

REGIONS FINANCIAL CORP
Form 10-Q
August 08, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

- Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended **June 30, 2006**
- 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: 0-6159

Regions Financial Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

417 North 20th Street
Birmingham, Alabama

(Address of principal executive offices)

63-0589368

(IRS Employer Identification Number)

35203

(Zip code)

(205) 944-1300

(Registrant's telephone number, including area code)

NOT APPLICABLE

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. (Check one): Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerate filer" in Rule 12b-2 of the Exchange Act). Large accelerated filer Accelerated filer Non-accelerated filer

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

The number of shares outstanding of each of the issuer's classes of common stock was 454,651,111 shares of common stock, par value \$.01, outstanding as of July 31, 2006.

REGIONS FINANCIAL CORPORATION

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Forward Looking Statements

This Quarterly Report on Form 10-Q, other periodic reports filed by Regions Financial Corporation ("the Company") 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 which reflect Regions' current views with respect to future events and financial performance. 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:

- Regions' ability to achieve the earnings expectations related to the businesses that were acquired, or that may be acquired in the future, including its announced plan to merge with AmSouth Bancorporation ("AmSouth"), which in turn depends on a variety of factors, including:
 - ◆ Regions' ability to achieve the anticipated cost savings and revenue enhancements with respect to the acquired operations, or lower our ability to achieve anticipated cost savings and revenue enhancements with respect to acquired operations, or lower than expected revenues from continuing operations;
 - ◆ the assimilation of the acquired operations to Regions' corporate culture, including the ability to instill appropriate credit practices and efficient approaches to the acquired operations;
 - ◆ the continued growth of the markets that the acquired entities serve, consistent with recent historical experience;
 - ◆ difficulties related to the integration of the businesses, including integration of information systems and retention of key personnel.
- Regions' ability to expand into new markets and to maintain profit margins in the face of competitive pressures.
- Regions' ability to keep pace with technological changes.
- 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 effectively manage interest rate risk, market risk, credit risk and operational risk.
- 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.
- The cost and other effects of material contingencies, including litigation contingencies.

- Further easing of restrictions on participants in the financial services industry, such as banks, securities brokers and dealers, investment companies and finance companies, may increase competitive pressures.
- Possible changes in interest rates may increase funding costs and reduce earning asset yields, thus reducing margins.
- Possible changes in general economic and business conditions in the United States in general and in the communities Regions serves in particular may lead to a deterioration in credit quality, thereby increasing provisioning costs, or a reduced demand for credit, thereby reducing earning assets.
- The occurrence of natural disasters or the threat or occurrence of war or acts of terrorism and the existence or exacerbation of general geopolitical instability and uncertainty.
- Possible changes in trade, monetary and fiscal policies, laws, and regulations, and other activities of governments, agencies, and similar organizations, including changes in accounting standards, may have an adverse effect on business.
- Possible changes in consumer and business spending and saving habits could affect Regions' ability to increase assets and to attract deposits.

The words "believe," "expect," "anticipate," "project," and similar expressions signify forward looking statements. Readers are cautioned not to place undue reliance on any forward looking statements made by or on behalf of Regions. Any such statement speaks only as of the date the statement was made. Regions undertakes no obligation to update or revise any forward looking statements.

Table of ContentsREGIONS FINANCIAL CORPORATION AND SUBSIDIARIESCONSOLIDATED STATEMENTS OF CONDITION

(DOLLAR AMOUNTS IN THOUSANDS) (UNAUDITED)

| <u>ASSETS</u> | June 30, 2006 | December 31, 2005 | June 30, 2005 |
|---|---------------------|----------------------|---------------------|
| Cash and due from banks | \$ 2,304,934 | \$ 2,414,560 | \$ 2,105,962 |
| Interest-bearing deposits in other banks | 31,565 | 92,098 | 85,653 |
| Securities held to maturity | 29,983 | 31,464 | 31,284 |
| Securities available for sale | 11,758,035 | 11,947,810 | 12,195,048 |
| Trading account assets | 1,056,434 | 992,082 | 957,368 |
| Loans held for sale | 2,281,372 | 1,531,664 | 2,080,812 |
| Federal funds sold and securities purchased under agreements to resell | 733,476 | 710,282 | 603,594 |
| Margin receivables | 576,616 | 527,317 | 549,298 |
| Loans | 59,326,346 | 58,591,816 | 58,533,182 |
| Unearned income | (195,714) | (186,903) | (194,238) |
| Loans, net of unearned income | 59,130,632 | 58,404,913 | 58,338,944 |
| Allowance for loan losses | (777,783) | (783,536) | (758,453) |
| Net loans | 58,352,849 | 57,621,377 | 57,580,491 |
| Premises and equipment | 1,109,732 | 1,122,289 | 1,092,302 |
| Interest receivable | 407,811 | 420,818 | 350,938 |
| Due from customers on acceptances | 22,519 | 22,924 | 36,418 |
| Excess purchase price | 4,996,028 | 5,027,044 | 5,070,026 |
| Mortgage servicing rights | 420,322 | 412,008 | 371,111 |
| Other identifiable intangible assets | 295,588 | 314,368 | 337,610 |
| Other assets | 1,685,522 | 1,597,495 | 1,831,183 |
| | <u>\$86,062,786</u> | <u>\$84,785,600</u> | <u>\$85,279,098</u> |
| <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u> | | | |
| Deposits: | | | |
| Non-interest-bearing | \$13,158,707 | \$13,699,038 | \$12,200,095 |
| Interest-bearing | 48,246,119 | 46,679,329 | 48,670,755 |
| Total deposits | 61,404,826 | 60,378,367 | 60,870,850 |
| Borrowed Funds: | | | |
| Short-term borrowings: | | | |
| Federal funds purchased and securities sold under agreements to repurchase | 4,770,538 | 3,928,185 | 3,835,320 |
| Other short-term borrowings | 958,048 | 1,038,094 | 921,884 |
| Total short-term borrowings | 5,728,586 | 4,966,279 | 4,757,204 |

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| | | | |
|--|---------------------|---------------------|---------------------|
| Long-term borrowings | 6,293,372 | 6,971,680 | 7,285,717 |
| Total borrowed funds | 12,021,958 | 11,937,959 | 12,042,921 |
| Bank acceptances outstanding | 22,519 | 22,924 | 36,418 |
| Other liabilities | 1,915,124 | 1,832,067 | 1,585,604 |
| Total liabilities | 75,364,427 | 74,171,317 | 74,535,793 |
| Stockholders' Equity: | | | |
| Common stock, par value \$.01 a share: | | | |
| Authorized 1,500,000,000 shares | | | |
| Issued, including treasury stock, 478,694,729; 473,756,429; and 470,913,008 shares, respectively | | | |
| | 4,787 | 4,738 | 4,709 |
| Surplus | 7,393,185 | 7,248,855 | 7,194,515 |
| Undivided profits | 4,355,306 | 4,034,905 | 3,836,716 |
| Treasury stock, 24,660,687; 17,408,800; and 9,353,800 shares, respectively | (833,633) | (581,890) | (311,341) |
| Accumulated other comprehensive (loss) income | (221,286) | (92,325) | 18,706 |
| Total Stockholders' Equity | 10,698,359 | 10,614,283 | 10,743,305 |
| | <u>\$86,062,786</u> | <u>\$84,785,600</u> | <u>\$85,279,098</u> |

See notes to consolidated financial statements.

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REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA) (UNAUDITED)

| | Three Months Ended | | Six Months Ended | |
|---------------------------------|--------------------|-----------|------------------|-------------|
| | June 30, | | June 30, | |
| | 2006 | 2005 | 2006 | 2005 |
| Interest Income: | | | | |
| Interest and fees on loans | \$1,047,843 | \$864,115 | \$ 2,040,366 | \$1,674,949 |
| Interest on securities: | | | | |
| Taxable interest income | 130,979 | 124,931 | 262,630 | 247,683 |
| Tax-exempt interest income | 7,904 | 6,670 | 16,020 | 13,686 |
| Total Interest on Securities | 138,883 | 131,601 | 278,650 | 261,369 |
| Interest on loans held for sale | 47,261 | 39,402 | 81,143 | 70,582 |
| Interest on margin receivables | 9,525 | 7,167 | 18,198 | 13,309 |

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| | | | | |
|--|-------------------|------------------|-------------------|-------------------|
| Income on federal funds sold and securities purchased under agreements to resell | 11,573 | 3,539 | 22,063 | 6,592 |
| Interest on time deposits in other banks | 343 | 599 | 887 | 1,034 |
| Interest on trading account assets | 9,558 | 8,961 | 19,411 | 19,525 |
| Total Interest Income | 1,264,986 | 1,055,384 | 2,460,718 | 2,047,360 |
| Interest Expense: | | | | |
| Interest on deposits | 357,026 | 241,813 | 671,734 | 441,705 |
| Interest on short-term borrowings | 56,065 | 37,931 | 106,198 | 76,909 |
| Interest on long-term borrowings | 89,360 | 78,928 | 177,524 | 151,463 |
| Total Interest Expense | 502,451 | 358,672 | 955,456 | 670,077 |
| Net Interest Income | 762,535 | 696,712 | 1,505,262 | 1,377,283 |
| Provision for loan losses | 30,000 | 32,500 | 57,500 | 62,500 |
| Net Interest Income After Provision for Loan Losses | 732,535 | 664,212 | 1,447,762 | 1,314,783 |
| Non-Interest Income: | | | | |
| Brokerage and investment banking | 158,865 | 132,179 | 325,658 | 276,669 |
| Trust department income | 35,730 | 31,256 | 70,285 | 63,246 |
| Service charges on deposit accounts | 147,272 | 131,654 | 275,801 | 255,472 |
| Mortgage servicing and origination fees | 34,270 | 37,057 | 66,968 | 76,369 |
| Securities gains | 28 | 53,400 | 39 | 19,434 |
| Other | 114,546 | 123,879 | 222,077 | 249,145 |
| Total Non-Interest Income | 490,711 | 509,425 | 960,828 | 940,335 |
| Non-Interest Expense: | | | | |
| Salaries and employee benefits | 441,475 | 426,443 | 888,483 | 864,101 |
| Net occupancy expense | 53,772 | 56,635 | 113,660 | 110,919 |
| Furniture and equipment expense | 33,942 | 32,292 | 68,025 | 64,501 |
| Other | 197,324 | 302,481 | 412,439 | 512,276 |
| Total Non-Interest Expense | 726,513 | 817,851 | 1,482,607 | 1,551,797 |
| Income Before Income Taxes | 496,733 | 355,786 | 925,983 | 703,321 |
| Applicable income taxes | 151,476 | 107,435 | 286,046 | 213,329 |
| Net Income | \$ 345,257 | \$248,351 | \$ 639,937 | \$ 489,992 |
| Average number of shares outstanding | 455,528 | 462,913 | 455,982 | 464,011 |
| Average number of shares outstanding-diluted | 460,131 | 468,193 | 460,584 | 469,469 |
| Per share: | | | | |
| Net income | \$0.76 | \$0.54 | \$1.40 | \$1.06 |

| | | | | |
|-------------------------|--------|--------|--------|--------|
| Net income-diluted | \$0.75 | \$0.53 | \$1.39 | \$1.04 |
| Cash dividends declared | \$0.35 | \$0.34 | \$0.70 | \$0.68 |

See notes to consolidated financial statements.

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REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(AMOUNTS IN THOUSANDS) (UNAUDITED)

| | Common Stock | Surplus | Undivided Profits | Treasury Stock | Accumulated Other Comprehensive Loss | Total |
|---|-----------------|-------------|----------------------|-------------------|---|--------------|
| BALANCE AT JANUARY 1, 2006 | \$4,738 | \$7,248,855 | \$4,034,905 | \$(581,890) | \$ (92,325) | \$10,614,283 |
| Comprehensive Income: | | | | | | |
| Net income | | | 639,937 | | | 639,937 |
| Unrealized loss on available for sale securities, net of tax and reclassification adjustment | | | | | (127,745) | (127,745) |
| Other comprehensive loss from derivatives, net of tax and reclassification adjustment | | | | | (1,216) | (1,216) |
| Comprehensive income* | | | 639,937 | | (128,961) | 510,976 |
| Cash dividends declared (\$.70 per common share) | | | (319,536) | | | (319,536) |
| Purchase of treasury stock | | | | (251,743) | | (251,743) |
| Common stock transactions: | | | | | | |
| Stock options exercised | 40 | 126,437 | | | | 126,477 |
| | 9 | (3,505) | | | | (3,496) |

| | | | | | | |
|---|----------------|--------------------|--------------------|--------------------|--------------------|---------------------|
| Stock issued to employees under incentive plan, net | | | | | | |
| Amortization of unearned restricted stock | 21,398 | | | | | 21,398 |
| BALANCE AT JUNE 30, 2006 | \$4,787 | \$7,393,185 | \$4,355,306 | \$(833,633) | \$(221,286) | \$10,698,359 |

Disclosure of reclassification amount:

| | | | | | | |
|--|--|--|--|--|--|--------------------|
| Unrealized holding losses, net of \$74,341 in income taxes, on available for sale securities arising during period | | | | | | \$(127,720) |
| Less: Reclassification adjustment, net of (\$14) in income taxes, for net gain realized in net income | | | | | | 25 |
| Unrealized holding loss on derivatives, net of \$616 in income taxes | | | | | | (1,081) |
| Less: Reclassification adjustment, net of (\$73) in income taxes, for amortization of cash flow hedges | | | | | | 135 |
| Comprehensive loss, net of \$75,044 in income taxes | | | | | | \$(128,961) |

*Comprehensive income for the six months ended June 30, 2005 was \$458.4 million.

*Comprehensive income for the three months ended June 30, 2006 was \$293.8 million compared to \$314.3 million for the three months ended June 30, 2005.

See notes to consolidated financial statements.

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REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(DOLLAR AMOUNTS IN THOUSANDS) (UNAUDITED)

Six Months Ended

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| | June 30, | |
|--|--------------|------------|
| | 2006 | 2005 |
| Operating Activities: | | |
| Net income | \$ 639,937 | \$ 489,992 |
| Adjustments to reconcile net cash provided by (used in) operating activities | | |
| Depreciation and amortization of premises and equipment | 60,406 | 53,572 |
| Provision for loan losses | 57,500 | 62,500 |
| Net amortization of securities | 2,479 | 9,784 |
| Amortization of intangibles and other assets | 81,990 | 92,953 |
| (Recapture) impairment of mortgage servicing rights | (19,000) | 18,000 |
| Gain on exchange of NYSE seats for NYSE publicly traded stock | (13,111) | -0 - |
| Amortization of deposits and borrowings | 221 | 222 |
| Provision for losses on other real estate | 1,867 | 2,184 |
| Excess tax benefits from share-based payments | (11,777) | -0 - |
| Deferred income tax expense | (2,405) | 1,385 |
| (Gain) loss on sale of premises and equipment | (5,627) | 1,917 |
| Realized securities gains | (39) | (19,434) |
| Increase in trading account assets (1) | (42,287) | (28,692) |
| Increase in loans held for sale | (749,708) | (297,481) |
| Increase in margin receivables | (49,299) | (71,485) |
| Decrease (increase) in interest receivable | 13,007 | (5,375) |
| Increase in other assets (1) | (120,376) | (347,905) |
| Increase in other liabilities | 181,834 | 173,954 |
| Other | (3,496) | 8,846 |
| Net Cash Provided By Operating Activities | 22,116 | 144,937 |
| Investing Activities: | | |
| Net increase in loans | (788,952) | (870,743) |
| Proceeds from sale of securities available for sale | 71,183 | 2,717,572 |
| Proceeds from maturity of securities held to maturity | 1,435 | 514 |
| Proceeds from maturity of securities available for sale | 1,567,524 | 1,072,862 |
| Purchases of securities held to maturity | (1,523) | (481) |
| Purchases of securities available for sale | (1,653,737) | |