

REGIONS FINANCIAL CORP
Form 10-K
February 27, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

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 000-50831

REGIONS FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

incorporation or organization)

1900 Fifth Avenue North, Birmingham, Alabama 35203

(Address of principal executive offices)

63-0589368
(I.R.S. Employer

Identification No.)

Registrant's telephone number, including area code: (205) 944-1300

Securities registered pursuant to Section 12(b) of the Act:

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-K

| Title of each class | Name of each exchange on which registered |
|-------------------------------|---|
| Common Stock, \$.01 par value | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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.

| | |
|--|--|
| Large accelerated filer <input checked="" type="checkbox"/> | Accelerated filer <input type="checkbox"/> |
| Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company <input type="checkbox"/> |

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter.

Common Stock, \$.01 par value \$22,669,702,117 as of June 30, 2007.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Common Stock, \$.01 par value 693,601,138 shares issued and outstanding as of February 19, 2008.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the Annual Meeting to be held on April 17, 2008 are incorporated by reference into Part III.

REGIONS FINANCIAL CORPORATION

Form 10-K

INDEX

| | PAGE |
|---|-------------|
| PART I | |
| <u>Forward-Looking Statements</u> | 1 |
| Item 1. <u>Business</u> | 2 |
| Item 1A. <u>Risk Factors</u> | 13 |
| Item 1B. <u>Unresolved Staff Comments</u> | 17 |
| Item 2. <u>Properties</u> | 17 |
| Item 3. <u>Legal Proceedings</u> | 17 |
| Item 4. <u>Submission of Matters to a Vote of Security Holders</u> | 18 |
| PART II | |
| Item 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | 19 |
| Item 6. <u>Selected Financial Data</u> | 20 |
| Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operation</u> | 21 |
| Item 7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u> | 21 |
| Item 8. <u>Financial Statements and Supplementary Data</u> | 74 |
| Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u> | 134 |
| Item 9A. <u>Controls and Procedures</u> | 134 |
| Item 9B. <u>Other Information</u> | 134 |
| PART III | |
| Item 10. <u>Directors, Executive Officers and Corporate Governance</u> | 135 |
| Item 11. <u>Executive Compensation</u> | 136 |
| Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> | 137 |
| Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u> | 137 |
| Item 14. <u>Principal Accounting Fees and Services</u> | 137 |
| PART IV | |
| Item 15. <u>Exhibits, Financial Statement Schedules</u> | 138 |
| <u>SIGNATURES</u> | 145 |

PART I

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, 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:

Regions ability to achieve the earnings expectations related to businesses that have been acquired, including its merger with AmSouth Bancorporation (AmSouth), or that may be acquired in the future, 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 than expected revenues from continuing operations;

the assimilation of the combined companies corporate cultures;

the continued growth of the markets that the acquired entities serve, consistent with recent historical experience;

difficulties related to the integration of the businesses.

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, operational risk, legal risk, and regulatory and compliance 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 current stresses in the financial markets.

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-K

The cost and other effects of material contingencies, including litigation contingencies.

The effects of increased competition from both banks and non-banks.

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.

Possible changes in the creditworthiness of customers and the possible impairment of collectibility of loans.

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

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 effects of weather and natural disasters such as droughts and hurricanes.

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.

Item 1. Business

Regions Financial Corporation (together with its subsidiaries on a consolidated basis, Regions or Company) is a financial holding company headquartered in Birmingham, Alabama, which operates throughout the South, Midwest and Texas. Regions provides traditional commercial, retail and mortgage banking services, as well as other financial services in the fields of investment banking, asset management, trust, mutual funds, securities brokerage, insurance and other specialty financing. At December 31, 2007, Regions had total consolidated assets of approximately \$141.0 billion, total consolidated deposits of approximately \$94.8 billion and total consolidated stockholders' equity of approximately \$19.8 billion.

Regions is a Delaware corporation that, on July 1, 2004, became the successor by merger to Union Planters Corporation and the former Regions Financial Corporation. Its principal executive offices are located at 1900 Fifth Avenue North, Birmingham, Alabama 35203, and its telephone number at that address is (205) 944-1300.

Banking Operations

Regions conducts its banking operations through Regions Bank, an Alabama chartered commercial bank that is a member of the Federal Reserve System. At December 31, 2007, Regions operated almost 2,000 banking offices in Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, South Carolina, Tennessee, Texas and Virginia.

The following chart reflects the distribution of branch locations in each of the states in which Regions conducts its banking operations.

| | Branches |
|----------------|-----------------|
| Alabama | 255 |
| Arkansas | 119 |
| Florida | 427 |
| Georgia | 158 |
| Illinois | 74 |
| Indiana | 69 |
| Iowa | 18 |
| Kentucky | 19 |
| Louisiana | 138 |
| Mississippi | 165 |
| Missouri | 69 |
| North Carolina | 9 |
| South Carolina | 40 |
| Tennessee | 314 |
| Texas | 88 |
| Virginia | 3 |
| Totals | 1,965 |

Other Financial Services Operations

In addition to its banking operations, Regions provides additional financial services through the following subsidiaries:

Morgan Keegan & Company, Inc. (Morgan Keegan), a subsidiary of Regions Financial Corporation, is a full-service regional brokerage and investment banking firm. Morgan Keegan offers products and services including securities brokerage, asset management, financial planning, mutual funds, securities underwriting, sales and trading, and investment banking. Morgan Keegan also manages the delivery of trust services, which are provided pursuant to the trust powers of Regions Bank. Morgan Keegan, one of the largest investment firms in the South, employs approximately 1,300 financial advisors offering products and services from over 400 offices located in Alabama, Arkansas, Florida, Georgia, Illinois, Kentucky, Louisiana, Massachusetts, Mississippi, New York, North Carolina, South Carolina, Tennessee, Texas and Virginia.

Regions Insurance Group, Inc., a subsidiary of Regions Financial Corporation, offers insurance products through the following subsidiaries: Regions Insurance, Inc. (formerly Rebsamen Insurance, Inc.), headquartered in Little Rock, Arkansas, and Regions Insurance Services, Inc., headquartered in Memphis, Tennessee. Through its insurance brokerage operations in Alabama, Arkansas, Indiana, Louisiana, Missouri, Mississippi, Tennessee and Texas, Regions Insurance Group offers all lines of personal and commercial insurance, including property, casualty, life, health and accident. Regions Insurance Services offers credit-related insurance products (title, term life, credit life, debt cancellation, environmental, crop and mortgage insurance) to customers of Regions. With \$111 million in annual revenues and 30 offices in eight states, Regions Insurance Group, Inc. is one of the largest bank-owned insurance brokers in the United States.

Regions Agency, Inc., a subsidiary of Regions Financial Corporation, acts as an insurance agent or broker with respect to credit life insurance, accident and health insurance and other types of insurance relating to extensions of credit by Regions Bank or Regions banking-related subsidiaries.

Regions Life Insurance Company, a subsidiary of Regions Financial Corporation, acts as a re-insurer of credit life insurance and accident and health insurance in connection with the activities of certain affiliates of Regions.

Regions Interstate Billing Service, Inc., a subsidiary of Regions Bank, factors commercial accounts receivable and performs billing and collection services, focusing on clients in the heavy-duty truck and automotive business, but also serving other businesses that meet certain criteria.

Regions Equipment Finance Corporation, a subsidiary of Regions Bank, provides domestic and international equipment financing products, focusing on commercial clients.

Acquisition Program

A substantial portion of the growth of Regions from its inception as a bank holding company in 1971 through the November 2006 merger with AmSouth Bancorporation has been through the acquisition of other financial institutions, including commercial banks and thrift institutions, and the assets and deposits thereof. As part of its ongoing strategic plan, Regions continually evaluates business combination opportunities. Any future business combination or series of business combinations that Regions might undertake may be material, in terms of assets acquired or liabilities assumed, to Regions' financial condition. Recent business combinations in the financial services industry have typically involved the payment of a premium over book and market values. This practice could result in dilution of book value and net income per share for the acquirer.

Segment Information

Reference is made to Note 22 Business Segment Information to the consolidated financial statements included under Item 8 of this Form 10-K for information required by this item.

Supervision and Regulation

Regions and its subsidiaries are subject to the extensive regulatory framework applicable to bank holding companies and their subsidiaries. Regulation of financial institutions such as Regions and its subsidiaries is intended primarily for the protection of depositors, the deposit insurance fund of the Federal Deposit Insurance Corporation (FDIC) and the banking system as a whole, and generally is not intended for the protection of stockholders or other investors. Described below are the material elements of selected laws and regulations applicable to Regions and its subsidiaries. The descriptions are not intended to be complete and are qualified in their entirety by reference to the full text of the statutes and regulations described. Changes in applicable law or regulation, and in their application by regulatory agencies, cannot be predicted, but they may have a material effect on the business and results of Regions and its subsidiaries.

General. Regions is a bank holding company, registered with the Board of Governors of the Federal Reserve System (the Federal Reserve) and a financial holding company under the Bank Holding Company Act of 1956, as amended (BHC Act). As such, Regions and its subsidiaries are subject to the supervision, examination and reporting requirements of the BHC Act and the regulations of the Federal Reserve.

The Gramm-Leach-Bliley Act, adopted in 1999 (GLB Act), significantly relaxed previously existing restrictions on the activities of banks and bank holding companies. Under such legislation, an eligible bank holding company may elect to be a financial holding company and thereafter may engage in a range of activities that are financial in nature and that were not previously permissible for banks and bank holding companies. A financial holding company may engage directly or through a subsidiary in the statutorily authorized activities of securities dealing, underwriting and market making, insurance underwriting and agency activities, merchant banking and insurance company portfolio investments. A financial holding company also may engage in any activity that the Federal Reserve determines by rule or order to be financial in nature, incidental to such financial activity, or complementary to a financial activity and that does not pose a substantial risk to the safety and soundness of an institution or to the financial system generally.

In addition to these activities, a financial holding company may engage in those activities permissible for a bank holding company that has not elected to be treated as a financial holding company, including factoring accounts receivable, acquiring and servicing loans, leasing personal property, performing certain data processing

services, acting as agent or broker in selling credit life insurance and certain other types of insurance in connection with credit transactions and conducting certain insurance underwriting activities. The BHC Act does not place territorial limitations on permissible non-banking activities of bank holding companies. Despite prior approval, the Federal Reserve has the power to order any bank holding company or its subsidiaries to terminate any activity or to terminate its ownership or control of any subsidiary when the Federal Reserve has reasonable grounds to believe that continuation of such activity or such ownership or control constitutes a serious risk to the financial soundness, safety or stability of any bank subsidiary of the bank holding company.

The GLB Act provides generally for umbrella regulation of financial holding companies by the Federal Reserve, and for functional regulation of banking activities by bank regulators, securities activities by securities regulators, and insurance activities by insurance regulators.

For a bank holding company to be eligible for financial holding company status, all of its subsidiary insured depository institutions must be well capitalized and well managed. A bank holding company may become a financial holding company by filing a declaration with the Federal Reserve that it elects to become a financial holding company. The Federal Reserve must deny expanded authority to any bank holding company with a subsidiary insured depository institution that received less than a satisfactory rating on its most recent Community Reinvestment Act of 1977 (the CRA) review as of the time it submits its declaration. If, after becoming a financial holding company and undertaking activities not permissible for a bank holding company, the company fails to continue to meet any of the prerequisites for financial holding company status, the company must enter into an agreement with the Federal Reserve to comply with all applicable capital and management requirements. If the company does not return to compliance within 180 days, the Federal Reserve may order the company to divest its subsidiary banks or the company may discontinue or divest investments in companies engaged in, activities permissible only for a bank holding company that has elected to be treated as a financial holding company.

The BHC Act requires every bank holding company to obtain the prior approval of the Federal Reserve before: (1) it may acquire direct or indirect ownership or control of any voting shares of any bank or savings and loan association, if after such acquisition, the bank holding company will directly or indirectly own or control more than 5.0% of the voting shares of the institution; (2) it or any of its subsidiaries, other than a bank, may acquire all or substantially all of the assets of any bank or savings and loan association; or (3) it may merge or consolidate with any other bank holding company.

The BHC Act further provides that the Federal Reserve may not approve any transaction that would result in a monopoly or would be in furtherance of any combination or conspiracy to monopolize or attempt to monopolize the business of banking in any section of the United States, or the effect of which may be substantially to lessen competition or to tend to create a monopoly in any section of the country, or that in any other manner would be in restraint of trade, unless the anticompetitive effects of the proposed transaction are clearly outweighed by the public interest in meeting the convenience and needs of the community to be served. The Federal Reserve is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks concerned and the convenience and needs of the community to be served. Consideration of financial resources generally focuses on capital adequacy, and consideration of convenience and needs issues includes the parties' performance under the CRA, both of which are discussed below. In addition, the Federal Reserve must take into account the institutions' effectiveness in combating money laundering.

Regions Bank is a member of the FDIC, and, as such, its deposits are insured by the FDIC to the extent provided by law. It is also subject to numerous statutes and regulations that affect its business activities and operations, and is supervised and examined by one or more state or federal bank regulatory agencies.

Regions Bank is a state bank, chartered in Alabama and is a member of the Federal Reserve System. Regions Bank is generally subject to supervision and examination by both the Federal Reserve and the Alabama Department of Banking. The Federal Reserve and the Alabama Department of Banking regularly examine the operations of Regions Bank and are given authority to approve or disapprove mergers, consolidations, the

establishment of branches and similar corporate actions. The federal and state banking regulators also have the power to prevent the continuance or development of unsafe or unsound banking practices or other violations of law. Various consumer laws and regulations also affect the operations of Regions Bank. In addition, commercial banks are affected significantly by the actions of the Federal Reserve as it attempts to control money and credit availability in order to influence the economy.

Community Reinvestment Act. Regions Bank is subject to the provisions of the CRA. Under the terms of the CRA, Regions Bank has a continuing and affirmative obligation consistent with safe and sound operation to help meet the credit needs of its communities, including providing credit to individuals residing in low- and moderate-income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires each appropriate federal bank regulatory agency, in connection with its examination of a depository institution, to assess such institution's record in assessing and meeting the credit needs of the community served by that institution, including low- and moderate-income neighborhoods. The regulatory agency's assessment of the institution's record is made available to the public. The assessment also is part of the Federal Reserve's consideration of applications to acquire, merge or consolidate with another banking institution or its holding company, to establish a new branch office that will accept deposits or to relocate an office. In the case of a bank holding company applying for approval to acquire a bank or other bank holding company, the Federal Reserve will assess the records of each subsidiary depository institution of the applicant bank holding company, and such records may be the basis for denying the application. Regions Bank received a satisfactory CRA rating in its most recent examination.

USA PATRIOT Act. A major focus of governmental policy relating to financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The USA PATRIOT Act of 2001 (the USA PATRIOT Act) broadened the application of anti-money laundering regulations to apply to additional types of financial institutions such as broker-dealers, investment advisors and insurance companies, and strengthened the ability of the U.S. Government to help prevent, detect and prosecute international money laundering and the financing of terrorism. The principal provisions of Title III of the USA PATRIOT Act require that regulated financial institutions, including state member banks: (i) establish an anti-money laundering program that includes training and audit components; (ii) comply with regulations regarding the verification of identity of any person seeking to open an account; (iii) take additional required precautions with non-U.S. owned accounts; and (iv) perform certain verification and certification of money laundering risk for their foreign correspondent banking relationships. Failure of a financial institution to comply with the USA PATRIOT Act's requirements could have serious legal and reputational consequences for the institution. Regions' banking, broker-dealer and insurance subsidiaries have augmented their systems and procedures to meet the requirements of these regulations and will continue to revise and update their policies, procedures and controls to reflect changes required by the USA PATRIOT Act and implementing regulations.

Payment of Dividends. Regions is a legal entity separate and distinct from its banking and other subsidiaries. The principal source of cash flow of Regions, including cash flow to pay dividends to its stockholders and principal and interest on any debt of Regions, is dividends from Regions Bank. There are statutory and regulatory limitations on the payment of dividends by Regions Bank to Regions, as well as by Regions to its stockholders.

As to the payment of dividends, Regions Bank is subject to the laws and regulations of the state of Alabama and to the regulations of the Federal Reserve.

If, in the opinion of a federal regulatory agency, an institution under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which, depending on the financial condition of the institution, could include the payment of dividends), such agency may require, after notice and hearing, that such institution cease and desist from such practice. The federal banking agencies have indicated that paying dividends that deplete an institution's capital base to an inadequate level would be an unsafe and unsound banking practice. Under the

Federal Deposit Insurance Corporation Act (FDIA), an insured institution may not pay any dividend if payment would cause it to become undercapitalized or if it already is undercapitalized. See Regulatory Remedies under the FDIA below. Moreover, the Federal Reserve and the FDIC have issued policy statements stating that bank holding companies and insured banks should generally pay dividends only out of current operating earnings.

At December 31, 2007, under dividend restrictions imposed under federal and state laws, Regions Bank, without obtaining governmental approvals, could declare aggregate dividends to Regions of approximately \$223.3 million.

The payment of dividends by Regions and Regions Bank may also be affected or limited by other factors, such as the requirement to maintain adequate capital above regulatory guidelines.

Capital Adequacy. Regions and Regions Bank are required to comply with the applicable capital adequacy standards established by the Federal Reserve. There are two basic measures of capital adequacy for bank holding companies that have been promulgated by the Federal Reserve: a risk-based measure and a leverage measure.

The risk-based capital standards are designed to make regulatory capital requirements more sensitive to differences in credit and market risk profiles among banks and financial holding companies, to account for off-balance-sheet exposure, and to minimize disincentives for holding liquid assets. Assets and off-balance-sheet items are assigned to broad risk categories, each with appropriate weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items.

The minimum guideline for the ratio of total capital (Total Capital) to risk-weighted assets (including certain off-balance-sheet items, such as standby letters of credit) is 8.0%. At least half of the Total Capital must be composed of common equity, undivided profits, minority interests in the equity accounts of consolidated subsidiaries (including, for bank holding companies but not banks, trust preferred securities), non-cumulative perpetual preferred stock and for bank holding companies (but not banks) a limited amount of cumulative perpetual preferred stock, less goodwill and certain other intangible assets (Tier 1 Capital). Tier 2 Capital may consist of, among other things, qualifying subordinated debt, mandatorily convertible debt securities, other preferred stock and trust preferred securities and a limited amount of the allowance for loan losses. Non-cumulative perpetual preferred stock, trust preferred securities and other so-called restricted core capital elements are currently limited to 25% of Tier 1 Capital. The minimum guideline for Tier 1 Capital is 4.0%. At December 31, 2007, Regions consolidated Tier 1 Capital ratio was 7.29% and its Total Capital ratio was 11.25%.

In addition, the Federal Reserve has established minimum leverage ratio guidelines for bank holding companies. These guidelines provide for a minimum ratio of Tier 1 Capital to average total assets, less goodwill and certain other intangible assets (the Leverage Ratio), of 3.0% for bank holding companies that meet certain specified criteria, including having the highest regulatory rating. All other bank holding companies generally are required to maintain a Leverage Ratio of at least 3.0%, plus an additional cushion of 100 to 200 basis points. Regions Leverage Ratio at December 31, 2007 was 6.66%. The guidelines also provide that bank holding companies experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Furthermore, the Federal Reserve has indicated that it will consider a tangible Tier 1 Capital leverage ratio (deducting all intangibles) and other indicators of capital strength in evaluating proposals for expansion or new activities.

A subsidiary bank is subject to substantially similar risk-based and leverage capital requirements as those applicable to Regions. Regions Bank was in compliance with applicable minimum capital requirements as of December 31, 2007. Neither Regions nor Regions Bank has been advised by any federal banking agency of any specific minimum capital ratio requirement applicable to it as of December 31, 2007.

In 2004, the Basel Committee on Banking Supervision published a new set of risk-based capital standards (Basel II) in order to update the original international capital standards that had been put in place in 1988 (Basel I). Basel II provides two approaches for setting capital standards for credit risk an internal ratings-based approach tailored to individual institutions circumstances and a standardized approach that bases risk weighting on external credit assessments to a much greater extent than permitted in the existing risk-based capital guidelines. Basel II also would set capital requirements for operational risk and refine the existing capital requirements for market risk exposures. The U.S. banking and thrift agencies are developing proposed revisions to their existing capital adequacy regulations and standards based on Basel II. In November 2007, the agencies adopted a definitive final rule for implementing Basel II in the United States that will apply only to internationally active banking organizations, or core banks (defined as those with consolidated total assets of \$250 billion or more or consolidated on-balance sheet foreign exposures of \$10 billion or more). The final rule will be effective as of April 1, 2008. Other U.S. banking organizations may elect to adopt the requirements of this rule (if they meet applicable qualification requirements), but they will not be required to comply. The rule also allows a banking organization s primary Federal supervisor to determine that application of the rule would not be appropriate in light of the bank s asset size, level of complexity, risk profile or scope of operations. In July 2007, the agencies agreed to issue a proposed rule that would provide non-core banks with the option to adopt an approach consistent with the standardized approach of Basel II. This new proposal, which is intended to be finalized before the core banks may start their first transition period year under Basel II, will replace the agencies earlier proposed amendments to existing risk-based capital guidelines to make them more risk sensitive (formerly referred to as the Basel I-A approach). Regions Bank is not required to comply with Basel II.

Failure to meet capital guidelines could subject a bank to a variety of enforcement remedies, including the termination of deposit insurance by the FDIC, and to certain restrictions on its business. See Regulatory Remedies under the FDIA below.

Support of Subsidiary Banks. Under Federal Reserve policy, Regions is expected to act as a source of financial strength to, and to commit resources to support, its subsidiary bank. This support may be required at times when, absent such Federal Reserve policy, Regions may not be inclined to provide it. In addition, any capital loans by a bank holding company to its subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a bank holding company s bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

Transactions with Affiliates. There are various legal restrictions on the extent to which Regions and its non-bank subsidiaries may borrow or otherwise obtain funding from Regions Bank. Under Sections 23A and 23B of the Federal Reserve Act and the Federal Reserve s Regulation W, Regions Bank (and its subsidiaries) may only engage in lending and other covered transactions with non-bank and non-savings bank affiliates to the following extent: (a) in the case of any single such affiliate, the aggregate amount of covered transactions of Regions Bank and its subsidiaries may not exceed 10% of the capital stock and surplus of Regions Bank; and (b) in the case of all affiliates, the aggregate amount of covered transactions of Regions Bank and its subsidiaries may not exceed 20% of the capital stock and surplus of Regions Bank. Covered transactions also are subject to certain collateralization requirements. Covered transactions are defined by statute to include a loan or extension of credit, as well as a purchase of securities issued by an affiliate, a purchase of assets (unless otherwise exempted by the Federal Reserve) from the affiliate, the acceptance of securities issued by the affiliate as collateral for a loan, and the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate.

Regulatory Remedies under the FDIA. The FDIA establishes a system of regulatory remedies to resolve the problems of undercapitalized institutions. The federal banking regulators have established five capital categories (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized) and must take certain mandatory supervisory actions, and are authorized to take other discretionary actions, with respect to institutions in the three undercapitalized categories, the severity of which will depend upon the capital category in which the institution is placed. Generally, subject to a narrow

exception, the FDIA requires the banking regulator to appoint a receiver or conservator for an institution that is critically undercapitalized. The federal banking agencies have specified by regulation the relevant capital level for each category.

Under the agencies' rules implementing the FDIA's remedy provisions, an institution that (1) has a Total Capital ratio of 10.0% or greater, a Tier 1 Capital ratio of 6.0% or greater, and a Leverage Ratio of 5.0% or greater and (2) is not subject to any written agreement, order, capital directive or regulatory remedy directive issued by the appropriate federal banking agency is deemed to be well capitalized. An institution with a Total Capital ratio of 8.0% or greater, a Tier 1 Capital ratio of 4.0% or greater, and a Leverage Ratio of 4.0% or greater is considered to be adequately capitalized. A depository institution that has a Total Capital ratio of less than 8.0%, a Tier 1 Capital ratio of less than 4.0%, or a Leverage Ratio of less than 4.0% is considered to be undercapitalized. An institution that has a Total Capital ratio of less than 6.0%, a Tier 1 Capital ratio of less than 3.0%, or a Leverage Ratio of less than 3.0% is considered to be significantly undercapitalized, and an institution that has a tangible equity capital to assets ratio equal to or less than 2.0% is deemed to be critically undercapitalized. For purposes of the regulation, the term tangible equity includes core capital elements counted as Tier 1 Capital for purposes of the risk-based capital standards plus the amount of outstanding cumulative perpetual preferred stock (including related surplus), minus all intangible assets with certain exceptions. A depository institution may be deemed to be in a capitalization category that is lower than is indicated by its actual capital position if it receives an unsatisfactory examination rating.

An institution that is categorized as undercapitalized, significantly undercapitalized or critically undercapitalized is required to submit an acceptable capital restoration plan to its appropriate federal banking agency. Under the FDIA, a bank holding company must guarantee that a subsidiary depository institution meets its capital restoration plan, subject to certain limitations. The obligation of a controlling bank holding company under the FDIA to fund a capital restoration plan is limited to the lesser of 5.0% of an undercapitalized subsidiary's assets or the amount required to meet regulatory capital requirements. An undercapitalized institution is also generally prohibited from increasing its average total assets, making acquisitions, establishing any branches or engaging in any new line of business, except in accordance with an accepted capital restoration plan or with the approval of the FDIC. In addition, the appropriate federal banking agency is given authority with respect to any undercapitalized depository institution to take any of the actions it is required to or may take with respect to a significantly undercapitalized institution as described below if it determines that those actions are necessary to carry out the purpose of the FDIA.

Institutions that are significantly undercapitalized or undercapitalized and either fail to submit an acceptable capital restoration plan or fail to implement an approved capital restoration plan may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets and cessation of receipt of deposits from correspondent banks. Critically undercapitalized depository institutions are subject to appointment of a receiver or conservator.

At December 31, 2007, Regions Bank had the requisite capital levels to qualify as well capitalized.

FDIC Insurance Assessments. Regions Bank pays deposit insurance premiums to the FDIC based on an assessment rate established by the FDIC. In 2006, the FDIC enacted various rules to implement the provisions of the Federal Deposit Insurance Reform Act of 2005 (the FDI Reform Act). Pursuant to the FDI Reform Act, in 2006 the FDIC merged the Bank Insurance Fund with the Savings Association Insurance Fund to create a newly named Deposit Insurance Fund (the DIF) that covers both banks and savings associations. Effective January 1, 2007, the FDIC revised the risk-based premium system under which the FDIC classifies institutions based on the factors described below and generally assesses higher rates on those institutions that tend to pose greater risks to the DIF. Effective May 8, 2007, the FDIC implemented guidelines that will be used to determine how adjustments of up to 0.50% will be made to the quarterly assessment rates of insured institutions that are categorized as large Risk Category I institutions.

For most banks and savings associations, including Regions Bank, FDIC rates will depend upon a combination of CAMELS component ratings and financial ratios. CAMELS ratings reflect the applicable bank regulatory agency's evaluation of the financial institution's capital, asset quality, management, earnings, liquidity and sensitivity to risk. For large banks and savings associations that have long-term debt issuer ratings, assessment rates will depend upon such ratings and CAMELS component ratings. For institutions such as Regions Bank, which are in the lowest risk category, assessment rates will vary initially from five (5) to seven (7) basis points per \$100 of insured deposits. The FDIA, as amended by the FDI Reform Act, requires the FDIC to set a ratio of deposit insurance reserves to estimated insured deposits, the designated reserve ratio (the DRR), for a particular year within a range of 1.15% to 1.50%. For 2008, the FDIC has set the DRR at 1.25%, which is unchanged from 2007 levels. Under the FDI Reform Act and the FDIC's revised premium assessment program, every FDIC-insured institution will pay some level of deposit insurance assessments regardless of the level of the DRR. We cannot predict whether, as a result of an adverse change in economic conditions or other reasons, the FDIC will be required in the future to increase deposit insurance assessments above current levels. The FDIC has also finalized rules providing for a one-time credit assessment to each eligible insured depository institution based on the assessment base of the institution on December 31, 1996. The credit may be applied against the institution's 2007 assessment, and for the three years thereafter the institution may apply the credit against up to 90% of its assessment. Regions Bank qualified for a credit of approximately \$110 million, of which \$34 million was applied in 2007, leaving a remaining balance at year end of \$76 million to be applied over the next two years, based on the current assessment rate.

In addition, the Deposit Insurance Funds Act of 1996 authorized the Financing Corporation (FICO) to impose assessments on DIF applicable deposits in order to service the interest on FICO's bond obligations from deposit insurance fund assessments. The amount assessed on individual institutions by FICO will be in addition to the amount, if any, paid for deposit insurance according to the FDIC's risk-related assessment rate schedules. FICO assessment rates may be adjusted quarterly to reflect a change in assessment base. The FICO annual assessment rate for the fourth quarter of 2007 was 1.14 cents per \$100 deposits and will remain the same for the first quarter of 2008. Regions Bank had a FICO assessment of \$10.7 million in FDIC deposit premiums in 2007.

Under the FDIA, insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Safety and Soundness Standards. The FDIA requires the federal bank regulatory agencies to prescribe standards, by regulations or guidelines, relating to internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, stock valuation and compensation, fees and benefits, and such other operational and managerial standards as the agencies deem appropriate. Guidelines adopted by the federal bank regulatory agencies establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal stockholder. In addition, the agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the prompt corrective action provisions of FDIA. See Regulatory Remedies under the FDIA above. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Depositor Preference. The Omnibus Budget Reconciliation Act of 1993 provides that deposits and certain claims for administrative expenses and employee compensation against an insured depository institution would be afforded a priority over other general unsecured claims against such an institution in the liquidation or other resolution of such an institution by any receiver.

Regulation of Morgan Keegan. As a registered investment adviser and broker-dealer, Morgan Keegan is subject to regulation and examination by the Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA), the New York Stock Exchange (NYSE) and other self-regulatory organizations (SROs), which may affect its manner of operation and profitability. Such regulations cover a broad range of subject matter. Rules and regulations for registered broker-dealers cover such issues as: capital requirements; sales and trading practices; use of client funds and securities; the conduct of directors, officers and employees; record-keeping and recording; supervisory procedures to prevent improper trading on material non-public information; qualification and licensing of sales personnel; and limitations on the extension of credit in securities transactions. Rules and regulations for registered investment advisers include limitations on the ability of investment advisers to charge performance-based or non-refundable fees to clients, record-keeping and reporting requirements, disclosure requirements, limitations on principal transactions between an adviser or its affiliates and advisory clients, and anti-fraud standards.

Morgan Keegan is subject to the net capital requirements set forth in Rule 15c3-1 of the Securities Exchange Act of 1934. The net capital requirements measure the general financial condition and liquidity of a broker-dealer by specifying a minimum level of net capital that a broker-dealer must maintain, and by requiring that a significant portion of its assets be kept liquid. If Morgan Keegan failed to maintain its minimum required net capital, it would be required to cease executing customer transactions until it came back into compliance. This could also result in Morgan Keegan losing its FINRA membership, its registration with the SEC or require a complete liquidation.

The SEC's risk assessment rules also apply to Morgan Keegan as a registered broker-dealer. These rules require broker-dealers to maintain and preserve records and certain information, describe risk management policies and procedures, and report on the financial condition of affiliates whose financial and securities activities are reasonably likely to have a material impact on the financial and operational condition of the broker-dealer. Certain material associated persons of Morgan Keegan, as defined in the risk assessment rules, may also be subject to SEC regulation.

In addition to federal registration, state securities commissions require the registration of certain broker-dealers and investment advisers. Morgan Keegan is registered as a broker-dealer with every state, the District of Columbia, and Puerto Rico. Morgan Keegan is registered as an investment adviser in the following states: Alabama, Arkansas, California, Connecticut, Delaware, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin and the District of Columbia.

Violations of federal, state and SRO rules or regulations may result in the revocation of broker-dealer or investment adviser licenses, imposition of censures or fines, the issuance of cease and desist orders, and the suspension or expulsion of officers and employees from the securities business firm. In addition, Morgan Keegan's business may be materially affected by new rules and regulations issued by the SEC or SROs as well as any changes in the enforcement of existing laws and rules that affect its securities business.

Regulation of Insurers and Insurance Brokers. Regions' operations in the areas of insurance brokerage and reinsurance of credit life insurance are subject to regulation and supervision by various state insurance regulatory authorities. Although the scope of regulation and form of supervision may vary from state to state, insurance laws generally grant broad discretion to regulatory authorities in adopting regulations and supervising

regulated activities. This supervision generally includes the licensing of insurance brokers and agents and the regulation of the handling of customer funds held in a fiduciary capacity. Certain of Regions' insurance company subsidiaries are subject to extensive regulatory supervision and to insurance laws and regulations requiring, among other things, maintenance of capital, record keeping, reporting and examinations.

Financial Privacy. The federal banking regulators have adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to non-affiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a non-affiliated third party. These regulations affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

Office of Foreign Assets Control Regulation. The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These are typically known as the OFAC rules based on their administration by the U.S. Treasury Department Office of Foreign Assets Control (OFAC). The OFAC-administered sanctions targeting countries take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on U.S. persons engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences.

Other. The United States Congress and state lawmaking bodies continue to consider a number of wide-ranging proposals for altering the structure, regulation and competitive relationships of the nation's financial institutions. It cannot be predicted whether or in what form further legislation may be adopted or the extent to which Regions' business may be affected thereby.

Competition

All aspects of Regions' business are highly competitive. Regions' subsidiaries compete with other financial institutions located in the states in which they operate and other adjoining states, as well as large banks in major financial centers and other financial intermediaries, such as savings and loan associations, credit unions, consumer finance companies, brokerage firms, insurance companies, investment companies, mutual funds, mortgage companies and financial service operations of major commercial and retail corporations.

Customers for banking services and other financial services offered by Regions' subsidiaries are generally influenced by convenience, quality of service, personal contacts, price of services and availability of products. Although Regions' position varies in different markets, Regions believes that its affiliates effectively compete with other financial services companies in their relevant market areas.

Employees

As of December 31, 2007, Regions and its subsidiaries had 33,161 employees.

Available Information

Regions maintains a website at www.regions.com. Regions makes available on its website free of charge its annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to those reports which are filed with or furnished to the SEC pursuant to Section 13(a) of the Securities Exchange Act of 1934. These documents are made available on Regions' website as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. Also available on the website are Regions' (i) Corporate Governance Principles, (ii) Code of Business Conduct and Ethics, (iii) Code of Ethics for Senior Financial Officers and (iv) the charters of its Nominating and Corporate Governance Committee, Audit Committee, Compensation Committee and Risk Committee. You may also request a copy of any of these documents, at no cost, by writing or telephoning Regions at the following address:

ATTENTION: Investor Relations

REGIONS FINANCIAL CORPORATION

1900 Fifth Avenue North

Birmingham, Alabama 35203

(205) 581-7890

Item 1A. Risk Factors

Making or continuing an investment in securities issued by Regions, including our common stock, involves certain risks that you should carefully consider. The risks and uncertainties described below are not the only risks that may have a material adverse effect on Regions. Additional risks and uncertainties also could adversely affect our business and our results. If any of the following risks actually occur, our business, financial condition or results of operations could be negatively affected, the market price for your securities could decline, and you could lose all or a part of your investment. Further, to the extent that any of the information contained in this Annual Report on Form 10-K constitutes forward-looking statements, the risk factors set forth below also are cautionary statements identifying important factors that could cause Regions' actual results to differ materially from those expressed in any forward-looking statements made by or on behalf of Regions.

Our success will be dependent on our ability to profitably manage our growth.

We expect to continue to expand our franchise through continued branch expansion. Our ability to manage our growth successfully will depend on our ability to maintain cost controls and asset quality while attracting additional loans and deposits on favorable terms. Although we have been able to achieve significant growth, our expansion strategy could have an adverse impact on our profitability in the short term due to the operating and other non-interest expenses associated with growth and branching. The opening of new branches requires an investment of funds that will not generate profits for a period of time, if at all.

We may need to raise additional capital in the future and such capital may not be available when needed or at all.

We may need to raise additional capital in the future to support growth or for other capital needs. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of our control, and our financial performance. We cannot assure you that such capital will be available to us on acceptable terms or at all. If we are unable to raise additional capital on acceptable terms when needed, our ability to further expand our operations through internal growth could be limited.

Rapid and significant changes in market interest rates may adversely affect our performance.

Most of our assets and liabilities are monetary in nature and subject us to significant risks from changes in interest rates. Our profitability depends to a large extent on our net interest income, and changes in interest rates can impact our net interest income as well as the valuation of our assets and liabilities.

Our current one-year interest rate sensitivity position is moderately asset sensitive, meaning that a gradual increase in interest rates over a twelve-month horizon does not have a pronounced impact on net interest income over a twelve-month forecast horizon. However, like most financial institutions, our results of operations are affected by changes in interest rates and our ability to manage interest rate risks. Changes in market interest rates, or changes in the relationships between short-term and long-term market interest rates, or changes in the relationships between different interest rate indices, can affect the interest rates charged on interest-earning assets differently than the interest rates paid on interest-bearing liabilities. This difference could result in an increase in interest expense relative to interest income, or a decrease in our interest rate spread. For a more detailed discussion of these risks and our management strategies for these risks, see Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operation and Item 7A Quantitative and Qualitative Disclosures about Market Risk of this Form 10-K.

Our net interest margin depends on many factors that are partly or completely out of our control, including competition, federal economic monetary and fiscal policies, and general economic conditions. Despite our strategies to manage interest rate risks, changes in interest rates can still have a material adverse impact on our profitability.

The performance of our investment portfolio is subject to fluctuations due to changes in interest rates and market conditions.

Changes in interest rates can negatively affect the performance of most of our investments. Interest rate volatility can reduce unrealized gains or create unrealized losses in our portfolios. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions, and other factors beyond our control. Fluctuations in interest rates affect our returns on, and the market value of, our investment securities.

The fair market value of the securities in our portfolio and the investment income from these securities also fluctuate depending on general economic and market conditions. In addition, actual net investment income and/or cash flows from investments that carry prepayment risk, such as mortgage-backed and other asset-backed securities, may differ from those anticipated at the time of investment as a result of interest rate fluctuations.

Changes in the policies of monetary authorities and other government action could adversely affect our profitability.

The results of operations of Regions are affected by credit policies of monetary authorities, particularly the Federal Reserve. The instruments of monetary policy employed by the Federal Reserve include open-market operations in U.S. government securities, changes in the discount rate or the federal funds rate on bank borrowings, and changes in reserve requirements against bank deposits. In view of changing conditions in the national economy and in the money markets, particularly in light of the continuing threat of terrorist attacks and the current military operations in the Middle East, we cannot predict possible future changes in interest rates, deposit levels, and loan demand on our business and earnings. Furthermore, the actions of the United States government and other governments in responding to such terrorist attacks or the military operations in the Middle East may result in currency fluctuations, exchange controls, market disruption and other adverse effects.

If we experience greater credit losses than anticipated, our earnings may be adversely affected.

As a lender, we are exposed to the risk that our customers will be unable to repay their loans according to their terms and that any collateral securing the payment of their loans may not be sufficient to assure repayment. Credit losses are inherent in the business of making loans and could have a material adverse effect on our operating results. Our credit risk with respect to our real estate and construction loan portfolio will relate principally to the creditworthiness of corporations and the value of the real estate serving as security for the repayment of loans. Our credit risk with respect to our commercial and consumer loan portfolio will relate principally to the general creditworthiness of businesses and individuals within our local markets.

We make various assumptions and judgments about the collectibility of our loan portfolio and provide an allowance for estimated credit losses based on a number of factors. We believe that our allowance for credit losses is adequate. However, if our assumptions or judgments are wrong, our allowance for credit losses may not be sufficient to cover our actual credit losses. We may have to increase our allowance in the future in response to the request of one of our primary banking regulators, to adjust for changing conditions and assumptions, or as a result of any deterioration in the quality of our loan portfolio. The actual amount of future provisions for credit losses cannot be determined at this time and may vary from the amounts of past provisions.

Further disruptions in the residential real estate market could adversely affect our performance.

As of December 31, 2007, residential homebuilder loans represented approximately 8% of our total loan portfolio. This portfolio came under stress in the fourth quarter of 2007 and, due to its weakening credit quality, we increased our loan loss provision and our total allowance for credit losses. In addition, we have implemented several measures to support the management of the residential homebuilder loan portfolio, including reassignment of experienced, key relationship managers to focus on work-out strategies for distressed borrowers.

While we expect that these actions will help mitigate the overall effects of the credit down cycle, the weakness in the homebuilder portfolio is expected to continue well into 2008. Accordingly, it is anticipated that our non-performing asset and charge-off levels will continue to increase in 2008.

Further, the effects of recent mortgage market challenges, combined with the ongoing decrease in residential real estate market prices and demand, could result in further price reductions in home values, adversely affecting the value of collateral securing the residential real estate and construction loans that we hold, as well as loan originations and gains on sale of real estate and construction loans.

Our profitability and liquidity may be affected by changes in economic conditions in the areas where our operations or loans are concentrated.

Regions' success depends to a certain extent on the general economic conditions of the geographic markets served by Regions Bank in the states of Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, South Carolina, Tennessee, Texas and Virginia. The local economic conditions in these areas have a significant impact on Regions Bank's commercial, real estate and construction loans, the ability of borrowers to repay these loans and the value of the collateral securing these loans. Adverse changes in the economic conditions of these geographical areas in general or any one or more of these local markets could negatively impact the financial results of Regions' banking operations and have a negative effect on its profitability.

Our ability to achieve the benefits expected from the merger with AmSouth Bancorporation.

Regions' ability to achieve the benefits of the merger with AmSouth depend 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 than expected revenues from continuing operations;

The assimilation of the combined companies' corporate cultures;

the continued growth of the markets that the acquired entities serve, consistent with recent historical experience;

difficulties related to the integration of the businesses.

Hurricanes and other weather-related events could cause a disruption in our operations or other consequences that could have an adverse impact on the results of operations.

A significant portion of our operations are located in the areas bordering the Gulf of Mexico and Atlantic Ocean, regions that are susceptible to hurricanes. Such weather events can cause disruption to our operations and could have a material adverse effect on our overall results of operations. We maintain hurricane insurance including coverage for lost profits and extra expense; however, there is no insurance against the loss of market that a catastrophic hurricane could produce. Further, a hurricane in any of our market areas could adversely impact the ability of borrowers to timely repay their loans and may adversely impact the value of any collateral held by us. Some of the states in which we operate are experiencing an extreme drought. The effects of the drought are difficult to predict, but could have an adverse effect on many areas of the economy.

We need to stay current on technological changes in order to compete and meet customer demands.

The financial services market, including banking services, is undergoing rapid changes with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and may enable financial institutions to reduce costs. Our future success may depend, in part, on our ability to use technology to provide products and services that provide convenience to customers and to create additional efficiencies in our operations.

Industry competition may have an adverse effect on our success.

Our profitability depends on our ability to compete successfully. We operate in a highly competitive environment. Certain of our competitors are larger and have more resources than we do. In our market areas, we face competition from other commercial banks, savings and loan associations, credit unions, internet banks, finance companies, mutual funds, insurance companies, brokerage and investment banking firms, and other financial intermediaries that offer similar services. Some of our non-bank competitors are not subject to the same extensive regulations that govern Regions or Regions Bank and may have greater flexibility in competing for business.

We are subject to extensive governmental regulation, which could have an adverse impact on our operations.

The banking industry is extensively regulated and supervised under both federal and state law. We are subject to the regulation and supervision of the Federal Reserve, the FDIC, and the Superintendent of Banking of the State of Alabama. These regulations are intended primarily to protect depositors, the public and the FDIC insurance fund, and not our shareholders. These regulations govern matters ranging from the regulation of certain debt obligations, changes in the control of bank holding companies and state-chartered banks, and the maintenance of adequate capital to the general business operations and financial condition of Regions Bank, including permissible types, amounts and terms of loans and investments, to the amount of reserves against deposits, restrictions on dividends, establishment of branch offices, and the maximum interest rate that may be charged by law. Additionally, certain subsidiaries of Regions and Regions Bank, such as Morgan Keegan, are subject to regulation, supervision and examination by other regulatory authorities, such as the SEC, FINRA and state securities and insurance regulators. We are subject to changes in federal and state law, as well as regulations and governmental policies, income tax laws and accounting principles. Regulations affecting banks and other financial institutions are undergoing continuous change, and the ultimate effect of such changes cannot be predicted. Regulations and laws may be modified at any time, and new legislation may be enacted that will affect us, Regions Bank and our subsidiaries. We cannot assure you that such modifications or new laws will not adversely affect us. Our regulatory position is discussed in greater detail under Item 1 Business Supervision and Regulation of this Form 10-K.

Future issuances of additional securities could result in dilution of your ownership.

We may determine from time to time to issue additional securities to raise additional capital, support growth, or to make acquisitions. Further, we may issue stock options or other stock grants to retain and motivate our employees. These issuances of our securities will dilute the ownership interests of our stockholders.

Anti-takeover laws and certain agreements and charter provisions may adversely affect share value.

Certain provisions of state and federal law and our certificate of incorporation may make it more difficult for someone to acquire control of us without our Board of Directors' approval. Under federal law, subject to certain exemptions, a person, entity or group must notify the federal banking agencies before acquiring 10% or more of the outstanding voting stock of a bank holding company, including our shares. Banking agencies review the acquisition to determine if it will result in a change of control. The banking agencies have 60 days to act on the notice, and take into account several factors, including the resources of the acquiror and the antitrust effects of the acquisition. There also are provisions in our certificate of incorporation that may be used to delay or block a takeover attempt. As a result, these statutory provisions and provisions in our certificate of incorporation could result in Regions being less attractive to a potential acquiror.

Securities issued by Regions, including our common stock, are not FDIC insured.

Securities issued by Regions, including our common stock, are not savings or deposit accounts or other obligations of any bank and are not insured by the FDIC, the DIF, or any other governmental agency or instrumentality, or any private insurer, and are subject to investment risk, including the possible loss of principal.

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

Regions' corporate headquarters occupy several floors of the main banking facility of Regions Bank, located at 1900 Fifth Avenue North, Birmingham, Alabama 35203.

Regions Bank, Regions' banking subsidiary, operates through almost 2,000 banking offices. Regions provides investment banking and brokerage services from over 400 offices of Morgan Keegan. At December 31, 2007, there were no significant encumbrances on the offices, equipment and other operational facilities owned by Regions and its subsidiaries.

See Item 1 - Business of this Form 10-K for a list of the states in which Regions Bank branches and Morgan Keegan's offices are located.

Item 3. *Legal Proceedings*

Reference is made to Note 23 - Commitments, Contingencies and Guarantees, to the consolidated financial statements under Item 8 of this Form 10-K.

In late 2007 and early 2008, Regions and certain of its affiliates were named in class-action lawsuits filed in the United States District Court for the Western District of Tennessee on behalf of investors who purchased shares of certain Regions Morgan Keegan Select Funds (the Funds). The complaints allege that the Funds and the defendants misrepresented or failed to disclose material facts relating to the activities of the Funds. No class has been certified and at this stage of the lawsuits, Regions cannot determine the probability of a material adverse result or reasonably estimate a range of potential exposures, if any. In addition, the Company has received requests for information from the SEC Staff regarding the matters subject to the litigation described above.

Regions and its affiliates are subject to litigation, including class-action litigation as discussed above, and claims arising in the ordinary course of business. Punitive damages are routinely claimed in these cases. Regions continues to be concerned about the general trend in litigation involving large damage awards against financial service company defendants. Regions evaluates these contingencies based on information currently available, including advice of counsel, and assessment of available insurance coverage. Although it is not possible to predict the ultimate resolution or financial liability with respect to these litigation contingencies, management is currently of the opinion that the outcome of pending and threatened litigation would not have a material effect on Regions' consolidated financial position or results of operations. However, it is possible that an adverse resolution of these matters may be material to Regions' consolidated results of operations.

Item 4. *Submission of Matters to a Vote of Security Holders*

None.

Executive Officers of the Registrant.

Information concerning the Executive Officers of Regions is set forth under Item 10 Directors, Executive Officers and Corporate Governance of this Form 10-K.

PART II

Item 5. Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Regions' common stock, par value \$.01 per share, is listed for trading on the New York Stock Exchange under the symbol RF. Quarterly high and low sales prices of and cash dividends declared on Regions' common stock are set forth in Table 24 Quarterly Results of Operations of Management's Discussion and Analysis, which is included in Item 7 of this Form 10-K. As of February 19, 2008, there were 84,710 holders of record of Regions' common stock (including participants in the Computershare Investment Plan for Regions Financial Corporation).

Restrictions on the ability of Regions Bank to transfer funds to Regions at December 31, 2007, are set forth in Note 13 Regulatory Capital Requirements and Restrictions to the consolidated financial statements, which are included in Item 8 of this Form 10-K. A discussion of certain limitations on the ability of Regions Bank to pay dividends to Regions and the ability of Regions to pay dividends on its common stock is set forth in Item 1 Business under the heading Supervision and Regulation Payment of Dividends of this Form 10-K.

The following table presents information regarding issuer purchases of equity securities during the fourth quarter of 2007.

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|--------------------------------------|--|---------------------------------------|--|--|
| October 1, 2007 - October 31, 2007 | 3,240,400 | \$ 26.53 | 3,240,400 | 23,602,300 |
| November 1, 2007 - November 30, 2007 | 530,000 | 26.17 | 530,000 | 23,072,300 |
| December 1, 2007 - December 31, 2007 | | | | 23,072,300 |
| Total | 3,770,400 | \$ 26.48 | 3,770,400 | 23,072,300 |

On January 18, 2007, Regions' Board of Directors assessed the repurchase authorization of Regions and authorized the repurchase of an additional 50 million shares of Regions' common stock through open market or privately negotiated transactions and announced the authorization of this repurchase. As indicated in the table above, approximately 23.1 million shares remain available for repurchase under the existing plan.

PERFORMANCE GRAPH

Set forth below is a graph comparing the yearly percentage change in the cumulative total return of Regions common stock against the cumulative total return of the S&P 500 Index and the S&P Banks Index for the past five years. This presentation assumes that the value of the investment in Regions common stock and in each index was \$100 and that all dividends were reinvested.

| | Period Ending | | | | | |
|-----------------|---------------|------------|------------|------------|------------|------------|
| | 12/31/2002 | 12/31/2003 | 12/31/2004 | 12/31/2005 | 12/31/2006 | 12/31/2007 |
| Regions | \$ 100.00 | \$ 115.62 | \$ 142.56 | \$ 142.60 | \$ 163.88 | \$ 108.47 |
| S&P 500 Index | 100.00 | 128.67 | 142.65 | 149.65 | 173.26 | 182.78 |
| S&P Banks Index | 100.00 | 130.78 | 150.32 | 152.66 | 176.53 | 136.49 |

Item 6. Selected Financial Data

The information required by Item 6 is set forth in Table 1 Financial Highlights of Management's Discussion and Analysis, which is included in Item 7 of this Form 10-K.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

INTRODUCTION

GENERAL

The following discussion and financial information is presented to aid in understanding Regions Financial Corporation's (Regions or the Company) financial position and results of operations. The emphasis of this discussion will be on the years 2007, 2006 and 2005; in addition, financial information for prior years will also be presented when appropriate. Certain amounts in prior year presentations have been reclassified to conform to the current year presentation, except as otherwise noted.

Regions' profitability, like that of many other financial institutions, is dependent on its ability to generate revenue from net interest income and non-interest income sources. Net interest income is the difference between the interest income Regions receives on interest-earning assets, such as loans and securities, and the interest expense Regions pays on interest-bearing liabilities, principally deposits and borrowings. Regions' net interest income is impacted by the size and mix of its balance sheet components and the interest rate spread between interest earned on its assets and interest paid on its liabilities. Non-interest income includes fees from service charges on deposit accounts, securities brokerage, investment banking and trust activities, mortgage servicing and secondary marketing, insurance activities and other customer services which Regions provides. Results of operations are also affected by the provision for loan losses and non-interest expenses such as salaries and employee benefits, occupancy and other operating expenses, including income taxes.

Economic conditions, competition, and the monetary and fiscal policies of the Federal government significantly affect most financial institutions, including Regions. Lending and deposit activities and fee income generation are influenced by levels of business spending and investment, consumer income, consumer spending and savings, capital market activities, and competition among financial institutions, as well as customer preferences, interest rate conditions and prevailing market rates on competing products in Regions' market areas.

Regions' business strategy has been and continues to be focused on providing a competitive mix of products and services, delivering quality customer service and maintaining a branch distribution network with offices in convenient locations. Regions delivers this business with the personal attention and feel of a community bank and with the service and product offerings of a large regional bank.

Acquisitions

The acquisitions of banks and other financial services companies have historically contributed significantly to Regions' growth. The acquisitions of other financial services companies have also allowed Regions to better diversify its revenue stream and to offer additional products and services to its customers. Regions, from time to time, evaluates potential bank and non-bank acquisition candidates.

During 2007, Regions acquired two financial services entities. On January 2, 2007, Regions Insurance Group, Inc., a subsidiary of Regions Financial Corporation, acquired certain assets of Miles & Finch, Inc., a multi-line insurance agency headquartered in Kokomo, Indiana, with annual revenues of approximately \$10 million, for a purchase price of \$21 million. On June 15, 2007, Morgan Keegan & Co., Inc., a subsidiary of Regions Financial Corporation, acquired Shattuck Hammond Partners LLC (Shattuck Hammond), an investment banking and financial advisory firm headquartered in New York, New York, with annual revenues of approximately \$28 million, for a purchase price of \$25 million.

Subsequent to December 31, 2007, on January 1, 2008, Regions Insurance Group, Inc. acquired certain assets of Barksdale Bonding and Insurance, Inc., a multi-line insurance agency headquartered in Jackson, Mississippi, with annual revenues of approximately \$13 million, for a purchase price of \$24 million.

On November 4, 2006, Regions merged with AmSouth Bancorporation (AmSouth), headquartered in Birmingham, Alabama. In the transaction, AmSouth was merged with and into Regions Financial Corporation. The combination with AmSouth added approximately \$57.9 billion of assets (including excess purchase price), \$34.6 billion of loans, net of unearned income, and \$37.5 billion of deposits (including divested deposits). This transaction was accounted for as a purchase of 100 percent of the voting interests of AmSouth by Regions and, accordingly, financial results for periods prior to November 4, 2006 have not been restated. AmSouth's assets and liabilities were recorded at estimated fair values and its results of operations were included in Regions' results beginning in November 2006. Note 2 Business Combinations and Assets Held for Sale provides a summary of AmSouth's balance sheet. Comparisons with prior periods are significantly impacted by the merger with AmSouth.

The Company completed the operational integration of AmSouth into Regions during 2007. As part of the integration process, Regions converted its mortgage, brokerage, trust, and payroll and benefits platforms, as well as its entire network of 1,965 branches to a common operating platform. Concurrent with the branch conversions, 160 branches in close proximity to one another were consolidated into the remaining branch system. The primary goal of the integration process was to ensure a smooth, seamless transition for Regions' customers while selecting the best products, systems and other back-office functions from both organizations. By nearly all accounts, branch conversions were well executed, having minimal negative impact to Regions' customer base. Also related to the merger, during the first quarter of 2007 Regions successfully divested 52 branches, which is discussed later in the Dispositions section of this report.

Regions estimates that it will incur slightly above \$700 million in one-time merger-related costs to bring the two companies together. Regions recorded \$184.4 million of such costs in excess purchase price during 2006. This amount was subsequently adjusted down by \$2.9 million in 2007. The majority of merger costs flowed directly through the income statement. These included \$350.9 million and \$88.7 million in merger expenses during 2007 and 2006, respectively. The remaining costs are anticipated to be recognized as merger expenses during the first two quarters of 2008.

Anticipated cost savings are an important driver of any merger transaction. Regions estimates that at least \$500 million of ongoing annual cost savings will result from the merger and expects to achieve the full cost savings run rate by mid-2008. Since the merger date, \$355.9 million of the total cost savings have been achieved, with \$344.5 million of that amount having been achieved during 2007. These savings were primarily recognized in areas such as personnel, occupancy and equipment, operations and technology, and corporate functions.

On July 1, 2004, Regions merged with Union Planters Corporation (Union Planters), which was headquartered in Memphis, Tennessee. The combination was accounted for as a purchase of Union Planters by Regions and accordingly, prior period financial statements have not been restated, except certain share and per share amounts related to the exchange of Regions' common stock.

Dispositions

During the first quarter of 2007, through sales to three separate buyers, Regions completed the divestiture of 52 former AmSouth branches having approximately \$2.7 billion in deposits and \$1.7 billion in loans. These divestitures were required in markets where the merger may have affected competition. The \$404.2 million premium received from the divestitures was recorded as a reduction to excess purchase price.

On March 30, 2007, Regions sold its wholly owned non-conforming mortgage origination subsidiary, EquiFirst Corporation (EquiFirst) for a sales price of approximately \$76 million. The business related to EquiFirst has been accounted for as discontinued operations and the results are presented separately on the consolidated statements of income for all periods presented. The sales price is subject to final resolution of closing date values of net assets sold, which is not yet completed. See Note 3 Discontinued Operations to the consolidated financial statements for further details.

Business Segments

Regions provides traditional commercial, retail and mortgage banking services, as well as other financial services in the fields of investment banking, asset management, trust, mutual funds, securities brokerage, insurance and other specialty financing. Regions carries out its strategies and derives its profitability from the following business segments:

General Banking/Treasury

Regions' primary business is providing traditional commercial, retail and mortgage banking services to its customers. Regions' banking subsidiary, Regions Bank, operates as an Alabama state-chartered bank with branch offices in Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, South Carolina, Tennessee, Texas and Virginia. The treasury function includes the Company's securities portfolio and other wholesale funding activities. In 2007, Regions' general banking and treasury operations contributed approximately \$1.4 billion to consolidated net income.

Investment Banking, Brokerage and Trust

Regions provides investment banking, brokerage and trust services in over 400 offices of Morgan Keegan & Company, Inc. (Morgan Keegan), a subsidiary of Regions and one of the largest investment firms based in the South. Morgan Keegan contributed \$165.9 million to consolidated net income in 2007. Its lines of business include private client retail brokerage services, fixed-income capital markets, equity capital markets, trust and asset management.

Insurance

Regions provides insurance-related services through Regions Insurance Group, Inc., a subsidiary of Regions and a full-line insurance brokerage firm. Regions Insurance Group is one of the 30 largest insurance brokers in the country. The insurance segment includes all business associated with commercial insurance and credit life products sold to consumer customers. Insurance activities contributed approximately \$18.2 million to consolidated net income in 2007.

See Note 22 Business Segment Information to the consolidated financial statements for further information on Regions' business segments.

Table 1 Financial Highlights

| | 2007 | 2006 | 2005 | 2004 | 2003 |
|--|---------------------------------------|---------------|---------------|---------------|---------------|
| | (In thousands, except per share data) | | | | |
| EARNINGS SUMMARY | | | | | |
| Interest income | \$ 8,074,663 | \$ 5,649,118 | \$ 4,271,145 | \$ 2,918,405 | \$ 2,193,773 |
| Interest expense | 3,676,297 | 2,340,816 | 1,489,756 | 842,651 | 744,532 |
| Net interest income | 4,398,366 | 3,308,302 | 2,781,389 | 2,075,754 | 1,449,241 |
| Provision for loan losses | 555,000 | 142,373 | 166,746 | 124,215 | 121,045 |
| Net interest income after provision for loan losses | 3,843,366 | 3,165,929 | 2,614,643 | 1,951,539 | 1,328,196 |
| Non-interest income | 2,855,835 | 2,029,720 | 1,686,820 | 1,484,230 | 1,203,311 |
| Non-interest expense | 4,660,351 | 3,204,028 | 2,942,895 | 2,315,548 | 1,679,561 |
| Income before income taxes from continuing operations | 2,038,850 | 1,991,621 | 1,358,568 | 1,120,221 | 851,946 |
| Income taxes | 645,687 | 619,100 | 395,861 | 330,478 | 235,885 |
| Income from continuing operations | 1,393,163 | 1,372,521 | 962,707 | 789,743 | 616,061 |
| (Loss) income from discontinued operations before income taxes | (217,387) | (32,606) | 63,527 | 55,361 | 59,626 |
| Income tax (benefit) expense | (75,319) | (13,230) | 25,690 | 21,339 | 23,846 |
| (Loss) income from discontinued operations | (142,068) | (19,376) | 37,837 | 34,022 | 35,780 |
| Net income | \$ 1,251,095 | \$ 1,353,145 | \$ 1,000,544 | \$ 823,765 | \$ 651,841 |
| Net income available to common shareholders | \$ 1,251,095 | \$ 1,353,145 | \$ 1,000,544 | \$ 817,745 | \$ 651,841 |
| Earnings per share from continuing operations basic | \$ 1.97 | \$ 2.74 | \$ 2.09 | \$ 2.13 | \$ 2.25 |
| Earnings per share from continuing operations diluted | 1.95 | 2.71 | 2.07 | 2.10 | 2.22 |
| Earnings per share basic | 1.77 | 2.70 | 2.17 | 2.22 | 2.38 |
| Earnings per share diluted | 1.76 | 2.67 | 2.15 | 2.19 | 2.35 |
| Return on average tangible stockholders equity | 15.82% | 22.86% | 18.80% | 18.97% | 20.01% |
| Return on average stockholders equity | 6.24 | 10.94 | 9.37 | 10.91 | 15.06 |
| Return on average total assets | 0.90 | 1.41 | 1.18 | 1.23 | 1.34 |
| BALANCE SHEET SUMMARY | | | | | |
| At year end | | | | | |
| Loans, net of unearned income | \$ 95,378,847 | \$ 94,550,602 | \$ 58,404,913 | \$ 57,526,954 | \$ 32,184,323 |
| Assets | 141,041,717 | 143,369,021 | 84,785,600 | 84,106,438 | 48,597,996 |
| Deposits | 94,774,968 | 101,227,969 | 60,378,367 | 58,667,023 | 32,732,535 |
| Long-term debt | 11,324,790 | 8,642,649 | 6,971,680 | 7,239,585 | 5,711,752 |
| Stockholders equity | 19,823,029 | 20,701,454 | 10,614,283 | 10,749,457 | 4,452,115 |
| Average balances | | | | | |
| Loans, net of unearned income | 94,372,061 | 64,765,653 | 58,002,167 | 44,667,472 | 31,455,173 |
| Assets | 138,756,619 | 95,800,277 | 85,096,467 | 66,838,148 | 48,476,392 |
| Deposits | 95,725,101 | 67,466,447 | 59,712,895 | 45,015,279 | 32,108,452 |
| Long-term debt | 9,697,823 | 6,855,601 | 7,175,075 | 6,519,193 | 5,493,097 |
| Stockholders equity | 20,036,459 | 12,368,632 | 10,677,831 | 7,548,207 | 4,328,618 |
| SELECTED RATIOS | | | | | |
| Average stockholders equity to average total assets | 14.44% | 12.91% | 12.55% | 11.29% | 8.93% |
| Allowance for credit losses as a percentage of loans, net of unearned income | 1.45 | 1.17 | 1.34 | 1.31 | 1.41 |
| COMMON STOCK DATA | | | | | |
| Cash dividends declared per share | \$ 1.46 | \$ 1.40 | \$ 1.36 | \$ 1.33 | \$ 1.00 |
| Stockholders equity per share | 28.58 | 28.36 | 23.26 | 23.06 | 16.25 |
| Market value at year end | 23.65 | 37.40 | 34.16 | 35.59 | 30.13 |
| Market price range: | | | | | |
| High | 38.17 | 39.15 | 35.54 | 35.97 | 37.90 |
| Low | 22.84 | 32.37 | 29.16 | 27.26 | 29.83 |

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-K

| | | | | | |
|---|---------|---------|---------|---------|---------|
| Total trading volume | 911,981 | 301,488 | 227,380 | 194,916 | 106,616 |
| Dividend yield at year end | 6.17% | 3.74% | 3.98% | 3.74% | 3.32% |
| Dividend payout ratio | 82.49 | 51.85 | 62.67 | 59.91 | 42.02 |
| Number of shareholders of record at year end (actual) | 85,060 | 84,877 | 72,140 | 77,715 | 49,740 |
| Weighted-average number of shares outstanding | | | | | |
| Basic | 707,981 | 501,681 | 461,171 | 368,656 | 274,212 |
| Diluted | 712,743 | 506,989 | 466,183 | 373,732 | 277,930 |

Note: Periods prior to November 4, 2006 do not include the effect of Regions' acquisition of AmSouth. Periods prior to July 1, 2004 do not include the effect of Regions' acquisition of Union Planters. See Note 2 Business Combinations and Assets Held for Sale to the consolidated financial statements for further discussion of the AmSouth acquisition.

2007 OVERVIEW

Regions reported net income from continuing operations of \$1.95 per diluted share in 2007. Not included in this amount, Regions incurred a \$217.4 million pre-tax loss related to EquiFirst resulting in an after-tax net loss for the year of \$142.1 million, which was accounted for as discontinued operations. Included in 2007 net income of \$1.3 billion was \$217.5 million in after-tax merger-related expenses (31 cents per diluted share). Net income from continuing operations was \$2.71 per diluted share in 2006, including a reduction of 12 cents per diluted share related to \$60.3 million in after-tax merger-related expenses. Excluding merger-related charges, annual earnings per share from continuing operations decreased 20 percent to \$2.26 in 2007 from \$2.83 in 2006. Primary drivers of 2007 net income from continuing operations, other than a full-year impact of the AmSouth merger, were Regions' solid fee income, record performance at Morgan Keegan, and overall expense control, including merger cost savings. However, certain valuation-related and other charges during the fourth quarter of 2007, as well as a higher provision for loan losses resulting from the rapid deterioration of credit quality, contributed to lower earnings per share for 2007. See Table 2 GAAP to Non-GAAP Reconciliation for additional details.

Return on average stockholders' equity for the year ended December 31, 2007 was 6.24 percent, compared to 10.94 percent for the same period in 2006. Return on average assets for the year ended December 31, 2007 was 0.90 percent, compared to 1.41 percent for the same period in 2006. Return on average tangible stockholders' equity was 15.82 percent for the year ended December 31, 2007, compared to 22.86 percent for the year ended December 31, 2006 (20.43 percent and 24.85 percent, respectively, excluding merger charges). See Table 2 GAAP to Non-GAAP Reconciliation for additional details and Table 1 Financial Highlights for additional ratios.

Net interest income was \$4.4 billion in 2007 compared to \$3.3 billion in 2006. The increase was driven by a larger balance sheet for the full year, resulting from the merger with AmSouth in late 2006. However, negatively impacting net interest income was a lower net interest margin, which declined to 3.79 percent during 2007 compared to 4.17 percent in 2006. Primary drivers of the reduced net interest margin include the impact of integrating AmSouth's balance sheet into Regions' balance sheet, a decline in low-cost deposit balances, and the negative effects of a lower tax-equivalent adjustment resulting from the first quarter 2007 adoption of Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). See Note 1 Summary of Significant Accounting Policies to the consolidated financial statements for further details regarding the adoption of FIN 48.

Net charge-offs totaled \$270.5 million, or 0.29 percent of average loans, in 2007 compared to 0.22 percent in 2006. The increased loss rate resulted from deteriorating economic conditions during 2007, especially as related to the housing sector. Non-performing assets increased \$484.9 million between December 31, 2006 and December 31, 2007 to \$864.1 million, primarily due to weakness in the Company's residential homebuilder portfolio, which began experiencing significant pressure toward the end of 2007. This pressure was due to a combination of declining residential demand and resulting price and collateral value declines in certain of the Company's markets, particularly areas of Florida and Atlanta, Georgia. Also affecting non-performing assets to a lesser extent was the impact of combining the credit policies and procedures of legacy Regions and AmSouth to form a single credit culture. Regions sold approximately \$74.2 million of non-performing loans during the second half of 2007, which somewhat offset the net increase in non-performing assets.

The provision for loan losses is used to maintain the allowance for loan losses at a level that, in management's judgment, is adequate to cover losses inherent in the loan portfolio as of the balance sheet date. During 2007, the provision for loan losses from continuing operations increased to \$555.0 million compared to \$142.4 million in 2006. Two primary factors led to the increase. Most notably, 2006 included just two months of provision for loan losses added to the portfolio as a result of the November 2006 merger with AmSouth, while the provision recorded in 2007 reflected the results of the newly merged Regions for the full year. Additionally, the provision rose due to an increase in management's estimate of inherent losses in its residential homebuilder portfolio, as well as generally weaker conditions in the broader economy.

As a result of the general economic environment and the deteriorating credit conditions described above, which accelerated late in 2007, Regions increased its allowance for credit losses through a loan loss provision from continuing operations of \$555.0 million and a provision for unfunded commitments of \$6.4 million, \$358.0 million and \$2.4 million of which, respectively, were expensed in the fourth quarter. These provisions drove the allowance for credit losses up to 1.45 percent of total loans, net of unearned income, at December 31, 2007, as compared to 1.17 percent at December 31, 2006.

Non-interest income from continuing operations (excluding securities gains/losses) totaled \$2.9 billion or 39 percent of total revenue (fully taxable-equivalent basis) in 2007 compared to \$2.0 billion or 37 percent in 2006, and continued to reflect Regions' diversified revenue stream. Non-interest income increased due to the full-year inclusion of former AmSouth operations in 2007, compared with approximately two months of combined results in 2006. Service charges on deposit accounts increased in 2007 due to increases in the volume of non-sufficient funds (NSF) fees collected and higher interchange income, as the number of customer accounts rose through the addition of the AmSouth customer base. A change in the pricing structure of NSF service charges also contributed to the year-over-year increase. In addition to AmSouth-related increases, brokerage and investment banking revenues (mainly from Morgan Keegan's business lines) were also strong during the year, largely attributable to higher private client activity and solid investment banking transaction flow. These increases were partially offset by a decline in mortgage income, including residential mortgage servicing fees and gains on sales of mortgage loans, during 2007.

Non-interest expense from continuing operations totaled \$4.7 billion in 2007 compared to \$3.2 billion in 2006, impacted by merger charges totaling \$350.9 million and \$88.7 million, respectively. Merger costs consist mainly of personnel expenses, the cost of integrating AmSouth systems with those of Regions and the consolidation of branches. Excluding these merger-related expenses, non-interest expense increased \$1.2 billion or 38 percent in 2007 compared to 2006, with the largest driver being the full-year inclusion of the AmSouth expense base in 2007. See Table 8 Non-Interest Expense (including Non-GAAP reconciliation) for further details. As an offset to merger costs, non-interest expenses were positively affected by the realization of merger cost savings, which continued to build throughout 2007. These savings exceeded original estimates and totaled \$344.5 million for the year. Cost savings are expected to increase through the second quarter of 2008, at which time a total annual savings run-rate in excess of \$500 million should be achieved. Merger charges and an overall higher level of expense related to the larger size of post-merger Regions notwithstanding, non-interest expenses were impacted most significantly by higher salaries and employee benefit costs, driven by merit increases, and an increase in core deposit intangible amortization expense resulting from the AmSouth acquisition. In addition, Regions' commission-driven revenues such as brokerage, investment banking and mortgage did, and will continue to, impact non-interest expense levels in direct correlation to revenue trends.

The balance sheet decreased slightly in size in 2007 on a period-end basis, due largely to the impact of merger-related loan and deposit divestitures and a smaller investment securities portfolio. In addition, demand for residential-related real estate lending softened during the year, primarily a result of the challenging economic backdrop and industry-wide tightening of credit. Total loans were relatively unchanged comparing December 31, 2007 to the prior year end, while deposit divestitures totaling \$2.7 billion contributed to the year-over-year decline in total deposits. Beyond the divestitures, changes in customers' investment preferences fueled by changing interest rates and modestly improving equity markets early in the year further pressured deposit balances, which, excluding divested deposits, declined four percent overall in 2007 versus year end 2006.

Table 2 GAAP to Non-GAAP Reconciliation presents computations of earnings and certain other financial measures excluding discontinued operations and merger charges (non-GAAP). Merger charges are included in financial results presented in accordance with generally accepted accounting principles (GAAP). Regions believes the exclusion of merger charges in expressing earnings and certain other financial measures, including earnings per share from continuing operations, excluding merger charges and return on average tangible equity, excluding discontinued operations and merger charges, provides a meaningful base for period-to-period and company-to-company comparisons, which management believes will assist investors in analyzing the operating results of the Company and predicting future performance. These non-GAAP financial measures are also used by management to assess the performance of Regions business, because management does not consider merger charges to be relevant to ongoing operating results. Management and the Board of Directors utilize these non-GAAP financial measures for the following purposes:

Preparation of Regions operating budgets

Calculation of performance-based annual incentive bonuses for certain executives

Calculation of performance-based multi-year incentive bonuses for certain executives

Monthly financial performance reporting, including segment reporting

Monthly close-out flash reporting of consolidated results (management only)

Presentations to investors of Company performance

Regions believes that presenting these non-GAAP financial measures will permit investors to assess the performance of the Company on the same basis as that applied by management and the Board of Directors.

Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied and are not audited. To mitigate these limitations, Regions has policies in place to address expenses that qualify as merger charges and procedures in place to approve and segregate merger charges from other normal operating expenses to ensure that the Company's operating results are properly reflected for period-to-period comparisons. Although these non-GAAP financial measures are frequently used by stakeholders in the evaluation of a company, they have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analyses of results as reported under GAAP. In particular, a measure of earnings that excludes merger charges does not represent the amount that effectively accrues directly to stockholders (i.e., merger charges are a reduction to earnings and stockholders' equity).

See Table 2 GAAP to Non-GAAP Reconciliation below for computations of earnings and certain other GAAP financial measures and the corresponding reconciliation to non-GAAP financial measures, which exclude discontinued operations and merger charges for the periods presented.

Table 2 GAAP to Non-GAAP Reconciliation

| | | Year Ended December 31 | | |
|--|-----|------------------------|---------------|---------------|
| | | 2007 | 2006 | 2005 |
| INCOME | | | | |
| Income from continuing operations (GAAP) | | \$ 1,393,163 | \$ 1,372,521 | \$ 962,707 |
| (Loss) income from discontinued operations, net of tax (GAAP) | | (142,068) | (19,376) | 37,837 |
| Net income (GAAP) | A | \$ 1,251,095 | \$ 1,353,145 | \$ 1,000,544 |
| Income from continuing operations (GAAP) | | \$ 1,393,163 | \$ 1,372,521 | \$ 962,707 |
| Merger-related charges, pre-tax | | | | |
| Salaries and employee benefits | | 158,613 | 65,693 | 73,556 |
| Net occupancy expense | | 33,834 | 3,473 | 5,053 |
| Furniture and equipment expense | | 4,856 | 427 | 536 |
| Other | | 153,564 | 19,066 | 89,636 |
| Total merger-related charges, pre-tax | | 350,867 | 88,659 | 168,781 |
| Merger-related charges, net of tax | | 217,537 | 60,320 | 109,688 |
| Income excluding discontinued operations and merger charges (non-GAAP) | B | \$ 1,610,700 | \$ 1,432,841 | \$ 1,072,395 |
| Weighted-average diluted shares | C | 712,743 | 506,989 | 466,183 |
| Earnings per share diluted (GAAP) | A/C | \$ 1.76 | \$ 2.67 | \$ 2.15 |
| Earnings per share, excluding discontinued operations and merger charges diluted (non-GAAP) | B/C | \$ 2.26 | \$ 2.83 | \$ 2.30 |
| RETURN ON AVERAGE TANGIBLE EQUITY | | | | |
| Average equity (GAAP) | D | \$ 20,036,459 | \$ 12,368,632 | \$ 10,677,831 |
| Average intangible assets (GAAP) | | 12,130,417 | 6,449,657 | 5,356,932 |
| Average tangible equity | E | \$ 7,906,042 | \$ 5,918,975 | \$ 5,320,899 |
| Average equity, excluding discontinued operations | F | \$ 20,013,170 | \$ 12,215,207 | \$ 10,539,365 |
| Average intangible assets, excluding discontinued operations | | 12,130,417 | 6,449,657 | 5,356,932 |
| Average tangible equity, excluding discontinued operations | G | \$ 7,882,753 | \$ 5,765,550 | \$ 5,182,433 |
| Return on average tangible equity | A/E | 15.82% | 22.86% | 18.80% |
| Return on average tangible equity, ex. discontinued operations and merger charges (non-GAAP) | B/G | 20.43% | 24.85% | 20.69% |

CRITICAL ACCOUNTING POLICIES

In preparing financial information, management is required to make significant estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses for the periods shown. The accounting principles followed by Regions and the methods of applying these principles conform with accounting principles generally accepted in the U.S. and general banking practices. Estimates and assumptions most significant to Regions are related primarily to the allowance for credit losses, intangible assets (excess purchase price and other identifiable intangible assets), mortgage servicing rights and income taxes, and are summarized in the following discussion and in the notes to the consolidated financial statements.

Allowance for Credit Losses

The allowance for credit losses (allowance) consists of the allowance for loan losses and the reserve for unfunded credit commitments. Management evaluates the adequacy of the allowance based on the total of these two components. Determining the appropriate level of the allowance is one of the most critical and complex accounting estimates for any financial institution. Accounting guidance requires Regions to make a number of estimates related to the level of credit losses inherent in the portfolio at year end. A full discussion of these estimates and other factors can be found in the Allowance for Credit Losses section within the discussion of credit risk, found in a later section of this report.

The allowance is sensitive to a variety of internal factors, such as portfolio performance and assigned risk ratings, and external factors, such as interest rates and the general health of the economy. Management reviews scenarios having different assumptions for variables that could result in increases or decreases in probable inherent credit losses, which may materially impact Regions estimate of the allowance and results of operations.

Management s estimate of the allowance for commercial products, which includes commercial, real estate construction and real estate mortgages (except residential real estate mortgages and home equity lending), could be affected by risk rating upgrades or downgrades as a result of fluctuations in the general economy, developments within a particular industry, or changes in an individual credit due to factors particular to that credit, such as competition, management or business performance. A reasonably possible scenario would be an estimated 10 percent migration of lower risk-related pass credits to criticized status, which could increase estimated inherent losses by approximately \$101 million. A 10 percent reduction in the level of criticized credits is also a reasonably possible scenario, which would result in an approximate \$29 million decrease in estimated inherent losses.

For residential real estate mortgages, home equity lending and other consumer-related loans, individual products are reviewed on a group basis or in loan pools (e.g., residential real estate mortgage pool). The total of all residential loans, including residential real estate mortgages and home equity lending, represents approximately 34 percent of total loans. Losses can be affected by such factors as collateral value, loss severity, the economy and other uncontrollable factors. A 10-basis-point increase or decrease in the estimated loss rates on these residential loans would change estimated inherent losses by approximately \$32 million. The loss analysis related to consumer loans includes reasonably possible scenarios with estimated loss rates increasing or decreasing by 25 basis points, which would increase or decrease the related estimated inherent losses by approximately \$15 million, respectively.

Additionally, the estimate of the allowance for credit losses for the entire portfolio may change due to modifications in the mix and level of loan balances outstanding and general economic conditions, as evidenced by changes in interest rates, unemployment or employment rates, bankruptcy filings, used car prices, real estate demand and values, and the effects of weather and natural disasters such as droughts and hurricanes. While no one factor is dominant, each has the ability to result in actual loan losses that could differ materially from originally estimated amounts.

The pro forma inherent loss analysis presented above demonstrates the sensitivity of the allowance to key assumptions. This sensitivity analysis does not reflect an expected outcome.

Intangible Assets

Regions' intangible assets consist primarily of excess of cost over the fair value of net assets of acquired businesses (excess purchase price) and other identifiable intangible assets (primarily core deposit intangibles). Regions' excess purchase price is tested for impairment annually, or more often if events or circumstances indicate impairment may exist. Adverse changes in the economic environment, declining operations of the business unit, or other factors could result in a decline in implied fair value of excess purchase price. If the implied fair value is less than the carrying amount, a loss would be recognized to reduce the carrying amount to implied fair value. These changes or factors, when they occur, could be material to Regions' operating results for any particular reporting period; the potential impact cannot be reasonably estimated.

Other identifiable intangible assets, primarily core deposit intangibles, are reviewed at least annually for events or circumstances which could impact the recoverability of the intangible asset, such as loss of core deposits, increased competition or adverse changes in the economy. To the extent an other identifiable intangible asset is deemed unrecoverable, an impairment loss would be recorded to reduce the carrying amount. These events or circumstances, when they occur, could be material to Regions' operating results for any particular reporting period; the potential impact cannot be reasonably estimated.

Mortgage Servicing Rights

For purposes of evaluating mortgage servicing impairment, Regions must estimate the fair value of its mortgage servicing rights (MSRs). MSRs do not trade in an active market with readily observable market prices. Although sales of MSRs do occur, the exact terms and conditions of sales may not be readily available. Specific characteristics of the underlying loans greatly impact the value of the related MSRs. As a result, Regions stratifies its mortgage servicing portfolio on the basis of certain risk characteristics, including loan type and contractual note rate, and values its MSRs using discounted cash flow modeling techniques. These techniques require management to make estimates regarding future net servicing cash flows, taking into consideration historical and forecasted mortgage loan prepayment rates and discount rates. Changes in interest rates, prepayment speeds or other factors could result in impairment of the servicing asset and a charge against earnings. Based on a hypothetical sensitivity analysis, Regions estimates that a reduction in primary mortgage market rates of 25 basis points and 50 basis points would reduce the December 31, 2007 fair value of MSRs by approximately 10 percent (\$34 million) and 22 percent (\$74 million), respectively. Conversely, 25-basis-point and 50-basis-point increases in these rates would increase the December 31, 2007 fair value of MSRs by approximately eight percent (\$28 million) and 15 percent (\$50 million), respectively.

The pro forma fair value analysis presented above demonstrates the sensitivity of fair values to hypothetical changes in primary mortgage rates. This sensitivity analysis does not reflect an expected outcome.

Income Taxes

Accrued taxes represent the estimated amount payable to or receivable from taxing jurisdictions, either currently or in the future, and are reported, on a net basis, as a component of other liabilities (as Regions is in a net payable position) in the consolidated balance sheets. The calculation of Regions' income tax expense is complex and requires the use of many estimates and judgments in its determination.

Management's determination of the realization of the net deferred tax asset is based upon management's judgment of various future events and uncertainties, including the timing and amount of future income earned by certain subsidiaries and the implementation of various tax plans to maximize realization of the deferred tax asset. Management believes that the subsidiaries will generate sufficient operating earnings to realize the deferred tax benefits.

From time to time, for certain business plans enacted by Regions, management bases the estimates of related tax liabilities on its belief that future events will validate management's current assumptions regarding the ultimate outcome of tax-related exposures. While Regions has obtained the opinion of advisors that the

anticipated tax treatment of these transactions should prevail and has assessed the relative merits and risks of the appropriate tax treatment, examination of Regions' income tax returns, changes in tax law and regulatory guidance may impact the tax treatment of these transactions and resulting provisions for income taxes. For example, as a result of normal examinations of Regions' income tax returns, Regions has received notices of proposed adjustments relating to taxes due for certain years. Regions believes that adequate provisions for income taxes have been recorded and intends to vigorously contest the proposed adjustments. To the extent, however, that final resolution of the proposed adjustments results in significantly different conclusions from Regions' current assessment of the proposed adjustments, Regions' effective tax rate in any given financial reporting period may be materially different from its current effective tax rate.

Regions adopted FIN 48 as of January 1, 2007. See Note 1 Summary of Significant Accounting Policies to the consolidated financial statements for further details.

OPERATING RESULTS

GENERAL

Net income totaled \$1.3 billion in 2007, an eight percent decrease from 2006 net income. Net income from continuing operations, which excludes the operations of EquiFirst, increased two percent to \$1.4 billion in 2007. After-tax merger-related expenses of approximately \$217.5 million and \$60.3 million were incurred during 2007 and 2006, respectively. Excluding the impact of merger-related charges, earnings from continuing operations were \$1.6 billion in 2007 compared to \$1.4 billion in 2006.

NET INTEREST INCOME AND MARGIN

Net interest income (interest income less interest expense) is Regions' principal source of income and is one of the most important elements of Regions' ability to meet its overall performance goals. Net interest income from continuing operations increased 33 percent to \$4.4 billion in 2007 from \$3.3 billion in 2006. The increase is primarily related to a larger average earning asset base due to the AmSouth merger.

Regions measures its ability to produce net interest income using the net interest margin ratio, which is net interest income (on a fully taxable-equivalent basis) as a percentage of average interest-earning assets. The net interest margin is presented on a fully taxable-equivalent basis to consistently reflect income from taxable and tax-exempt loans and securities. The net interest margin decreased from 4.17 percent in 2006 to 3.79 percent in 2007, largely a result of combining Regions' balance sheet with that of the former AmSouth. Pre-merger AmSouth's net interest margin was lower than that of pre-merger Regions. Other than the merger, changes in the net interest margin during the year occurred primarily due to a decline in low-cost deposits, a narrowing interest rate spread a result of changing market interest rates and their affect on the pricing and repricing of Regions' interest-earning assets and interest-bearing liabilities, branch divestitures, and a large tax deposit made with the Internal Revenue Service (IRS). Although the tax deposit lowered the net interest margin, it was accretive to net income. Also, a lower tax-equivalent adjustment, resulting from the January 1, 2007 adoption of FIN 48 relating to accounting for uncertain tax positions, contributed to year-over-year margin compression. See Note 1 Summary of Significant Accounting Policies to the consolidated financial statements for further details of the adoption of FIN 48.

Table 3 Consolidated Average Daily Balances and Yield/Rate Analysis Including Discontinued Operations presents a detail of net interest income, on a fully taxable-equivalent basis, and the net interest margin.

Table 3 Consolidated Average Daily Balances and Yield/Rate Analysis Including Discontinued Operations

| | 2007 | | | 2006 | | | 2005 | | |
|--|--------------------|--------------------|----------------|--------------------|--------------------|----------------|--------------------|--------------------|----------------|
| | Average Balance | Income/ Expense | Yield/ Rate | Average Balance | Income/ Expense | Yield/ Rate | Average Balance | Income/ Expense | Yield/ Rate |
| (Dollars in thousands; yields on taxable-equivalent basis) | | | | | | | | | |
| Assets | | | | | | | | | |
| Interest-earning assets: | | | | | | | | | |
| Interest-bearing deposits in other banks | \$ 50,634 | \$ 2,687 | 5.31% | \$ 64,766 | \$ 2,900 | 4.48% | \$ 81,575 | \$ 1,905 | 2.34% |
| Federal funds sold and securities purchased under agreements to resell | 1,105,543 | 68,721 | 6.22 | 961,127 | 51,445 | 5.35 | 615,222 | 19,301 | 3.14 |
| Trading account assets | 1,357,016 | 54,279 | 4.00 | 1,112,239 | 55,741 | 5.01 | 829,546 | 38,320 | 4.62 |
| Securities: | | | | | | | | | |
| Taxable | 16,981,646 | 856,043 | 5.04 | 12,638,833 | 608,171 | 4.81 | 11,660,508 | 500,666 | 4.29 |
| Tax-exempt | 736,762 | 62,751 | 8.52 | 470,003 | 50,961 | 10.84 | 499,666 | 43,862 | 8.78 |
| Loans held for sale | 1,538,813 | 110,950 | 7.21 | 2,286,604 | 176,672 | 7.73 | 2,162,767 | 149,167 | 6.90 |
| Loans held for sale divestitures | 283,697 | 21,521 | 7.59 | 262,884 | 20,087 | 7.64 | | | |
| Margin receivables | 537,507 | 35,813 | 6.66 | 546,755 | 37,541 | 6.87 | 533,742 | 29,173 | 5.47 |
| Loans, net of unearned income(1)(2) | 94,372,061 | 6,900,007 | 7.31 | 64,765,653 | 4,805,931 | 7.42 | 58,002,167 | 3,613,434 | 6.23 |
| Total interest-earning assets | 116,963,679 | 8,112,772 | 6.94 | 83,108,864 | 5,809,449 | 6.99 | 74,385,193 | 4,395,828 | 5.91 |
| Allowance for loan losses | (1,063,011) | | | (833,691) | | | (765,853) | | |
| Cash and due from banks | 2,848,590 | | | 2,153,838 | | | 1,961,894 | | |
| Other non-earning assets | 20,007,361 | | | 11,371,266 | | | 9,515,233 | | |
| | \$ 138,756,619 | | | \$ 95,800,277 | | | \$ 85,096,467 | | |
| Liabilities and Stockholders | | | | | | | | | |
| Equity | | | | | | | | | |
| Interest-bearing liabilities: | | | | | | | | | |
| Savings accounts | \$ 3,797,413 | 10,879 | 0.29 | \$ 3,205,123 | 12,356 | 0.39 | \$ 2,926,512 | 7,992 | 0.27 |
| Interest-bearing transaction accounts | 15,553,355 | 311,672 | 2.00 | 10,664,995 | 168,320 | 1.58 | 8,745,609 | 108,050 | 1.24 |
| Money market accounts | 19,455,402 | 629,187 | 3.23 | 11,442,827 | 325,398 | 2.84 | 13,171,672 | 194,381 | 1.48 |
| Time deposits | 29,862,940 | 1,352,093 | 4.53 | 23,026,643 | 944,881 | 4.10 | 20,649,909 | 628,680 | 3.04 |
| Foreign deposits | 7,679,264 | 347,961 | 4.53 | 4,795,623 | 217,238 | 4.53 | 2,062,376 | 65,624 | 3.18 |
| Interest-bearing deposits divestitures | 374,179 | 12,091 | 3.23 | 365,642 | 11,974 | 3.27 | | | |
| Total interest-bearing deposits | 76,722,553 | 2,663,883 | 3.47 | 53,500,853 | 1,680,167 | 3.14 | 47,556,078 | 1,004,727 | 2.11 |
| Federal funds purchased and securities sold under agreements to repurchase | 8,080,179 | 377,595 | 4.67 | 5,162,196 | 233,208 | 4.52 | 4,462,774 | 130,666 | 2.93 |
| Other short-term borrowings | 1,901,897 | 81,872 | 4.30 | 1,089,223 | 42,289 | 3.88 | 1,054,803 | 34,150 | 3.24 |
| Long-term borrowings | 9,697,823 | 552,947 | 5.70 | 6,855,601 | 385,152 | 5.62 | 7,175,075 | 320,213 | 4.46 |
| Total interest-bearing liabilities | 96,402,452 | 3,676,297 | 3.81 | 66,607,873 | 2,340,816 | 3.51 | 60,248,730 | 1,489,756 | 2.47 |
| Net interest spread | | | 3.13 | | | 3.48 | | | 3.44 |
| Non-interest-bearing deposits | 19,002,548 | | | 13,965,594 | | | 12,156,817 | | |
| Other liabilities | 3,315,160 | | | 2,858,178 | | | 2,013,089 | | |
| Stockholders equity | 20,036,459 | | | 12,368,632 | | | 10,677,831 | | |
| | \$ 138,756,619 | | | \$ 95,800,277 | | | \$ 85,096,467 | | |
| Net interest income/margin on a taxable-equivalent basis(3) | | \$ 4,436,475 | 3.79% | | \$ 3,468,633 | 4.17% | | \$ 2,906,072 | 3.91% |

Notes:

- (1) Loans, net of unearned income include non-accrual loans for all periods presented.
- (2) Interest income includes loan fees of \$78,568,000, \$81,460,000 and \$77,957,000 for the years ended December 31, 2007, 2006 and 2005, respectively.
- (3) The computation of taxable-equivalent net interest income is based on the statutory federal income tax rate of 35%, adjusted for applicable state income taxes net of the related federal tax benefit.

Table 4 Volume and Yield/Rate Variances

| | 2007 Compared to 2006 Change Due to | | | 2006 Compared to 2005 Change Due to | | |
|--|--|---------------------|-----------------------------------|--|-------------------|-------------------|
| | Volume | Yield/ Rate | Net (Taxable equivalent basis) | Volume in thousands) | Yield/ Rate | Net |
| Interest income on: | | | | | | |
| Interest-bearing deposits in other banks | \$ (696) | \$ 483 | \$ (213) | \$ (459) | \$ 1,454 | \$ 995 |
| Federal funds sold and securities purchased under agreements to resell | 8,331 | 8,945 | 17,276 | 14,249 | 17,895 | 32,144 |
| Trading account assets | 10,976 | (12,438) | (1,462) | 13,946 | 3,475 | 17,421 |
| Securities: | | | | | | |
| Taxable | 217,710 | 30,162 | 247,872 | 44,085 | 63,420 | 107,505 |
| Tax-exempt | 24,422 | (12,632) | 11,790 | (2,727) | 9,826 | 7,099 |
| Loans held for sale | (54,572) | (11,150) | (65,722) | 8,872 | 18,633 | 27,505 |
| Loans held for sale divestitures | 1,580 | (146) | 1,434 | 20,087 | | 20,087 |
| Margin receivables | (628) | (1,100) | (1,728) | 727 | 7,641 | 8,368 |
| Loans, net of unearned income | 2,165,675 | (71,599) | 2,094,076 | 451,869 | 740,628 | 1,192,497 |
| Total interest-earning assets | 2,372,798 | (69,475) | 2,303,323 | 550,649 | 862,972 | 1,413,621 |
| Interest expense on: | | | | | | |
| Savings accounts | 2,038 | (3,515) | (1,477) | 820 | 3,544 | 4,364 |
| Interest-bearing transaction accounts | 90,250 | 53,102 | 143,352 | 26,619 | 33,651 | 60,270 |
| Money market accounts | 254,001 | 49,788 | 303,789 | (28,447) | 159,464 | 131,017 |
| Time deposits | 302,033 | 105,179 | 407,212 | 78,617 | 237,584 | 316,201 |
| Foreign deposits | 130,663 | 60 | 130,723 | 114,890 | 36,724 | 151,614 |
| Interest-bearing deposits divestitures | 277 | (160) | 117 | 11,974 | | 11,974 |
| Federal funds purchased and securities sold under agreements to repurchase | 136,100 | 8,287 | 144,387 | 22,969 | 79,573 | 102,542 |
| Other short-term borrowings | 34,547 | 5,036 | 39,583 | 1,146 | 6,993 | 8,139 |
| Long-term borrowings | 161,974 | 5,821 | 167,795 | (14,799) | 79,738 | 64,939 |
| Total interest-bearing liabilities | 1,111,883 | 223,598 | 1,335,481 | 213,789 | 637,271 | 851,060 |
| Increase in net interest income | \$ 1,260,915 | \$ (293,073) | \$ 967,842 | \$ 336,860 | \$ 225,701 | \$ 562,561 |

Notes:

- The change in interest not due solely to volume or yield/rate has been allocated to the volume column and yield/rate column in proportion to the relationship of the absolute dollar amounts of the change in each.
- The computation of taxable net interest income is based on the statutory federal income tax rate of 35%, adjusted for applicable state income taxes net of the related federal tax benefit.

Comparing 2007 to 2006, interest-earning asset yields were slightly lower, decreasing five basis points, while interest-bearing liability rates were higher, increasing 30 basis points. As a result, Regions' average interest rate spread declined to 3.13 percent in 2007 as compared to 3.48 percent in 2006.

The year-over-year comparison of funding cost was most significantly impacted by the addition of AmSouth's interest-bearing liabilities, which carried a higher overall funding cost than that of pre-merger Regions. Aside from the merger, changes in market rates affected deposit pricing as well. Since a large portion of Regions' funding base is in the form of time deposits (e.g., certificates of deposits), it takes some period of time for the benefits of decreases in market rates to be realized and to impact the overall cost of funds for the Company. Due to this repricing lag, in addition to intense competition for deposits throughout Regions' operating footprint, funding costs increased throughout the year.

In terms of changes in the broad interest rate environment, the Fed Funds rate, which is an influential driver of loan and deposit pricing on the shorter end of the yield curve, declined 100 basis points during 2007, ending the year at 4.25 percent. Longer-term rates experienced less movement, with the yield on the benchmark 10-year U.S. Treasury note declining 67 basis points over the same period and ending the year at 4.04 percent. Both interest-earning assets and interest-bearing liabilities were impacted by these changes in market rates. In addition, as new loan production was added to the balance sheet during 2007, these loans were made at yields lower than that of the existing portfolio. The EquiFirst sale also affected overall interest-earning asset yields, because the loans sold generally carried higher yields than the rest of Regions' loan portfolio.

The previously described branch divestitures also affected the net interest margin, since over half of the deposits divested were low-cost or interest-free in nature. In addition, approximately \$1.7 billion of loans were sold in the divestiture transactions. The combination of the lower interest-earning asset base resulting from the loan divestitures, and the divestiture of low-cost and interest-free deposits, negatively impacted 2007 net interest income. The annualized net interest income impact of the divestitures is approximately \$81 million.

The mix of interest-earning assets can also affect the interest rate spread. Regions' primary types of interest-earning assets are loans and investment securities. Interest-earning assets at December 31, 2007 totaled \$116.1 billion, a decrease of \$5.1 billion as compared to the prior year. On an average basis, interest-earning assets were 41 percent higher in 2007, largely the result of the full-year inclusion of former AmSouth balances. The proportion of interest-earning assets to total assets measures the effectiveness of management's efforts to invest available funds into the most profitable interest-earning vehicles and represented 82 percent and 85 percent of total assets at year end 2007 and 2006, respectively. Average loans as a percentage of interest-earning assets was 81 percent in 2007 and 78 percent in 2006. The categories which comprise interest-earning assets are shown in Table 3 Consolidated Average Daily Balances and Yield/Rate Analysis Including Discontinued Operations.

Another significant factor affecting the net interest margin is the percentage of interest-earning assets funded by interest-bearing liabilities. Funding for Regions' interest-earning assets comes from interest-bearing and non-interest-bearing sources. The net spread on interest-earning assets funded by non-interest-bearing liabilities and stockholders' equity is higher than the net spread on interest-earning assets funded by interest-bearing liabilities. The percentage of average interest-earning assets funded by average interest-bearing liabilities was 82 percent in 2007 and 80 percent in 2006. This increase negatively impacted the net interest margin in 2007.

During 2007 and 2006, Regions used interest rate derivatives to hedge certain asset and liability positions. These derivatives had the effect of decreasing net interest income by \$13.9 million in 2007 and decreasing it by \$30.4 million in 2006. See the Risk Management section later in this report for further detailed discussion.

Table 4 Volume and Yield/Rate Variances provides additional information with which to analyze the changes in net interest income.

Provision for Loan Losses

The provision for loan losses is used to maintain the allowance for loan losses at a level that in management's judgment is adequate to cover losses inherent in the portfolio as of the balance sheet date. During 2007, the provision for loan losses from continuing operations increased to \$555.0 million compared to \$142.4 million in 2006. This increase is reflective of an increase in management's estimate of inherent losses in the loan portfolio, which was driven by two primary factors. Most notably, 2006 included just two months of provision for loan losses that were added to the portfolio as a result of the November 2006 merger with AmSouth, while the provision recorded in 2007 was for the loan portfolio of the newly merged Regions for the full year. Additionally, the provision rose due to an increase in management's estimate of losses inherent in its residential homebuilder portfolio, as well as generally weaker conditions in the broader economy. Net loan charge-offs also rose during 2007, increasing to \$270.5 million as compared to \$139.9 million in 2006. The resulting year end 2007 allowance for loan losses increased \$265.3 million to \$1.3 billion. For further discussion of the total allowance for credit losses, see the Risk Management section found later in this report and Note 6 Allowance for Credit Losses to the consolidated financial statements.

NON-INTEREST INCOME

The following section contains a discussion of non-interest income from continuing operations and excludes EquiFirst, which is reported separately as discontinued operations in the consolidated statements of income.

Non-interest income represents fees and income derived from sources other than interest-earning assets. Table 5 Non-Interest Income provides a detail of the components of non-interest income. Non-interest income (excluding securities transactions) totaled \$2.9 billion in 2007 compared to \$2.0 billion in 2006. The increase in non-interest income is due primarily to full-year inclusion of former AmSouth operations in 2007, compared with approximately two months of AmSouth results in 2006. In addition to the merger-related increase, service charges on deposit accounts and brokerage and investment banking income were strong during 2007. These increases were partially offset by decreases in mortgage income resulting from the mortgage banking environment, which became increasingly difficult as the year progressed. Non-interest income (excluding securities transactions) as a percent of total revenue (on a fully taxable-equivalent basis) equaled 39 percent in 2007 compared to 37 percent in 2006.

Table 5 Non-Interest Income

| | Year Ended December 31 | | |
|-------------------------------------|------------------------|--------------|--------------|
| | 2007 | 2006 | 2005 |
| | (In thousands) | | |
| Non-interest income: | | | |
| Service charges on deposit accounts | \$ 1,162,740 | \$ 721,998 | \$ 553,904 |
| Brokerage and investment banking | 830,788 | 669,448 | 548,662 |
| Trust department income | 251,319 | 158,161 | 127,766 |
| Mortgage income | 135,704 | 178,688 | 201,538 |
| Net securities (losses) gains | (8,553) | 8,123 | (18,892) |
| Commercial credit fee income | 104,331 | 74,900 | 57,283 |
| Insurance commissions and fees | 99,365 | 85,547 | 79,758 |
| Other miscellaneous income | 280,141 | 132,855 | 136,801 |
| | \$ 2,855,835 | \$ 2,029,720 | \$ 1,686,820 |

Service Charges on Deposit Accounts

Income from service charges on deposit accounts increased 61 percent to \$1.2 billion in 2007 from \$722.0 million in 2006, mainly due to the full-year inclusion of AmSouth operations in 2007. In addition to the increased number of accounts related to the merger, 2007 results were affected by the implementation of a tiered NSF pricing structure, as well as volume-related increases in NSF fees and interchange income due primarily to the addition of AmSouth activity in 2007.

Brokerage, Investment Banking and Trust

Regions' primary source of brokerage, investment banking and trust revenue is its subsidiary, Morgan Keegan. Morgan Keegan's revenues are predominantly recorded in the brokerage and investment banking and trust department income lines of the consolidated statements of income, while a smaller portion is reported in other non-interest income.

Morgan Keegan contributed \$1.3 billion in total revenues in 2007, up from \$1.0 billion in 2006. Total brokerage and investment banking revenues increased 24 percent to \$830.8 million in 2007 from \$669.4 million in 2006. Part of this increase is again attributable to the November 2006 merger with AmSouth, as 2006 only included approximately two months of combined results compared to a full year for 2007. Merger benefits have been realized mainly through an expanded customer base, primarily through additional Morgan Keegan offices opened in the former AmSouth retail branches. Results for 2007 were strong across the board and included strong private client revenues, healthy fixed-income capital markets activity, solid equity capital markets revenues from good investment banking transaction flow, and higher trust and asset management fees. Morgan Keegan's second quarter 2007 acquisition of Shattuck Hammond, an investment banking and financial advisory firm specializing in the health care industry, also bolstered fixed-income capital markets revenues. As of December 31, 2007, Morgan Keegan employed approximately 1,300 financial advisors. Customer assets under management were approximately \$80.0 billion at year end 2007 compared to approximately \$76 billion at year end 2006.

Revenues from the private client division, which was the top revenue producing line of business, totaled \$393.5 million, or 30 percent of Morgan Keegan's total revenue in 2007 compared to \$305.1 million, or 30 percent in 2006. The private client line of business benefited from equity markets volatility, as well as the increased number of financial advisors and branch outlets in 2007 related to opening Morgan Keegan offices in former AmSouth branches throughout the footprint. Fixed-income capital markets revenue totaled \$244.4 million and \$187.4 million in 2007 and 2006, respectively, benefiting from higher trading volumes. Equity capital markets revenue totaled \$103.3 million in 2007, essentially unchanged from the 2006 level. The asset management division produced \$188.9 million of revenue in 2007 and \$149.5 million in 2006.

Morgan Keegan's pre-tax income was negatively affected during 2007 by \$42.8 million in losses on investments in two open-ended mutual funds managed by Morgan Keegan, a subsidiary of Regions. The Company, through Morgan Keegan, purchased fund shares in order to provide liquidity to the funds. The carrying value of these investments, which is equal to their estimated market value, was approximately \$64.6 million as of December 31, 2007.

Trust department income increased 59 percent to \$251.3 million in 2007, driven by full-year inclusion of AmSouth results. The increase resulted from an increase in assets under management from both the merger and internal growth and higher fees.

Table 6 Morgan Keegan details the components of Morgan Keegan's contribution to the Company's revenue and earnings for the years ended December 31, 2007, 2006 and 2005. Table 7 Morgan Keegan Revenue by Division illustrates Morgan Keegan's revenues by division for the years ended December 31, 2007, 2006 and 2005.

Table 6 Morgan Keegan

| | Year Ended December 31 | | |
|----------------------------|------------------------|-------------------|-------------------|
| | 2007 | 2006 | 2005 |
| | (In thousands) | | |
| Revenues: | | | |
| Commissions | \$ 314,541 | \$ 242,872 | \$ 201,729 |
| Principal transactions | 181,567 | 156,019 | 142,150 |
| Investment banking | 191,479 | 152,858 | 117,152 |
| Interest | 149,011 | 139,745 | 85,234 |
| Trust fees and services | 225,845 | 131,215 | 103,218 |
| Investment advisory | 184,194 | 149,174 | 123,294 |
| Other | 53,555 | 56,788 | 37,476 |
| Total revenues | 1,300,192 | 1,028,671 | 810,253 |
| Expenses: | | | |
| Interest expense | 90,609 | 87,046 | 55,237 |
| Non-interest expense | 947,673 | 702,913 | 594,305 |
| Total expenses | 1,038,282 | 789,959 | 649,542 |
| Income before income taxes | 261,910 | 238,712 | 160,711 |
| Income taxes | 96,038 | 87,625 | 59,018 |
| Net income | \$ 165,872 | \$ 151,087 | \$ 101,693 |

Table 7 Morgan Keegan Revenue by Division

| | Year Ended December 31 | | | | | |
|--------------------------|------------------------|------------------------------|------------------------|------------------|------------------|--------------------|
| | Private Client | Fixed-Income Capital Markets | Equity Capital Markets | Regions MK Trust | Asset Management | Interest and Other |
| | (Dollars in thousands) | | | | | |
| 2007 | | | | | | |
| Gross revenue | \$ 393,511 | \$ 244,407 | \$ 103,289 | \$ 225,853 | \$ 188,905 | \$ 144,227 |
| Percent of gross revenue | 30.3% | 18.8% | 7.9% | 17.4% | 14.5% | 11.1% |
| 2006 | | | | | | |
| Gross revenue | \$ 305,098 | \$ 187,425 | \$ 103,282 | \$ 131,218 | \$ 149,511 | \$ 152,137 |
| Percent of gross revenue | 29.7% | 18.2% | 10.0% | 12.8% | 14.5% | 14.8% |
| 2005 | | | | | | |
| Gross revenue | \$ 248,397 | \$ 160,062 | \$ 86,478 | \$ 103,225 | \$ 125,410 | \$ 86,681 |
| Percent of gross revenue | 30.7% | 19.8% | 10.7% | 12.7% | 15.5% | 10.6% |

Mortgage Income

Mortgage income is generated through the origination and servicing of mortgage loans for long-term investors and sales of mortgage loans in the secondary market. Mortgage income decreased 24 percent, from \$178.7 million in 2006 to \$135.7 million in 2007, primarily due to the increasingly challenging mortgage industry environment (see Economic Environment in Regions Banking Markets later in this report), which deteriorated as the year progressed. At December 31, 2007, Regions servicing portfolio totaled \$43.1 billion and included approximately 380,000 loans. Of this portfolio, \$26.9 billion were serviced for third parties. At December 31, 2006, the servicing portfolio totaled \$43.0 billion, \$30.4 billion of which were serviced for third parties. Regions mortgage division, primarily through retail operations in its 16-state footprint, originated mortgage loans totaling \$6.9 billion in 2007 compared to \$5.6 billion in 2006. The increase is primarily related to the inclusion of full-year AmSouth operations.

During the first quarter of 2007, Regions sold its non-conforming mortgage origination subsidiary, EquiFirst for a sales price of approximately \$76 million and recorded an after-tax gain of approximately \$1 million. The sales price is subject to final resolution of closing date values of net assets sold, which is not yet completed. See Note 3 Discontinued Operations to the consolidated financial statements for further detail. During the third quarter of 2007, Regions also exited the wholesale warehouse lending business as a result of risk and return considerations. Regions believes there will be no material effect on future revenue or earnings from continuing operations related to this business decision. Also late in 2007, Regions sold approximately \$1.9 billion of its \$4.5 billion out-of-market mortgage servicing portfolio, accounting for approximately \$25.6 million of its MSR assets, realizing a loss on the sale of approximately \$4.4 million. This loss is primarily due to market rate changes and transaction costs.

Net Securities Gains (Losses)

Regions reported net losses of \$8.6 million from the sale of securities available for sale in 2007, as compared to net gains of \$8.1 million in 2006. The 2007 losses were primarily related to the sale of federal agency securities in conjunction with balance sheet management activities.

Commercial Credit Fee Income

Commercial credit fee income includes letters of credit fees and fees earned through Regions executing capital market derivative transactions including interest rate swaps, caps and floors on its commercial customers behalf. With respect to derivatives, in most instances, Regions enters into offsetting positions, significantly reducing or eliminating its exposure to customer derivative positions. Derivative exposures are actively managed and marked-to-market on a daily basis. Commercial credit fee income increased \$29.4 million to \$104.3 million in 2007 compared to \$74.9 million in 2006. This increase was driven by higher customer derivative transactions, as customers actively managed their interest rate exposure in response to uncertainty regarding the direction of interest rates.

Insurance Commissions

Insurance commissions and fees income increased 16 percent to \$99.4 million in 2007, compared to \$85.5 million in 2006. This increase is primarily due to increased revenue from the acquisition of Miles & Finch during the year, increased commissions related to new business production, and increased cross-selling efforts as a result of the AmSouth merger within Regions banking and brokerage segments.

Other Income

Other income increased in 2007 due to higher gains on sales of student loans and an increase in bank-owned life insurance income. Gains on the sale of loans increased in 2007 to \$32.1 million compared to \$0.7 million in 2006, reflecting a bulk sale of student loans and related servicing in early 2007. Bank-owned life insurance income increased \$50.2 million due to the AmSouth acquisition and, to a lesser extent, the purchase of \$896.6 million of additional life insurance late in the year.

NON-INTEREST EXPENSE

The following section contains a discussion of non-interest expense from continuing operations and excludes EquiFirst, which is reported separately as discontinued operations in the consolidated statements of income.

The largest components of non-interest expense are salaries and employee benefits, net occupancy expense and furniture and equipment expense. Total non-interest expense increased \$1.5 billion, or 45 percent, to \$4.7 billion in 2007, related primarily to the AmSouth merger. Included in non-interest expense are merger-related expenses totaling \$350.9 million in 2007 and \$88.7 million in 2006.

Table 8 Non-Interest Expense (including Non-GAAP reconciliation) presents major non-interest expense components, both including and excluding merger-related expenses, for the years ended December 31, 2007, 2006 and 2005. Management believes Table 8 is useful in evaluating trends in non-interest expense. Note that 2007 and 2006 merger-related charges as shown in this table relate to Regions' acquisition of AmSouth, while the 2005 amounts relate to Regions' acquisition of Union Planters. See Table 2 GAAP to Non-GAAP Reconciliation, and the text preceding it, for further discussion of non-GAAP financial measures.

Table 8 Non-Interest Expense (including Non-GAAP reconciliation)

| | 2007 | As Reported (GAAP) | |
|---|--------------|--------------------|--------------|
| | | 2006 | 2005 |
| (In thousands) | | | |
| Non-interest expense: | | | |
| Salaries and employee benefits | \$ 2,471,869 | \$ 1,859,851 | \$ 1,679,249 |
| Net occupancy expense | 413,711 | 254,628 | 219,108 |
| Furniture and equipment expense | 301,330 | 157,897 | 128,628 |
| Professional fees | 151,991 | 97,220 | 113,322 |
| Marketing | 134,050 | 70,198 | 72,760 |
| Amortization of core deposit intangibles | 155,346 | 63,523 | 46,050 |
| Amortization of mortgage servicing rights | 78,917 | 70,563 | 84,507 |
| Impairment (recapture) of mortgage servicing rights | 6,000 | 16,000 | (32,000) |
| Other miscellaneous expenses | 947,137 | 614,148 | 631,271 |
| | \$ 4,660,351 | \$ 3,204,028 | \$ 2,942,895 |

| | 2007 | Merger-Related Charges | |
|---|------------|------------------------|------------|
| | | 2006 | 2005 |
| (In thousands) | | | |
| Non-interest expense: | | | |
| Salaries and employee benefits | \$ 158,613 | \$ 65,693 | \$ 73,556 |
| Net occupancy expense | 33,834 | 3,473 | 5,053 |
| Furniture and equipment expense | 4,856 | 427 | 536 |
| Professional fees | 34,573 | 6,083 | 44,175 |
| Marketing | 42,897 | 1,092 | 20,848 |
| Amortization of core deposit intangibles | | | |
| Amortization of mortgage servicing rights | | | |
| Impairment (recapture) of mortgage servicing rights | | | |
| Other miscellaneous expenses | 76,094 | 11,891 | 24,613 |
| | \$ 350,867 | \$ 88,659 | \$ 168,781 |

| | 2007 | As Adjusted (Non-GAAP) | |
|---|--------------|------------------------|--------------|
| | | 2006 | 2005 |
| (In thousands) | | | |
| Non-interest expense: | | | |
| Salaries and employee benefits | \$ 2,313,256 | \$ 1,794,158 | \$ 1,605,693 |
| Net occupancy expense | 379,877 | 251,155 | 214,055 |
| Furniture and equipment expense | 296,474 | 157,470 | 128,092 |
| Professional fees | 117,418 | 91,137 | 69,147 |
| Marketing | 91,153 | 69,106 | 51,912 |
| Amortization of core deposit intangibles | 155,346 | 63,523 | 46,050 |
| Amortization of mortgage servicing rights | 78,917 | 70,563 | 84,507 |
| Impairment (recapture) of mortgage servicing rights | 6,000 | 16,000 | (32,000) |
| Other miscellaneous expenses | 871,043 | 602,257 | 606,658 |
| | \$ 4,309,484 | \$ 3,115,369 | \$ 2,774,114 |

Salaries and Employee Benefits

Total salaries and employee benefits increased \$612.0 million, or 33 percent, in 2007. The majority of the increase was due to the November 2006 addition of approximately 12,000 AmSouth associates. Included in salaries and employee benefits are merger charges of \$158.6 million in 2007 and \$65.7 million in 2006. In addition to merger-related items, drivers of the year-over-year increase include normal annual compensation adjustments and higher incentive payouts at Morgan Keegan, as well as merit increases in other areas of the Company. Included in salaries and benefits are payroll taxes, which increased \$33.8 million due to the additional number of associates for the full year, combined with increased salary levels.

At December 31, 2007, Regions had 33,161 employees compared to 36,517 at December 31, 2006. Headcount reductions were largely the result of the sale of EquiFirst (approximately 1,300 associates), merger-related branch divestitures (approximately 500 associates), branch consolidations and normal attrition.

Regions provides employees who meet established employment requirements with a benefits package that includes 401(k), pension, and medical, life and disability insurance plans. New enrollment in the Regions pension plan ended effective December 31, 2000. New enrollment in the legacy AmSouth pension plan ended effective with the merger date, November 4, 2006. Former AmSouth employees enrolled as of November 4, 2006 continue to be active in the plan, but no additional participants will be added. Effective September 30, 2007, the two pension plans merged into one plan. Regions' 401(k) plans include a company match of eligible employee contributions. At December 31, 2007, this match totaled 100 percent of the eligible employee contribution (up to six percent of compensation). See Note 17 Pension and Other Employee Benefit Plans to the consolidated financial statements for further details.

There are various incentive plans in place in many of Regions' lines of business that are tied to the performance levels of employees. At Morgan Keegan, commissions and incentives are a key component of compensation, which is typical in the brokerage and investment banking industry. In general, incentives are used to reward employees for selling products and services, for productivity improvements and for achievement of corporate financial goals. Regions' long-term incentive plan provides for the granting of stock options, restricted stock, restricted stock units and performance shares. See Note 16 Share-Based Payments to the consolidated financial statements for further information.

Net Occupancy Expense

Net occupancy expense includes rents, depreciation and amortization, utilities, maintenance, insurance, taxes, and other expenses of premises occupied by Regions and its affiliates. Occupancy expense increased \$159.1 million, or 62 percent, in 2007 due primarily to the full-year inclusion of AmSouth operations. Included in net occupancy expense were merger charges of \$33.8 million in 2007 and \$3.5 million in 2006. Other increases were related to new and acquired branch offices and rising price levels. In conjunction with the merger integration, Regions consolidated 160 branches into other existing branches in overlapping areas within its footprint.

Furniture and Equipment Expense

Furniture and equipment expense increased \$143.4 million to \$301.3 million in 2007. This increase is due primarily to the additional offices and equipment acquired through the AmSouth merger and the related depreciation expense.

Professional Fees

Professional fees expense is comprised of fees related to legal, consulting and other professional fees. Professional fees increased \$54.8 million to \$152.0 million in 2007, of which \$34.6 million represent merger-related charges. The increase is attributable to higher consulting fees related to merger integration, legal fees related to special assets litigation resulting from credit deterioration, and miscellaneous merger-related professional fees during the year.

Marketing

Marketing expense increased \$63.9 million during 2007 (including \$42.9 million of merger-related charges) to \$134.1 million from \$70.2 million in 2006, primarily due to expenses related to post-merger rebranding initiatives, marketing campaigns run to coincide with branch conversions, as well as customer communications associated with branch conversions and consolidations.

Amortization of Core Deposit Intangibles

Amortization of core deposit intangibles totaled \$155.3 million, an increase of \$91.8 million in 2007, driven by amortization of \$121.0 million of core deposit intangibles related to the AmSouth merger.

Amortization of Mortgage Servicing Rights and Impairment of Mortgage Servicing Rights

Amortization expense related to mortgage servicing rights increased 12 percent to \$78.9 million in 2007 compared to \$70.6 million in 2006. Declining market interest rates and higher prepayment assumptions drove changes in servicing asset valuations, leading to the increase in amortization expense in 2007 compared to 2006. Impairment of mortgage servicing rights decreased by \$10.0 million compared to 2006, representing the fluctuations in market values based on the period-end dates.

Other Miscellaneous Expenses

Other miscellaneous expenses include outside services, communications, and business and development services. Other non-interest expenses also reflects non-merger charges recorded in the latter half of 2007, including a \$51.5 million charge for liabilities related to the Visa USA Inc. antitrust lawsuit settlement with American Express and other pending Visa litigation (reflecting Regions' share as a former Visa member). Regions expects that proceeds from an anticipated share redemption related to its interest in Visa's planned initial public offering should offset these charges in 2008. Also included in other non-interest expenses is \$38.5 million of losses related to investments in two Morgan Keegan mutual funds discussed earlier in this report.

INCOME TAXES

Regions' 2007 provision for income taxes from continuing operations totaled \$645.7 million, an increase of \$26.6 million compared to 2006. Regions' effective tax rate from continuing operations for 2007 was 31.7 percent, as compared to 31.1 percent in 2006. The effective tax rate increased primarily due to the full-year inclusion of AmSouth results and the adoption of FIN 48. As a result of the adoption of FIN 48, Regions recorded a cumulative reduction in equity of \$259.0 million as of January 1, 2007. During 2007, the adoption of FIN 48 increased income tax expense and decreased after-tax net income by approximately \$65 million.

From time to time, Regions engages in business plans that may also have an effect on its tax liabilities. While Regions has obtained the opinion of advisors that the tax aspects of these strategies should prevail, examination of Regions' income tax returns or changes in tax law may impact the tax benefits of these plans.

Periodically, Regions invests in pass-through investment vehicles that generate tax credits, principally low-income housing credits and non-conventional fuel source credits, which directly reduce Regions' federal income tax liability. Congress has enacted these tax credit programs to encourage capital inflows to these investment vehicles. The amount of tax benefit recognized from these tax credits was \$81.3 million in 2007 compared to \$31.2 million in 2006. The non-conventional fuel source credits, which totaled \$39.6 million in 2007, expired at the end of 2007.

Regions has segregated a portion of its investment securities and intellectual property into separate legal entities in order to, among other business purposes, protect such tangible and intangible assets from inappropriate

claims of Regions' creditors and to maximize the return on such assets by the professional and focused management thereof. Regions has recognized state tax benefits related to these legal entities of \$45.8 million in 2007 compared to \$37.8 million in 2006.

With few exceptions in certain state jurisdictions, the Company is no longer subject to U.S. federal or state and local income tax examinations by tax authorities for years before 1998, which would include audits of acquired entities. In the normal course of these examinations, Regions is subject to challenges from governmental authorities regarding amounts of taxes due. The IRS and certain states have proposed various adjustments to the Company's previously filed tax returns, including proposed adjustments relating to an increase in taxable income of a mortgage-related subsidiary and to the proper tax treatment of certain leveraged lease transactions that were entered into during the years under examination. Regions believes adequate provision for income taxes has been recorded for all years open for review and intends to vigorously contest the proposed adjustments. To the extent that final resolution of the proposed adjustments results in significantly different conclusions from Regions' current assessment of the proposed adjustments, Regions' effective tax rate in any given financial reporting period may be materially different from its current effective tax rate.

Management's determination of the realization of deferred tax assets is based upon management's judgment of various future events and uncertainties, including the timing, nature and amount of future income earned by certain subsidiaries and the implementation of various plans to maximize realization of the deferred tax asset. Management believes that the subsidiaries will generate sufficient operating earnings to realize the deferred tax benefits. However, management does not believe that it is more-likely-than-not that all of its state net operating loss carryforwards will be realized. Accordingly, a valuation allowance has been established in the amount of \$19.2 million against such benefits in 2007 compared to \$16.1 million in 2006.

See Note 1 Summary of Significant Accounting Policies and Note 19 Income Taxes to the consolidated financial statements for additional information about the provision for income taxes.

BALANCE SHEET ANALYSIS

At December 31, 2007, Regions reported total assets of \$141.0 billion compared to \$143.4 billion at the end of 2006, a decline of approximately \$2.3 billion or two percent. The primary drivers of the decline were the merger-related divestitures of 52 AmSouth branches, an investment securities portfolio that declined in size as a result of interest rate sensitivity management efforts coupled with unfavorable reinvestment alternatives, and lower demand for certain categories of loans.

Loans

Average loans, net of unearned income, represented 81 percent of total interest-earning assets at December 31, 2007. Lending at Regions is generally organized along three functional lines: commercial loans (including financial and agricultural), real estate loans and consumer loans. The composition of the portfolio by these major categories, with real estate loans further broken down between mortgage and construction loans, and consumer loans further broken down into home equity, indirect and other consumer loans, is presented in Table 9 Loan Portfolio.

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-K

Loans to consumers with weak credit history, generally called sub-prime loans, were a cause for industry concern in 2007 as the performance of these loans deteriorated significantly during the year. Regions exposure

to sub-prime loans is insignificant, at approximately \$100 million at December 31, 2007, and continues to decline. The credit loss exposure related to these loans is addressed in management's periodic determination of the allowance for credit losses.

Real Estate Construction Loans Real estate construction loans are loans to individuals, companies or developers used for the purchase or construction of a commercial property for which repayment will be generated by cash flows related to the operation, sale or refinance of the property. A significant portion of Regions' real estate construction portfolio is comprised of residential product types (land, single-family and condo loans) within Regions' markets followed by retail and multi-family projects. Typically, these loans are for construction projects that have been presold, preleased or otherwise have secured permanent financing as well as loans to real estate companies that have significant equity invested in each project.

During late 2007, the residential homebuilder portfolio, which totaled \$7.2 billion as of December 31, 2007, came under significant stress. In Table 9 Loan Portfolio, the majority of these loans is reported in the real estate construction loan category, while a smaller portion is reported as real estate mortgage loans. The residential homebuilder portfolio is geographically concentrated in Florida and Regions' East region, mainly Atlanta, Georgia. Regions has realigned its organizational structure to enable some of the Company's most experienced bankers to concentrate their efforts on management of this portfolio. See the Credit Risk section later in this report for further detail on the residential homebuilder portfolio.

Home Equity Lending 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. During 2007, home equity lending balances increased slightly over the year ended December 31, 2006.

Indirect Lending Indirect lending, which is lending initiated through third-party business partners, is largely comprised of loans made through automotive dealerships. Loans of this type decreased \$99 million, or two percent, during 2007 due to a generally weaker economy. This lending category has historically included marine loans and loans on recreational vehicles. Regions made a business decision to no longer offer these lines of lending in 2007. Due to this decision, these loans are a declining element in the overall loan portfolio. Outstanding marine and recreational vehicle loans totaled approximately \$1.0 billion and \$1.2 billion at year end 2007 and 2006, respectively.

Other Consumer Loans Other consumer loans include all consumer loans not classified as real estate mortgage, home equity or indirect, including direct consumer installment loans, bankcard, overdrafts and other revolving credit, and educational loans. Other consumer loans increased four percent in 2007 versus 2006.

Loans Held for Sale

At December 31, 2007, loans held for sale totaled \$720.9 million and consisted of residential real estate mortgage loans in the process of being sold to third parties. At December 31, 2006, loans held for sale totaled \$4.9 billion and consisted of \$3.3 billion of residential real estate mortgage loans (including \$1.7 billion of EquiFirst loans) and student loans, and \$1.6 billion of loans to be sold related to the 2007 branch divestitures. Excluding the divested loans, loans held for sale decreased \$2.6 billion, due mainly to the sale of EquiFirst. In addition, lower origination volumes and tightening of the secondary market for mortgage production, as a result of the weakening housing market in 2007, contributed to the decrease during 2007.

Allowance for Credit Losses

The allowance for credit losses represents management's estimate of credit losses inherent in both the loan portfolio and unfunded credit commitments as of the balance sheet date. The allowance consists of two components: the allowance for loans losses, which is recorded as a contra-asset to loans, and the reserve for unfunded credit commitments, which is recorded in other liabilities. At December 31, 2007, the allowance for credit losses totaled \$1.4 billion or 1.45 percent of total loans, net of unearned income, compared to \$1.1 billion or 1.17 percent at year-end 2006. See Allowance for Credit Losses in the Risk Management section found later in this report for a detailed discussion of the allowance.

Securities

Regions utilizes the securities portfolio to manage liquidity, interest rate risk, regulatory capital, and to take advantage of market conditions to generate a favorable return on investments without undue risk. The portfolio consists primarily of high-quality mortgage-backed and asset-backed securities, as well as U.S. Treasury and Federal agency securities. Securities represented 12 percent of total assets at December 31, 2007 compared with 13 percent at December 31, 2006. In 2007, total securities, which are almost entirely classified as available for sale, decreased \$1.2 billion, or six percent. This contraction of the portfolio was largely the result of prepayments of mortgage-backed securities, management's decision in general not to reinvest funds from the maturity of securities back into a relatively unattractive securities market, as well as sales during 2007 in conjunction with balance sheet management activities. The Interest Rate Risk section, found later in this report, further explains Regions' interest rate risk management practices. The weighted-average yield earned on securities, less equities, was 5.03 percent in 2007 and 2006. Table 11 Securities illustrates the carrying values of securities by category.

Table 11 Securities

| | 2007 | 2006 | 2005 |
|--|----------------|---------------|---------------|
| | (In thousands) | | |
| Securities: | | | |
| U.S. Treasury securities | \$ 964,647 | \$ 400,065 | \$ 262,437 |
| Federal agency securities | 3,329,656 | 3,752,216 | 3,153,736 |
| Obligations of states and political subdivisions | 732,367 | 788,736 | 447,195 |
| Mortgage-backed securities | 11,092,758 | 12,777,358 | 7,427,886 |
| Other debt securities | 45,108 | 80,980 | 108,163 |
| Equity securities | 1,204,473 | 762,705 | 579,857 |
| | \$ 17,369,009 | \$ 18,562,060 | \$ 11,979,274 |

At December 31, 2007, securities available for sale included a net unrealized gain of \$149.6 million, which represented the difference between the estimated fair value of these securities as of year end and their amortized cost. At December 31, 2006, securities available for sale included a net unrealized loss of \$115.3 million. The net unrealized gain at December 31, 2007, reflects the impact on bond prices of declining interest rates in 2007 as well as purchases, maturities and sales throughout the year. Net unrealized gains and losses in the securities available for sale portfolio are included in stockholders' equity as accumulated other comprehensive income or loss, net of tax.

In January 2008, Regions sold approximately \$1.1 billion of agency debentures and recognized a gain of approximately \$52.8 million. Approximately \$650 million of the related proceeds were reinvested in U.S. Treasury securities classified as trading, which are expected to be sold during the first quarter of 2008. The remainder of the proceeds, approximately \$465 million, was reinvested in mortgage-backed securities classified as available for sale. Also during January 2008, Regions sold approximately \$325 million in U.S. Treasury securities classified as trading account assets and recognized a gain of approximately \$2.5 million.

Maturity Analysis The average life of the securities portfolio at December 31, 2007 was estimated to be 3.8 years, with a duration of approximately 2.9 years. These metrics compare with an estimated average life of 4.1 years, with a duration of approximately 3.3 years for the portfolio at December 31, 2006. Table 12 Relative Contractual Maturities and Weighted-Average Yields for Securities provides additional details.

Table 12 Relative Contractual Maturities and Weighted-Average Yields for Securities

| | Within One Year | After One But Within Five Years | Securities Maturing After Five But Within Ten Years (Dollars in thousands) | After Ten Years | Total |
|--|--------------------|---------------------------------------|--|--------------------|---------------|
| Securities: | | | | | |
| U.S. Treasury securities | \$ 13,947 | \$ 211,231 | \$ 739,469 | \$ | \$ 964,647 |
| Federal agency securities | 626,219 | 523,600 | 2,169,748 | 10,089 | 3,329,656 |
| Obligations of states and political subdivisions | 27,953 | 236,489 | 412,169 | 55,756 | 732,367 |
| Mortgage-backed securities | 1,316 | 80,804 | 1,947,987 | 9,062,651 | 11,092,758 |
| Other debt securities | 5,207 | 12,005 | | 27,896 | 45,108 |
| | \$ 674,642 | \$ 1,064,129 | \$ 5,269,373 | \$ 9,156,392 | \$ 16,164,536 |
| Weighted-average yield | 3.82% | 4.96% | 4.78% | 5.26% | 5.03% |
| Taxable-equivalent adjustment for calculation of yield | \$ 820 | \$ 6,940 | \$ 12,095 | \$ 1,636 | \$ 21,491 |

Notes:

- The weighted-average yields are calculated on the basis of the yield to maturity based on the book value of each security. Weighted-average yields on tax-exempt obligations have been computed on a fully taxable-equivalent basis using a tax rate of 35%. Yields on tax-exempt obligations have not been adjusted for the non-deductible portion of interest expense used to finance the purchase of tax-exempt obligations.
- Federal Reserve Bank stock, Federal Home Loan Bank stock and equity stock of other corporations held by Regions are not included in the table above.

Portfolio Quality Regions' investment policy stresses credit quality and liquidity. Securities rated in the highest category by nationally recognized rating agencies and securities backed by the U.S. Government and government sponsored agencies, both on a direct and indirect basis, represented approximately 94 percent of the investment portfolio at December 31, 2007. State, county, and local municipal securities rated below single A or which are non-rated represented only 0.1 percent of total securities at year end 2007.

Trading Account Assets

Trading account assets decreased \$535.7 million to \$907.3 million at December 31, 2007. Trading account assets, which consist of U.S. Government agency and guaranteed securities and corporate and tax-exempt securities, are held at Morgan Keegan for the purpose of selling at a profit. Trading account assets are carried at market value with changes in market value reflected in the consolidated statements of income. Table 13 Trading Account Assets provides a detail by type of security.

Table 13 Trading Account Assets

| | December 31 | |
|--|----------------|--------------|
| | 2007 | 2006 |
| | (In thousands) | |
| Trading account assets: | | |
| U.S. Treasury and Federal agency securities | \$ 440,267 | \$ 924,796 |
| Obligations of states and political subdivisions | 236,997 | 250,963 |
| Other securities | 230,036 | 267,235 |
| | \$ 907,300 | \$ 1,442,994 |

Margin Receivables

Margin receivables totaled \$504.6 million at December 31, 2007 and \$570.1 million at December 31, 2006. Margin receivables represent funds advanced to brokerage customers for the purchase of securities that are secured by certain marketable securities held in the customer's brokerage account. The risk of loss from these receivables is minimized by requiring that customers maintain marketable securities in the brokerage account that have a fair market value substantially in excess of the funds advanced to the customer.

Premises and Equipment

Premises and equipment at December 31, 2007 increased \$212.4 million to \$2.6 billion compared to year end 2006. This increase primarily resulted from the opening of 50 new branches during 2007, partially offset by the divestiture of 52 branches in 2007.

Excess Purchase Price

Excess purchase price at December 31, 2007 totaled \$11.5 billion as compared to \$11.2 billion at December 31, 2006, with the increase driven by finalizing the purchase price adjustments related to the AmSouth merger. See Note 2 Business Combinations and Assets Held for Sale to the consolidated financial statements for a summary of the AmSouth-related excess purchase price.

Mortgage Servicing Rights

Mortgage servicing rights at December 31, 2007 totaled \$321.3 million compared to \$374.9 million at December 31, 2006. A summary of mortgage servicing rights is presented in Table 14 Mortgage Servicing Rights. The balances shown represent the right to service mortgage loans that are owned by other investors and include original amounts capitalized, less accumulated amortization and a valuation allowance. The carrying values of mortgage servicing rights are affected by various factors, including estimated prepayments of the underlying mortgages. A significant change in prepayments of mortgages in the servicing portfolio could result in significant changes in the valuation adjustments, thus creating potential volatility in the carrying amount of mortgage servicing rights. The mortgage servicing rights valuation allowance increased by \$6.0 million in 2007, due to lower mortgage rates and corresponding increased estimated prepayment speeds. On December 31, 2007, mortgage servicing rights on approximately \$1.9 billion of loans in Regions' out-of-market servicing portfolio, totaling approximately \$25.6 million, were sold for a loss of \$4.4 million.

Table 14 Mortgage Servicing Rights

| | 2007 | 2006 (In thousands) | 2005 |
|------------------------------|------------|------------------------|------------|
| Balance at beginning of year | \$ 416,217 | \$ 441,508 | \$ 458,053 |
| Amounts capitalized | 56,931 | 53,777 | 71,968 |
| Sale of servicing assets | (25,577) | (4,786) | (4,007) |
| Permanent impairment | | (3,719) | |
| Amortization | (78,917) | (70,563) | (84,506) |
| | 368,654 | 416,217 | 441,508 |
| Valuation allowance | (47,346) | (41,346) | (29,500) |
| Balance at end of year | \$ 321,308 | \$ 374,871 | \$ 412,008 |

Other Identifiable Intangible Assets

Other identifiable intangible assets, consisting primarily of core deposit intangibles (CDI), totaled \$759.8 million at December 31, 2007 compared to \$957.8 million at December 31, 2006. The year-over-year decline, net of amortization of previously existing intangibles, is primarily attributable to finalizing valuations of CDI recorded in connection with the AmSouth merger. See Note 9 Intangible Assets to the consolidated financial statements for further information.

Other Assets

Other assets increased \$2.7 billion to \$6.8 billion as of December 31, 2007. This increase is primarily related to a tax deposit made with the IRS and an \$896.6 million purchase of bank-owned life insurance during the latter part of the year.

Also included in other assets during the year were investments of approximately \$55.0 million in the Regions Morgan Keegan (RMK) Select High Income Fund and approximately \$75.0 million in the RMK Select Intermediate Bond Fund, purchased by Morgan Keegan to provide liquidity support to these funds. Both of these funds are proprietary open-end mutual funds managed by Morgan Keegan. A portion of the Regions Morgan Keegan Select High Income Fund investments were sold during 2007. During 2007, Regions recognized total losses of approximately \$42.8 million on these investments in accordance with the equity method of accounting, the majority of which is included in other non-interest expense. These investments are recorded at market value in other assets in the consolidated balance sheet and totaled approximately \$64.6 million at December 31, 2007.

DEPOSITS

Deposits are Regions primary source of funds, providing funding for 82 percent of average interest-earning assets in 2007 and 81 percent in 2006. Table 15 Deposits details year-over-year deposits on a period-ending basis. Deposits as of year-end 2007 decreased \$6.5 billion, or six percent, compared to year-end 2006. The decrease in deposits was partially attributable to the merger-related branch divestitures, which occurred in the first quarter of 2007. Deposits totaling \$2.7 billion, including \$533 million of non-interest-bearing deposits and \$2.2 billion of interest-bearing deposits, were sold in those branch divestitures. Excluding the impact of the divested deposits, year-end total deposits decreased four percent in 2007.

Table 15 Deposits

| | 2007 | 2006 (In thousands) | 2005 |
|--|----------------------|------------------------|----------------------|
| Non-interest-bearing demand | \$ 18,417,266 | \$ 20,175,482 | \$ 13,699,038 |
| Non-interest-bearing demand divestitures | | 533,295 | |
| Total non-interest-bearing deposits | 18,417,266 | 20,708,777 | 13,699,038 |
| Savings accounts | 3,646,632 | 3,882,533 | 3,037,687 |
| Interest-bearing transaction accounts | 15,846,139 | 15,899,812 | 10,593,322 |
| Money market accounts | 18,934,309 | 18,764,873 | 7,577,559 |
| Time deposits | 29,298,845 | 31,185,408 | 21,028,196 |
| Foreign deposits | 8,631,777 | 8,548,494 | 4,442,565 |
| Interest-bearing deposits divestitures | | 2,238,072 | |
| Total interest-bearing deposits | 76,357,702 | 80,519,192 | 46,679,329 |
| | \$ 94,774,968 | \$ 101,227,969 | \$ 60,378,367 |

Regions competes with other banking and financial services companies for a share of the deposit market. Regions' ability to compete in the deposit market depends heavily on the pricing of its deposit product offerings and how effectively the Company meets customers' needs. Regions employs various means to meet those needs and enhance competitiveness, such as providing well-designed products, a high level of customer service, competitive pricing and expanding the traditional branch network to offer convenient branch locations for its customers. Regions also serves customers through providing centralized, high-quality telephone banking services and alternative product delivery channels, such as internet banking.

Non-interest-bearing deposits, excluding divested deposits, declined by nine percent in 2007 as customers migrated to interest-bearing offerings, including Regions' interest-bearing checking accounts, among other product types or investment alternatives. Divested non-interest-bearing deposits totaled approximately \$533 million. Non-interest-bearing deposits accounted for approximately 19 percent of total deposits in 2007 as compared to 20 percent at year end 2006 (excluding divested deposits).

Savings balances, excluding divested deposits, declined six percent to \$3.6 billion, generally reflecting customers' preference for higher-yielding accounts, including money market accounts.

Interest-bearing transaction accounts remained relatively stable at December 31, 2007 compared to December 31, 2006, due to the success of a marketing campaign aimed toward garnering free interest checking accounts during the year.

Money market products are one of Regions' most significant funding sources, accounting for 20 percent of total deposits in 2007. In 2007, the balance of money market accounts, excluding divested deposits, remained relatively stable compared to 2006, primarily due to Regions' aggressive sales efforts related to this product. However, the relative attractiveness of alternative investment opportunities, including equity products and other potentially higher-yielding investments, partially offset growth of money market balances. In addition, deposits divested in the first quarter of 2007 in connection with the merger also contributed to the year-over-year decline.

Included in time deposits are certificates of deposits and individual retirement accounts. The balance of time deposits decreased six percent in 2007, primarily due to divested deposits and a balance sheet management strategy that allowed higher-rate deposits to run off. These decreases were partially offset by customer demand for higher-rate deposits. Time deposits accounted for 31 percent of total deposits in 2007.

Foreign deposits increased by \$83 million during 2007, due to increased levels of wholesale Eurodollar funding, partially offset by lower demand for customer sweep accounts.

The sensitivity of Regions' deposit rates to changes in market interest rates is reflected in Regions' average interest rate paid on interest-bearing deposits. The rate paid on interest-bearing deposits increased to 3.47 percent in 2007 from 3.14 percent in 2006. While the Federal Funds rate decreased 100 basis points during 2007 to 4.25 percent at year end, these decreases were not instituted until late in the year. Therefore, the impact on average rates was minimal as a lag period exists between the change in market rates and the repricing of the deposits. Table 16 Maturity of Time Deposits of \$100,000 or More presents maturities of time deposits of \$100,000 or more at December 31, 2007 and 2006.

Table 16 Maturity of Time Deposits of \$100,000 or More

| | 2007 | 2006 |
|--|----------------|---------------|
| | (In thousands) | |
| Interest-bearing deposits of less than \$100,000 | \$ 63,608,222 | \$ 66,910,614 |
| Time deposits of \$100,000 or more, maturing in: | | |
| 3 months or less | 4,718,158 | 5,673,392 |
| Over 3 through 6 months | 2,706,805 | 3,342,617 |
| Over 6 through 12 months | 4,522,942 | 3,306,596 |
| Over 12 months | 801,575 | 1,285,973 |
| | \$ 12,749,480 | \$ 13,608,578 |
| | \$ 76,357,702 | \$ 80,519,192 |

SHORT-TERM BORROWINGS

Regions' short-term borrowings consist of federal funds purchased, securities sold under agreements to repurchase, treasury, tax and loan notes, and other short-term borrowings. See Note 11 Short-Term Borrowings to the consolidated financial statements for further discussion.

Federal funds purchased and securities sold under agreements to repurchase are used to satisfy daily funding needs. Balances in these accounts can fluctuate significantly on a day-to-day basis. Federal funds purchased and security repurchase agreements totaled \$8.8 billion at December 31, 2007 and \$7.7 billion at December 31, 2006. The balance of federal funds purchased and security repurchase agreements, net of federal funds sold and security reverse repurchase agreements, increased \$862.9 million in 2007, due primarily to a change in the funding mix between years.

In October 2007, Regions began participating in the Federal Reserve's Treasury, Tax and Loan Program. This program provides Regions with an alternative source of short-term funding and aids in maintaining the stability of the financial markets by reducing uncertainty about the supply of reserves in the banking system and simplifying the Federal Reserve's implementation of monetary policy. As of December 31, 2007, Regions had \$1.2 billion outstanding in the program.

Short-term borrowings also include Federal Home Loan Bank (FHLB) short-term borrowings which, much like federal funds purchased, are used to satisfy short-term funding needs and can fluctuate between periods. These borrowings totaled \$100.0 million at December 31, 2007 compared to \$500.0 million outstanding at December 31, 2006. Also, at December 31, 2006, there were \$250.0 million of short-term senior bank notes outstanding. These notes matured during 2007, leaving none outstanding as of December 31, 2007. In addition, Regions maintains a liability for its brokerage customer position through Morgan Keegan. This liability represents liquid funds in customers' brokerage accounts. Balances due to brokerage customers totaled \$505.5 million at December 31, 2007 as compared to \$492.6 million at December 31, 2006. The short-sale liability, which is primarily maintained at Morgan Keegan in connection with trading obligations related to customer accounts, was \$217.4 million at December 31, 2007 compared to \$587.7 million at December 31, 2006. The balance of this account fluctuates frequently based on customer activity.

Other short-term borrowings increased by \$166.6 million to \$327.0 million at December 31, 2007. This balance includes certain lines of credit that Morgan Keegan maintains with unaffiliated banks and derivative collateral. The lines of credit had maximum borrowings of \$485.0 million at December 31, 2007.

Table 17 Short-Term Borrowings

| | 2007 | 2006 | 2005 |
|--|------------------------|--------------|--------------|
| | (Dollars in thousands) | | |
| Maximum amount outstanding at any month-end: | | | |
| Federal funds purchased and securities sold under agreements to repurchase | \$ 9,984,206 | \$ 7,676,254 | \$ 5,233,068 |
| Aggregate short-term borrowings | 12,308,446 | 9,667,071 | 6,529,929 |
| Average short-term borrowings outstanding (based on average daily balances) | 8,080,179 | 5,162,196 | 4,462,774 |
| For federal funds purchased and securities sold under agreements to repurchase: | | | |
| Weighted-average interest rate at year end | 3.3% | 4.6% | 4.0% |
| Weighted-average interest rate on amounts outstanding during the year (based on average daily balances) | 4.7% | 4.5% | 2.9% |

LONG-TERM BORROWINGS

Regions' long-term borrowings consist primarily of FHLB borrowings, subordinated notes, senior notes and other long-term notes payable. See Note 12 "Long-Term Borrowings" to the consolidated financial statements for further discussion.

Membership in the FHLB system provides access to a source of lower-cost funds. Long-term FHLB advances totaled \$3.8 billion at December 31, 2007, an increase of \$1.4 billion compared to 2006.

As of December 31, 2007, Regions had outstanding subordinated notes totaling \$4.3 billion compared to \$3.6 billion at December 31, 2006. During 2007, Regions issued a total of \$800 million of subordinated notes. Regions' subordinated notes consist of 12 issues with interest rates ranging from 4.85 percent to 7.75 percent.

Senior debt and bank notes totaled \$1.8 billion at December 31, 2007 compared to \$1.9 billion at December 31, 2006, reflecting the maturity of notes as well as Regions' issuance of \$600 million of senior debt in 2007.

During 2007, Regions Financing Trust II issued \$700 million of institutional enhanced trust preferred securities, which are reflected as junior subordinated notes. Also in 2007, \$225.8 million of Union Planters trust preferred securities were called and the related 8.20 percent junior subordinated notes were redeemed.

Other long-term debt at December 31, 2007 and 2006, had weighted-average interest rates of 6.1 percent and 6.4 percent, respectively, and a weighted-average maturity of 6.9 years at December 31, 2007. Regions has \$79.7 million included in other long-term debt in connection with a seller-lessee transaction with continuing involvement. See Note 23 "Commitments, Contingencies and Guarantees" to the consolidated financial statements for further information.

In May 2007, Regions filed a shelf registration statement with the SEC. This shelf registration can be utilized by Regions to issue various debt and/or equity securities, and does not have a limit on the amount of securities that can be issued.

Regions' long-term debt includes \$633.1 million of subordinated notes that is callable in early 2008. The Company exercised the call option on \$311.4 million of this debt on February 1, 2008, and anticipates exercising the call option on the remaining \$321.7 million on March 15, 2008. See Note 12 Long-Term Borrowings to the consolidated financial statements for additional information regarding these transactions.

RATINGS

Table 18 Credit Ratings reflects the most recent debt ratings of Regions Financial Corporation and Regions Bank by Standard & Poor's Corporation, Moody's Investors Service, Fitch IBCA and Dominion Bond Rating Service.

A security rating is not a recommendation to buy, sell or hold securities, and the ratings are subject to revision or withdrawal at any time by the assigning rating agency. Each rating should be evaluated independently of any other rating.

Table 18 Credit Ratings

| | Standard & Poor's | Moody's | Fitch | Dominion |
|--------------------------------------|----------------------|---------|-------|----------|
| Regions Financial Corporation | | | | |
| Senior notes | A | A1 | A+ | AH |
| Subordinated notes | A- | A2 | A | A |
| Junior subordinated notes | BBB+ | A2 | A | A |
| Regions Bank | | | | |
| Short-term certificates of deposit | A-1 | P-1 | F1+ | R-1M |
| Short-term debt | A-1 | P-1 | F1+ | R-1M |
| Long-term certificates of deposit | A+ | Aa3 | AA- | AAL |
| Long-term debt | A+ | Aa3 | A+ | AAL |
| Subordinated debt | A | A1 | A | AH |

Table reflects ratings as of December 31, 2007.

STOCKHOLDERS' EQUITY

Stockholders' equity decreased from \$20.7 billion at year end 2006 to \$19.8 billion at year end 2007. Net income and the net change in unrealized gains on securities available for sale added \$1.3 billion and \$166.1 million, respectively, to stockholders' equity, which were more than offset by cash dividends declared and purchases of treasury stock which reduced equity by \$1.0 billion and \$1.4 billion, respectively. In addition, Regions recorded the cumulative effect of changes in accounting principles that reduced stockholders' equity by \$269.4 million related to the adoption of FIN 48 and Statement of Financial Accounting Standards No. 13-2, Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leverage Lease Transaction (FSP 13-2). The internal capital generation rate (net income less dividends as a percentage of average stockholders' equity) was 1.1 percent in 2007 compared to 3.7 percent in 2006.

During 2007, Regions repurchased 40.8 million shares at a total cost of \$1.4 billion, leaving 23.1 million shares available for repurchase under the current repurchase authorization as of December 31, 2007. Despite the remaining authorization, management believes that in today's uncertain credit environment, it is especially important to maintain a strong capital base. As such, Regions does not expect to repurchase a significant number of its shares in 2008.

Regions' ratio of stockholders' equity to total assets was 14.05 percent at December 31, 2007 compared to 14.44 percent at December 31, 2006. This ratio decreased during 2007 due to share repurchase activity, which

lowered stockholders' equity. Regions' ratio of tangible stockholders' equity (stockholders' equity less excess purchase price and other identifiable intangibles) to total tangible assets was 5.88 percent at December 31, 2007 compared to 6.53 percent at December 31, 2006, mainly reflecting the repurchase activity discussed above.

Regions attempts to balance the return to stockholders through the payment of dividends with the need to maintain strong capital levels for future growth opportunities. In 2007, on a per share basis, Regions returned 82 percent of earnings to its stockholders in the form of dividends. Total dividends paid by Regions in 2007 were \$1.0 billion, or \$1.46 per share, an increase of four percent from the \$1.40 per share paid in 2006.

In October 2007, the Board of Directors declared a six percent increase in the quarterly cash dividend from \$0.36 to \$0.38 per share, marking the 37th consecutive year that Regions has increased quarterly cash dividends.

BANK REGULATORY CAPITAL REQUIREMENTS

Regions and Regions Bank are required to comply with capital adequacy standards established by banking regulatory agencies. Currently, there are two basic measures of capital adequacy: a risk-based measure and a leverage measure.

The risk-based capital standards are designed to make regulatory capital requirements more sensitive to differences in credit risk profiles among banks and bank holding companies, to account for off-balance sheet exposure and interest rate risks, and to minimize disincentives for holding liquid assets. Assets and off-balance sheet items are assigned to broad risk categories, each with specified risk-weighting factors. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items. Banking organizations that are considered to have excessive interest rate risk exposure are required to maintain higher levels of capital.

The minimum standard for the ratio of total capital to risk-weighted assets is eight percent. At least 50 percent of that capital level must consist of common equity, undivided profits and non-cumulative perpetual preferred stock, less excess purchase price and certain other intangibles (Tier 1 Capital). The remainder (Tier 2 Capital) may consist of a limited amount of other preferred stock, mandatorily convertible securities, subordinated debt and a limited amount of the allowance for loan losses. The sum of Tier 1 Capital and Tier 2 Capital is total risk-based capital.

The banking regulatory agencies also have adopted regulations that supplement the risk-based guidelines to include a minimum ratio of three percent of Tier 1 Capital to average assets less excess purchase price (the Leverage Ratio). Depending upon the risk profile of the institution and other factors, the regulatory agencies may require a Leverage Ratio of one percent to two percent above the minimum three percent level. Table 19 Capital Ratios summarizes Regions' capital ratios at December 31, 2007, which substantially exceeded all regulatory requirements.

Total capital at Regions Bank also has an important effect on the amount of Federal Deposit Insurance Corporation (FDIC) insurance premiums paid. Institutions not considered well capitalized can be subject to higher rates for FDIC insurance. Other requirements are needed in addition to total capital in order for a company to be considered well capitalized. See Note 13 Regulatory Capital Requirements and Restrictions to the consolidated financial statements for further details. As of December 31, 2007, Regions Bank had the requisite capital levels to qualify as well capitalized.

Under the Federal Deposit Insurance Reform Act of 2005 and the FDIC's revised premium assessment program, every FDIC-insured institution will pay some level of deposit insurance assessments regardless of the level of designated reserve ratio. Regions Bank had a FICO assessment of \$10.7 million in FDIC deposit premiums in 2007 and \$7.1 million in 2006, both of which were expensed in their respective years.

The FDIC also has finalized rules providing for a one-time credit to each eligible insured depository institution based on the assessment base of the institution on December 31, 1996. Regions Bank qualified for a credit of approximately \$110 million, of which \$34 million was applied in 2007, leaving a remaining balance at year end of \$76 million to be applied over the next two years, based on the current assessment rate.

Table 19 Capital Ratios

| | 2007 | 2006 |
|--|------------------------|----------------|
| | (Dollars in thousands) | |
| Risk-based capital: | | |
| Stockholders equity | \$ 19,823,029 | \$ 20,701,454 |
| Less: Accumulated other comprehensive income (loss) | 202,753 | (131,273) |
| Qualifying minority interests in consolidated subsidiaries | 90,002 | 89,355 |
| Qualifying trust preferred securities | 691,342 | 218,968 |
| Less: Goodwill and other disallowed intangible assets | 11,933,193 | 11,734,934 |
| Less: Disallowed servicing assets | 27,462 | 30,728 |
| | | |
| Tier 1 Capital | 8,440,965 | 9,375,388 |
| Qualifying subordinated debt | 3,056,994 | 2,769,063 |
| Adjusted allowance for loan losses* | 1,381,713 | 1,109,238 |
| Other | 150,000 | 150,437 |
| | | |
| Tier 2 Capital | 4,588,707 | 4,028,738 |
| | | |
| Total Capital | \$ 13,029,672 | \$ 13,404,126 |
| | | |
| Risk-adjusted assets | \$ 115,801,508 | \$ 116,180,524 |
| Capital ratios: | | |
| Tier 1 Capital to total risk-adjusted assets | 7.29% | 8.07% |
| Total Capital to total risk-adjusted assets | 11.25 | 11.54 |
| Leverage | 6.66 | 8.30 |
| Ending equity to assets | 14.05 | 14.44 |
| Ending tangible equity to tangible assets | 5.88 | 6.53 |

* Includes \$60,469 and \$53,285 in 2007 and 2006, respectively, associated with reserves recorded in other liabilities for off-balance sheet credit exposures.

OFF-BALANCE SHEET ARRANGEMENTS

Regions' primary off-balance sheet arrangements are financial instruments issued in connection with lending activities. These arrangements include commitments to extend credit, standby letters of credit and commercial letters of credit. See Note 23 - Commitments, Contingencies and Guarantees to the consolidated financial statements for further discussion, including details of the contractual amounts outstanding at December 31, 2007.

Regions sells commercial loans to third-party, multi-issuer conduits, and Regions retains servicing responsibilities. As part of the sale and securitization of commercial loans to conduits, Regions provides credit enhancements to these conduits by providing standby letters of credit, which create exposure to credit risk to the extent of the letters of credit. At December 31, 2007, Regions had \$50.0 million of letters of credit supporting the conduit sales. This credit risk is reviewed quarterly and a reserve for loss exposure is maintained in other liabilities on the balance sheet.

Regions also provides liquidity lines of credit to support the issuance of commercial paper under 364-day loan commitments. These liquidity lines can be drawn upon in the event of a commercial paper market disruption.

or other factors, which could prevent the asset-backed commercial paper issuers from being able to issue commercial paper. Regions had \$41.5 million of commercial loans in the conduits on December 31, 2007. For additional discussion, see the Liquidity section of this report.

Regions also has certain variable interests in unconsolidated variable interest entities (i.e., Regions is not the primary beneficiary). Regions owns the common stock of subsidiary business trusts, which have issued mandatorily redeemable preferred capital securities in the aggregate of \$700 million at the time of issuance. Also, Regions periodically invests in various limited partnerships that sponsor affordable housing projects, which are funded through a combination of debt and equity with equity typically comprising 30 percent to 50 percent of the total partnership capital. Regions' maximum exposure to loss as of December 31, 2007 was \$457.3 million, which included \$156.8 million in unfunded commitments to the partnerships.

EFFECTS OF INFLATION

The majority of assets and liabilities of a financial institution are monetary in nature; therefore, a financial institution differs greatly from most commercial and industrial companies, which have significant investments in fixed assets or inventories that are greatly impacted by inflation. However, inflation does have an important impact on the growth of total assets in the banking industry and the resulting need to increase equity capital at higher than normal rates in order to maintain an appropriate equity-to-assets ratio. Inflation also affects other expenses that tend to rise during periods of general inflation.

Management believes the most significant potential impact of inflation on financial results is a direct result of Regions' ability to react to changes in interest rates. Management attempts to maintain an essentially balanced position between rate-sensitive assets and liabilities in order to minimize the impact of interest rate fluctuations on net interest income.

RISK MANAGEMENT

Risk identification and risk management are key elements in the overall management of Regions. Management believes the primary risk exposures are interest rate and associated prepayment risk, liquidity risk, market and other brokerage-related risk associated with Morgan Keegan and credit risk. Interest rate risk is the risk to net interest income due to the impact of movements in interest rates. Prepayment risk is the risk that borrowers may repay their loans or securities earlier than at their stated maturities. Liquidity risk relates to Regions' ability to fund present and future obligations. The Company, through Morgan Keegan, is also subject to various market-related risks associated with its brokerage and market-related activities. Credit risk represents the possibility that borrowers may not be able to repay loans.

External factors beyond management's control may result in losses despite risk management efforts. Management follows a formal policy to evaluate and document the key risks facing each line of business, how those risks can be controlled or mitigated, and how management monitors the controls to ensure that they are effective. Regions' Internal Audit Division performs ongoing, independent reviews of the risk management process and assures the adequacy of documentation. The results of these reviews are reported regularly to the Audit Committee of the Board of Directors. The Company also has a Risk Committee that assists the Board of Directors in overseeing the Company's policies, procedures and practices relating to market, regulatory and operational risk.

Some of the more significant processes used to manage and control these and other risks are described in the remainder of this report.

INTEREST RATE RISK

Regions' primary market risk is interest rate risk, including uncertainty with respect to absolute interest rate levels as well as uncertainty with respect to relative interest rate levels, which is impacted by both the shape and the slope of the various yield curves that affect the financial products and services that the Company offers. To

quantify this risk, Regions measures the change in its net interest income in various interest rate scenarios compared to a base case scenario. Net interest income sensitivity is a useful short-term indicator of Regions' interest rate risk.

Sensitivity Measurement Financial simulation models are Regions' primary tools used to measure interest rate exposure. Using a wide range of sophisticated simulation techniques provides management with extensive information on the potential impact to net interest income caused by changes in interest rates. Models are structured to simulate cash flows and accrual characteristics of Regions' balance sheet. Assumptions are made about the direction and volatility of interest rates, the slope of the yield curve, and the changing composition of the balance sheet that result from both strategic plans and from customer behavior. Among the assumptions are expectations of balance sheet growth and composition, the pricing and maturity characteristics of existing business and the characteristics of future business. Interest rate-related risks are expressly considered, such as pricing spreads, the lag time in pricing administered rate accounts, prepayments and other option risks. Regions considers these factors, as well as the degree of certainty or uncertainty surrounding their future behavior. Financial derivative instruments are used in hedging the values of selected assets and liabilities against changes in interest rates. The effect of these hedges is included in the simulations of net interest income.

The primary objective of Asset/Liability Management at Regions is to coordinate balance sheet composition with interest rate risk management to sustain reasonable and stable net interest income throughout various interest rate cycles. A standard set of alternate interest rate scenarios is compared to the results of the base case scenario to determine the extent of potential fluctuations and to establish exposure limits. The standard set of interest rate scenarios includes the traditional instantaneous parallel rate shifts of plus and minus 100 and 200 basis points. In addition, Regions includes simulations of gradual interest rate movements that may more realistically mimic potential interest rate movements. The gradual scenarios include curve steepening, flattening and parallel movements of various magnitudes phased in over a six-month period.

Exposure to Interest Rate Movements As of December 31, 2007, Regions was moderately asset sensitive in positioning to both gradual and instantaneous rate shifts of plus or minus 100 or 200 basis points. Table 20 Interest Rate Sensitivity demonstrates the estimated potential effects that gradual (over six months beginning at December 31, 2007 and 2006, respectively) and instantaneous parallel interest rate shifts would have on Regions' net interest income.

In January 2008, the Federal Reserve lowered the federal funds rate by 125 basis points in response to mounting concerns of a recession. As indicated above, Regions was moderately asset sensitive at year end 2007 and was in a similar position at the time of the Federal Reserve actions. As a result, Regions expects to experience a reduction in net interest income, which can be gauged by referring to Table 20 Interest Rate Sensitivity.

Table 20 Interest Rate Sensitivity

| Gradual Change in Interest Rates | Estimated % Change in Net Interest Income December 31 | |
|---|--|-------------|
| | 2007 | 2006 |
| + 200 basis points | 1.7% | 1.0% |
| + 100 basis points | 1.1 | 0.4 |
| - 100 basis points | (1.1) | (0.5) |
| - 200 basis points | (3.2) | (0.6) |

| Instantaneous Change in Interest Rates | Estimated % Change in Net Interest Income December 31 | |
|---|--|-------------|
| | 2007 | 2006 |
| + 200 basis points | 1.1% | 0.3% |
| + 100 basis points | 1.0 | 0.2 |
| - 100 basis points | (1.5) | (0.3) |
| - 200 basis points | (4.5) | (0.6) |

Derivatives Regions uses financial derivative instruments for management of interest rate sensitivity. The Asset and Liability Committee (ALCO), in its oversight role for the management of interest rate sensitivity, approves the use of derivatives in balance sheet hedging strategies. The most common derivatives Regions employs are forward rate contracts, interest rate swaps, options on interest rate swaps, interest rate caps and floors, and forward sale commitments. Derivatives are also used to hedge the risks associated with customer derivatives.

Forward rate contracts are commitments to buy or sell financial instruments at a future date at a specified price or yield. Interest rate swaps are contractual agreements typically entered into to exchange fixed for variable streams of interest payments. The notional principal is not exchanged but is used as a reference for the size of interest settlements. Interest rate options are contracts that allow the buyer to purchase or sell a financial instrument at a predetermined price and time. Forward sale commitments are contractual obligations to sell market instruments at a future date for an already agreed-upon price. Foreign exchange forwards are contractual agreements to receive or deliver a foreign currency at an agreed-upon future date and price.

Regions has made use of interest rate swaps to effectively convert a portion of its fixed-rate funding position to a variable-rate position and, in some cases, to effectively convert a portion of its variable-rate loan portfolio to fixed-rate. Regions also uses derivatives to manage interest rate and pricing risk associated with its mortgage origination business. Futures contracts and forward sale commitments are used to protect the value of the loan pipeline and loans held for sale from changes in interest rates and pricing. In the period of time that elapses between the origination and sale of mortgage loans, changes in interest rates have the potential to cause a decline in the value of the loans in this held-for-sale portfolio.

Regions manages the credit risk of these instruments in much the same way as it manages credit risk of the loan portfolio by establishing credit limits for each counterparty and through collateral agreements for dealer transactions. For non-dealer transactions, the need for collateral is evaluated on an individual transaction basis and is primarily dependent on the financial strength of the counterparty. Credit risk is also reduced significantly by entering into legally enforceable master netting agreements. When there is more than one transaction with a counterparty and there is a legally enforceable master netting agreement in place, the exposure represents the net of the gain and loss positions with and collateral received from and/or posted to that counterparty. The Credit Risk section in this report contains more information on the management of credit risk.

Regions also uses derivatives to meet the needs of its customers. Interest rate swaps, interest rate options and foreign exchange forwards are the most common derivatives sold to customers. Positions with similar

characteristics are used to hedge the market risk and minimize income statement volatility associated with this portfolio. Instruments used to service customers are entered into the trading account, with changes in value recorded in the consolidated statements of income.

The objective of Regions' hedging strategies is to mitigate the impact of interest rate changes, from an economic perspective, on net interest income and the net present value of its balance sheet. The overall effectiveness of these hedging strategies is subject to market conditions, the quality of Regions' execution, the accuracy of its valuation assumptions, counterparty credit risk and changes in interest rates. As a result, Regions' hedging strategies may be ineffective in mitigating the impact of interest rate changes on its earnings. See to Note 20 "Derivative Financial Instruments and Hedging Activities" to the consolidated financial statements for a tabular summary of Regions' year end derivatives positions.

PREPAYMENT RISK

Regions, like most financial institutions, is subject to changing prepayment speeds on mortgage-related assets under different interest rate environments. Prepayment risk is a significant risk to earnings and specifically to net interest income. For example, mortgage loans and other financial assets may be prepaid by a debtor, so that the debtor may refinance its obligations at lower rates. As loans and other financial assets prepay in a falling rate environment, Regions must reinvest these funds in lower-yielding assets. Prepayments of assets carrying higher rates reduce Regions' interest income and overall asset yields. Conversely, in a rising rate environment, these assets will prepay at a slower rate, resulting in opportunity cost by not having the cash flow to reinvest at higher rates. Regions' greatest exposure to prepayment risks primarily rests in its mortgage-backed securities portfolio, the mortgage fixed-rate loan portfolio and the mortgage servicing asset, all of which tend to be sensitive to interest rate movements. Regions also has prepayment risk that would be reflected in non-interest income in the form of servicing income on loans sold. Regions actively monitors prepayment exposure as part of its overall net interest income forecasting and interest rate risk management.

LIQUIDITY RISK

Liquidity is an important factor in the financial condition of Regions and affects Regions' ability to meet the borrowing needs and deposit withdrawal requirements of its customers. Table 21 "Contractual Obligations" summarizes Regions' contractual cash obligations at December 31, 2007. Regions intends to fund contractual obligations primarily through cash generated from normal operations. In addition to these obligations, Regions has obligations related to uncertain tax positions (see Note 19 "Income Taxes" to the consolidated financial statements), obligations related to its ownership interest in Visa USA Inc. (see discussion of other non-interest expense found earlier in this report), and potential litigation contingencies (see Note 23 "Commitments, Contingencies and Guarantees" to the consolidated financial statements).

Assets, consisting principally of loans and securities, are funded by customer deposits, purchased funds, borrowed funds and stockholders equity. Regions' goal in liquidity management is to satisfy the cash flow requirements of depositors and borrowers, while at the same time meeting its cash flow needs. This is accomplished through the active management of both the asset and liability sides of the balance sheet. The liquidity position of Regions is monitored on a daily basis by Regions' Treasury Division. In addition, the ALCO, which consists of members of Regions' senior management team, reviews liquidity on a regular basis and approves any changes in strategy that are necessary as a result of asset/liability composition or anticipated cash flow changes. Management also compares Regions' liquidity position to established corporate liquidity policies on a monthly basis.

Table 21 Contractual Obligations

| | Payments Due By Period | | | | Total |
|----------------------|------------------------|--------------|-----------------------------|----------------------|---------------|
| | Less than 1 Year | 1-3 Years | 4-5 Years (In thousands) | More than 5 Years | |
| Long-term borrowings | \$ 782,296 | \$ 3,875,010 | \$ 2,588,249 | \$ 4,079,235 | \$ 11,324,790 |
| Time deposits | 26,624,549 | 2,140,999 | 472,344 | 60,953 | 29,298,845 |
| Lease obligations | 143,519 | 248,843 | 181,402 | 537,436 | 1,111,200 |
| Purchase obligations | 52,657 | 53,528 | 8,379 | | 114,564 |
| Other | | | | 354,343 | 354,343 |
| | \$ 27,603,021 | \$ 6,318,380 | \$ 3,250,374 | \$ 5,031,967 | \$ 42,203,742 |

The securities portfolio is one of Regions' primary sources of liquidity. Maturities of securities provide a constant flow of funds available for cash needs (see Table 12 Relative Contractual Maturities and Weighted-Average Yields for Securities). Maturities in the loan portfolio also provide a steady flow of funds (see Table 10 Selected Loan Maturities). At December 31, 2007, commercial loans, real estate construction loans and certain real estate mortgage loans with an aggregate balance of \$21.7 billion, as well as securities of \$674.6 million, were due to mature in one year or less. Additional funds are provided from payments on consumer loans and one- to four-family residential mortgage loans. Historically, Regions' high levels of earnings have also contributed to cash flow. In addition, liquidity needs can be met by the purchase of funds in state and national money markets. Regions' liquidity also continues to be enhanced by a relatively stable deposit base.

As reflected in the consolidated statements of cash flows, operating activities provided significant levels of funds in 2007, due primarily to high levels of net income. Investing activities were a net provider of funds in 2007, primarily due to proceeds from the sale and maturity of securities available for sale and the proceeds from sales of student loans, partially offset by the purchase of securities available for sale and increased lending activity. Financing activities were a net user of funds in 2007, reflecting a decrease in deposits, payments made on borrowings and repurchase of Regions stock in 2007.

Regions' financing arrangement with the FHLB adds additional flexibility in managing its liquidity position. The maximum amount that could be borrowed from the FHLB under the current borrowing agreement is approximately \$28.2 billion (see Note 12 Long-Term Borrowings to the consolidated financial statements). However, the actual borrowing capacity is contingent on the amount of collateral pledged to the FHLB. At December 31, 2007, approximately \$6.3 billion of first mortgage loans on one- to four-family dwellings held by Regions Bank were pledged to secure borrowings from the FHLB. Investment in FHLB stock is required in relation to the level of outstanding borrowings. Regions held \$200.8 million in FHLB stock at December 31, 2007. The FHLB has been and is expected to continue to be a reliable and economical source of funding. As of December 31, 2007, Regions' borrowings from the FHLB totaled \$3.9 billion.

As mentioned previously in the Long-Term Borrowings section of this report, in May 2007, Regions filed a shelf registration statement. The shelf allows for the issuance of an indeterminate amount of various debt and/or equity securities.

In addition, Regions Bank has the requisite agreements in place to issue and sell up to \$4.5 billion of bank notes to institutional investors through placement agents as of December 31, 2007. The issuance of additional bank notes could provide a significant source of liquidity and funding to meet future needs.

Morgan Keegan maintains certain lines of credit with unaffiliated banks to manage liquidity in the ordinary course of business. See Note 11 Short-Term Borrowings to the consolidated financial statements for further details.

Regions can borrow a maximum amount of approximately \$12.9 billion from the Federal Reserve Bank. See Note 12 Long-term Borrowings to the consolidated financial statements for further detail.

As an additional source of liquidity, Regions periodically sells commercial loans to qualifying special purpose entities known as conduits in securitization transactions. The conduits are financed by the issuance of securities to asset-backed commercial paper issuers. The transactions are accounted for as sales and allow Regions to utilize its asset capacity and capital for higher-yielding interest-earning assets, while continuing to manage customer relationships. At December 31, 2007, the outstanding balance of commercial loans sold to conduits was \$41.5 million compared to \$431.7 million in 2006. The decrease is primarily due to unfavorable conditions in the asset-backed commercial paper market which developed in the latter half of 2007, leading management to reduce exposure in this area. While the conduit transactions are a source of funding, these off-balance sheet arrangements have the potential to require Regions to provide funding to the conduits in the event of a liquidity shortage.

If Regions is unable to maintain or renew its financing arrangements, obtain funding in the capital markets on reasonable terms or experiences a decrease in earnings, it may be required to slow or reduce the growth of the assets on its balance sheet, which may adversely impact its earnings.

MARKET AND OTHER BROKERAGE-RELATED RISK

Morgan Keegan's business activities, including its securities inventory positions and securities held for investment, expose it to market risk.

Morgan Keegan trades for its own account in corporate and tax-exempt securities and U.S. Government agency and guaranteed securities. Most of these transactions are entered into to facilitate the execution of customers' orders to buy or sell these securities. In addition, it trades certain equity securities in order to make a market in these securities. Morgan Keegan's trading activities require the commitment of capital. All principal transactions place the subsidiary's capital at risk. Profits and losses are dependent upon the skills of employees and market fluctuations. In order to mitigate the risks of carrying inventory and as part of other normal brokerage activities, Morgan Keegan assumes short positions on securities. The establishment of short positions exposes Morgan Keegan to off-balance sheet risk in the event that prices increase, as it may be obligated to cover such positions at a loss. Morgan Keegan manages its exposure to these instruments by entering into offsetting or other positions in a variety of financial instruments.

In the normal course of business, Morgan Keegan enters into underwriting and forward and future commitments. At December 31, 2007, the contract amounts of futures contracts were \$4.1 million to purchase and \$50.9 million to sell U.S. Government and municipal securities. Morgan Keegan typically settles its position by entering into equal but opposite contracts and, as such, the contract amounts do not necessarily represent future cash requirements. Settlement of the transactions relating to such commitments is not expected to have a material effect on Regions' consolidated financial position. Transactions involving future settlement give rise to market risk, which represents the potential loss that can be caused by a change in the market value of a particular financial instrument. Regions' exposure to market risk is determined by a number of factors, including the size, composition and diversification of positions held, the absolute and relative levels of interest rates, and market volatility.

Additionally, in the normal course of business, Morgan Keegan enters into transactions for delayed delivery, to-be-announced securities, which are recorded in trading account assets on the consolidated balance sheets at fair value. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from unfavorable changes in interest rates or the market values of the securities underlying the instruments. The credit risk associated with these contracts is typically limited to the cost of replacing all contracts on which Morgan Keegan has recorded an unrealized gain. For exchange-traded contracts, the clearing organization acts as the counterparty to specific transactions and, therefore, bears the risk of delivery to and from counterparties.

Interest rate risk at Morgan Keegan arises from the exposure of holding interest-sensitive financial instruments such as government, corporate and municipal bonds, and certain preferred equities. Morgan Keegan manages its exposure to interest rate risk by setting and monitoring limits and, where feasible, entering into offsetting positions in securities with similar interest rate risk characteristics. Securities inventories, recorded in trading account assets on the consolidated balance sheets, are marked-to-market and, accordingly, there are no unrecorded gains or losses in value. While a significant portion of the securities inventories have contractual maturities in excess of five years, these inventories, on average, turn over in excess of twelve times per year. Accordingly, the exposure to interest rate risk inherent in Morgan Keegan's securities inventories is less than that of similar financial instruments held by firms in other industries. Morgan Keegan's equity securities inventories are exposed to risk of loss in the event of unfavorable price movements. Also, Morgan Keegan is subject to credit risk arising from non-performance by trading counterparties, customers and issuers of debt securities owned. This risk is managed by imposing and monitoring position limits, monitoring trading counterparties, reviewing security concentrations, holding and marking to market collateral, and conducting business through clearing organizations that guarantee performance. Morgan Keegan regularly participates in the trading of some derivative securities for its customers; however, this activity does not involve Morgan Keegan acquiring a position or commitment in these products and this trading is not a significant portion of Morgan Keegan's business.

To manage trading risks arising from interest rate and equity price risks, Regions uses a Value at Risk (VAR) model to estimate the potential fair value the Company could lose on its trading positions given a specified statistical confidence level and time-to-liquidate time horizon. The end-of-period VAR was approximately \$1.8 million as of December 31, 2007 and approximately \$910,000 as of December 31, 2006. Maximum daily VAR utilization during 2007 was \$6.8 million and average daily VAR during the same period was \$1.2 million.

CREDIT RISK

Regions' objective regarding credit risk is to maintain a high-quality credit portfolio that provides for stable credit costs with acceptable volatility through an economic cycle.

Management Process

Regions employs a credit risk management process with defined policies, accountability and regular reporting to manage credit risk in the loan portfolio. Credit risk management is guided by credit policies that provide for a consistent and prudent approach to underwriting and approvals of credits. Within the Credit Policy department, procedures exist that elevate the approval requirements as credits become larger and more complex. Generally, consumer credits and smaller commercial credits are centrally underwritten based on custom credit matrices that are modified as appropriate. Larger commercial and commercial real estate transactions are individually underwritten, risk-rated, approved and monitored.

Responsibility and accountability for adherence to underwriting policies and accurate risk ratings lies in the lines of business. For consumer and small business portfolios, the risk management process focuses on managing customers who become delinquent in their payments and managing performance of the credit scorecards, which are periodically adjusted based on credit performance. Commercial business units are responsible for underwriting new business and on an ongoing basis, monitoring the credit of their portfolios, including a complete review of the borrower semi-annually or more frequently as needed.

To ensure problem commercial credits are identified on a timely basis, several specific portfolio reviews occur each quarter to assess the larger adversely rated credits for accrual status and, if necessary, to ensure such individual credits are transferred to Regions' Special Asset Group, which specializes in managing distressed credit exposures.

Separate and independent commercial credit and consumer credit risk management organizational groups exist, which report to the Chief Credit Officer. These organizational units partner with the business line to assist in the processes described above, including the review and approval of new business and ongoing assessments of existing loans in the portfolio. Independent commercial and consumer credit risk management provides for more accurate risk ratings and the timely identification of problem credits, as well as oversight for the Chief Credit Officer on conditions and trends in the credit portfolios.

Credit quality and trends in the loan portfolio are measured and monitored regularly and detailed reports, by product and business unit, are reviewed by line of business personnel and the Chief Credit Officer. The Chief Credit Officer reviews summaries of these credit reports with executive management and the Board of Directors. Finally, the Credit Review department provides ongoing independent oversight of the credit portfolios to ensure policies are followed, credits are properly risk-rated and that key credit control processes are functioning as intended.

Risk Characteristics of the Loan Portfolio

In order to assess the risk characteristics of the loan portfolio, it is appropriate to consider the current U.S. economic environment and that of Regions' primary banking markets, as well as risk factors within the three major categories of loans: commercial, real estate and consumer.

Economic Environment in Regions' Banking Markets

The largest factor influencing the credit performance of Regions' loan portfolio is the overall economic environment in the U.S. and the primary markets in which it operates. The U.S. economy slowed in 2007, as evidenced by declining growth in Gross Domestic Product and a notably weaker housing market.

Housing weakened considerably during 2007 and the risk of recession is significantly increasing due to the negative impact housing is having on the overall economy. This weakness prompted the Federal Reserve to cut interest rates during the second half of 2007 and into 2008, including the 125-basis-points cuts in January 2008, in order to add liquidity to the markets. Within the Regions footprint, the housing slowdown has been relatively severe in parts of Florida, and Atlanta, Georgia has also experienced pockets of overbuilding. Both areas had experienced above-average price increases and construction activity in recent years. The slowdown is manifesting itself through decreases in housing permits, starts and sales, falling prices and excess unsold inventory on the market. Management anticipates that the housing industry will remain weak throughout 2008.

While the conditions outside of the residential real estate industry remain generally sound, there has been a decrease in job creation and increases in unemployment in states within our footprint. Industries reliant upon a strong housing market are being negatively affected, including title and mortgage companies, and manufacturers, wholesalers and retailers of building supplies, home furnishings and appliances.

The economic environment became more challenging during 2007, particularly for borrowers directly or indirectly tied to the housing industry. Other indicators of economic strains include oil prices that have continued to increase, consumer debt levels remaining at record levels and the consumer savings rate being negative. Additionally, the volumes of adjustable-rate mortgages subject to rate reset will be at record levels over the next 24 to 36 months on a national basis. These factors will only add more strain to consumers.

Portfolio Characteristics

Regions has a well-diversified loan portfolio, in terms of product type, collateral and geography. At December 31, 2007, commercial loans represented 22 percent of total loans, net of unearned income, real estate mortgage loans (including residential one- to four-family) represented 41 percent, real estate construction loans were 15 percent and consumer loans comprised the remaining 22 percent.

Commercial The commercial loan portfolio totaled \$20.9 billion at year end 2007 and primarily consists of loans to middle market commercial customers doing business in Regions' geographic footprint. Loans in this portfolio are generally underwritten individually and usually secured with the assets of the company and/or the personal guarantee of the business owners.

Net charge-offs on commercial loans were 0.31 percent of average commercial loans in 2007 compared to 0.22 percent in 2006. This increase was due in large part to the performance of a small number of specific credits.

Real Estate Mortgage The real estate mortgage portfolio totaled \$39.3 billion at year end 2007 and includes various loan types. A large portion is owner-occupied loans to businesses for long-term financing of land and buildings. These loans are generally underwritten and managed in the commercial business line. Regions attempts to minimize risk on owner-occupied properties by requiring collateral values that exceed the loan amount, adequate cash flow to service the debt, and in many cases, the personal guarantees of principals of the borrowers.

Another large component of real estate mortgage loans is loans to real estate developers and investors for the financing of land or buildings, where the repayment is generated from the sale of the real estate or income generated by the real estate property. While losses on these types of real estate mortgage loans have been very low for a number of years, they did rise in 2007 in reaction to a slowing economy and its effects on demand for real estate properties. Regions expects that losses on these types of loans will continue to rise during 2008.

Also included in the real estate mortgage loan category are loans on one- to four-family residential properties, which are secured principally by single-family residences. Loans of this type are generally smaller in size and are geographically dispersed throughout Regions' market areas, with some guaranteed by government agencies or private mortgage insurers. Losses on the residential loan portfolio depend, to a large degree, on the level of interest rates, the unemployment rate, economic conditions and collateral values, and thus, are difficult to predict. During 2007, losses on single-family residences were relatively low. However, Regions expects losses on loans of this type to increase moderately during 2008, driven by the general housing slowdown throughout the U.S., including areas within Regions' operating footprint.

Real Estate Construction These loans are primarily 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 construction loan may also be made to a commercial business for the development of land or buildings where the repayment is usually derived from revenues generated from the business of the borrower. These loans are generally underwritten and managed by a specialized real estate group that also manages loan disbursements during the construction process. As of December 31, 2007, real estate construction loans were \$14.0 billion or 15 percent of Regions' total loan portfolio. Most construction credits were to finance shopping centers, apartment complexes, condominiums, commercial buildings and residential property development. These loans are generally vulnerable to economic downturns in periods of high interest rates and declines in property values.

Included in the real estate construction loan category are loans to residential homebuilders. The chart and table below provide details related to this residential homebuilder portfolio, which totaled \$7.2 billion at December 31, 2007. Further details about this portfolio are also provided in the Balance Sheet Analysis section, found earlier in this report. Credit quality of the construction portfolio is sensitive to risks associated with construction loans such as cost overruns, project completion risk, general contractor credit risk, environmental and other hazard risks, and market risks associated with the sale or rental of completed properties. While losses within this portfolio have been low historically, they increased in 2007 largely as a result of the stresses described above. These stresses are expected to continue throughout 2008 and, accordingly, losses on real estate construction loans are expected to continue to rise as well.

RESIDENTIAL HOMEBUILDER PORTFOLIO

(In millions)

| | Alabama | East(1) | Florida | Midwest(2) | Southwest(3) | Tennessee | Other | Total |
|-------------------|----------------|--------------|--------------|------------|--------------|------------|------------|--------------|
| | (In thousands) | | | | | | | |
| Non-accruing | \$ 17,648 | \$ 56,543 | \$ 104,896 | \$ 45,030 | \$ 10,145 | \$ 23,698 | \$ 45 | \$ 258,005 |
| Accruing | 784,398 | 2,284,528 | 1,903,195 | 782,222 | 318,790 | 697,242 | 176,799 | 6,947,174 |
| Total outstanding | \$ 802,046 | \$ 2,341,071 | \$ 2,008,091 | \$ 827,252 | \$ 328,935 | \$ 720,940 | \$ 176,844 | \$ 7,205,179 |

(1) East consists of Georgia, North Carolina and South Carolina

(2) Midwest consists of Arkansas, Illinois, Indiana, Iowa, Kentucky, Missouri and Texas

(3) Southwest consists of Louisiana and Mississippi

Home Equity Lending This portfolio contains home equity loans and lines of credit totaling \$15.0 billion as of year end 2007. This entire portfolio was originated through Regions and its acquired banks branch network, with none having been obtained through brokers or other third parties. Losses on home equity lending have begun moving from historic lows to more normalized levels. As a percentage of outstanding home equity loans and lines, losses decreased in 2007 to 0.27 percent from 0.34 percent in 2006. The Company had credit insurance covering approximately \$533 million of higher-risk lines as of year end. These lines were generally in a second lien position with loan-to-values above 90 percent.

Indirect and Other Consumer Lending Loans within the indirect portfolio, which consist mainly of automobile, marine and recreational vehicle loans originated through third-party business relationships, totaled \$3.9 billion as of year end 2007. Other consumer loans, which consist primarily of borrowings for home improvements, student loans, automobiles, overdrafts and other personal household purposes, totaled \$2.2 billion as of year end.

Losses on home equity and other consumer lending began to increase in the latter half of 2007 due to deterioration of general economic conditions, including unfavorable changes in housing demand and property values. These portfolios will continue to be impacted by these factors, which Regions believes will remain pressured in 2008 and, therefore, the Company expects losses to rise modestly during 2008.

Allowance for Credit Losses

The allowance for credit losses represents management's estimate of credit losses inherent in the portfolio as of year end. The allowance for credit losses consists of two components: the allowance for loan losses and the reserve for unfunded credit commitments. Management's assessment of the adequacy of the allowance for credit losses is based on the combination of both of these components. Regions determines its allowance for credit

losses in accordance with regulatory guidance, Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan (FAS 114) and Statement of Financial Accounting Standards No. 5, Accounting for Contingencies (FAS 5). Binding unfunded credit commitments include items such as letters of credit, financial guarantees and binding unfunded loan commitments.

At December 31, 2007, the allowance for credit losses totaled \$1.4 billion or 1.45 percent of total loans, net of unearned income compared to \$1.1 billion or 1.17 percent at year end 2006. The increase in the allowance for credit loss ratio reflects management's estimate of the level of inherent losses in the portfolio, which management believes increased significantly during the fourth quarter of 2007 due to a slowing economy and a weakening housing market. The increase in non-performing assets was a key determining factor in the assessment of inherent losses and, as a result, was an important factor in determining the allowance level. Non-performing assets increased from \$379.1 million at December 31, 2006 to \$864.1 million at December 31, 2007, with \$275.7 million of the increase occurring during the fourth quarter of 2007. Details regarding the allowance for credit losses, including an analysis of activity from the previous year's total, are included in Table 22 Allowance for Credit Losses. Management expects the allowance for credit loss ratio to vary over time due to changes in economic conditions, loan mix and collateral values, or variations in other factors that may affect inherent losses.

Factors considered by management in determining the adequacy of the allowance for credit losses include, but are not limited to: (1) detailed reviews of individual loans; (2) historical and current trends in gross and net loan charge-offs for the various portfolio segments evaluated; (3) the level of the allowance for credit losses in relation to total loans and to historical loss levels; (4) levels and trends in non-performing and past due loans; (5) collateral values of properties securing loans; (6) the composition of the loan portfolio, including unfunded credit commitments; and (7) management's analysis of economic conditions.

Various departments, including Credit Review, Commercial and Consumer Credit Risk Management, and Special Assets, are involved in the credit risk management process to assess the accuracy of risk ratings, the quality of the portfolio and the estimation of inherent credit losses in the loan portfolio. This comprehensive process also assists in the prompt identification of problem credits.

For the majority of the loan portfolio, management uses information from its ongoing review processes to stratify the loan portfolio into pools sharing common risk characteristics. Loans that share common risk characteristics are assigned a portion of the allowance for credit losses based on the assessment process described above. Credit exposures are categorized by type and assigned estimated amounts of inherent loss based on several factors, including current and historical loss experience for each pool and management's judgment of current economic conditions and their expected impact on credit performance.

Impaired loans are defined as commercial and commercial real estate loans (excluding leases) on non-accrual status. All loans that management has identified as impaired, and that are greater than \$2.5 million, are evaluated individually for purposes of determining appropriate allowances for credit losses. This process results in what are internally called FAS 114 Specific Reserves. In the Specific Reserve process, loans are valued based on the most suitable valuation technique as defined in FAS 114 (see Note 1 Summary of Significant Accounting Policies to the consolidated financial statements). If current valuations are lower than the current book balance of the credit, the negative differences are reviewed for possible charge-off. In instances where management determines that a charge-off is not appropriate, a FAS 114 Specific Reserve is established for the individual loan in question. That Specific Reserve is incorporated as a part of the overall allowance for credit losses. At December 31, 2007, loans qualifying for FAS 114 consideration totaled \$660.4 million with Specific Reserves of \$58.7 million. This compares to total loans qualifying for FAS 114 of \$237.5 million with Specific Reserves of \$17.6 million at December 31, 2006.

Management considers the current level of allowance for credit losses adequate to absorb losses inherent in the loan portfolio and unfunded commitments. Management's determination of the adequacy of the allowance for credit losses, which is based on the factors and risk identification procedures previously discussed, requires the

use of judgments and estimations that may change in the future. Changes in the factors used by management to determine the adequacy of the allowance or the availability of new information could cause the allowance for credit losses to be increased or decreased in future periods. In addition, bank regulatory agencies, as part of their examination process, may require changes in the level of the allowance based on their judgments and estimates.

Table 22 Allowance for Credit Losses

| | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|----------------|------------|------------|------------|------------|
| | (In thousands) | | | | |
| Allowance for loan losses at January 1 | \$ 1,055,953 | \$ 783,536 | \$ 754,721 | \$ 454,057 | \$ 437,164 |
| Loans charged-off: | | | | | |
| Commercial | 102,890 | 72,035 | 93,206 | 92,610 | 64,557 |
| Real estate mortgage | 59,417 | 51,014 | 62,534 | 39,078 | 38,203 |
| Real estate construction | 32,582 | 9,986 | 7,365 | 5,620 | 5,443 |
| Equity | 54,010 | 37,434 | 3,675 | 6,273 | 4,861 |
| Indirect | 36,242 | 18,419 | 17,925 | 13,574 | 7,744 |
| Other consumer | 82,424 | 30,591 | 27,025 | 31,217 | 24,061 |
| | 367,565 | 219,479 | 211,730 | 188,372 | 144,869 |
| Recoveries of loans previously charged-off: | | | | | |
| Commercial | 29,537 | 34,495 | 36,753 | 18,701 | 9,496 |
| Real estate mortgage | 10,076 | 9,781 | 13,112 | 8,450 | 8,032 |
| Real estate construction | 2,035 | 2,999 | 1,318 | 7,610 | 1,771 |
| Equity | 13,336 | 7,714 | 1,558 | 1,333 | 1,250 |
| Indirect | 15,704 | 7,878 | 6,800 | 5,776 | 5,182 |
| Other consumer | 26,355 | 16,671 | 16,004 | 15,522 | 14,531 |
| | 97,043 | 79,538 | 75,545 | 57,392 | 40,262 |
| Net charge-offs | | | | | |
| Commercial | 73,353 | 37,540 | 56,453 | 73,909 | 55,061 |
| Real estate mortgage | 49,341 | 41,233 | 49,422 | 30,628 | 30,171 |
| Real estate construction | 30,547 | 6,987 | 6,047 | (1,990) | 3,672 |
| Equity | 40,674 | 29,720 | 2,117 | | |