REGIONS FINANCIAL CORP
Form 10-Q
November 06, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

ý Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 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 1,377,552,505 shares of common stock, par value $.01, outstanding as of November 1, 2013.

Table of Contents

REGIONS FINANCIAL CORPORATION
FORM 10-Q
INDEX

Table of Contents

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 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 reputational damage, cost and other effects of material contingencies, including litigation contingencies, and negative publicity, fines, penalties, and other negative consequences from any adverse judicial, administrative, or arbitral rulings or proceedings, regulatory violations and legal actions.
- The effects of increased competition from both banks and non-banks.

Table of Contents

- The effects of geopolitical instability and risks such as terrorist attacks.
- 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.

Table of Contents

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

	September 30, 2013	December 31, 2012
	(In millions, except share data)	
Assets		
Cash and due from banks	$2,032	$1,979
Interest-bearing deposits in other banks	1,827	3,510
Trading account securities	119	116
Securities held to maturity (estimated fair value of $2,385 and $11, respectively)	2,388	10
Securities available for sale	21,630	27,244
Loans held for sale (includes $611 and $1,282 measured at fair value, respectively)	673	1,383
Loans, net of unearned income	75,892	73,995
Allowance for loan losses	(1,540)	(1,919)
Net loans	74,352	72,076
Other interest-earning assets	105	900
Premises and equipment, net	2,218	2,279
Interest receivable	331	344
Goodwill	4,816	4,816
Mortgage servicing rights at fair value	281	191
Other identifiable intangible assets	307	345
Other assets	5,785	6,154
Total assets	$116,864	$121,347
Liabilities and Stockholders’ Equity		
Deposits:		
Non-interest-bearing	$30,308	$29,963
Interest-bearing	62,013	65,511
Total deposits	92,321	95,474
Borrowed funds:		
Short-term borrowings:		
Federal funds purchased and securities sold under agreements to repurchase	1,773	1,449
Other short-term borrowings	—	125
Total short-term borrowings	1,773	1,574
Long-term borrowings	4,838	5,861
Total borrowed funds	6,611	7,435
Other liabilities	2,443	2,939
Total liabilities	101,375	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	458	482
Common stock, par value $.01 per share:		

Authorized 3 billion shares		
Issued including treasury stock—1,418,838,161 and 1,454,626,952 shares, respectively	14	15
Additional paid-in capital	19,248	19,652
Retained earnings (deficit)	(2,443)	(3,338)
Treasury stock, at cost—41,285,656 and 41,287,460 shares, respectively	(1,377)	(1,377)
Accumulated other comprehensive income (loss), net	(411)	65
Total stockholders' equity	15,489	15,499
Total liabilities and stockholders' equity	$116,864	$121,347

See notes to consolidated financial statements.

Table of Contents

REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
	(In millions, except per share data)			
Interest income on:				
Loans, including fees	$758	$783	$2,247	$2,401
Securities - taxable	144	170	452	523
Loans held for sale	6	9	23	23
Trading account securities	1	—	2	1
Other interest-earning assets	2	2	5	7
Total interest income	911	964	2,729	2,955
Interest expense on:				
Deposits	31	67	106	231
Short-term borrowings	1	1	2	1
Long-term borrowings	55	79	191	241
Total interest expense	87	147	299	473
Net interest income	824	817	2,430	2,482
Provision for loan losses	18	33	59	176
Net interest income after provision for loan losses	806	784	2,371	2,306
Non-interest income:				
Service charges on deposit accounts	251	244	730	731
Mortgage income	52	106	193	273
Investment management and trust fee income	50	48	148	147
Securities gains (losses), net	3	12	26	36
Other	139	123	396	377
Total non-interest income	495	533	1,493	1,564
Non-interest expense:				
Salaries and employee benefits	455	449	1,354	1,325
Net occupancy expense	92	99	274	285
Furniture and equipment expense	71	65	209	196
Other	266	256	773	818
Total non-interest expense	884	869	2,610	2,624
Income from continuing operations before income taxes	417	448	1,254	1,246
Income tax expense	124	136	360	344
Income from continuing operations	293	312	894	902
Discontinued operations:				
Income (loss) from discontinued operations before income taxes	(1)	(19)	1	(80)
Income tax benefit	(1)	(8)	—	(33)
Income (loss) from discontinued operations, net of tax	—	(11)	1	(47)
Net income	$293	$301	$895	$855
Net income from continuing operations available to common shareholders	$285	$312	$870	$777
Net income available to common shareholders	$285	$301	$871	$730

Weighted-average number of shares outstanding:				
Basic	1,388	1,414	1,401	1,370
Diluted	1,405	1,423	1,415	1,375
Earnings per common share from continuing operations:				
Basic	$0.21	$0.22	$0.62	$0.57
Diluted	0.20	0.22	0.61	0.57
Earnings per common share:				
Basic	$0.21	$0.21	$0.62	$0.53
Diluted	0.20	0.21	0.62	0.53
Cash dividends declared per common share	0.03	0.01	0.07	0.03

See notes to consolidated financial statements.

Table of Contents

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

	Three Months Ended September 30	
	2013	2012
	(In millions)	
Net income	$293	$301
Other comprehensive income (loss), net of tax:		
Unrealized losses on securities transferred to held to maturity:		
Unrealized losses on securities transferred to held for sale (net of zero tax effect for the three months ended September 30, 2013 and 2012)	—	—
Less: amortization of unrealized losses on securities transferred to held to maturity (net of ($2) and zero tax effect for the three months ended September 30, 2013 and 2012, respectively)	(2)	—
Net change in unrealized losses on securities transferred to held to maturity	2	—
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period (net of $26 and $93 tax effect for the three months ended September 30, 2013 and 2012, respectively)	43	150
Less: reclassification adjustments for securities gains (losses) realized in net income (net of $1 and $5 tax effect for the three months ended September 30, 2013 and 2012, respectively)	2	7
Net change in unrealized gains (losses) on securities available for sale, net of tax	41	143
Unrealized gains (losses) on derivative instruments designated as cash flow hedges:		
Unrealized holding gains (losses) on derivatives arising during the period (net of $18 and $2 tax effect for the three months ended September 30, 2013 and 2012, respectively)	28	4
Less: reclassification adjustments for gains (losses) realized in net income (net of $10 and $6 tax effect for the three months ended September 30, 2013 and 2012, respectively)	16	10
Net change in unrealized gains (losses) on derivative instruments, net of tax	12	(6)
Defined benefit pension plans and other post employment benefits:		
Net actuarial gains (losses) arising during the period (net of zero tax effect for the three months ended September 30, 2013 and 2012)	—	—
Less: reclassification adjustments for amortization of actuarial loss and prior service cost realized in net income, and other (net of $(7) tax effect for the three months ended September 30, 2013 and 2012)	(12)	(11)
Net change from defined benefit pension plans, net of tax	12	11
Other comprehensive income (loss), net of tax	67	148
Comprehensive income (loss)	$360	$449

	Nine Months Ended September 30	
	2013	2012
	(In millions)	
Net income	$895	$855
Other comprehensive income (loss), net of tax:		
Unrealized losses on securities transferred to held to maturity:		
	(68)	—

Unrealized losses on securities transferred to held to maturity during the period (net of $(43) and zero tax effect for the nine months ended September 30, 2013 and 2012, respectively)		
Less: amortization of unrealized losses on securities held to maturity (net of ($2) and zero tax effect for the nine months ended September 30, 2013 and 2012, respectively)	(2)	—
Net change in unrealized losses on securities transferred to held to maturity	(66)	—
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period (net of $(232) and $145 tax effect for the nine months ended September 30, 2013 and 2012, respectively)	(378)	238
Less: reclassification adjustments for securities gains (losses) realized in net income (net of $9 and $13 tax effect for the nine months ended September 30, 2013 and 2012, respectively)	17	23
Net change in unrealized gains (losses) on securities available for sale	(395)	215
Unrealized gains (losses) on derivative instruments designated as cash flow hedges:		
Unrealized holding gains (losses) on derivatives arising during the period (net of $(6) and $31 tax effect for the nine months ended September 30, 2013 and 2012 respectively)	(10)	51
Less: reclassification adjustments for gains (losses) realized in net income (net of $22 and $19 tax effect for the nine months ended September 30, 2013 and 2012, respectively)	36	31
Net change in unrealized gains (losses) on derivative instruments	(46)	20
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 nine months ended September 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 $(19) and $(20) tax effect for the nine months ended September 30, 2013 and 2012, respectively)	(33)	(34)
Net change from defined benefit pension plans	31	36
Other comprehensive income (loss), net of tax	(476)	271
Comprehensive income (loss)	$419	$1,126

See notes to consolidated financial statements.

Table of Contents

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

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock 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	—	—	—	—	—	855	—	—	855
Net change in unrealized gains and losses on securities available for sale, net of tax and reclassification adjustment	—	—	—	—	—	—	—	215	215
Net change in unrealized gains and losses on derivative instruments, net of tax and reclassification adjustment	—	—	—	—	—	—	—	20	20
Net change from defined benefit pension plans, net of tax	—	—	—	—	—	—	—	36	36
Cash dividends declared—$0.03 per share[1]	—	—	—	—	(41)	—	—	—	(41)
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	—	22	(11)	20	—	31
BALANCE AT SEPTEMBER 30, 2012[1]	—	$—	1,413	$ 15	$ 19,664	$(3,603)	$(1,377)	$ 202	$14,901

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(2)	—	—	—	—	—	—	—	(68)	(68)
Amortization of unrealized losses on securities transferred to held to maturity	—	—	—	—	—	—	—	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)
Series A 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

(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.

Table of Contents

REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30	
	2013	2012
	(In millions)	
Operating activities:		
Net income	$895	$855
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	59	176
Depreciation, amortization and accretion, net	497	530
Provision for losses on other real estate, net	14	24
Securities (gains) losses, net	(26)	(36)
Gain on disposition of business	—	(16)
Deferred income tax expense	310	299
Originations and purchases of loans held for sale	(3,373)	(4,598)
Proceeds from sales of loans held for sale	4,156	4,393
(Gain) loss on sale of loans, net	(101)	(117)
(Gain) loss on early extinguishment of debt	61	—
(Gain) loss on sale of other assets	(24)	—
Net change in operating assets and liabilities:		
Trading account assets	(3)	189
Other interest-earning assets	795	(162)
Interest receivable	13	(4)
Other assets	331	42
Other liabilities	(451)	628
Other	(7)	12
Net cash from operating activities	3,146	2,215
Investing activities:		
Proceeds from sales of securities available for sale	3,543	1,745
Proceeds from maturities of securities held to maturity	41	4
Proceeds from maturities of securities available for sale	4,611	4,923
Purchases of securities available for sale	(5,888)	(8,812)
Proceeds from sales of loans	152	764
Purchases of loans	(733)	(661)
Purchases of servicing rights	(28)	—
Net change in loans	(1,970)	1,321
Net purchases of premises and equipment	(122)	(114)
Proceeds from disposition of business, net of cash transferred	—	855
Net cash from investing activities	(394)	25
Financing activities:		
Net change in deposits	(3,153)	(746)
Net change in short-term borrowings	199	(202)
Proceeds from long-term borrowings	750	—
Payments on long-term borrowings	(1,717)	(1,853)
Cash dividends on common stock	(97)	(41)
Cash dividends on Series A preferred stock issued to the U.S. Treasury	—	(44)
Cash dividends on Series A preferred stock	(24)	—

Net proceeds from issuance of common stock	—	875
Repurchase of common stock	(340)	—
Repurchase of Series A preferred stock issued to the U.S. Treasury	—	(3,500)
Repurchase of warrant	—	(45)
Other	—	1
Net cash from financing activities	(4,382)	(5,555)
Net change in cash and cash equivalents	(1,630)	(3,315)
Cash and cash equivalents at beginning of year	5,489	7,245
Cash and cash equivalents at end of period	$3,859	$3,930

See notes to consolidated financial statements.

Table of Contents

REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Three and Nine Months Ended September 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 certain of 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.

Table of Contents

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

	Three Months Ended September 30		Nine Months Ended September 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	—	1	—	16
Other	—	—	—	7
Total non-interest income	—	1	—	256
Non-interest expense:				
Salaries and employee benefits	—	—	—	171
Net occupancy expense	—	—	—	9
Furniture and equipment expense	—	—	—	8
Professional and legal expenses	3	19	(1)	125
Other	(2)	1	—	30
Total non-interest expense	1	20	(1)	343
Income (loss) from discontinued operations before income taxes	(1)	(19)	1	(80)
Income tax expense (benefit)	(1)	(8)	—	(33)
Income (loss) from discontinued operations, net of tax	$—	$(11)	$1	$(47)
Earnings (loss) per common share from discontinued operations:				
Basic	$(0.00)	$(0.01)	$0.00	$(0.04)
Diluted	$(0.00)	$(0.01)	$0.00	$(0.04)

Table of Contents

NOTE 3. SECURITIES

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

	September 30, 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	350	—	(15)	335	1	—	336
Mortgage-backed securities:							
Residential agency	1,914	—	(83)	1,831	3	(6)	1,828
Commercial agency	229	—	(9)	220	—	(1)	219
	$2,495	$—	$(107)	$2,388	$4	$(7)	$2,385
Securities available for sale:							
U.S. Treasury securities	$51	$1	$—	$52			$52
Federal agency securities	98	1	—	99			99
Obligations of states and political subdivisions	5	—	—	5			5
Mortgage-backed securities:							
Residential agency	15,770	236	(101)	15,905			15,905
Residential non-agency	9	1	—	10			10
Commercial agency	864	5	(14)	855			855
Commercial non-agency	1,211	12	(30)	1,193			1,193
Corporate and other debt securities	2,868	34	(88)	2,814			2,814
Equity securities	689	8	—	697			697
	$21,565	$298	$(233)	$21,630			$21,630

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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.

Table of Contents

	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.

	September 30, 2013	December 31, 2012
	(In millions)	
Federal Reserve Bank	$495	$484
Federal Home Loan Bank	67	73

Securities with carrying values of $12.2 billion and $11.8 billion at September 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 September 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.

13

Table of Contents

	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	349	335
Mortgage-backed securities:		
Residential agency	1,914	1,828
Commercial agency	229	219
	$2,495	$2,385
Securities available for sale:		
Due in one year or less	$49	$49
Due after one year through five years	1,035	1,047
Due after five years through ten years	1,555	1,500
Due after ten years	383	374
Mortgage-backed securities:		
Residential agency	15,770	15,905
Residential non-agency	9	10
Commercial agency	864	855
Commercial non-agency	1,211	1,193
Equity securities	689	697
	$21,565	$21,630

The following tables present gross unrealized losses and the related estimated fair value of securities available for sale and held to maturity at September 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.

Table of Contents

	September 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	$335	$(14)	$—	$—	$335	$(14)
Mortgage-backed securities:						
Residential agency	1,515	(71)	311	(15)	1,826	(86)
Commercial agency	218	(10)	—	—	218	(10)
	$2,068	$(95)	$311	$(15)	$2,379	$(110)
Securities available for sale:						
U.S. Treasury securities	$6	$—	$9	$—	$15	$—
Federal agency securities	1	—	10	—	11	—
Mortgage-backed securities:						
Residential agency	4,465	(94)	273	(7)	4,738	(101)
Commercial agency	467	(14)	—	—	467	(14)
Commercial non-agency	709	(30)	—	—	709	(30)
All other securities	1,716	(86)	21	(2)	1,737	(88)
	$7,364	$(224)	$313	$(9)	$7,677	$(233)

	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 915 at September 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. In some instances, spread widening 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 nine months ended September 30, 2013. For the three and nine months ended September 30, 2012, Regions recorded a credit-related impairment charge of

approximately zero and $2 million, respectively.

Table of Contents

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 September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
	(In millions)			
Gross realized gains	$7	$13	$52	$37
Gross realized losses	(4)	(1)	(26)	(1)
Securities gains, net	$3	$12	$26	$36

NOTE 4. LOANS AND THE ALLOWANCE FOR CREDIT LOSSES

LOANS

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

	September 30, 2013	December 31, 2012
	(In millions, net of unearned income)	
Commercial and industrial	$29,863	$26,674
Commercial real estate mortgage—owner-occupied	9,566	10,095
Commercial real estate construction—owner-occupied	377	302
Total commercial	39,806	37,071
Commercial investor real estate mortgage	5,613	6,808
Commercial investor real estate construction	1,317	914
Total investor real estate	6,930	7,722
Residential first mortgage	12,856	12,963
Home equity	11,349	11,800
Indirect	2,889	2,336
Consumer credit card	896	906
Other consumer	1,166	1,197
Total consumer	29,156	29,202
	$75,892	$73,995

During the three months ended September 30, 2013 and 2012, Regions purchased approximately $277 million and $254 million, respectively, in indirect loans from a third party. During the nine months ended September 30, 2013 and 2012, the comparable loan purchase amounts were approximately $733 million and $661 million, respectively.

At September 30, 2013, $11.5 billion in loans held by Regions were pledged to secure borrowings from the FHLB. At September 30, 2013, an additional $25.7 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.

16

Table of Contents

ROLLFORWARD OF ALLOWANCE FOR CREDIT LOSSES

The following tables present analyses of the allowance for credit losses by portfolio segment for the three and nine months ended September 30, 2013 and 2012. The total allowance for loan losses and the related loan portfolio ending balances as of September 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, only impaired loans with the amount of impairment measured at a note-level (i.e. non-accrual commercial and investor real-estate loans greater than or equal to $2.5 million) were reported as individually evaluated in the tables below. In the second quarter of 2013, Regions revised its presentation to also reflect all TDRs as individually evaluated for impairment. The allowance for loan losses and the loan portfolio ending balances related to collectively evaluated loans included the remainder of the portfolio. Prior period amounts were reclassified to conform to this presentation.

Beginning in the third quarter of 2013, Regions revised its estimation process for non-accrual commercial and investor real-estate loans less than $2.5 million to utilize the same discounted cash flow analysis used for accruing and non-accruing TDRs less than $2.5 million described in Note 1 to the Annual Report on Form 10-K for the year ended December 31, 2012. This change in the estimation process did not have a material impact to the overall level of the allowance for loan losses or the provision for loan losses. As a result, the September 30, 2013 allowance for loan losses and the loan portfolio ending balances for loans individually evaluated for impairment reflect this revision in the tables below.

	Three Months Ended September 30, 2013			
	Commercial	Investor Real Estate	Consumer	Total
	(In millions)			
Allowance for loan losses, July 1, 2013	$764	$342	$530	$1,636
Provision (credit) for loan losses	29	(37)	26	18
Loan losses:				
Charge-offs	(54)	(13)	(89)	(156)
Recoveries	17	8	17	42
Net loan losses	(37)	(5)	(72)	(114)
Allowance for loan losses, September 30, 2013	756	300	484	1,540
Reserve for unfunded credit commitments, July 1, 2013	$60	$9	$4	$73
Provision (credit) for unfunded credit losses	3	(1)	(1)	1
Reserve for unfunded credit commitments, September 30, 2013	63	8	3	74
Allowance for credit losses, September 30, 2013	$819	$308	$487	$1,614

	Three Months Ended September 30, 2012			
	Commercial	Investor Real Estate	Consumer	Total
	(In millions)			
Allowance for loan losses, July 1, 2012	$884	$766	$641	$2,291
Provision (credit) for loan losses	37	(112)	108	33
Loan losses:				
Charge-offs	(91)	(74)	(133)	(298)
Recoveries	17	4	15	36
Net loan losses	(74)	(70)	(118)	(262)
Allowance for loan losses, September 30, 2012	847	584	631	2,062
Reserve for unfunded credit commitments, July 1, 2012	$61	$26	$4	$91

Credit for unfunded credit losses	(3)	(12)	—	(15)
Reserve for unfunded credit commitments, September 30, 2012	58	14	4	76
Allowance for credit losses, September 30, 2012	$905	$598	$635	$2,138

Table of Contents

	Nine Months Ended September 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	86	(136)	109	59
Loan losses:				
Charge-offs	(230)	(59)	(281)	(570)
Recoveries	53	26	53	132
Net loan losses	(177)	(33)	(228)	(438)
Allowance for loan losses, September 30, 2013	756	300	484	1,540
Reserve for unfunded credit commitments, January 1, 2013	$69	$10	$4	$83
Credit for unfunded credit losses	(6)	(2)	(1)	(9)
Reserve for unfunded credit commitments, September 30, 2013	63	8	3	74
Allowance for credit losses, September 30, 2013	$819	$308	$487	$1,614
Portion of ending allowance for loan losses:				
Individually evaluated for impairment	$261	$159	$162	$582
Collectively evaluated for impairment	495	141	322	958
Total allowance for loan losses	$756	$300	$484	$1,540
Portion of loan portfolio ending balance:				
Individually evaluated for impairment	$1,184	$1,006	$1,589	$3,779
Collectively evaluated for impairment	38,622	5,924	27,567	