

REGIONS FINANCIAL CORP

Form 10-Q

November 05, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

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

Commission File Number: 001-34034

Regions Financial Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

63-0589368
(IRS Employer
Identification No.)

1900 Fifth Avenue North
Birmingham, Alabama
(Address of principal executive offices)
(800) 734-4667

35203
(Zip Code)

(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. 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). 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 Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

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

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Forward-Looking Statements

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

- Current and future economic and market conditions in the United States generally or in the communities we serve, including the effects of declines in property values, unemployment rates and potential reduction of economic growth.
- Possible changes in trade, monetary and fiscal policies of, and other activities undertaken by, governments, agencies, central banks and similar organizations.
- The effects of a possible downgrade in the U.S. government’s sovereign credit rating or outlook.
- Possible changes in market interest rates.
- Any impairment of our goodwill or other intangibles, or any adjustment of valuation allowances on our deferred tax assets due to adverse changes in the economic environment, declining operations of the reporting unit, or other factors.
- Possible changes in the creditworthiness of customers and the possible impairment of the collectability of loans.
- Changes in the speed of loan prepayments, loan origination and sale volumes, charge-offs, loan loss provisions or actual loan losses.
- Possible acceleration of prepayments on mortgage-backed securities due to low interest rates, and the related acceleration of premium amortization on those securities.
- Our ability to effectively compete with other financial services companies, some of whom possess greater financial resources than we do and are subject to different regulatory standards than we are.
- Loss of customer checking and savings account deposits as customers pursue other, higher-yield investments.
- Our ability to develop and gain acceptance from current and prospective customers for new products and services in a timely manner.
- Changes in laws and regulations affecting our businesses, including changes in the enforcement and interpretation of such laws and regulations by applicable governmental and self-regulatory agencies.
- Our ability to obtain regulatory approval (as part of the CCAR process or otherwise) to take certain capital actions, including paying dividends and any plans to increase common stock dividends, repurchase common stock under current or future programs, or redeem preferred stock or other regulatory capital instruments.
- Our ability to comply with applicable capital and liquidity requirements (including finalized Basel III capital standards), including our ability to generate capital internally or raise capital on favorable terms.
- The costs and other effects (including reputational harm) of any adverse judicial, administrative, or arbitral rulings or proceedings, regulatory enforcement actions, or other legal actions to which we or any of our subsidiaries are a party.
- Any adverse change to our ability to collect interchange fees in a profitable manner, whether such change is the result of regulation, litigation, legislation, or other governmental action.
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Our ability to manage fluctuations in the value of assets and liabilities and off-balance sheet exposure so as to maintain sufficient capital and liquidity to support our business.

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

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

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

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

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

Our ability to keep pace with technological changes.

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

• Possible downgrades in our credit ratings or outlook.

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

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

• Our ability to receive dividends from our subsidiaries.

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

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

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

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

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

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

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

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME

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

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Weighted-average number of shares outstanding:				
Basic	1,378	1,388	1,378	1,401
Diluted	1,389	1,405	1,390	1,415
Earnings per common share from continuing operations:				
Basic	\$0.22	\$0.21	\$0.65	\$0.62
Diluted	0.22	0.20	0.64	0.61
Earnings per common share:				
Basic	\$0.22	\$0.21	\$0.66	\$0.62
Diluted	0.22	0.20	0.65	0.62
Cash dividends declared per common share	0.05	0.03	0.13	0.07

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended September 30	
	2014	2013
	(In millions)	
Net income	\$325	\$293
Other comprehensive income (loss), net of tax:		
Unrealized losses on securities transferred to held to maturity:		
Unrealized losses on securities transferred to held to maturity during the period (net of zero and zero tax effect, respectively)	—	—
Less: reclassification adjustments for amortization of unrealized losses on securities transferred to held to maturity (net of (\$1) and (\$2) tax effect, respectively)	(2	) (2
Net change in unrealized losses on securities transferred to held to maturity, net of tax		2
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period (net of (\$53) and \$26 tax effect, respectively)	(87	) 43
Less: reclassification adjustments for securities gains (losses) realized in net income (net of \$2 and \$1 tax effect, respectively)	5	2
Net change in unrealized gains (losses) on securities available for sale, net of tax	(92	) 41
Unrealized gains (losses) on derivative instruments designated as cash flow hedges:		
Unrealized holding gains (losses) on derivatives arising during the period (net of (\$10) and \$18 tax effect, respectively)	(16	) 28
Less: reclassification adjustments for gains (losses) realized in net income (net of \$13 and \$10 tax effect, respectively)	21	16
Net change in unrealized gains (losses) on derivative instruments, net of tax	(37	) 12
Defined benefit pension plans and other post employment benefits:		
Net actuarial gains (losses) arising during the period (net of zero and zero tax effect, respectively)	—	—
Less: reclassification adjustments for amortization of actuarial loss and prior service cost realized in net income, and other (net of (\$2) and (\$7) tax effect, respectively)	(5	) (12
Net change from defined benefit pension plans, net of tax	5	12
Other comprehensive income (loss), net of tax	(122	) 67
Comprehensive income (loss)	\$203	\$360
	Nine Months Ended September 30	
	2014	2013
	(In millions)	
Net income	\$944	\$895
Other comprehensive income (loss), net of tax:		
Unrealized losses on securities transferred to held to maturity:		
Unrealized losses on securities transferred to held to maturity during the period (net of zero and (\$43) tax effect, respectively)	—	(68
Less: reclassification adjustments for amortization of unrealized losses on securities transferred to held to maturity (net of (\$4) and (\$2) tax effect, respectively)	(6	) (2
Net change in unrealized losses on securities transferred to held to maturity, net of tax		(66
Unrealized gains (losses) on securities available for sale:		

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

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CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

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

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

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30		
	2014	2013	
	(In millions)		
Operating activities:			
Net income	\$944	\$895	
Adjustments to reconcile net income to net cash from operating activities:			
Provision for loan losses	61	59	
Depreciation, amortization and accretion, net	391	497	
Provision for losses on other real estate, net	(13	) 14
Securities (gains) losses, net	(15) (26)
Deferred income tax expense	176	310	
Originations and purchases of loans held for sale	(1,848) (3,373)
Proceeds from sales of loans held for sale	1,948	4,156	
Gain on TDRs held for sale, net	(35) —	
(Gain) loss on sale of loans, net	(89) (101)
(Gain) loss on early extinguishment of debt	—	61	
(Gain) loss on sale of other assets	—	(24)
Net change in operating assets and liabilities:			