REGIONS FINANCIAL CORP
Form 10-Q
August 06, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2012

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: 000-50831

Regions Financial Corporation

(Exact name of registrant as specified in its charter)

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

(205) 944-1300

(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. x 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). x 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 x 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 x No

The number of shares outstanding of each of the issuer s classes of common stock was 1,413,343,477 shares of common stock, par value $.01, outstanding as of July 25, 2012.

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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 on July 21, 2010, and a number of legislative, regulatory and tax proposals remain pending. Additionally, the U.S. Treasury and federal banking regulators continue to implement, but are also beginning to wind down, a number of programs to address capital and liquidity in the banking system. Future and proposed rules, including those that are part of the Basel III process, are expected to require banking institutions to increase levels of capital. All of the foregoing may have significant effects on Regions and the financial services industry, the exact nature and extent of which cannot be determined at this time.

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 would 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 changes in general economic and business conditions in the United States in general and in the communities Regions serves in particular, including any prolonging or worsening of the current unfavorable economic conditions, including unemployment levels.

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.

Possible stresses in the financial and real estate markets, including possible continued 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.

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.

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Regions ability to keep pace with technological changes.

Regions ability to effectively manage credit risk, interest rate risk, market risk, operational risk, legal risk, liquidity risk, reputational risk, and regulatory 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.

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 undu 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, 2011 and the Forward-Looking Statements section of Regions Quarterly Report on Form 10-Q for the quarter ended March 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 2012	December 31 2011
	(In millions, except share data)	
Assets		
Cash and due from banks	$ 2,000	$ 2,132
Interest-bearing deposits in other banks	1,766	4,913
Federal funds sold and securities purchased under agreements to resell		200
Trading account assets	110	1,266
Securities available for sale	27,232	24,471
Securities held to maturity	13	16
Loans held for sale (includes $950 and $844 measured at fair value, respectively)	1,187	1,193
Loans, net of unearned income	76,202	77,594
Allowance for loan losses	(2,291)	(2,745)
Net loans	73,911	74,849
Other interest-earning assets	901	1,085
Premises and equipment, net	2,300	2,375
Interest receivable	341	361
Goodwill	4,816	4,816
Mortgage servicing rights	179	182
Other identifiable intangible assets	391	449
Other assets	7,198	8,742
Total assets	$ 122,345	$ 127,050
Liabilities and Stockholders Equity		
Deposits:		
Non-interest-bearing	$ 29,694	$ 28,266
Interest-bearing	65,404	67,361
Total deposits	95,098	95,627
Borrowed funds:		
Short-term borrowings:		
Federal funds purchased and securities sold under agreements to repurchase	2,746	2,333
Other short-term borrowings	560	734
Total short-term borrowings	3,306	3,067
Long-term borrowings	6,230	8,110
Total borrowed funds	9,536	11,177
Other liabilities	3,256	3,747
Total liabilities	107,890	110,551
Stockholders equity:		
Preferred stock, authorized 10 million shares		
Series A, cumulative perpetual participating, par value $1.00 (liquidation preference $1,000.00) per share, net of discount;		
Issued 0 and 3,500,000 shares, respectively		3,419

Common stock, par value $.01 per share:		
Authorized 3 billion shares		
Issued including treasury stock 1,454,542,017 and 1,301,230,838 shares, respectively	15	13
Additional paid-in capital	19,898	19,060
Retained earnings (deficit)	(4,136)	(4,527)
Treasury stock, at cost 41,198,540 and 42,414,444 shares, respectively	(1,376)	(1,397)
Accumulated other comprehensive income (loss), net	54	(69)
Total stockholders equity	14,455	16,499
Total liabilities and stockholders equity	$ 122,345	$ 127,050

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	
	2012	2011	2012	2011
	(In millions, except per share data)			
Interest income on:				
Loans, including fees	$ 806	$ 856	$ 1,618	$ 1,723
Securities:				
Taxable	179	208	353	415
Tax-exempt				
Total securities	179	208	353	415
Loans held for sale	7	9	14	22
Trading account assets			1	
Other interest-earning assets	2	3	5	6
Total interest income	994	1,076	1,991	2,166
Interest expense on:				
Deposits	76	126	164	265
Short-term borrowings				1
Long-term borrowings	80	94	162	189
Total interest expense	156	220	326	455
Net interest income	838	856	1,665	1,711
Provision for loan losses	26	398	143	880
Net interest income after provision for loan losses	812	458	1,522	831
Non-interest income:				
Service charges on deposit accounts	233	308	487	595
Capital markets and investment income	17	19	45	50
Mortgage income	90	50	167	95
Trust department income	50	51	99	101
Securities gains, net	12	24	24	106
Other	105	91	209	176
Total non-interest income	507	543	1,031	1,123
Non-interest expense:				
Salaries and employee benefits	434	401	876	829
Net occupancy expense	92	98	186	198
Furniture and equipment expense	67	72	131	142
Other	249	385	562	719
Total non-interest expense	842	956	1,755	1,888
Income from continuing operations before income taxes	477	45	798	66
Income tax expense (benefit)	126	(34)	208	(63)
Income from continuing operations	$ 351	$ 79	$ 590	$ 129
Discontinued operations:				
Income (loss) from discontinued operations before income taxes	4	4	(61)	40
Income tax benefit		(26)	(25)	(9)
Income (loss) from discontinued operations, net of tax	4	30	(36)	49
Net income	$ 355	$ 109	$ 554	$ 178

Net income from continuing operations available to common shareholders	$ 280	$ 25	$ 465	$ 23
Net income available to common shareholders	$ 284	$ 55	$ 429	$ 72
Weighted-average number of shares outstanding:				
Basic	1,414	1,258	1,348	1,257
Diluted	1,418	1,260	1,350	1,259
Earnings per common share from continuing operations:				
Basic	$ 0.20	$ 0.02	$ 0.34	$ 0.02
Diluted	0.20	0.02	0.34	0.02
Earnings per common share:				
Basic	$ 0.20	$ 0.04	$ 0.32	$ 0.06
Diluted	0.20	0.04	0.32	0.06
Cash dividends declared per common share	0.01	0.01	0.02	0.02

See notes to consolidated financial statements.

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REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended June 30	
	2012	2011
	(In millions)	
Net income	$ 355	$ 109
Other comprehensive income, net of tax:*		
Unrealized gains on securities available for sale:		
Unrealized holding gains arising during the period (net of $52 and $114 tax effect for the three months ended June 30, 2012 and 2011, respectively)	86	192
Less: reclassification adjustments for securities gains realized in net income (net of $4 and $8 tax effect for the three months ended June 30, 2012 and 2011, respectively)	8	16
Net change in unrealized gains on securities available for sale	78	176
Unrealized gains on derivative instruments designated as cash flow hedges:		
Unrealized holding gains on derivatives arising during the period (net of $23 and $35 tax effect for the three months ended June 30, 2012 and 2011, respectively)	37	55
Less: reclassification adjustments for gains realized in net income (net of $7 and $18 tax effect for the three months ended June 30, 2012 and 2011, respectively)	11	29
Net change in unrealized gains on derivative instruments	26	26
Defined benefit pension plans and other post employment benefits:		
Amortization of actuarial loss and prior service cost realized in net income, and other (net of $7 and $4 tax effect for the three months ended June 30, 2012 and 2011, respectively)	10	8
Net change from defined benefit pension plans	10	8
Other comprehensive income, net of tax*	$ 114	$ 210
Comprehensive income	$ 469	$ 319

	Six Months Ended June 30	
	2012	2011
	(In millions)	
Net income	$ 554	$ 178
Other comprehensive income, net of tax:*		
Unrealized gains on securities available for sale:		
Unrealized holding gains arising during the period (net of $52 and $81 tax effect for the six months ended June 30, 2012 and 2011, respectively)	88	144
Less: reclassification adjustments for securities gains realized in net income (net of $8 and $37 tax effect for the six months ended June 30, 2012 and 2011, respectively)	16	69
Net change in unrealized gains on securities available for sale	72	75
Unrealized gains on derivative instruments designated as cash flow hedges:		
Unrealized holding gains on derivatives arising during the period (net of $29 and $35 tax effect for the six months ended June 30, 2012 and 2011, respectively)	47	56
Less: reclassification adjustments for gains realized in net income (net of $13 and $37 tax effect for the six months ended June 30, 2012 and 2011, respectively)	21	60
Net change in unrealized gains (losses) on derivative instruments	26	(4)
Defined benefit pension plans and other post employment benefits:		

Amortization of actuarial loss and prior service cost realized in net income, and other (net of $15 and $8 tax effect for the six months ended June 30, 2012 and 2011, respectively)	25	12
Net change from defined benefit pension plans	25	12
Other comprehensive income, net of tax*	$ 123	$ 83
Comprehensive income	$ 677	$ 261

* 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		Additional Paid-In Capital	Retained Earnings (Deficit)	Treasury Stock, At Cost	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount					
				(In millions, except share and per share data)					
BALANCE AT JANUARY 1, 2011	4	$ 3,380	1,256	$ 13	$ 19,050	$ (4,047)	$ (1,402)	$ (260)	$ 16,734
Net income						178			178
Net change in unrealized gains and losses on securities available for sale, net of tax and reclassification adjustment								75	75
Net change in unrealized gains and losses on derivative instruments, net of tax and reclassification adjustment								(4)	(4)
Net change from defined benefit pension plans, net of tax								12	12
Cash dividends declared $0.02 per share						(25)			(25)
Preferred dividends						(87)			(87)
Preferred stock transactions:									
Discount accretion		19				(19)			
Common stock transactions:									
Impact of stock transactions under compensation plans, net			3		2		3		5
BALANCE AT JUNE 30, 2011	4	$ 3,399	1,259	$ 13	$ 19,052	$ (4,000)	$ (1,399)	$ (177)	$ 16,888

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