REGIONS FINANCIAL CORP
Form 10-Q
August 08, 2018
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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, 2018
or
.. Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission File Number: 001-34034

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ý Yes ¨ No
Indicate by check mark whether the registrant has submitted electronically 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, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ý Accelerated filer ¨ Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨
Emerging growth company ¨
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes ý No
The number of shares outstanding of each of the issuer’s classes of common stock was 1,102,470,189 shares of common stock, par value $.01, outstanding as of August 6, 2018.

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

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

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Forward-Looking Statements

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

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

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

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

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

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

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

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

See also the reports filed with the 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, 2017 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

	June 30, 2018	December 31, 2017
	(In millions, except share data)	
Assets		
Cash and due from banks	$ 1,844	$ 2,012
Interest-bearing deposits in other banks	2,442	1,899
Federal funds sold and securities purchased under agreements to resell	—	70
Debt securities held to maturity (estimated fair value of $1,530 and $1,667, respectively)	1,568	1,658
Debt securities available for sale	22,935	23,403
Loans held for sale (includes $343 and $325 measured at fair value, respectively)	490	348
Loans, net of unearned income	80,478	79,947
Allowance for loan losses	(838)	(934)
Net loans	79,640	79,013
Other earning assets	1,672	1,891
Premises and equipment, net	2,050	2,064
Interest receivable	347	337
Goodwill	4,904	4,904
Residential mortgage servicing rights at fair value	362	336
Other identifiable intangible assets	156	177
Other assets	6,147	6,182
Total assets	$ 124,557	$ 124,294
Liabilities and Stockholders' Equity		
Deposits:		
Non-interest-bearing	$ 36,055	$ 36,127
Interest-bearing	59,228	60,762
Total deposits	95,283	96,889
Borrowed funds:		
Short-term borrowings:		
Other short-term borrowings	1,400	500
Total short-term borrowings	1,400	500
Long-term borrowings	9,890	8,132
Total borrowed funds	11,290	8,632
Other liabilities	2,207	2,581
Total liabilities	108,780	108,102
Stockholders' equity:		
Preferred stock, authorized 10 million shares, par value $1.00 per share		
Non-cumulative perpetual, liquidation preference $1,000.00 per share, including related surplus, net of issuance costs; issued—1,000,000 shares	820	820
Common stock, authorized 3 billion shares, par value $.01 per share:		
Issued including treasury stock—1,155,415,500 and 1,175,327,565 shares, respectively	12	12
Additional paid-in capital	15,389	15,858

Retained earnings	2,182	1,628
Treasury stock, at cost—41,032,676 and 41,259,320 shares, respectively	(1,371)	(1,377)
Accumulated other comprehensive income (loss), net	(1,255)	(749)
Total stockholders’ equity	15,777	16,192
Total liabilities and stockholders’ equity	$ 124,557	$ 124,294

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	
	2018	2017	2018	2017
	(In millions, except per share data)			
Interest income, including other financing income on:				
Loans, including fees	$881	$801	$1,732	$1,574
Debt securities - taxable	156	150	310	297
Loans held for sale	4	4	7	8
Other earning assets	17	10	36	25
Operating lease assets	18	24	38	51
Total interest income, including other financing income	1,076	989	2,123	1,955
Interest expense on:				
Deposits	57	37	106	72
Short-term borrowings	6	2	7	2
Long-term borrowings	73	50	145	100
Total interest expense	136	89	258	174
Depreciation expense on operating lease assets	14	18	30	40
Total interest expense and depreciation expense on operating lease assets	150	107	288	214
Net interest income and other financing income	926	882	1,835	1,741
Provision for loan losses	60	48	50	118
Net interest income and other financing income after provision for loan losses	866	834	1,785	1,623
Non-interest income:				
Service charges on deposit accounts	175	169	346	337
Card and ATM fees	112	104	216	208
Investment management and trust fee income	58	57	116	113
Capital markets income	57	38	107	70
Mortgage income	37	40	75	81
Securities gains (losses), net	1	1	1	1
Other	72	81	158	154
Total non-interest income	512	490	1,019	964
Non-interest expense:				
Salaries and employee benefits	511	470	1,006	931
Net occupancy expense	84	85	167	168
Furniture and equipment expense	81	84	162	163
Other	235	236	460	456
Total non-interest expense	911	875	1,795	1,718
Income from continuing operations before income taxes	467	449	1,009	869
Income tax expense	89	133	217	260
Income from continuing operations	378	316	792	609
Discontinued operations:				
Income (loss) from discontinued operations before income taxes	(3)	—	(3)	13
Income tax expense (benefit)	—	—	—	5
Income (loss) from discontinued operations, net of tax	(3)	—	(3)	8

Net income	$375	$316	$789	$617
Net income from continuing operations available to common shareholders	$362	$300	$760	$577
Net income available to common shareholders	$359	$300	$757	$585
Weighted-average number of shares outstanding:				
Basic	1,119	1,202	1,123	1,205
Diluted	1,128	1,212	1,135	1,218
Earnings per common share from continuing operations:				
Basic	$0.32	$0.25	$0.68	$0.48
Diluted	0.32	0.25	0.67	0.47
Earnings per common share:				
Basic	$0.32	$0.25	$0.67	$0.49
Diluted	0.32	0.25	0.67	0.48
Cash dividends declared per common share	0.09	0.07	0.18	0.135

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	
	2018	2017
	(In millions)	
Net income	$375	$316
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 zero and ($1) tax effect, respectively)	(1)	(1)
Net change in unrealized losses on securities transferred to held to maturity, net of tax	1	1
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period (net of ($23) and $30 tax effect, respectively)	(66)	51
Less: reclassification adjustments for securities gains (losses) realized in net income (net of zero and zero tax effect, respectively)	1	1
Net change in unrealized gains (losses) on securities available for sale, net of tax	(67)	50
Unrealized gains (losses) on derivative instruments designated as cash flow hedges:		
Unrealized holding gains (losses) on derivatives arising during the period (net of ($14) and $21 tax effect, respectively)	(42)	37
Less: reclassification adjustments for gains (losses) on derivative instruments realized in net income (net of $1 and $8 tax effect, respectively)	4	14
Net change in unrealized gains (losses) on derivative instruments, net of tax	(46)	23
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 settlements realized in net income (net of ($2) and ($7) tax effect, respectively)	(8)	(12)
Net change from defined benefit pension plans and other post employment benefits, net of tax	8	12
Other comprehensive income (loss), net of tax	(104)	86
Comprehensive income	$271	$402

	Six Months Ended June 30	
	2018	2017
	(In millions)	
Net income	$789	$617
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)	(3)	(3)
Net change in unrealized losses on securities transferred to held to maturity, net of tax	3	3

Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period (net of ($127) and $31 tax effect, respectively)	(376)	52
Less: reclassification adjustments for securities gains (losses) realized in net income (net of zero and zero tax effect, respectively)	1	1
Net change in unrealized gains (losses) on securities available for sale, net of tax	(377)	51
Unrealized gains (losses) on derivative instruments designated as cash flow hedges:		
Unrealized holding gains (losses) on derivatives arising during the period (net of ($45) and $20 tax effect, respectively)	(134)	33
Less: reclassification adjustments for gains (losses) on derivative instruments realized in net income (net of $4 and $20 tax effect, respectively)	12	33
Net change in unrealized gains (losses) on derivative instruments, net of tax	(146)	—
Defined benefit pension plans and other post employment benefits:		
Net actuarial gains (losses) arising during the period (net of zero and zero tax effect, respectively)	(1)	(1)
Less: reclassification adjustments for amortization of actuarial loss and settlements realized in net income (net of ($4) and ($10) tax effect, respectively)	(15)	(18)
Net change from defined benefit pension plans and other post employment benefits, net of tax	14	17
Other comprehensive income (loss), net of tax	(506)	71
Comprehensive income	$283	$688

See notes to consolidated financial statements.

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

	Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock, At Cost	Accumulated Other Comprehensive Income (Loss), Net	Total
	Shares	Amount	Shares	Amount					
	(In millions, except per share data)								
BALANCE AT JANUARY 1, 2017	1	$ 820	1,214	$ 13	$ 17,092	$ 666	$ (1,377)	$ (550)	$ 16,664
Net income	—	—	—	—	—	617	—	—	617
Other comprehensive income (loss), net of tax	—	—	—	—	—				