	14	302
Total commercial	$34,479	$803	$927	$862	$37,071
Commercial investor real estate mortgage	$5,089	$435	$827	$457	$6,808
Commercial investor real estate construction	733	98	63	20	914
Total investor real estate	$5,822	$533	$890	$477	$7,722

	Accrual	Non-accrual	Total
	(In millions)		
Residential first mortgage	$12,749	$214	$12,963
Home equity	11,672	128	11,800
Indirect	2,336	—	2,336
Consumer credit card	906	—	906
Other consumer	1,197	—	1,197
Total consumer	$28,860	$342	$29,202
			$73,995

AGING ANALYSIS

The following tables include an aging analysis of days past due (DPD) for each portfolio segment and class as of June 30, 2013 and December 31, 2012:

	June 30, 2013						
	Accrual Loans						
	30-59 DPD	60-89 DPD	90+ DPD	Total 30+ DPD	Total Accrual	Non-accrual	Total
	(In millions)						
Commercial and industrial	$26	$10	$8	$44	$28,546	$408	$28,954
Commercial real estate mortgage—owner-occupied	36	16	16	68	9,333	398	9,731
Commercial real estate construction—owner-occupied	1	—	—	1	330	15	345
Total commercial	63	26	24	113	38,209	821	39,030
Commercial investor real estate mortgage	41	19	24	84	5,454	352	5,806
Commercial investor real estate construction	2	1	—	3	1,192	16	1,208
Total investor real estate	43	20	24	87	6,646	368	7,014
Residential first mortgage	132	71	274	477	12,653	186	12,839
Home equity	91	42	75	208	11,280	130	11,410

Indirect	30	8	3	41	2,692	1	2,693
Consumer credit card	6	4	11	21	866	—	866
Other consumer	17	4	4	25	1,138	—	1,138
Total consumer	276	129	367	772	28,629	317	28,946
	$382	$175	$415	$972	$73,484	$1,506	$74,990

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	December 31, 2012						
	Accrual Loans						
	30-59 DPD	60-89 DPD	90+ DPD	Total 30+ DPD	Total Accrual	Non-accrual	Total
	(In millions)						
Commercial and industrial	$27	$23	$19	$69	$26,265	$409	$26,674
Commercial real estate mortgage—owner-occupied	49	28	6	83	9,656	439	10,095
Commercial real estate construction—owner-occupied	—	—	—	—	288	14	302
Total commercial	76	51	25	152	36,209	862	37,071
Commercial investor real estate mortgage	38	42	11	91	6,351	457	6,808
Commercial investor real estate construction	1	1	—	2	894	20	914
Total investor real estate	39	43	11	93	7,245	477	7,722
Residential first mortgage	149	86	307	542	12,749	214	12,963
Home equity	100	53	87	240	11,672	128	11,800
Indirect	31	9	3	43	2,336	—	2,336
Consumer credit card	7	7	14	28	906	—	906
Other consumer	19	5	3	27	1,197	—	1,197
Total consumer	306	160	414	880	28,860	342	29,202
	$421	$254	$450	$1,125	$72,314	$1,681	$73,995

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IMPAIRED LOANS

The following tables present details related to the Company’s impaired loans as of June 30, 2013 and December 31, 2012. Loans deemed to be impaired include all non-accrual commercial and investor real estate loans (including those less than $2.5 million), excluding leases, and all troubled debt restructurings ("TDRs") (including accruing commercial, investor real estate, and consumer TDRs). Loans which have been fully charged-off do not appear in the tables below.

	Non-accrual Impaired Loans As of June 30, 2013						
			Book Value[3]				
	Unpaid Principal Balance[1]	Charge-offs and Payments Applied[2]	Total Impaired Loans on Non-accrual Status	Impaired Loans on Non-accrual Status with No Related Allowance	Impaired Loans on Non-accrual Status with Related Allowance	Related Allowance for Loan Losses	Coverage %[4]
	(Dollars in millions)						
Commercial and industrial	$496	$97	$399	$133	$266	$91	37.9 %
Commercial real estate mortgage—owner-occupied	451	53	398	48	350	117	37.7
Commercial real estate construction—owner-occupied	16	1	15	3	12	2	18.8
Total commercial	963	151	812	184	628	210	37.5
Commercial investor real estate mortgage	440	88	352	27	325	93	41.1
Commercial investor real estate construction	22	6	16	—	16	6	54.5
Total investor real estate	462	94	368	27	341	99	41.8
Residential first mortgage	137	47	90	—	90	11	42.3
Home equity	29	10	19	—	19	2	41.4
Total consumer	166	57	109	—	109	13	42.2
Total	$1,591	$302	$1,289	$211	$1,078	$322	39.2 %

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	Accruing Impaired Loans As of June 30, 2013					
	Unpaid Principal Balance[1]	Charge-offs and Payments Applied[2]	Book Value[3]	Related Allowance for Loan Losses	Coverage %[4]	
	(Dollars in millions)					
Commercial and industrial	$260	$5	$255	$33	14.6	%
Commercial real estate mortgage—owner-occupied	180	5	175	17	12.2	
Commercial real estate construction—owner-occupied	26	—	26	4	15.4	
Total commercial	466	10	456	54	13.7	
Commercial investor real estate mortgage	671	12	659	73	12.7	
Commercial investor real estate construction	100	1	99	12	13.0	
Total investor real estate	771	13	758	85	12.7	
Residential first mortgage	1,091	15	1,076	131	13.4	
Home equity	393	5	388	30	8.9	
Indirect	1	—	1	—	—	
Consumer credit card	1	—	1	—	—	
Other consumer	33	—	33	1	3.0	
Total consumer	1,519	20	1,499	162	12.0	
Total	$2,756	$43	$2,713	$301	12.5	%

	Total Impaired Loans As of June 30, 2013							
			Book Value[3]					
	Unpaid Principal Balance[1]	Charge-offs and Payments Applied[2]	Total Impaired Loans	Impaired Loans with No Related Allowance	Impaired Loans with Related Allowance	Related Allowance for Loan Losses	Coverage %[4]	
	(Dollars in millions)							
Commercial and industrial	$756	$102	$654	$133	$521	$124	29.9	%
Commercial real estate mortgage—owner-occupied	631	58	573	48	525	134	30.4	
Commercial real estate construction—owner-occupied	42	1	41	3	38	6	16.7	
Total commercial	1,429	161	1,268	184	1,084	264	29.7	
Commercial investor real estate mortgage	1,111	100	1,011	27	984	166	23.9	
Commercial investor real estate construction	122	7	115	—	115	18	20.5	
Total investor real estate	1,233	107	1,126	27	1,099	184	23.6	
Residential first mortgage	1,228	62	1,166	—	1,166	142	16.6	
Home equity	422	15	407	—	407	32	11.1	
Indirect	1	—	1	—	1	—	—	
Consumer credit card	1	—	1	—	1	—	—	
Other consumer	33	—	33	—	33	1	3.0	

Total consumer	1,685	77	1,608	—	1,608	175	15.0	
Total impaired loans	$4,347	$ 345	$4,002	$ 211	$3,791	$623	22.3	%

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(1) Unpaid principal balance represents the contractual obligation due from the customer and includes the net book value plus charge-offs and payments applied.
(2) Charge-offs and payments applied represents cumulative partial charge-offs taken, as well as interest payments received that have been applied against the outstanding principal balance.
(3) Book value represents the unpaid principal balance less charge-offs and payments applied; it is shown before any allowance for loan losses.
(4) Coverage % represents charge-offs and payments applied plus the related allowance as a percent of the unpaid principal balance.

Non-accrual Impaired Loans As of December 31, 2012

			Book Value[3]				
	Unpaid Principal Balance[1]	Charge-offs and Payments Applied[2]	Total Impaired Loans on Non-accrual Status	Impaired Loans on Non-accrual Status with No Related Allowance	Impaired Loans on Non-accrual Status with Related Allowance	Related Allowance for Loan Losses	Coverage %[4]
	(Dollars in millions)						
Commercial and industrial	$467	$62	$405	$63	$342	$128	40.7 %
Commercial real estate mortgage—owner-occupied	503	64	439	44	395	148	42.1
Commercial real estate construction—owner-occupied	18	4	14	4	10	3	38.9
Total commercial	988	130	858	111	747	279	41.4
Commercial investor real estate mortgage	560	103	457	54	403	132	42.0
Commercial investor real estate construction	26	6	20	2	18	7	50.0
Total investor real estate	586	109	477	56	421	139	42.3
Residential first mortgage	152	55	97	—	97	13	44.7
Home equity	32	11	21	—	21	2	40.6
Total consumer	184	66	118	—	118	15	44.0
Total	$1,758	$305	$1,453	$167	$1,286	$433	42.0 %

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	Accruing Impaired Loans As of December 31, 2012					
	Unpaid Principal Balance[1]	Charge-offs and Payments Applied[2]	Book Value[3]	Related Allowance for Loan Losses	Coverage %[4]	
	(Dollars in millions)					
Commercial and industrial	$299	$7	$292	$42	16.4	%
Commercial real estate mortgage—owner-occupied	213	4	209	25	13.6	
Commercial real estate construction—owner-occupied	1	—	1	—	—	
Total commercial	513	11	502	67	15.2	
Commercial investor real estate mortgage	782	10	772	97	13.7	
Commercial investor real estate construction	107	—	107	16	15.0	
Total investor real estate	889	10	879	113	13.8	
Residential first mortgage	1,101	13	1,088	144	14.3	
Home equity	411	5	406	36	10.0	
Indirect	2	1	1	—	50.0	
Other consumer	40	—	40	1	2.5	
Total consumer	1,554	19	1,535	181	12.9	
Total	$2,956	$40	$2,916	$361	13.6	%

	Total Impaired Loans As of December 31, 2012							
			Book Value[3]					
	Unpaid Principal Balance[1]	Charge-offs and Payments Applied[2]	Total Impaired Loans	Impaired Loans with No Related Allowance	Impaired Loans with Related Allowance	Related Allowance for Loan Losses	Coverage %[4]	
	(Dollars in millions)							
Commercial and industrial	$766	$ 69	$697	$ 63	$634	$ 170	31.2	%
Commercial real estate mortgage—owner-occupied	716	68	648	44	604	173	33.7	
Commercial real estate construction—owner-occupied	19	4	15	4	11	3	36.8	
Total commercial	1,501	141	1,360	111	1,249	346	32.4	
Commercial investor real estate mortgage	1,342	113	1,229	54	1,175	229	25.5	
Commercial investor real estate construction	133	6	127	2	125	23	21.8	
Total investor real estate	1,475	119	1,356	56	1,300	252	25.2	
Residential first mortgage	1,253	68	1,185	—	1,185	157	18.0	
Home equity	443	16	427	—	427	38	12.2	
Indirect	2	1	1	—	1	—	50.0	
Other consumer	40	—	40	—	40	1	2.5	
Total consumer	1,738	85	1,653	—	1,653	196	16.2	
Total impaired loans	$4,714	$ 345	$4,369	$ 167	$4,202	$ 794	24.2	%

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(1) Unpaid principal balance represents the contractual obligation due from the customer and includes the net book value plus charge-offs and payments applied.
(2) Charge-offs and payments applied represents cumulative partial charge-offs taken, as well as interest payments received that have been applied against the outstanding principal balance.
(3) Book value represents the unpaid principal balance less charge-offs and payments applied; it is shown before any allowance for loan losses.
(4) Coverage % represents charge-offs and payments applied plus the related allowance as a percent of the unpaid principal balance.

The following table presents the average balances of total impaired loans and interest income for the three and six months ended June 30, 2013 and 2012. Interest income recognized represents interest on accruing loans modified in a TDR. TDRs are considered impaired loans.

	Three Months Ended June 30				Six Months Ended June 30			
	2013		2012		2013		2012	
	Average Balance	Interest Income Recognized	Average Balance	Interest Income Recognized	Average Balance	Interest Income Recognized	Average Balance	Interest Income Recognized
	(In millions)							
Commercial and industrial	$631	$3	$669	$4	$655	$7	$699	$8
Commercial real estate mortgage—owner-occupied	609	2	756	2	622	5	771	5
Commercial real estate construction—owner-occupied	42	1	26	—	37	1	27	—
Total commercial	1,282	6	1,451	6	1,314	13	1,497	13
Commercial investor real estate mortgage	1,084	8	1,560	11	1,137	17	1,598	21
Commercial investor real estate construction	120	2	220	2	127	3	257	4
Total investor real estate	1,204	10	1,780	13	1,264	20	1,855	25
Residential first mortgage	1,177	9	1,147	9	1,183	19	1,139	19
Home equity	408	5	444	6	415	11	443	11
Indirect	1	—	2	—	2	—	2	—
Consumer credit card	1	—	—	—	1	—	—	—
Other consumer	34	1	49	2	35	1	51	2
Total consumer	1,621	15	1,642	17	1,636	31	1,635	32
Total impaired loans	$4,107	$31	$4,873	$36	$4,214	$64	$4,987	$70

In addition to the impaired loans detailed in the tables above, there were approximately $53 million in non-performing loans classified as held for sale at June 30, 2013, compared to $89 million at December 31, 2012. These loans are primarily investor real estate loans, where management does not have the intent to hold the loans for the foreseeable future. The loans are carried at an amount approximating a price which is expected to be recoverable through the loan sale market. During the three months ended June 30, 2013, approximately $38 million in non-performing loans were transferred to held for sale; this amount is net of charge-offs of $23 million recorded upon transfer. During the six months ended June 30, 2013, approximately $69 million in non-performing loans were transferred to held for sale; this amount is net of charge-offs of $41 million recorded upon transfer. During the three months ended June 30, 2012, approximately $77 million in non-performing loans were transferred to held for sale; this amount is net of charge-offs of $39 million recorded upon transfer. During the six months ended June 30, 2012, approximately $170 million in

non-performing loans were transferred to held for sale; this amount is net of charge-offs of $92 million recorded upon transfer. At June 30, 2013 and December 31, 2012, non-accrual loans including loans held for sale totaled $1.6 billion and $1.8 billion, respectively.

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TROUBLED DEBT RESTRUCTURINGS

The majority of Regions' commercial and investor real estate TDRs are the result of renewals of classified loans at an interest rate that is not considered to be a market rate of interest. Consumer TDRs generally involve an interest rate concession. Accordingly, the financial impact of the modifications is best illustrated by the impact to the allowance calculation at the loan or pool level as a result of the loans being considered impaired due to their status as a TDR.

None of the modified consumer loans listed in the following TDR disclosures were collateral-dependent at the time of modification. At June 30, 2013, approximately $105 million in residential first mortgage TDRs were in excess of 180 days past due and were considered collateral-dependent. At June 30, 2013, approximately $10 million in home equity first lien TDRs were in excess of 180 days past due and $6 million in home equity second lien TDRs were in excess of 120 days past due, both of which were considered collateral-dependent.
Further discussion related to TDRs, including their impact on the allowance for loan losses, and designation of TDRs in periods subsequent to the modification is included in the Annual Report on Form 10-K for the year ended December 31, 2012.
The following tables present loans by portfolio segment and class modified in a TDR, and the financial impact of those modifications, for the periods presented. The tables include modifications made to new TDRs, as well as renewals of existing TDRs. The majority of TDRs reported are in the commercial and investor real estate portfolio segments. Total commercial and investor real estate loans reported as new TDRs totaled approximately $180 million and $401 million for the three months ended June 30, 2013 and 2012, respectively. Total commercial and investor real estate loans reported as new TDRs totaled approximately $388 million and $797 million for the six months ended June 30, 2013 and 2012, respectively.

	Three Months Ended June 30, 2013		
	Number of Obligors	Recorded Investment	Financial Impact of Modifications Considered TDRs Increase in Allowance at Modification
		(Dollars in millions)	
Commercial and industrial	112	$155	$—
Commercial real estate mortgage—owner-occupied	103	74	1
Commercial real estate construction—owner-occupied	2	1	1
Total commercial	217	230	2
Commercial investor real estate mortgage	112	191	—
Commercial investor real estate construction	21	16	2
Total investor real estate	133	207	2
Residential first mortgage	339	63	7
Home equity	121	9	1
Consumer credit card	41	1	—
Indirect and other consumer	78	1	—
Total consumer	579	74	8
	929	$511	$12

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	Three Months Ended June 30, 2012		
	Number of Obligors	Recorded Investment	Financial Impact of Modifications Considered TDRs Increase in Allowance at Modification
		(Dollars in millions)	
Commercial and industrial	160	$185	$1
Commercial real estate mortgage—owner-occupied	91	94	1
Commercial real estate construction—owner-occupied	1	2	—
Total commercial	252	281	2
Commercial investor real estate mortgage	160	287	2
Commercial investor real estate construction	59	34	—
Total investor real estate	219	321	2
Residential first mortgage	416	92	12
Home equity	277	21	1
Indirect and other consumer	141	3	—
Total consumer	834	116	13
	1,305	$718	$17

	Six Months Ended June 30, 2013		
	Number of Obligors	Recorded Investment	Financial Impact of Modifications Considered TDRs Increase in Allowance at Modification
		(Dollars in millions)	
Commercial and industrial	226	$310	$1
Commercial real estate mortgage—owner-occupied	179	173	2
Commercial real estate construction—owner-occupied	3	27	1
Total commercial	408	510	4
Commercial investor real estate mortgage	223	396	1
Commercial investor real estate construction	43	52	2
Total investor real estate	266	448	3
Residential first mortgage	672	122	14
Home equity	279	19	2
Consumer credit card	145	2	—
Indirect and other consumer	158	2	—
Total consumer	1,254	145	16
	1,928	$1,103	$23

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	Six Months Ended June 30, 2012		
	Number of Obligors	Recorded Investment	Financial Impact of Modifications Considered TDRs Increase in Allowance at Modification
		(Dollars in millions)	
Commercial and industrial	359	$336	$2
Commercial real estate mortgage—owner-occupied	236	210	2
Commercial real estate construction—owner-occupied	7	6	—
Total commercial	602	552	4
Commercial investor real estate mortgage	347	737	6
Commercial investor real estate construction	129	76	1
Total investor real estate	476	813	7
Residential first mortgage	768	159	20
Home equity	586	44	3
Indirect and other consumer	302	6	—
Total consumer	1,656	209	23
	2,734	$1,574	$34

As described previously, the consumer modifications granted by Regions are rate concessions, and not forgiveness of principal. The majority of the commercial and investor real estate modifications are renewals where there is no reduction in interest rate or forgiveness of principal. Accordingly, Regions most often does not record a charge-off at the modification date. A limited number of 2012 modifications included above were A/B note restructurings, where the B-note was charged off. There were no charge-offs recorded for any loans modified during the three or six months ended June 30, 2013.

Defaulted TDRs

The following table presents TDRs by portfolio segment and class which defaulted during the three and six months ended June 30, 2013 and 2012, and which were modified in the previous twelve months (i.e., the twelve months prior to the default). For purposes of this disclosure, default is defined as 90 days past due and still accruing for the consumer portfolio segment, and placement on non-accrual status for the commercial and investor real estate portfolio segments. Consideration of defaults in the calculation of the allowance for loan losses is described in detail in the consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2012.

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
	(In millions)			
Defaulted During the Period, Where Modified in a TDR Twelve Months Prior to Default				
Commercial and industrial	$16	$23	$28	$59
Commercial real estate mortgage—owner-occupied	14	23	23	34
Commercial real estate construction—owner-occupied	—	—	—	1
Total commercial	30	46	51	94
Commercial investor real estate mortgage	15	51	55	111

Commercial investor real estate construction	4	12	5	19
Total investor real estate	19	63	60	130
Residential first mortgage	11	12	29	33
Home equity	1	6	3	12
Total consumer	12	18	32	45
	$61	$127	$143	$269

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Commercial and investor real estate loans which were on non-accrual status at the time of the latest modification are not included in the default table above, as they are already considered to be in default at the time of the restructuring. At June 30, 2013, approximately $170 million of commercial and investor real estate loans modified in a TDR during the three months ended June 30, 2013 were on non-accrual status. Approximately 15.0 percent of this amount was 90 days past due.

At June 30, 2013, Regions had restructured binding unfunded commitments totaling $188 million where a concession was granted and the borrower was in financial difficulty.

NOTE 5. SERVICING OF FINANCIAL ASSETS

The fair value of mortgage servicing rights is calculated using various assumptions including future cash flows, market discount rates, expected prepayment rates, servicing costs and other factors. A significant change in prepayments of mortgages in the servicing portfolio could result in significant changes in the valuation adjustments, thus creating potential volatility in the carrying amount of mortgage servicing rights. The Company compares fair value estimates and assumptions to observable market data where available, and also considers recent market activity and actual portfolio experience.

The table below presents an analysis of mortgage servicing rights under the fair value measurement method:

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
	(In millions)			
Carrying value, beginning of period	$236	$199	$191	$182
Additions	15	14	59	28
Increase (decrease) in fair value:				
Due to change in valuation inputs or assumptions	35	(26)	45	(17)
Economic amortization associated with borrower repayments	(10)	(8)	(19)	(14)
Carrying value, end of period	$276	$179	$276	$179

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

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

	June 30	
	2013	2012
	(Dollars in millions)	
Unpaid principal balance	$28,452	$26,066
Weighted-average prepayment speed (CPR; percentage)	9.4%	18.4%
Estimated impact on fair value of a 10% increase	$(12)	$(12)
Estimated impact on fair value of a 20% increase	$(22)	$(22)
Option-adjusted spread (basis points)	1,033	1,332
Estimated impact on fair value of a 10% increase	$(10)	$(6)
Estimated impact on fair value of a 20% increase	$(20)	$(12)
Weighted-average coupon interest rate	4.6%	5.1%
Weighted-average remaining maturity (months)	278	278
Weighted-average servicing fee (basis points)	27.7	28.5

The sensitivity calculations above are hypothetical and should not be considered to be predictive of future performance. Changes in fair value based on adverse changes in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, the effect of an adverse variation in a particular assumption on the fair value of the mortgage servicing rights is calculated without changing any other assumption, while in reality changes

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in one factor may result in changes in another, which may either magnify or counteract the effect of the change. The derivative instruments utilized by Regions would serve to reduce the estimated impacts to fair value included in the table above.
The following table presents servicing related fees, which includes contractually specified servicing fees, late fees and other ancillary income resulting from the servicing of mortgage loans:

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
	(In millions)			
Servicing related fees and other ancillary income	$23	$21	$42	$42

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

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

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
	(In millions)			
Beginning balance	$40	$32	$40	$32
Additions	7	14	16	23
Losses	(7)	(9)	(16)	(18)
Ending balance	$40	$37	$40	$37

During the second quarters of 2013 and 2012, settled repurchase claims were related to one or more of the following alleged breaches: 1) underwriting guideline violations; 2) misrepresentation of income, assets or employment; or 3) property valuation not properly supported. These claims stem primarily from the 2006—2008 vintages.

NOTE 6. GOODWILL

Goodwill allocated to each reportable segment is presented as follows:

	June 30, 2013	December 31, 2012
	(In millions)	
Business Services	$2,552	$2,552
Consumer Services	1,797	1,797
Wealth Management	467	467
	$4,816	$4,816

Regions evaluates each reporting unit's goodwill for impairment on an annual basis in the fourth quarter, or more often if events or circumstances indicate that there may be impairment. Adverse changes in the economic environment, declining operations, or other factors could result in a decline in the implied fair value of goodwill. A goodwill impairment test includes two steps. Step One, used to identify potential impairment, compares the estimated fair value of a reporting unit with its carrying amount, including goodwill. If the estimated fair value of a reporting unit exceeds

its carrying amount, goodwill of the reporting unit is considered not impaired. If the carrying amount of a reporting unit exceeds its estimated fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. Step Two of the goodwill impairment test compares the implied estimated fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of goodwill for

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that reporting unit exceeds the implied fair value of that unit's goodwill, an impairment loss is recognized in an amount equal to that excess.

During the second quarter of 2013, Regions assessed the indicators of goodwill impairment for all three reporting units as of April 30, 2013, and through the date of the filing of the Quarterly Report on Form 10-Q for the quarter ended June 30, 2013. The indicators assessed included:

- Recent operating performance,
- Changes in market capitalization,
- Regulatory actions and assessments,
- Changes in the business climate (including legislation, legal factors and competition),
- Company-specific factors (including changes in key personnel, asset impairments, and business dispositions), and
- Trends in the banking industry.

While the assessment of these indicators did not indicate impairment, Regions determined that quantitative testing of goodwill was required for all of Regions' reporting units for the June 30, 2013 interim period due to the size of the shortfall between Regions' market capitalization and book value. The results of the interim test indicated that goodwill was not impaired as of the test date.

A detailed description of the Company's methodology and valuation approaches used to determine the estimated fair value of each reporting unit is included in the consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2012.

Listed in the table below are assumptions used in estimating the fair value of each reporting unit for the June 30, 2013 interim period. The table includes the discount rates used in the income approach, the market multipliers used in the market approaches, and the public company method control premium applied to each reporting unit.

As of Second Quarter 2013	Business Services		Consumer Services		Wealth Management	
Discount rate used in income approach	13	%	12	%	12	%
Public company method market multiplier[(1)]	1.4	x	1.1	x	16.5	x
Transaction method market multiplier[(2)]	1.4	x	1.4	x	24.5	x

(1) For the Business Services and Consumer Services reporting units, these multipliers are applied to tangible book value. For the Wealth Management reporting unit, this multiplier is applied to earnings. In addition to the multipliers, a 30 percent control premium was assumed for the Business Services reporting unit, a 40 percent control premium was assumed for the Consumer Services reporting unit and a 30 percent control premium was assumed for the Wealth Management reporting unit based on current market factors. Because the control premium considers potential revenue synergies and cost savings for similar financial services transactions, reporting units operating in businesses that have greater barriers to entry tend to have greater control premiums.

(2) For the Business Services and Consumer Services reporting units, these multipliers are applied to tangible book value. For the Wealth Management reporting unit, this multiplier is applied to earnings.

As of Fourth Quarter 2012	Business Services		Consumer Services		Wealth Management	
Discount rate used in income approach	14	%	13	%	13	%
Public company method market multiplier[(1)]	1.2	x	1.0	x	14.0	x
Transaction method market multiplier[(2)]	1.3	x	1.3	x	25.2	x

(1) For the Business Services and Consumer Services reporting units, these multipliers are applied to tangible book value. For the Wealth Management reporting unit, this multiplier is applied to earnings. In addition to the multipliers, a 20 percent control premium was assumed for the Business Services reporting unit, a 40 percent

control premium was assumed for the Consumer Services reporting unit and a 30 percent control premium was assumed for the Wealth Management reporting unit based on current market factors. Because the control premium considers potential revenue synergies and cost savings for similar financial services transactions, reporting units operating in businesses that have greater barriers to entry tend to have greater control premiums.

(2) For the Business Services and Consumer Services reporting units, these multipliers are applied to tangible book value. For the Wealth Management reporting unit, this multiplier is applied to earnings.

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NOTE 7. SHORT-TERM BORROWINGS
OFFSETTING

Regions has certain securities sold under agreements to repurchase that are subject to enforceable master netting agreements which include full rights of setoff. The following table presents the Company's gross amounts for these financial instruments as of June 30, 2013 and December 31, 2012:

	Offsetting Financial Liabilities	
	June 30, 2013	December 31, 2012
	(In millions)	
Gross amounts recognized	$ 1,191	$—
Gross amounts offset in the consolidated balance sheets	—	—
Net amounts presented in the consolidated balance sheets	1,191	—
Gross amounts not offset in the consolidated balance sheets:		
Financial instruments[(1)]	1,160	—
Cash collateral posted[(2)]	14	—
Net amounts	$ 17	$—

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(1) Includes the fair value of securities pledged by the Company to the counterparty. These securities are included in the consolidated balance sheets unless the Company defaults.
(2) The repurchase agreements are subject to the same master netting agreements as certain contracts treated as derivatives. The cash collateral reported here is the total amount of cash collateral posted under these master netting agreements, and is also included in the amounts offset within the derivatives offsetting disclosures in Note 12.

There were no securities sold under agreements to repurchase that were subject to enforceable master netting agreements at December 31, 2012.

Regions also has enforceable master netting agreements with certain derivative counterparties. Refer to Note 12 for additional information.

NOTE 8. STOCKHOLDERS’ EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

On November 1, 2012, Regions issued 20 million depositary shares each representing a 1/40th ownership interest in a share of the Company’s 6.375% Non-Cumulative Perpetual Preferred Stock, Series A, par value $1.00 per share (“Series A Preferred stock”), with a liquidation preference of $1,000 per share of Series A Preferred Stock (equivalent to $25 per depositary share). The issuance generated proceeds of approximately $486 million, net of issuance costs. The Board of Directors declared $8 million in cash dividends on this Series A Preferred Stock during each of the first and second quarters of 2013. Because the Company was in a retained deficit position, the preferred dividends are recorded as a reduction of preferred stock, including related surplus.
On March 19, 2012, the Company issued 153 million shares of common stock at $5.90 per share, generating proceeds of approximately $875 million, net of issuance costs.
On November 14, 2008, Regions completed the sale of 3.5 million shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series A, to the U.S. Treasury as part of the Capital Purchase Program (“CPP”). As part of its purchase of the preferred securities, the U.S. Treasury also received a warrant to purchase 48.3 million shares of Regions’ common stock. On April 4, 2012, Regions repurchased all 3.5 million shares of the Series A preferred stock issued to the U.S. Treasury Department under the CPP and in early May of 2012, Regions repurchased the warrant from the

U.S. Treasury Department for $45 million. The transaction reduced additional paid-in capital within stockholders' equity by $45 million. The warrant repurchase did not impact results of operations.

At December 31, 2012, Regions had 23 million common shares available for repurchase through open market transactions under an existing share repurchase authorization. On March 19, 2013, Regions' Board of Directors authorized a new $350 million common stock purchase plan, permitting repurchases from the beginning of the second quarter of 2013 through the end of the first quarter of 2014. The new plan replaces the prior share repurchase authorization. As of June 30, 2013, Regions had repurchased approximately 18 million shares of common stock at a total cost of approximately $173 million before commissions. The total

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cost paid to repurchase common shares includes the full amount paid as part of a contractual repurchase agreement, where only approximately 80% of the repurchased shares have been received. These shares were immediately retired upon repurchase and therefore are not included in treasury stock.

The Board of Directors declared a \$0.03 per share cash dividend on common stock for the second quarter of 2013 and a \$0.01 per share cash dividend for first quarter of 2013, totaling \$0.04 per share cash dividend for the first six months of 2013. The Board of Directors declared a \$0.01 per share cash dividend on common stock for each of the first and second quarters of 2012.

Activity within the balances in accumulated other comprehensive income (loss) is shown in the following tables for the three and six months ended June 30, 2013 and 2012.

	Three Months Ended June 30, 2013				
	Unrealized losses on securities transferred to held to maturity	Unrealized gains (losses) on securities available for sale	Unrealized gains (losses) on derivative instruments designated as cash flow hedges	Defined benefit pension plans and other post employment benefits	Accumulated other comprehensive income (loss), net of tax
	(In millions)				
Beginning of period	$—	$358	$85	$(455)	$ (12)
Net change	(68)	(358)	(50)	10	(466)
End of period	$(68)	$—	$35	$(445)	$ (478)

	Three Months Ended June 30, 2012			
	Unrealized gains on securities available for sale	Unrealized gains on derivative instruments designated as cash flow hedges	Defined benefit pension plans and other post employment benefits	Accumulated other comprehensive income (loss), net of tax
	(In millions)			
Beginning of period	$316	$84	$(460)	$ (60)
Net change	78	26	10	114
End of period	$394	$110	$(450)	$ 54

	Six Months Ended June 30, 2013				
	Unrealized losses on securities transferred to held to maturity	Unrealized gains (losses) on securities available for sale	Unrealized gains (losses) on derivative instruments designated as cash flow hedges	Defined benefit pension plans and other post employment benefits	Accumulated other comprehensive income (loss), net of tax
	(In millions)				

Beginning of period	$—	$436	$93	$(464)	$ 65
Net change	(68)	(436)	(58)	19	(543)
End of period	$(68)	$—	$35	$(445)	$ (478)

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	Six Months Ended June 30, 2012			
	Unrealized gains on securities available for sale	Unrealized gains on derivative instruments designated as cash flow hedges	Defined benefit pension plans and other post employment benefits	Accumulated other comprehensive income (loss), net of tax
	(In millions)			
Beginning of period	$322	$84	$(475)	$ (69)
Net change	72	26	25	123
End of period	$394	$110	$(450)	$ 54

The following table presents amounts reclassified out of accumulated other comprehensive income (loss) for the three and six months ended June 30, 2013:

Details about Accumulated Other Comprehensive Income (Loss) Components	Three Months Ended June 30, 2013 Amount Reclassified from Accumulated Other Comprehensive Income (Loss)[1]	Six Months Ended June 30, 2013 Amount Reclassified from Accumulated Other Comprehensive Income (Loss)[1]	Affected Line Item in the Consolidated Statements of Income
	(In millions)		
Unrealized gains and losses on available-for-sale securities:			
	$8	$23	Securities gains, net
	(3)	(8)	Tax (expense) or benefit
	$5	$15	Net of tax
Gains and losses on cash flow hedges:			
Interest rate contracts	$17	$32	Net interest income
	(6)	(12)	Tax (expense) or benefit
	$11	$20	Net of tax
Amortization of defined benefit pension items:			
Prior-service cost	$—	$—	[2]
Actuarial gains/(losses)	(17)	(33)	[2]
	(17)	(33)	Total before tax
	6	12	Tax (expense) or benefit
	$(11)	$(21)	Net of tax
Total reclassifications for the period	$5	$14	Net of tax

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(1) Amounts in parentheses indicate reductions to net income.
(2) These accumulated other comprehensive income (loss) components are included in the computation of net periodic pension cost and are included in salaries and employee benefits on the consolidated statements of income (see Note 11 for additional details).

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NOTE 9. EARNINGS (LOSS) PER COMMON SHARE

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

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
	(In millions, except per share amounts)			
Numerator:				
Income from continuing operations	$268	$351	$601	$590
Preferred stock dividends and accretion	(8)	(71)	(16)	(125)
Income from continuing operations available to common shareholders	260	280	585	465
Income (loss) from discontinued operations, net of tax	(1)	4	1	(36)
Net income available to common shareholders	$259	$284	$586	$429
Denominator:				
Weighted-average common shares outstanding—basic	1,401	1,414	1,407	1,348
Potential common shares	17	4	14	2
Weighted-average common shares outstanding—diluted	1,418	1,418	1,421	1,350
Earnings per common share from continuing operations(1):				
Basic	$0.19	$0.20	$0.42	$0.34
Diluted	0.18	0.20	0.41	0.34
Earnings (loss) per common share from discontinued operations(1):				
Basic	(0.00)	0.00	0.00	(0.03)
Diluted	(0.00)	0.00	0.00	(0.03)
Earnings per common share(1) :				
Basic	0.18	0.20	0.42	0.32
Diluted	0.18	0.20	0.41	0.32

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

For earnings (loss) per common share from discontinued operations, basic and diluted weighted-average common shares outstanding are the same for the three months ended June 30, 2013 and six months ended June 30, 2012 due to the net loss.

The effect from the assumed exercise of 24 million and 25 million stock options for the three and six months ended June 30, 2013, respectively, was not included in the above computations of diluted earnings per common share because such amounts would have had an antidilutive effect on earnings per common share. The effect from the assumed exercise of 39 million stock options for both the three and six months ended June 30, 2012 was not included in the above computations of diluted earnings per share because such amounts would have had an antidilutive effect on earnings per share.

NOTE 10. SHARE-BASED PAYMENTS

Regions has long-term incentive compensation plans that permit the granting of incentive awards in the form of stock options, restricted stock, restricted stock awards and units, performance awards and/or stock appreciation rights. While Regions has the ability to issue stock appreciation rights, none have been issued to date. The terms of all

awards issued under these plans are determined by the Compensation Committee of the Board of Directors; however, no awards may be granted after the tenth anniversary from the date the plans were initially approved by shareholders. Incentive awards usually vest based on employee service, generally within three years from the date of the grant. The contractual lives of options granted under these plans range from seven to ten years from the date of the grant.

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On May 13, 2010, the shareholders of the Company approved the Regions Financial Corporation 2010 Long-Term Incentive Plan ("2010 LTIP"), which permits the Company to grant to employees and directors various forms of incentive compensation. These forms of incentive compensation are similar to the types of compensation approved in prior plans. The 2010 LTIP authorizes 100 million common share equivalents available for grant, where grants of options count as one share equivalent and grants of full value awards (e.g., shares of restricted stock, restricted stock units and performance stock units) count as 2.25 share equivalents. Unless otherwise determined by the Compensation Committee of the Board of Directors, grants of restricted stock, restricted stock units, and performance stock units accrue dividends as they are declared by the Board of Directors, and the dividends are paid upon vesting of the award. The 2010 LTIP closed all prior long-term incentive plans to new grants, and, accordingly, prospective grants must be made under the 2010 LTIP or a successor plan. All existing grants under prior long-term incentive plans were unaffected by adoption of the 2010 LTIP. The number of remaining share equivalents available for future issuance under the 2010 LTIP was approximately 52 million at June 30, 2013.

STOCK OPTIONS

No stock option grants were made during the first six months of 2013 or 2012. The following table summarizes the activity related to stock options during the first six months of 2013 and 2012:

	Six Months Ended June 30			
	2013		2012	
	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
Outstanding at beginning of period	38,258,204	$ 23.09	46,351,349	$ 23.62
Granted	—	—	—	—
Exercised	(222,872)	6.69	(200,092)	3.29
Canceled/Forfeited	(3,603,567)	25.82	(4,587,318)	24.90
Outstanding at end of period	34,431,765	$ 22.91	41,563,939	$ 23.57
Exercisable at end of period	33,916,703	$ 23.16	38,447,853	$ 24.93

RESTRICTED STOCK AWARDS AND PERFORMANCE STOCK AWARDS

During the first six months of 2013 and 2012, Regions made restricted stock grants that vest upon service conditions and restricted stock unit and performance stock unit grants that vest based upon service conditions and performance conditions. Dividend payments during the vesting period are deferred to the end of the vesting term. The fair value of these restricted shares, restricted stock units and performance stock units was estimated based upon the fair value of the underlying shares on the date of the grant. The valuation was not adjusted for the deferral of dividends.

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

	Six Months Ended June 30			
	2013		2012	
	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value
Non-vested at beginning of period	11,945,179	$ 6.15	6,280,360	$ 7.60
Granted	6,327,865	8.04	8,416,325	5.86
Vested	(1,409,037)	6.83	(1,508,397)	4.59
Forfeited	(315,627)	6.12	(528,514)	3.20
Non-vested at end of period	16,548,380	$ 6.82	12,659,774	$ 6.99

NOTE 11. PENSION AND OTHER POSTRETIREMENT BENEFITS

Regions has a qualified defined benefit pension plan (the "pension plan") covering only certain employees as the pension plan is closed to new entrants. The Company also sponsors supplemental executive retirement programs (collectively the "SERP"), which are non-qualified plans that provide certain senior executive officers defined benefits in relation to their compensation.

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

	Qualified Plan		Non-qualified Plans		Total	
	Three Months Ended June 30					
	2013	2012	2013	2012	2013	2012
	(In millions)					
Service cost	$9	$11	$1	$—	$10	$11
Interest cost	21	20	1	2	22	22
Expected return on plan assets	(33)	(28)	—	—	(33)	(28)
Amortization of actuarial loss	16	18	1	—	17	18
Amortization of prior service cost	—	—	—	—	—	—
Net periodic pension cost	$13	$21	$3	$2	$16	$23

	Qualified Plan		Non-qualified Plans		Total	
	Six Months Ended June 30					
	2013	2012	2013	2012	2013	2012
	(In millions)					
Service cost	$19	$21	$2	$1	$21	$22
Interest cost	42	41	2	3	44	44
Expected return on plan assets	(66)	(57)	—	—	(66)	(57)
Amortization of actuarial loss	32	35	1	—	33	35
Amortization of prior service cost	—	—	—	1	—	1
Net periodic pension cost	$27	$40	$5	$5	$32	$45

Regions' policy for funding the qualified pension plan is to contribute annually at least the minimum amount required by Internal Revenue Service funding standards. During the first six months of 2013, Regions has made no contribution for the 2013 plan year.

Regions also provides other postretirement benefits such as defined benefit health care plans and life insurance plans that cover certain retired employees. There was no material impact from other postretirement benefits on the consolidated financial statements for the six month periods ended June 30, 2013 or 2012.

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NOTE 12. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The following tables present the notional amount and estimated fair value of derivative instruments on a gross basis as of June 30, 2013 and December 31, 2012:

	June 30, 2013			December 31, 2012		
	Notional	Estimated Fair Value		Notional	Estimated Fair Value	
	Amount	Gain[(1)]	Loss[(1)]	Amount	Gain[(1)]	Loss[(1)]
	(In millions)					
Derivatives in fair value hedging relationships:						
Interest rate swaps	$4,072	$62	$34	$5,388	$101	$1
Derivatives in cash flow hedging relationships:						
Interest rate swaps	5,025	5	73	1,000	2	—
Total derivatives designated as hedging instruments	$9,097	$67	$107	$6,388	$103	$1
Derivatives not designated as hedging instruments:						
Interest rate swaps	$46,170	$1,243	$1,297	$46,054	$1,746	$1,775
Interest rate options	3,212	10	7	3,274	25	4
Interest rate futures and forward commitments	29,071	47	8	43,908	10	13
Other contracts	2,232	50	48	2,213	31	32
Total derivatives not designated as hedging instruments	$80,685	$1,350	$1,360	$95,449	$1,812	$1,824
Total derivatives	$89,782	$1,417	$1,467	$101,837	$1,915	$1,825

(1) Derivatives in a gain position are recorded as other assets and derivatives in a loss position are recorded as other liabilities on the consolidated balance sheets.

HEDGING DERIVATIVES

Derivatives entered into to manage interest rate risk and facilitate asset/liability management strategies are designated as hedging derivatives. Derivative financial instruments that qualify in a hedging relationship are classified, based on the exposure being hedged, as either fair value hedges or cash flow hedges. The Company formally documents all hedging relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for entering into various hedge transactions. The Company performs periodic assessments to determine whether the hedging relationship has been highly effective in offsetting changes in fair values or cash flows of hedged items and whether the relationship is expected to continue to be highly effective in the future.

When a hedge is terminated or hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, or because it is probable that the forecasted transaction will not occur by the end of the specified time period, the derivative will continue to be recorded in the consolidated balance sheets at its fair value, with changes in fair value recognized currently in investment fee income. Any asset or liability that was recorded pursuant to recognition of the firm commitment is removed from the consolidated balance sheets and recognized currently in other non-interest expense. Gains and losses that were accumulated in accumulated other comprehensive income (loss) pursuant to the hedge of a forecasted transaction are recognized immediately in other non-interest expense.

FAIR VALUE HEDGES

Fair value hedge relationships mitigate exposure to the change in fair value of an asset, liability or firm commitment. Under the fair value hedging model, gains or losses attributable to the change in fair value of the derivative

instrument, as well as the gains and losses attributable to the change in fair value of the hedged item, are recognized in earnings in the period in which the change in fair value occurs. The corresponding adjustment to the hedged asset or liability is included in the basis of the hedged item, while the corresponding change in the fair value of the derivative instrument is recorded as an adjustment to other assets or other liabilities, as applicable. Hedge ineffectiveness exists to the extent that the changes in fair value of the derivative do not offset the changes in fair value of the hedged item and is recorded as other non-interest expense.

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Regions enters into interest rate swap agreements to manage interest rate exposure on the Company's fixed-rate borrowings, which includes long-term debt and certificates of deposit. These agreements involve the receipt of fixed-rate amounts in exchange for floating-rate interest payments over the life of the agreements. Regions enters into interest rate swap agreements to manage interest rate exposure on certain of the Company's fixed-rate available for sale securities. These agreements involve the payment of fixed-rate amounts in exchange for floating-rate interest receipts. Regions also enters into forward sale commitments to hedge changes in the fair value of available-for-sale securities.

CASH FLOW HEDGES

Cash flow hedge relationships mitigate exposure to the variability of future cash flows or other forecasted transactions. For cash flow hedge relationships, the effective portion of the gain or loss related to the derivative instrument is recognized as a component of accumulated other comprehensive income (loss). Ineffectiveness is measured by comparing the change in fair value of the respective derivative instrument and the change in fair value of a "perfectly effective" hypothetical derivative instrument. Ineffectiveness will be recognized in earnings only if it results from an overhedge. The ineffective portion of the gain or loss related to the derivative instrument, if any, is recognized in earnings as other non-interest expense during the period of change. Amounts recorded in accumulated other comprehensive income (loss) are recognized in earnings in the periods during which the hedged item impacts earnings.

Regions enters into interest rate swap agreements to manage overall cash flow changes related to interest rate risk exposure on LIBOR-based loans. The agreements effectively modify the Company's exposure to interest rate risk by utilizing receive fixed/pay LIBOR interest rate swaps.

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

Regions purchases Eurodollar futures to hedge the variability in future cash flows based on forecasted resets of one-month LIBOR-based floating-rate loans due to changes in the benchmark interest rate.

Regions enters into interest rate option contracts to protect cash flows through the maturity date of the hedging instrument on designated one-month LIBOR floating-rate loans from adverse extreme market interest rate changes.

Regions recognized an unrealized after-tax gain of $77 million and $110 million in accumulated other comprehensive income (loss) at June 30, 2013 and 2012, respectively, related to terminated cash flow hedges of loan and debt instruments which will be amortized into earnings in conjunction with the recognition of interest payments through 2017. Regions recognized pre-tax income of $12 million and $3 million during the three months ended June 30, 2013 and 2012, respectively and pre-tax income of $24 million and a pre-tax loss of $1 million during the six months ended June 30, 2013 and 2012, respectively related to the amortization of cash flow hedges of loan and debt instruments.

Regions expects to reclassify out of accumulated other comprehensive income (loss) and into earnings approximately $94 million in pre-tax income due to the receipt or payment of interest payments on all cash flow hedges within the next twelve months. Included in this amount is $47 million in pre-tax net gains related to the amortization of discontinued cash flow hedges. The maximum length of time over which Regions is hedging its exposure to the variability in future cash flows for forecasted transactions is approximately six years as of June 30, 2013.

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

	Gain or (Loss) Recognized in Income on Derivatives		Location of Amounts Recognized in Income on Derivatives and Related Hedged Item	Gain or (Loss) Recognized in Income on Related Hedged Item	
	Three Months Ended June 30			Three Months Ended June 30	
	2013	2012		2013	2012
	(In millions)			(In millions)	
Fair Value Hedges:					
Interest rate swaps on:					
Debt/CDs	$13	$27	Interest expense	$2	$3
Debt/CDs	(51)	(5)	Other non-interest expense	43	6
Securities available for sale	(1)	—	Interest expense	—	—
Securities available for sale	14	—	Other non-interest expense	(14)	—
Total	$(25)	$22		$31	$9

	Effective Portion[3]				
	Gain or (Loss) Recognized in AOCI[1]		Location of Amounts Reclassified from AOCI into Income	(Gain) or Loss Reclassified from AOCI into Income[2]	
	Three Months Ended June 30			Three Months Ended June 30	
	2013	2012		2013	2012
	(In millions)			(In millions)	
Cash Flow Hedges:					
Interest rate swaps	$(53)	$25	Interest income on loans	$21	$21
Forward starting swaps	3	2	Interest expense on debt	(4)	(4)
Total	$(50)	$27		$17	$17

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	Gain or (Loss) Recognized in Income on Derivatives		Location of Amounts Recognized in Income on Derivatives and Related Hedged Item	Gain or (Loss) Recognized in Income on Related Hedged Item	
	Six Months Ended June 30			Six Months Ended June 30	
	2013	2012		2013	2012
	(In millions)			(In millions)	
Fair Value Hedges:					
Interest rate swaps on:					
Debt/CDs	$36	$58	Interest expense	$5	$6
Debt/CDs	(72)	(21)	Other non-interest expense	64	18
Securities available for sale	(1)	—	Interest expense	—	—
Securities available for sale	14	—	Other non-interest expense	(15)	—
Total	$(23)	$37		$54	$24

	Effective Portion[3]				
	Gain or (Loss) Recognized in AOCI[1]		Location of Amounts Reclassified from AOCI into Income	(Gain) or Loss Reclassified from AOCI into Income[2]	
	Six Months Ended June 30			Six Months Ended June 30	
	2013	2012		2013	2012
	(In millions)			(In millions)	
Cash Flow Hedges:					
Interest rate swaps	$(63)	$22	Interest income on loans	$40	$41
Forward starting swaps	5	4	Interest expense on debt	(8)	(7)
Total	$(58)	$26		$32	$34

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

DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS

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

Regions enters into interest rate lock commitments, which are commitments to originate mortgage loans whereby the interest rate on the loan is determined prior to funding and the customers have locked into that interest rate. At June 30, 2013 and December 31, 2012, Regions had $583 million and $775 million, respectively, in total notional

amount of interest rate lock commitments. Regions manages market risk on interest rate lock commitments and mortgage loans held for sale with corresponding forward sale commitments, which are recorded at fair value with changes in fair value recorded in mortgage income. At June 30, 2013 and December 31, 2012, Regions had $1.2 billion and $1.9 billion, respectively, in total notional amount related to these forward sale commitments.
Regions has elected to account for mortgage servicing rights at fair market value with any changes to fair value being recorded within mortgage income. Concurrent with the election to use the fair value measurement method, Regions began using various derivative instruments, in the form of forward rate commitments, futures contracts, swaps and swaptions to mitigate the consolidated

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statement of income effect of changes in the fair value of its mortgage servicing rights. As of June 30, 2013 and December 31, 2012, the total notional amount related to these contracts was $3.5 billion and $4.7 billion, respectively.
The following table presents the location and amount of gain or (loss) recognized in income on derivatives not designated as hedging instruments in the consolidated statements of income for the three and six months ended June 30, 2013 and 2012, respectively:

Derivatives Not Designated as Hedging Instruments	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
	(In millions)			
Investment fee income:				
Interest rate swaps	$11	$7	$22	$11
Interest rate options	—	(1)	2	(1)
Interest rate futures and forward commitments	1	(1)	1	(1)
Other contracts	5	2	9	5
Total investment fee income	17	7	34	14
Mortgage income:				
Interest rate swaps	(22)	22	(27)	19
Interest rate options	(15)	12	(19)	17
Interest rate futures and forward commitments	35	(3)	31	13
Total mortgage income	(2)	31	(15)	49
	$15	$38	$19	$63

Credit risk, defined as all positive exposures not collateralized with cash or other assets, at June 30, 2013 and December 31, 2012, totaled approximately $469 million and $713 million, respectively. This amount represents the net credit risk on all trading and other derivative positions held by Regions.

CREDIT DERIVATIVES

Regions has both bought and sold credit protection in the form of participations on interest rate swaps (swap participations). These swap participations, which meet the definition of credit derivatives, were entered into in the ordinary course of business to serve the credit needs of customers. Credit derivatives, whereby Regions has purchased credit protection, entitle Regions to receive a payment from the counterparty when the customer fails to make payment on any amounts due to Regions upon early termination of the swap transaction and have maturities between 2013 and 2018. Credit derivatives whereby Regions has sold credit protection have maturities between 2013 and 2020. For contracts where Regions sold credit protection, Regions would be required to make payment to the counterparty when the customer fails to make payment on any amounts due to the counterparty upon early termination of the swap transaction. Regions bases the current status of the prepayment/performance risk on bought and sold credit derivatives on recently issued internal risk ratings consistent with the risk management practices of unfunded commitments.

Regions’ maximum potential amount of future payments under these contracts as of June 30, 2013 was approximately $38 million. This scenario would only occur if variable interest rates were at zero percent and all counterparties defaulted with zero recovery. The fair value of sold protection at June 30, 2013 and 2012 was immaterial. In transactions where Regions has sold credit protection, recourse to collateral associated with the original swap transaction is available to offset some or all of Regions’ obligation.

CONTINGENT FEATURES

Certain of Regions’ derivative instrument contracts with broker-dealers contain provisions allowing those broker-dealers to terminate the contracts in the event that Regions’ and/or Regions Bank’s credit ratings falls below specified ratings from certain major credit rating agencies. During the fourth quarter of 2010, Regions and Regions Bank experienced ratings downgrades from major credit rating agencies such that certain ratings for Regions and

Regions Bank were below investment grade. As a result of these ratings downgrades, certain of Regions Bank's broker-dealer counterparties could have terminated these contracts at their discretion. In lieu of terminating these contracts, Regions Bank and certain of its broker-dealer counterparties amended the contracts such that Regions Bank was required to post additional collateral in the cumulative amount of $195 million as of December 31, 2010. As of June 30, 2013, the additional collateral posted was $62 million. During 2012, both Moody’s Investor Service ("Moody's) and Standard and Poor's ("S&P") upgraded certain credit ratings for both Regions and Regions Bank. Beginning in 2013, as a result of the ratings upgrades that occurred during 2012, some of this additional collateral has begun to be returned to Regions.

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Some of these contracts with broker-dealers still contain credit-related termination provisions and/or credit-related provisions regarding the posting of collateral. At June 30, 2013, the net fair value of such contracts containing credit-related termination provisions that were in a liability position was $325 million, for which Regions had posted collateral of $363 million. At June 30, 2013, the net fair value of contracts that do not contain credit-related termination provisions that were in a liability position was $224 million, for which Regions had posted collateral of $255 million. Other derivative contracts with broker-dealers do not contain any credit-related provisions. These counterparties require complete overnight collateralization.

The aggregate fair value of all derivative instruments with any credit-risk-related contingent features that were in a liability position on June 30, 2013 and December 31, 2012, was $402 million and $499 million, respectively, for which Regions had posted collateral of $440 million and $641 million, respectively, in the normal course of business.

OFFSETTING

Regions engages in derivatives transactions with dealers and customers. These derivatives transactions are subject to enforceable master netting agreements, which include a right of setoff by the non-defaulting or non-affected party upon early termination of the derivatives transaction. The following table presents the Company's gross derivative positions, including collateral posted or received, as of June 30, 2013 and December 31, 2012:

	Offsetting Derivative Assets		Offsetting Derivative Liabilities	
	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
	(In millions)			
Gross amounts recognized	$1,423	$1,910	$1,450	$1,797
Gross amounts offset in the consolidated balance sheets[1]	889	1,095	1,392	1,095
Net amounts presented in the consolidated balance sheets	534	815	58	702
Gross amounts not offset in the consolidated balance sheets:				
Financial instruments	11	11	—	—
Cash collateral received/posted[1]	—	88	—	678
Net amounts	$523	$716	$58	$24

(1) Cash collateral totals are for netting counterparties only. In 2013, Regions began netting cash collateral received and posted against the net derivative asset or liability. At June 30, 2013, gross amounts of derivative assets and liabilities offset in the consolidated balance sheets presented above include cash collateral received of $60 million and cash collateral posted of $563 million, respectively. The cash collateral posted does not include the additional collateral posted in the form of an independent amount of $62 million. At December 31, 2012, cash collateral received and posted was not offset in the consolidated balance sheets. At December 31, 2012, the gross amounts of derivative assets and liabilities not offset in the consolidated balance sheets presented above include cash collateral received of $55 million and cash collateral posted of $827 million, respectively. The cash collateral posted includes the additional collateral posted in the form of an independent amount of $185 million.

Reconciling differences exist between the gross amounts of derivative assets and liabilities recognized in the offsetting table above and the gross amounts of derivative assets and liabilities recognized in the fair value table in Note 13. Items such as certain accrued interest are included in the offsetting amounts but not in the fair value table, and credit valuation adjustments are included in the fair value table but not in the offsetting table. Regions also has enforceable master netting agreements associated with certain securities sold under agreements to repurchase. Refer to Note 7 for additional information regarding the offsetting of those financial instruments.

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NOTE 13. FAIR VALUE MEASUREMENTS

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

- Level 1 valuations, where the valuation is based on quoted market prices for identical assets or liabilities traded in active markets (which include exchanges and over-the-counter markets with sufficient volume),

- Level 2 valuations, where the valuation is based on quoted market prices for similar instruments traded in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market, and

- Level 3 valuations, where the valuation is generated from model-based techniques that use significant assumptions not observable in the market, but observable based on Company-specific data. These unobservable assumptions reflect the Company’s own estimates for assumptions that market participants would use in pricing the asset or liability. Valuation techniques typically include option pricing models, discounted cash flow models and similar techniques, but may also include the use of market prices of assets or liabilities that are not directly comparable to the subject asset or liability.

See Note 1 “Summary of Significant Accounting Policies” to the consolidated financial statements of the 2012 Annual Report on Form 10-K for a description of valuation methodologies for assets and liabilities measured at fair value on a recurring and non-recurring basis. Regions rarely transfers assets and liabilities measured at fair value between Level 1 and Level 2 measurements. There were no such transfers during the six month periods ended June 30, 2013 and 2012. Trading account securities and securities available for sale may be periodically transferred to or from Level 3 valuation based on management’s conclusion regarding the best method of pricing for an individual security. Such transfers are accounted for as if they occur at the beginning of a reporting period.

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The following tables present assets and liabilities measured at estimated fair value on a recurring basis and non-recurring basis as of June 30, 2013 and December 31, 2012:

	June 30, 2013				December 31, 2012			
	Level 1	Level 2	Level 3	Total Estimated Fair Value	Level 1	Level 2	Level 3	Total Estimated Fair Value
	(In millions)							
Recurring fair value measurements								
Trading account securities	$102	$—	$—	$ 102	$116	$—	$—	$ 116
Securities available for sale:								
U.S. Treasury securities	$52	$—	$—	$ 52	$52	$—	$—	$ 52
Federal agency securities	—	118	—	118	—	553	—	553
Obligations of states and political subdivisions	—	7	—	7	—	9	—	9
Mortgage-backed securities:								
Residential agency	—	16,419	—	16,419	—	21,277	—	21,277
Residential non-agency	—	—	11	11	—	—	13	13
Commercial agency	—	749	—	749	—	725	—	725
Commercial non-agency	—	1,110	—	1,110	—	1,098	—	1,098
Other debt securities	—	2,808	2	2,810	—	2,833	2	2,835
Equity securities[(1)]	118	—	—	118	125	—	—	125
Total securities available for sale	$170	$21,211	$13	$ 21,394	$177	$26,495	$15	$ 26,687
Mortgage loans held for sale	$—	$752	$—	$ 752	$—	$1,282	$—	$ 1,282
Mortgage servicing rights	$—	$—	$276	$ 276	$—	$—	$191	$ 191
Derivative assets:								
Interest rate swaps	$—	$1,310	$—	$ 1,310	$—	$1,849	$—	$ 1,849
Interest rate options	—	4	6	10	—	3	22	25
Interest rate futures and forward commitments	—	47	—	47	—	10	—	10
Other contracts	—	50	—	50	—	31	—	31
Total derivative assets	$—	$1,411	$6	$ 1,417	$—	$1,893	$22	$ 1,915
Derivative liabilities:								
Interest rate swaps	$—	$1,404	$—	$ 1,404	$—	$1,776	$—	$ 1,776
Interest rate options	—	3	4	7	—	4	—	4
Interest rate futures and forward commitments	—	8	—	8	—	13	—	13
Other contracts	—	48	—	48	—	32	—	32
Total derivative liabilities	$—	$1,463	$4	$ 1,467	$—	$1,825	$—	$ 1,825
Nonrecurring fair value measurements								
Loans held for sale	$—	$—	$57	$ 57	$—	$—	$51	$ 51
Foreclosed property and other real estate	—	60	23	83	—	41	40	81

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(1) Excludes Federal Reserve Bank and Federal Home Loan Bank Stock totaling $495 million and $112 million at June 30, 2013 and $484 million and $73 million at December 31, 2012, respectively.

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Assets and liabilities in all levels could result in volatile and material price fluctuations. Realized and unrealized gains and losses on Level 3 assets represent only a portion of the risk to market fluctuations in Regions' consolidated balance sheets. Further, derivatives included in Levels 2 and 3 are used by the Asset and Liability Management Committee of the Company in a holistic approach to managing price fluctuation risks.

The following tables illustrate a rollforward for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and six months ended June 30, 2013 and 2012, respectively. The tables do not reflect the change in fair value attributable to any related economic hedges the Company used to mitigate the interest rate risk associated with these assets and liabilities. The net changes in realized gains (losses) included in earnings related to Level 3 assets and liabilities held at June 30, 2013 and 2012 are not material.

	Three Months Ended June 30, 2013									
		Total Realized / Unrealized Gains or Losses								
	Opening Balance April 1, 2013	Included in Earnings	Included in Other Compre-hensive Income (Loss)	Purchases	Sales	Issuances	Settlements	Transfers into Level 3	Transfers out of Level 3	Closing Balance June 30, 2013
	(In millions)									
Level 3 Instruments Only										
Securities available for sale:										
Residential non-agency MBS	$12	—	—	—	—	—	(1)	—	—	$11
Other debt securities	2	—	—	—	—	—	—	—	—	2
Total securities available for sale	$14	—	—	—	—	—	(1)	—	—	$13
Mortgage servicing rights	$236	25 (a)	—	15	—	—	—	—	—	$276
Total interest rate options derivatives, net	$18	8 (a)	—	—	—	—	(24)	—	—	$2

(a) Included in mortgage income.

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	Three Months Ended June 30, 2012										
			Total Realized / Unrealized Gains or Losses								
	Opening Balance April 1, 2012	Disposition of Morgan Keegan	Included in Earnings	Included in Other Compre-hensive Income (Loss)	Purchases	Sales	Issuances	Settlements	Transfers into Level 3	Transfers out of Level 3	Closing Balance June 30, 2012
	(In millions)										
Level 3 Instruments Only											
Trading account assets:											
Obligations of states and political subdivisions	$124	(124)	—	—	—	—	—	—	—	—	$—
Commercial agency MBS	104	(104)	—	—	—	—	—	—	—	—	—
Other securities	13	(13)	—	—	—	—	—	—	—	—	—
Total trading account assets [(b)]	$241	(241)	—	—	—	—	—	—	—	—	$—
Securities available for sale:											
Obligations of states and political subdivisions	$16	—	—	—	—	(16)	—	—	—	—	$—
Residential non-agency MBS	15	—	—	—	—	—	—	(1)	—	—	14
Other debt securities	3	—	—	—	—	—	—	—	—	(1)	2
Total securities available for sale	$34	—	—	—	—	(16)	—	(1)	—	(1)	$16
Mortgage servicing rights	$199	—	(34) [(a)]	—	14	—	—	—	—	—	$179
Trading account liabilities:											
Mortgage-backed securities:											
Commercial agency	$42	(42)	—	—	—	—	—	—	—	—	$—
Other securities	10	(10)	—	—	—	—	—	—	—	—	—
	$52	(52)	—	—	—	—	—	—	—	—	$—

Total trading account liabilities [b]											
Total interest rate options derivatives, net	$18	—	70 [a]	—	—	—	—	(58)	—	—	$30

(a) Included in mortgage income.
(b) All amounts related to trading account assets and trading liabilities are related to Morgan Keegan (see Note 2 for discussion of sale of Morgan Keegan).

Six Months Ended June 30, 2013

	Opening Balance January 1, 2013	Total Realized / Unrealized Gains or Losses: Included in Earnings	Total Realized / Unrealized Gains or Losses: Included in Other Comprehensive Income (Loss)	Purchases	Sales	Issuances	Settlements	Transfers into Level 3	Transfers out of Level 3	Closing Balance June 30, 2013
	(In millions)									
Level 3 Instruments Only										
Securities available for sale:										
Residential non-agency MBS	$13	—	—	—	—	—	(2)	—	—	$11
Other debt securities	2	—	—	—	—	—	—	—	—	2
Total securities available for sale	$15	—	—	—	—	—	(2)	—	—	$13
Mortgage servicing rights	$191	26 [a]	—	59	—	—	—	—	—	$276
Total interest rate options derivatives, net	$22	41 [a]	—	—	—	—	(61)	—	—	$2

(a) Included in mortgage income.

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Six Months Ended June 30, 2012

	Opening Balance January 1, 2012	Total Realized / Unrealized Gains or Losses: Included in Earnings	Included in Other Compre-hensive Income (Loss)	Purchases	Sales	Issuances	Settlements	Transfers into Level 3	Transfers out of Level 3	Disposition of Morgan Keegan	Closing Balance June 30, 2012
	(In millions)										
Level 3 Instruments Only											
Trading account assets (c):											
Obligations of states and political subdivisions	$139	(3)	—	4	—	—	(16)	—	—	(124)	$—
Commercial agency MBS	51	2	—	368	—	—	(317)	—	—	(104)	—
Other securities	1	4	—	2,248	—	—	(2,240)	—	—	(13)	—
Total trading account assets (d)	$191	3 (a)	—	2,620	—	—	(2,573)	—	—	(241)	$—
Securities available for sale:											
Obligations of states and political subdivisions	$20	—	(2)	—	(16)	—	(2)	—	—	—	$—
Residential non-agency MBS	16	—	—	—	—	—	(2)	—	—	—	14
Other debt securities	—	—	—	—	—	—	—	3	(1)	—	2
Total securities available for sale	$36	—	(2)	—	(16)	—	(4)	3	(1)	—	$ 16
Mortgage servicing rights	$182	(31) (b)	—	28	—	—	—	—	—	—	$ 179
Trading account liabilities (c):											
Mortgage-backed securities:											
Commercial agency	$5	—	—	37	—	—	—	—	—	(42)	$—

Other securities	2	—	—	12	—	—	(4)	—	—	(10)	—
Total trading account liabilities (d)	$7	—	—	49	—	—	(4)	—	—	(52)	$ —
Total interest rate options derivatives, net	$13	111 (b)	—	—	—	—	(94)	—	—	—	$ 30

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(a) Included in discontinued operations, on a net basis.
(b) Included in mortgage income.
(c) Income from trading account assets primarily represents gains/(losses) on disposition, which inherently includes commissions on security transactions during the period.
(d) All amounts related to trading account assets and trading account liabilities are related to Morgan Keegan (see Note 2 for discussion of sale of Morgan Keegan).

The following table presents the fair value adjustments related to non-recurring fair value measurements:

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
	(In millions)			
Loans held for sale	$(23)	$(45)	$(42)	$(101)
Foreclosed property and other real estate	(8)	(19)	(19)	(38)

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The following tables present detailed information regarding assets and liabilities measured at fair value using significant unobservable inputs (Level 3) as of June 30, 2013 and December 31, 2012. The tables include the valuation techniques and the significant unobservable inputs utilized. The range of each significant unobservable input as well as the weighted average within the range utilized at June 30, 2013 and December 31, 2012 are included. Following the tables are a description of the valuation technique and the sensitivity of the technique to changes in the significant unobservable input.

	June 30, 2013 Level 3 Estimated Fair Value at June 30, 2013	Valuation Technique	Unobservable Input(s)	Quantitative Range of Unobservable Inputs and (Weighted-Average)
	(Dollars in millions)			
Recurring fair value measurements:				
Securities available for sale:				
Mortgage-backed securities:				
Residential non-agency	$11	Discounted cash flow	Spread to LIBOR	5.3% -69.8% (16.4%)
			Weighted-average prepayment speed (CPR; percentage)	0.0% -36.0% (11.4%)
			Probability of default	0.2%-1.2% (1.1%)
			Loss severity	37.6% -100.0% (46.7%)
Other debt securities	$2	Market comparable	Evaluated quote on same issuer/comparable bond	98.4% -100.0% (99.4%)
			Comparability adjustments	1.6% (1.6%)
Mortgage servicing rights[(a)]	$276	Discounted cash flow	Weighted-average prepayment speed (CPR; percentage)	7.3% -25.9% (9.4%)
			Option-adjusted spread (percentage)	5.4% -23.6% (10.3%)
Derivative assets:				
Interest rate options	$2	Discounted cash flow	Weighted-average prepayment speed (CPR; percentage)	7.3% -25.9% (9.4%)
			Option-adjusted spread (percentage)	5.4% -23.6% (10.3%)
			Pull-through	53.0% -99.9% (83.8%)
Nonrecurring fair value measurements:				
Loans held for sale	$57	Multiple data points, including discount to appraised value of collateral based on recent market activity for sales of similar	Appraisal comparability adjustment (discount)	1.0% -99.0% (12.7%)

		loans		
Foreclosed property and other real estate	$23	Discount to appraised value of property based on recent market activity for sales of similar properties	Appraisal comparability adjustment (discount)	35.0% -100.0% (44.5%)

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

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	December 31, 2012 Level 3 Estimated Fair Value at December 31, 2012 (Dollars in millions)	Valuation Technique	Unobservable Input(s)	Quantitative Range of Unobservable Inputs and (Weighted-Average)
Recurring fair value measurements:				
Securities available for sale:				
Mortgage-backed securities:				
Residential non-agency	$13	Discounted cash flow	Spread to LIBOR	5.4% -69.9% (16.9%)
			Weighted-average prepayment speed (CPR; percentage)	7.6% -30.3% (12.2%)
			Probability of default	0.2% - 1.2% (1.0%)
			Loss severity	39.3% -100.0% (48.1%)
Other debt securities	$2	Market comparable	Evaluated quote on same issuer/comparable bond	99.1% -100.0% (99.6%)
			Comparability adjustments	1.0% (1.0%)
Mortgage servicing rights[(a)]	$191	Discounted cash flow	Weighted-average prepayment speed (CPR; percentage)	4.7% -25.9% (17.6%)
			Option-adjusted spread (percentage)	1.0% -23.6% (7.5%)
Derivative assets:				
Interest rate options	$22	Discounted cash flow	Weighted-average prepayment speed (CPR; percentage)	4.7% -25.9% (17.6%)
			Option-adjusted spread (percentage)	1.0% -23.6% (7.5%)
			Pull-through	55.7% -98.8% (76.9%)
Nonrecurring fair value measurements:				
Loans held for sale	$51	Multiple data points, including discount to appraised value of collateral based on recent market activity for sales of similar loans	Appraisal comparability adjustment (discount)	8.0% -94.0% (46.3%)
Foreclosed property and other real estate	$40	Discount to appraised value of property based on recent market activity for sales of similar properties	Appraisal comparability adjustment (discount)	35.0% -100.0% (36.2%)

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(a) See Note 7 to the consolidated financial statements of the 2012 Annual Report on Form 10-K for additional disclosures related to assumptions used in the fair value calculation for mortgage servicing rights.

RECURRING FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS

Securities available for sale

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

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

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Mortgage Servicing Rights

The significant unobservable inputs used in the fair value measurement of mortgage servicing rights ("MSR") are option adjusted spreads (“OAS”) and prepayment speed. This method requires generating cash flow projections over multiple interest rate scenarios and discounting those cash flows at a risk adjusted rate. Additionally, the impact of prepayments and changes in the OAS are based on a variety of underlying inputs such as servicing costs. Increases or decreases to the underlying cash flow inputs will have a corresponding impact on the value of the MSR asset. The net change in unrealized gains (losses) included in earnings related to MSRs held at period end are disclosed as the changes in valuation inputs or assumptions. See Note 5 for these amounts and additional disclosures related to assumptions used in the fair value calculation for MSRs.

Derivative assets

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

NON-RECURRING FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS

Loans held for sale

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

Foreclosed property and other real estate

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

FAIR VALUE OPTION

Regions has elected the fair value option for FNMA and FHLMC eligible thirty-year residential mortgage loans held for sale. Additionally, Regions previously elected the fair value option for FNMA and FHLMC eligible fifteen-year residential mortgage loans originated with the intent to sell. During the fourth quarter of 2012, Regions began the process of retaining ten and fifteen-year residential mortgage loans on its balance sheet. These elections allow for a more effective offset of the changes in fair values of the loans and the derivative instruments used to economically hedge them without the burden of complying with the requirements for hedge accounting. Regions has not elected the fair value option for other loans held for sale primarily because they are not economically hedged using derivative instruments. Fair values of mortgage loans held for sale are based on traded market prices of similar assets where available and/or discounted cash flows at market interest rates, adjusted for securitization activities that include servicing values and market conditions, and are recorded in loans held for sale in the consolidated balance sheets.

The following table summarizes the difference between the aggregate fair value and the aggregate unpaid principal balance for mortgage loans held for sale measured at fair value:

	June 30, 2013			December 31, 2012		
	Aggregate Fair Value	Aggregate Unpaid Principal	Aggregate Fair Value Less Aggregate	Aggregate Fair Value	Aggregate Unpaid Principal	Aggregate Fair Value Less Aggregate

			Unpaid Principal			Unpaid Principal
	(In millions)					
Mortgage loans held for sale, at fair value	$752	$767	$(15)	$1,282	$1,235	$47

Interest income on mortgage loans held for sale is recognized based on contractual rates and is reflected in interest income on loans held for sale in the consolidated statements of income. The following table details net gains resulting from changes in fair value of these loans which were recorded in mortgage income in the consolidated statements of income during the three and

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six months ended June 30, 2013 and 2012, respectively. These changes in fair value are mostly offset by economic hedging activities. An immaterial portion of these amounts was attributable to changes in instrument-specific credit risk.

	Mortgage loans held for sale, at fair value			
	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
	(In millions)			
Net gains (losses) resulting from changes in fair value	$(44)	$22	$(62)	$12

The carrying amounts and estimated fair values, as well as the level within the fair value hierarchy, of the Company's financial instruments as of June 30, 2013 are as follows:

	June 30, 2013				
	Carrying Amount	Estimated Fair Value[1]	Level 1	Level 2	Level 3
	(In millions)				
Financial assets:					
Cash and cash equivalents	$4,280	$4,280	$4,280	$—	$—
Trading account securities	102	102	102	—	—
Securities held to maturity	2,425	2,425	2	2,423	—
Securities available for sale	22,001	22,001	170	21,818	13
Loans held for sale	839	839	—	752	87
Loans (excluding leases), net of unearned income and allowance for loan losses[2][3]	71,591	65,806	—	—	65,806
Other interest-earning assets	135	135	—	135	—
Derivative assets	1,417	1,417	—	1,411	6
Financial liabilities:					
Derivative liabilities	1,467	1,467	—	1,463	4
Deposits	92,454	92,503	—	92,503	—
Short-term borrowings	3,877	3,877	—	3,877	—
Long-term borrowings	4,856	5,087	876	—	4,211
Loan commitments and letters of credit	112	629	—	—	629
Indemnification obligation	257	237	—	—	237

(1) Estimated fair values are consistent with an exit price concept. The assumptions used to estimate the fair values are intended to approximate those that a market participant would use in a hypothetical orderly transaction. In estimating fair value, the Company makes adjustments for interest rates, market liquidity and credit spreads as appropriate.

(2) The estimated fair value of portfolio loans assumes sale of the loans to a third-party financial investor. Accordingly, the value to the Company if the loans were held to maturity is not reflected in the fair value estimate. In the current whole loan market, financial investors are generally requiring a higher rate of return than the return inherent in loans if held to maturity. The fair value discount at June 30, 2013 was $5.8 billion or 8.1 percent.

(3) Excluded from this table is the lease carrying amount of $1.8 billion at June 30, 2013.

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The carrying amounts and estimated fair values, as well as the level within the fair value hierarchy, of the Company's financial instruments as of December 31, 2012 are as follows:

	December 31, 2012				
	Carrying Amount	Estimated Fair Value(1)	Level 1	Level 2	Level 3
	(In millions)				
Financial assets:					
Cash and cash equivalents	$5,489	$5,489	$5,489	$—	$—
Trading account securities	116	116	116	—	—
Securities held to maturity	10	11	2	9	—
Securities available for sale	27,244	27,244	177	27,052	15
Loans held for sale	1,383	1,383	—	1,282	101
Loans (excluding leases), net of unearned income and allowance for loan losses(2)(3)	70,574	63,961	—	—	63,961
Other interest-earning assets	900	900	—	900	—
Derivative assets	1,915	1,915	—	1,893	22
Financial liabilities:					
Derivative liabilities	1,825	1,825	—	1,825	—
Deposits	95,474	95,528	—	95,528	—
Short-term borrowings	1,574	1,574	—	1,574	—
Long-term borrowings	5,861	6,138	1,037	—	5,101
Loan commitments and letters of credit	121	667	—	—	667
Indemnification obligation	345	329	—	—	329

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(1) Estimated fair values are consistent with an exit price concept. The assumptions used to estimate the fair values are intended to approximate those that a market participant would use in a hypothetical orderly transaction. In estimating fair value, the Company makes adjustments for interest rates, market liquidity and credit spreads as appropriate.

(2) The estimated fair value of portfolio loans assumes sale of the loans to a third-party financial investor. Accordingly, the value to the Company if the loans were held to maturity is not reflected in the fair value estimate. In the current whole loan market, financial investors are generally requiring a higher rate of return than the return inherent in loans if held to maturity. The fair value discount at December 31, 2012 was $6.6 billion or 9.4 percent.

(3) Excluded from this table is the lease carrying amount of $1.5 billion at December 31, 2012.

NOTE 14. BUSINESS SEGMENT INFORMATION

Each of Regions’ reportable segments is a strategic business unit that serves specific needs of Regions’ customers based on the products and services provided. The segments are based on the manner in which management views the financial performance of the business. The Company has three reportable segments: Business Services, Consumer Services and Wealth Management, with the remainder split between Discontinued Operations and Other. During the third quarter of 2012, Regions reorganized its internal management structure and, accordingly, its segment reporting structure. Historically, Regions’ primary business segment was Banking/Treasury, representing the Company’s banking network (including the Consumer and Commercial Banking function along with the Treasury function). Other segments included Investment Banking/Brokerage/Trust and Insurance. During the second quarter of 2012, Regions consummated the sale of Morgan Keegan (the primary component of Investment Banking/Brokerage/Trust). Shortly thereafter, Regions announced organizational changes to better integrate and execute the Company’s strategic priorities across all lines of business and geographies. As a result, Regions revised its reportable segments. Prior periods’

information has been restated to conform to the current periods' presentation.

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

	Three Months Ended June 30, 2013						
	Business Services (In millions)	Consumer Services	Wealth Management	Other	Continuing Operations	Discontinued Operations	Consolidated
Net interest income (loss)	$465	$462	$44	$(163)	$808	$—	$808
Provision for loan losses	70	69	5	(113)	31	—	31
Non-interest income	116	273	92	16	497	—	497
Non-interest expense	220	472	111	81	884	2	886
Income (loss) before income taxes	291	194	20	(115)	390	(2)	388
Income tax expense (benefit)	111	74	7	(70)	122	(1)	121
Net income (loss)	$180	$120	$13	$(45)	$268	$(1)	$267
Average assets	$47,489	$28,846	$3,047	$38,866	$118,248	$—	$118,248

	Three Months Ended June 30, 2012						
	Business Services (In millions)	Consumer Services	Wealth Management	Other	Continuing Operations	Discontinued Operations	Consolidated
Net interest income (loss)	$508	$464	$48	$(182)	$838	$—	$838
Provision for loan losses	135	126	4	(239)	26	—	26
Non-interest income	109	293	87	18	507	15	522
Non-interest expense	216	499	104	23	842	11	853
Income before income taxes	266	132	27	52	477	4	481
Income tax expense (benefit)	101	50	11	(36)	126	—	126
Net income	$165	$82	$16	$88	$351	$4	$355
Average assets	$49,021	$29,719	$3,514	$40,172	$122,426	$49	$122,475

	Six Months Ended June 30, 2013						
	Business Services (In millions)	Consumer Services	Wealth Management	Other	Continuing Operations	Discontinued Operations	Consolidated
Net interest income (loss)	$923	$924	$89	$(330)	$1,606	$—	$1,606
Provision for loan losses	165	147	12	(283)	41	—	41

Non-interest income	229	553	178	38	998	—	998
Non-interest expense	469	945	215	97	1,726	(2)	1,724
Income (loss) before income taxes	518	385	40	(106)	837	2	839
Income tax expense (benefit)	197	146	15	(122)	236	1	237
Net income	$321	$239	$25	$16	$601	$1	$602
Average assets	$47,335	$29,026	$3,057	$39,265	$118,683	$—	$118,683

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	Six Months Ended June 30, 2012						
	Business Services	Consumer Services	Wealth Management	Other	Continuing Operations	Discontinued Operations	Consolidated
	(In millions)						
Net interest income (loss)	$1,012	$922	$96	$(365)	$1,665	$7	$1,672
Provision for loan losses	325	257	15	(454)	143	—	143
Non-interest income	237	592	171	31	1,031	255	1,286
Non-interest expense	470	1,005	213	67	1,755	323	2,078
Income (loss) before income taxes	454	252	39	53	798	(61)	737
Income tax expense (benefit)	173	96	15	(76)	208	(25)	183
Net income (loss)	$281	$156	$24	$129	$590	$(36)	$554
Average assets	$49,127	$29,850	$3,596	$40,518	$123,091	$1,413	$124,504

NOTE 15. COMMITMENTS, CONTINGENCIES AND GUARANTEES

COMMERCIAL COMMITMENTS

Regions issues off-balance sheet financial instruments in connection with lending activities. The credit risk associated with these instruments is essentially the same as that involved in extending loans to customers and is subject to Regions' normal credit approval policies and procedures. Regions measures inherent risk associated with these instruments by recording a reserve for unfunded commitments based on an assessment of the likelihood that the guarantee will be funded and the creditworthiness of the customer or counterparty. Collateral is obtained based on management's assessment of the creditworthiness of the customer.

Credit risk associated with these instruments is represented by the contractual amounts indicated in the following table:

	June 30, 2013	December 31, 2012
	(In millions)	
Unused commitments to extend credit	$40,119	$38,160
Standby letters of credit	1,746	1,872
Commercial letters of credit	34	27
Liabilities associated with standby letters of credit	38	37
Assets associated with standby letters of credit	38	37
Reserve for unfunded credit commitments	73	83

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

Standby letters of credit—Standby letters of credit are also issued to customers which commit Regions to make payments on behalf of customers if certain specified future events occur. Regions has recourse against the customer for any amount required to be paid to a third party under a standby letter of credit. Historically, a large percentage of

standby letters of credit expired without being funded. The contractual amount of standby letters of credit represents the maximum potential amount of future payments Regions could be required to make and represents Regions' maximum credit risk.

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

LEGAL CONTINGENCIES

Regions and its affiliates are subject to loss contingencies related to litigation and claims arising in the ordinary course of business. Regions evaluates these contingencies based on information currently available, including advice of counsel. Regions establishes accruals for litigation and claims when a loss contingency is considered probable and the related amount is reasonably estimable. Any accruals are periodically reviewed and may be adjusted as circumstances change. In addition, as

previously discussed, Regions has agreed to indemnify Raymond James for all legal matters resulting from pre-closing activities in conjunction with the sale of Morgan Keegan and recorded an indemnification obligation at fair value in the second quarter of 2012. The indemnification obligation had a carrying amount of approximately $257 million and an estimated fair value of approximately $237 million as of June 30, 2013 (see Note 13). For certain matters, when able to do so, Regions also estimates loss contingencies for possible litigation and claims, whether or not there is an accrued probable loss. Where Regions is able to estimate such possible losses, Regions estimates that it is reasonably possible it could incur losses, in excess of amounts accrued, in an aggregate amount up to approximately $60 million as of June 30, 2013, with it also being reasonably possible that Regions could incur no losses in excess of amounts accrued. The legal contingencies included in the reasonably possible estimate include those that are subject to the indemnification agreement with Raymond James.

Assessments of litigation and claims exposures are difficult due to many factors that involve inherent unpredictability. Those factors include the following: the varying stages of the proceedings, particularly in the early stages; unspecified damages; damages other than compensatory such as punitive damages; multiple defendants and jurisdictions; whether discovery has begun or not; and whether the claim involves a class action. There are numerous factors that result in a greater degree of complexity in class-action lawsuits as compared to other types of litigation. Due to the many intricacies involved in class-action lawsuits at the early stages of these matters, obtaining clarity on a reasonable estimate is difficult which may call into question its reliability. As a result of some of these factors, Regions may be unable to estimate reasonably possible losses with respect to some of the matters disclosed below. The aggregated estimated amount provided above therefore may not include an estimate for every matter disclosed below.

Beginning in December 2007, Regions and certain of its affiliates have been named in class-action lawsuits filed in federal and state courts on behalf of investors who purchased shares of certain Regions Morgan Keegan Select Funds (the “Funds”) and shareholders of Regions. These cases have been consolidated into class-actions and shareholder derivative actions for the open-end and closed-end Funds. The Funds were formerly managed by Regions Investment Management, Inc. (“Regions Investment Management”). Regions Investment Management no longer manages these Funds, which were transferred to Hyperion Brookfield Asset Management (“Hyperion”) in 2008. Certain of the Funds have since been terminated by Hyperion. The complaints contain various allegations, including claims that the Funds and the defendants misrepresented or failed to disclose material facts relating to the activities of the Funds. Plaintiffs have requested equitable relief and unspecified monetary damages. These cases are in various stages and no classes have been certified. Settlement discussions are ongoing in certain cases, and the Court has granted preliminary approval of a settlement in the closed-end Funds class-action and shareholder derivative case. A hearing for final approval of the closed-end Funds class actions was held on April 12, 2013. As of June 30, 2013, a final order was pending. Certain of the shareholders in these Funds and other interested parties have entered into arbitration proceedings and individual civil claims, in lieu of participating in the class actions. These lawsuits and proceedings are subject to the indemnification agreement with Raymond James discussed above.

In October 2010, a purported class-action lawsuit was filed by Regions’ stockholders in the U.S. District Court for the Northern District of Alabama against Regions and certain former officers of Regions. The lawsuit alleges violations of the federal securities laws, including allegations that statements that were materially false and misleading were included in filings made with the Securities and Exchange Commission ("SEC"). The plaintiffs have requested equitable relief and unspecified monetary damages. On June 7, 2011, the trial court denied Regions’ motion to dismiss this lawsuit. On June 14, 2012, the trial court granted class certification. The Eleventh Circuit Court of Appeals is reviewing the trial court’s grant of class-action certification. The case is now stayed pending that review.

Regions has received inquiries and subpoenas from government authorities primarily concerning accounting matters from 2009 and earlier periods that also have been the subject of the civil litigation mentioned above. Regions is cooperating in providing responses to these inquiries and subpoenas. In addition, the Board of Directors is conducting investigations regarding certain of the matters raised in these inquiries and subpoenas.

In December 2009, Regions and certain current and former directors and officers were named in a consolidated shareholder derivative action filed in Jefferson County, Alabama. The complaint alleges mismanagement, waste of corporate assets, breach of fiduciary duty and unjust enrichment relating to bonuses and other benefits received by

executive management. Plaintiffs requested equitable relief and unspecified monetary damages. The case was dismissed with prejudice on December 6, 2012. Plaintiffs' motion to alter, amend or vacate that judgment was denied on March 25, 2013. Plaintiffs appealed the order of dismissal to the Alabama Supreme Court on April 18, 2013.
In July 2006, Morgan Keegan and a former Morgan Keegan analyst were named as defendants in a lawsuit filed by a Canadian insurance and financial services company and its American subsidiary in the Circuit Court of Morris County, New Jersey. Plaintiffs made claims under a civil Racketeer Influenced and Corrupt Organizations ("RICO") statute, for commercial disparagement, tortious interference with contractual relationships, tortious interference with prospective economic advantage and common law conspiracy. Plaintiffs allege that defendants engaged in a multi-year conspiracy to publish and disseminate false and defamatory information about plaintiffs to improperly drive down plaintiffs' stock price, so that others could profit from short positions. Plaintiffs allege that defendants' actions damaged their reputations and harmed their business

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relationships. Plaintiffs allege a number of categories of damages they sustained, including lost insurance business, lost financings and increased financing costs, increased audit fees and directors and officers insurance premiums and lost acquisitions, and have requested monetary damages. On September 12, 2012, the trial court dismissed the case with prejudice. Plaintiffs have filed an appeal. This matter is subject to the indemnification agreement with Raymond James.

The SEC an