REGIONS FINANCIAL CORP
Form 10-Q
May 08, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

ý Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 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 1,413,378,469 shares of common stock, par value $.01, outstanding as of May 3, 2013.

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Forward-Looking Statements

This Quarterly Report on Form 10-Q, other periodic reports filed by Regions Financial Corporation ("Regions") under the Securities Exchange Act of 1934, as amended, and any other written or oral statements made by or on behalf of Regions may include forward-looking statements. The Private Securities Litigation Reform Act of 1995 (the "Act") provides a "safe harbor" for forward-looking statements which are identified as such and are accompanied by the identification of important factors that could cause actual results to differ materially from the forward-looking statements. For these statements, we, together with our subsidiaries, unless the context implies otherwise, claim the protection afforded by the safe harbor in the Act. Forward-looking statements are not based on historical information, but rather are related to future operations, strategies, financial results or other developments. Forward-looking statements are based on management's expectations as well as certain assumptions and estimates made by, and information available to, management at the time the statements are made. Those statements are based on general assumptions and are subject to various risks, uncertainties and other factors that may cause actual results to differ materially from the views, beliefs and projections expressed in such statements. These risks, uncertainties and other factors include, but are not limited to, those described below:

- The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") became law in July 2010, and a number of legislative, regulatory and tax proposals remain pending. Future and proposed rules, including those that are part of the Basel III process, are expected to require banking institutions to increase levels of capital. All of the foregoing may have significant effects on Regions and the financial services industry, the exact nature and extent of which cannot be determined at this time.
- Possible additional loan losses, impairment of goodwill and other intangibles, and adjustment of valuation allowances on deferred tax assets and the impact on earnings and capital.
- Possible changes in interest rates may increase funding costs and reduce earning asset yields, thus reducing margins. Increases in benchmark interest rates 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 changes in general economic and business conditions in the United States in general and in the communities Regions serves in particular, including any prolonging or worsening of the current challenging economic conditions, including unemployment levels.
- Possible changes in the creditworthiness of customers and the possible impairment of the collectability of loans.
- Possible changes in trade, monetary and fiscal policies, laws and regulations and other activities of governments, agencies, and similar organizations, may have an adverse effect on business.
- Possible regulations issued by the Consumer Financial Protection Bureau or other regulators which might adversely impact Regions' business model or products and services.
- Possible stresses in the financial and real estate markets, including possible deterioration in property values.
- Regions' ability to manage fluctuations in the value of assets and liabilities and off-balance sheet exposure so as to maintain sufficient capital and liquidity to support Regions' business.
- Regions' ability to expand into new markets and to maintain profit margins in the face of competitive pressures.
- Regions' ability to develop competitive new products and services in a timely manner and the acceptance of such products and services by Regions' customers and potential customers.
- 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, and regulatory and compliance risk.
- Regions' ability to ensure adequate capitalization which is impacted by inherent uncertainties in forecasting credit losses.
- The cost and other effects of material contingencies, including litigation contingencies, and any adverse judicial, administrative, or arbitral rulings or proceedings.
- The effects of increased competition from both banks and non-banks.
- The effects of geopolitical instability and risks such as terrorist attacks.

- 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.

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- The effects of problems encountered by larger or similar financial institutions that adversely affect Regions or the banking industry generally.
- Regions' ability to receive dividends from its subsidiaries.
- The effects of the failure of any component of Regions' business infrastructure which is provided by a third party.
- Changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other regulatory agencies.
- The effects of any damage to Regions' reputation resulting from developments related to any of the items identified above.

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

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

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

	March 31, 2013	December 31, 2012
	(In millions, except share data)	
Assets		
Cash and due from banks	$1,796	$1,979
Interest-bearing deposits in other banks	3,137	3,510
Trading account securities	121	116
Securities available for sale	27,089	27,244
Securities held to maturity (estimated fair value of $9 and $11, respectively)	8	10
Loans held for sale (includes $1,016 and $1,282 measured at fair value, respectively)	1,082	1,383
Loans, net of unearned income	73,936	73,995
Allowance for loan losses	(1,749)	(1,919)
Net loans	72,187	72,076
Other interest-earning assets	102	900
Premises and equipment, net	2,252	2,279
Interest receivable	366	344
Goodwill	4,816	4,816
Mortgage servicing rights at fair value	236	191
Other identifiable intangible assets	331	345
Other assets	6,195	6,154
Total assets	$119,718	$121,347
Liabilities and Stockholders' Equity		
Deposits:		
Non-interest-bearing	$29,971	$29,963
Interest-bearing	64,162	65,511
Total deposits	94,133	95,474
Borrowed funds:		
Short-term borrowings:		
Federal funds purchased and securities sold under agreements to repurchase	1,829	1,449
Other short-term borrowings	1	125
Total short-term borrowings	1,830	1,574
Long-term borrowings	5,847	5,861
Total borrowed funds	7,677	7,435
Other liabilities	2,168	2,939
Total liabilities	103,978	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	474	482
Common stock, par value $.01 per share:		
Authorized 3 billion shares		

Issued including treasury stock—1,454,665,741 and 1,454,626,952 shares, respectively	15	15
Additional paid-in capital	19,643	19,652
Retained earnings (deficit)	(3,003)	(3,338)
Treasury stock, at cost—41,287,272 and 41,287,460 shares, respectively	(1,377)	(1,377)
Accumulated other comprehensive income (loss), net	(12)	65
Total stockholders' equity	15,740	15,499
Total liabilities and stockholders' equity	$119,718	$121,347

See notes to consolidated financial statements.

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REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended March 31	
	2013	2012
	(In millions, except per share data)	
Interest income on:		
Loans, including fees	$743	$812
Securities - taxable	156	174
Loans held for sale	9	7
Trading account securities	1	1
Other interest-earning assets	2	3
Total interest income	911	997
Interest expense on:		
Deposits	42	88
Long-term borrowings	71	82
Total interest expense	113	170
Net interest income	798	827
Provision for loan losses	10	117
Net interest income after provision for loan losses	788	710
Non-interest income:		
Service charges on deposit accounts	242	254
Investment fee income	27	28
Mortgage income	72	77
Trust department income	49	49
Securities gains, net	15	12
Other	96	104
Total non-interest income	501	524
Non-interest expense:		
Salaries and employee benefits	447	442
Net occupancy expense	90	94
Furniture and equipment expense	69	64
Other	236	313
Total non-interest expense	842	913
Income from continuing operations before income taxes	447	321
Income tax expense	114	82
Income from continuing operations	333	239
Discontinued operations:		
Income (loss) from discontinued operations before income taxes	4	(65)
Income tax expense (benefit)	2	(25)
Income (loss) from discontinued operations, net of tax	2	(40)
Net income	$335	$199
Net income from continuing operations available to common shareholders	$325	$185
Net income available to common shareholders	$327	$145
Weighted-average number of shares outstanding:		
Basic	1,413	1,282
Diluted	1,423	1,283
Earnings per common share from continuing operations:		
Basic	$0.23	$0.14

Diluted	0.23	0.14
Earnings per common share:		
Basic	$0.23	$0.11
Diluted	0.23	0.11
Cash dividends declared per common share	0.01	0.01

See notes to consolidated financial statements.

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

	Three Months Ended March 31	
	2013	2012
	(In millions)	
Net income	$335	$199
Other comprehensive income (loss), net of tax:*		
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period (net of $(43) and zero tax effect for the three months ended March 31, 2013 and 2012, respectively)	(68)	2
Less: reclassification adjustments for securities gains realized in net income (net of $5 and $4 tax effect for the three months ended March 31, 2013 and 2012, respectively)	10	8
Net change in unrealized gains (losses) on securities available for sale, net of tax	(78)	(6)
Unrealized gains (losses) on derivative instruments designated as cash flow hedges:		
Unrealized holding gains on derivatives arising during the period (net of $1 and $6 tax effect for the three months ended March 31, 2013 and 2012, respectively)	1	10
Less: reclassification adjustments for gains realized in net income (net of $6 and $6 tax effect for the three months ended March 31, 2013 and 2012, respectively)	9	10
Net change in unrealized gains (losses) on derivative instruments, net of tax	(8)	—
Defined benefit pension plans and other post employment benefits:		
Net actuarial gains (losses) arising during the period (net of zero and $1 tax effect for the three months ended March 31, 2013 and 2012, respectively)	(1)	4
Less: reclassification adjustments for amortization of actuarial loss and prior service cost realized in net income, and other (net of $(6) and $(7) tax effect for the three months ended March 31, 2013 and 2012, respectively)	(10)	(11)
Net change from defined benefit pension plans, net of tax	9	15
Other comprehensive income (loss), net of tax*	$(77)	$9
Comprehensive income	$258	$208

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* All other comprehensive amounts are shown net of tax.

See notes to consolidated financial statements.

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

	Preferred Stock		Common Stock		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, 2012[1]	4	$3,419	1,259	$ 13	$ 18,855	$(4,322)	$(1,397)	$ (69)	$16,499
Net income	—	—	—	—	—	199	—	—	199
Net change in unrealized gains and losses on securities available for sale, net of tax and reclassification adjustment	—	—	—	—	—	—	—	(6)	(6)
Net change from defined benefit pension plans, net of tax	—	—	—	—	—	—	—	15	15
Cash dividends declared—$0.01 per share[1]	—	—	—	—	(13)	—	—	—	(13)
Preferred dividends:									
U.S. Treasury preferred stock dividends	—	—	—	—	—	(44)	—	—	(44)
Preferred stock transactions:									
Discount accretion	—	10	—	—	—	(10)	—	—	—
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	—	—	—	—	6	—	3	—	9
BALANCE AT MARCH 31, 2012[1]	4	$3,429	1,412	$ 15	$ 19,721	$(4,177)	$(1,394)	$ (60)	$17,534
BALANCE AT JANUARY 1, 2013	1	$482	1,413	$ 15	$ 19,652	$(3,338)	$(1,377)	$ 65	$15,499
Net income	—	—	—	—	—	335	—	—	335
Net change in unrealized gains and losses on securities available for sale, net of tax and reclassification adjustment	—	—	—	—	—	—	—	(78)	(78)
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	—	—	—	—	—	—	—	9	9
Cash dividends declared—$0.01 per share	—	—	—	—	(14)	—	—	—	(14)
Series A preferred stock dividends	—	(8)	—	—	—	—	—	—	(8)
Common stock transactions:									
Impact of stock transactions under compensation plans, net	—	—	—	—	5	—	—	—	5
BALANCE AT MARCH 31, 2013	1	$474	1,413	$ 15	$ 19,643	$(3,003)	$(1,377)	$ (12)	$15,740

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

See notes to consolidated financial statements.

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REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31	
	2013	2012
	(In millions)	
Operating activities:		
Net income	$335	$199
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	10	117
Depreciation, amortization and accretion, net	171	171
Provision for losses on other real estate, net	3	15
Securities (gains) losses, net	(15)	(12)
Deferred income tax expense	121	55
Originations and purchases of loans held for sale	(1,247)	(1,029)
Proceeds from sales of loans held for sale	1,567	1,313
(Gain) loss on sale of loans, net	(43)	(38)
Net change in operating assets and liabilities:		
Trading account assets	(5)	139
Other interest-earning assets	798	31
Interest receivable	(22)	(36)
Other assets	226	48
Other liabilities	(758)	(218)
Other	(11)	—
Net cash from operating activities	1,130	755
Investing activities:		
Proceeds from sales of securities available for sale	388	1,398
Proceeds from maturities of securities available for sale	1,765	1,594
Proceeds from maturities of securities held to maturity	2	1
Purchases of securities available for sale	(2,527)	(5,075)
Proceeds from sales of loans	48	159
Purchases of loans	(220)	(174)
Net change in loans	(2)	337
Net purchases of premises and equipment	(33)	(37)
Net cash from investing activities	(579)	(1,797)
Financing activities:		
Net change in deposits	(1,341)	1,511
Net change in short-term borrowings	256	(159)
Payments on long-term borrowings	—	(900)
Cash dividends on common stock	(14)	(13)
Cash dividends on Series A preferred stock issued to the U.S. Treasury	—	(44)
Cash dividends on Series A preferred stock	(8)	—
Net proceeds from issuance of common stock	—	875
Net cash from financing activities	(1,107)	1,270
Net change in cash and cash equivalents	(556)	228
Cash and cash equivalents at beginning of year	5,489	7,245
Cash and cash equivalents at end of period	$4,933	$7,473

See notes to consolidated financial statements.

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REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Three Months Ended March 31, 2013 and 2012

NOTE 1. BASIS OF PRESENTATION

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

The accounting and reporting policies of Regions and the methods of applying those policies that materially affect the consolidated financial statements conform with accounting principles generally accepted in the United States ("GAAP") and with general financial services industry practices. The accompanying interim financial statements have been prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all information and notes to the consolidated financial statements necessary for a complete presentation of financial position, results of operations, comprehensive income and cash flows in conformity with GAAP. In the opinion of management, all adjustments, consisting of normal and recurring items, necessary for the fair presentation of the consolidated financial statements have been included. These interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto in Regions' Form 10-K for the year ended December 31, 2012. Regions has evaluated all subsequent events for potential recognition and disclosure through the filing date of this Form 10-Q. See Note 17.

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

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

NOTE 2. DISCONTINUED OPERATIONS

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

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The following table represents the condensed results of operations for discontinued operations for the three months ended March 31:

	Three Months Ended March 31	
	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
Other	—	7
Total non-interest income	—	240
Non-interest expense:		
Salaries and employee benefits	—	171
Net occupancy expense	—	9
Furniture and equipment expense	—	8
Professional and legal expenses	(5)	96
Other	1	28
Total non-interest expense	(4)	312
Income (loss) from discontinued operations before income taxes	4	(65)
Income tax expense (benefit)	2	(25)
Income (loss) from discontinued operations, net of tax	$2	$(40)
Earnings (loss) per common share from discontinued operations:		
Basic	$0.00	$(0.03)
Diluted	$0.00	$(0.03)

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NOTE 3. SECURITIES

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

	March 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)			
Securities available for sale:				
U.S. Treasury securities	$53	$1	$—	$54
Federal agency securities	485	3	(1)	487
Obligations of states and political subdivisions	7	—	—	7
Mortgage-backed securities:				
Residential agency	20,469	493	(27)	20,935
Residential non-agency	11	1	—	12
Commercial agency	789	20	(1)	808
Commercial non-agency	1,131	30	(3)	1,158
Corporate and other debt securities	2,906	67	(16)	2,957
Equity securities	663	8	—	671
	$26,514	$623	$(48)	$27,089
Securities held to maturity:				
U.S. Treasury securities	$2	$—	$—	$2
Federal agency securities	1	—	—	1
Mortgage-backed securities:				
Residential agency	5	1	—	6
	$8	$1	$—	$9

	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)			
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
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

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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.

	March 31 2013	December 31 2012
	(In millions)	
Federal Reserve Bank	$484	$484
Federal Home Loan Bank	67	73

Securities with carrying values of $14.1 billion and $11.8 billion at March 31, 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 March 31, 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.

	Amortized Cost	Estimated Fair Value
	(In millions)	
Securities available for sale:		
Due in one year or less	$42	$42
Due after one year through five years	920	940
Due after five years through ten years	2,047	2,077
Due after ten years	442	446
Mortgage-backed securities:		
Residential agency	20,469	20,935
Residential non-agency	11	12
Commercial agency	789	808
Commercial non-agency	1,131	1,158
Equity securities	663	671
	$26,514	$27,089
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	—	—
Due after ten years	—	—
Mortgage-backed securities:		
Residential agency	5	6
	$8	$9

The following tables present gross unrealized losses and the related estimated fair value of securities available for sale at March 31, 2013 and December 31, 2012. There were no gross unrealized losses on debt securities held to maturity at either March 31, 2013 or December 31, 2012. These securities are segregated between investments that have been in a continuous unrealized loss position for less than twelve months and twelve months or more.

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	March 31, 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)					
U.S. Treasury securities	$7	$—	$—	$—	$7	$—
Federal agency securities	351	(1)	5	—	356	(1)
Mortgage-backed securities:						
Residential agency	2,717	(26)	121	(1)	2,838	(27)
Residential non-agency	4	—	—	—	4	—
Commercial agency	110	(1)	—	—	110	(1)
Commercial non-agency	314	(3)	—	—	314	(3)
All other securities	924	(15)	14	(1)	938	(16)
	$4,427	$(46)	$140	$(2)	$4,567	$(48)

	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)					
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)

For the securities included in the tables above, management does not believe any individual unrealized loss, which was comprised of 415 securities and 378 securities at March 31, 2013 and December 31, 2012, respectively, 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 months ended March 31, 2013 and 2012.

Cash proceeds from sale, 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 March 31	
	2013	2012
	(In millions)	
Proceeds	$388	$1,398
Gross realized gains	$16	$12
Gross realized losses	(1)	—
Securities gains, net	$15	$12

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NOTE 4. LOANS AND THE ALLOWANCE FOR CREDIT LOSSES

LOANS

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

	March 31, 2013	December 31, 2012
	(In millions, net of unearned income)	
Commercial and industrial	$27,602	$26,674
Commercial real estate mortgage—owner-occupied	9,812	10,095
Commercial real estate construction—owner-occupied	325	302
Total commercial	37,739	37,071
Commercial investor real estate mortgage	6,338	6,808
Commercial investor real estate construction	984	914
Total investor real estate	7,322	7,722
Residential first mortgage	12,875	12,963
Home equity	11,546	11,800
Indirect	2,483	2,336
Consumer credit card	851	906
Other consumer	1,120	1,197
Total consumer	28,875	29,202
	$73,936	$73,995

During the three months ended March 31, 2013 and 2012, Regions purchased approximately $220 million and $174 million, respectively, in indirect loans from a third party.

At March 31, 2013, $11.3 billion in loans held by Regions were pledged to secure borrowings from the FHLB. At March 31, 2013, an additional $25.4 billion of loans held by Regions were pledged to the Federal Reserve Bank.

ALLOWANCE FOR CREDIT LOSSES

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

ROLLFORWARD OF ALLOWANCE FOR CREDIT LOSSES

The following tables present analyses of the allowance for credit losses by portfolio segment for the three months ended March 31, 2013 and 2012. The total allowance for credit losses as of March 31, 2013 and 2012 is then disaggregated to detail the amounts derived through individual evaluation and the amounts calculated through collective evaluation. The allowance for loan losses related to individually evaluated loans includes reserves for non-accrual loans and leases equal to or greater than $2.5 million. The allowance for loan losses related to collectively evaluated loans includes the remainder of the portfolio.

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	Three Months Ended March 31, 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	17	(31)	24	10
Loan losses:				
Charge-offs	(99)	(23)	(102)	(224)
Recoveries	17	9	18	44
Net loan losses	(82)	(14)	(84)	(180)
Allowance for loan losses, March 31, 2013	782	424	543	1,749
Reserve for unfunded credit commitments, January 1, 2013	69	10	4	83
Provision for unfunded credit commitments	5	—	—	5
Reserve for unfunded credit commitments, March 31, 2013	74	10	4	88
Allowance for credit losses, March 31, 2013	$856	$434	$547	$1,837
Portion of ending allowance for loan losses:				
Individually evaluated for impairment	$74	$65	$1	$140
Collectively evaluated for impairment	708	359	542	1,609
Total allowance for loan losses	$782	$424	$543	$1,749
Portion of loan portfolio ending balance:				
Individually evaluated for impairment	$384	$304	$2	$690
Collectively evaluated for impairment	37,355	7,018	28,873	73,246
Total loans evaluated for impairment	$37,739	$7,322	$28,875	$73,936

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	Three Months Ended March 31, 2012			
	Commercial	Investor Real Estate	Consumer	Total
	(In millions)			
Allowance for loan losses, January 1, 2012	$1,030	$991	$724	$2,745
Provision (credit) for loan losses	61	(10)	66	117
Loan losses:				
Charge-offs	(125)	(95)	(156)	(376)
Recoveries	16	12	16	44
Net loan losses	(109)	(83)	(140)	(332)
Allowance for loan losses, March 31, 2012	982	898	650	2,530
Reserve for unfunded credit commitments, January 1, 2012	30	26	22	78
Provision (credit) for unfunded credit commitments	14	—	(1)	13
Reserve for unfunded credit commitments, March 31, 2012	44	26	21	91
Allowance for credit losses, March 31, 2012	$1,026	$924	$671	$2,621
Portion of ending allowance for loan losses:				
Individually evaluated for impairment	$105	$146	$2	$253
Collectively evaluated for impairment	877	752	648	2,277
Total allowance for loan losses	$982	$898	$650	$2,530
Portion of loan portfolio ending balance:				
Individually evaluated for impairment	$475	$532	$7	$1,014
Collectively evaluated for impairment	35,835	9,579	30,292	75,706
Total loans evaluated for impairment	$36,310	$10,111	$30,299	$76,720

PORTFOLIO SEGMENT RISK FACTORS

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

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

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

Consumer—The consumer loan portfolio segment includes residential first mortgage, home equity, indirect, consumer credit card, and other consumer loans. Residential first mortgage loans represent loans to consumers to finance a residence. These loans are typically financed over a 15 to 30 year term and, in most cases, are extended to borrowers to finance their primary residence. Home equity lending includes both home equity loans and lines of credit. This type of lending, which is secured by a first or second mortgage on the borrower's residence, allows customers to borrow against the equity in their home. Real estate market values as of the time the loan or line is secured directly affect the amount of credit extended and, in addition, changes in these values impact the depth of potential losses. Indirect lending, which is lending initiated through third-party business partners, is largely comprised of loans made through automotive dealerships. Consumer credit card includes Regions branded consumer credit card accounts.

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

CREDIT QUALITY INDICATORS

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

- Pass—includes obligations where the probability of default is considered low;
- Special Mention—includes obligations that have potential weakness which may, if not reversed or corrected, weaken the credit or inadequately protect the Company’s position at some future date. Obligations in this category may also be subject to economic or market conditions which may, in the future, have an adverse effect on debt service ability;
- Substandard Accrual—includes obligations that exhibit a well-defined weakness which presently jeopardizes debt repayment, even though they are currently performing. These obligations are characterized by the distinct possibility that the Company may incur a loss in the future if these weaknesses are not corrected;
- Non-accrual—includes obligations where management has determined that full payment of principal and interest is in doubt.

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

	March 31, 2013				
	Pass	Special Mention	Substandard Accrual	Non-accrual	Total
	(In millions)				
Commercial and industrial	$26,280	$ 430	$537	$355	$27,602
Commercial real estate mortgage—owner-occupied	8,767	231	394	420	9,812
Commercial real estate construction—owner-occupied	274	2	37	12	325
Total commercial	$35,321	$ 663	$968	$787	$37,739
Commercial investor real estate mortgage	$4,813	$ 373	$701	$451	$6,338
Commercial investor real estate construction	827	100	44	13	984
Total investor real estate	$5,640	$ 473	$745	$464	$7,322

	Accrual	Non-accrual	Total
	(In millions)		
Residential first mortgage	$12,674	$201	$12,875
Home equity	11,413	133	11,546
Indirect	2,482	1	2,483
Consumer credit card	851	—	851

Other consumer	1,120	—	1,120
Total consumer	$28,540	$335	$28,875
			$73,936

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

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

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AGING ANALYSIS

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

	March 31, 2013						
	Accrual Loans						
	30-59 DPD	60-89 DPD	90+ DPD	Total 30+ DPD	Total Accrual	Non-accrual	Total
	(In millions)						
Commercial and industrial							