REGIONS FINANCIAL CORP
Form 10-Q
August 04, 2010
**Table of Contents**

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# Form 10-Q

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the quarterly period ended June 30, 2010**

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

**(205) 326-5807**

**(Registrant s telephone number, including area code)**

**NOT APPLICABLE**

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨

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

The number of shares outstanding of each of the issuer s classes of common stock was 1,255,941,000 shares of common stock, par value $.01, outstanding as of July 31, 2010.

**Table of Contents**

**REGIONS FINANCIAL CORPORATION**

**FORM 10-Q**

**INDEX**


| | | | Page |
|---|---|---|---|
| Part I. Financial Information | | | |
| | Item 1. | Financial Statements (Unaudited) | |
| | | Consolidated Balance Sheets June 30, 2010, December 31, 2009 and June 30, 2009 | 5 |
| | | Consolidated Statements of Operations Three and six months ended June 30, 2010 and 2009 | 6 |
| | | Consolidated Statements of Changes in Stockholders Equity Six months ended June 30, 2010 and 2009 | 7 |
| | | Consolidated Statements of Cash Flows Six months ended June 30, 2010 and 2009 | 8 |
| | | Notes to Consolidated Financial Statements | 9 |
| | Item 2. | Management s Discussion and Analysis of Financial Condition and Results of Operations | 46 |
| | Item 3. | Quantitative and Qualitative Disclosures about Market Risk | 84 |
| | Item 4. | Controls and Procedures | 84 |
| Part II. Other Information | | | |
| | Item 1. | Legal Proceedings | 85 |
| | Item 1A. | Risk Factors | 86 |
| | Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 89 |
| | Item 6. | Exhibits | 90 |
| Signatures | | | 91 |

Table of Contents

**Forward-Looking Statements**

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

The Dodd-Frank Wall Street Reform and Consumer Protection Act became law on July 21, 2010, and a number of legislative, regulatory and tax proposals remain pending. Additionally, the U.S. Treasury and federal banking regulators continue to implement, but are also beginning to wind down, a number of programs to address capital and liquidity in the banking system. All of the foregoing may have significant effects on Regions and the financial services industry, the exact nature and extent of which cannot be determined at this time.

The impact of compensation and other restrictions imposed under the Troubled Asset Relief Program ( TARP ) until Regions repays the outstanding preferred stock and warrant issued under the TARP, including restrictions on Regions ability to attract and retain talented executives and associates.

Possible additional loan losses, impairment of goodwill and other intangibles, and adjustment of valuation allowances on deferred tax assets and the impact on earnings and capital.

Possible changes in interest rates may increase funding costs and reduce earning asset yields, thus reducing margins.

Possible changes in general economic and business conditions in the United States in general and in the communities Regions serves in particular, including any prolonging or worsening of the current unfavorable economic conditions, including unemployment levels.

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

Possible changes in trade, monetary and fiscal policies, laws and regulations, and other activities of governments, agencies, and similar organizations, including changes in accounting standards, may have an adverse effect on business.

The current stresses in the financial and real estate markets, including possible continued deterioration in property values.

Regions ability to manage fluctuations in the value of assets and liabilities and off-balance sheet exposure so as to maintain sufficient capital and liquidity to support Regions business.

Regions ability to achieve the earnings expectations related to businesses that have been acquired or that may be acquired in the future.

Regions ability to expand into new markets and to maintain profit margins in the face of competitive pressures.

Regions ability to develop competitive new products and services in a timely manner and the acceptance of such products and services by Regions customers and potential customers.

Regions ability to keep pace with technological changes.

Table of Contents

Regions ability to effectively manage credit risk, interest rate risk, market risk, operational risk, legal risk, liquidity risk, and regulatory and compliance risk.

Regions ability to ensure adequate capitalization which is impacted by inherent uncertainties in forecasting credit losses.

The cost and other effects of material contingencies, including litigation contingencies, and any adverse judicial, administrative, or arbitral rulings or proceedings.

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

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

Possible changes in consumer and business spending and saving habits could affect Regions ability to increase assets and to attract deposits.

The effects of weather and natural disasters such as floods, droughts and hurricanes, and the effects of the Gulf of Mexico oil spill.

Regions ability to maintain favorable ratings from rating agencies.

Potential dilution of holders of shares of Regions common stock resulting from the U.S. Treasury s investment in TARP.

Possible changes in the speed of loan prepayments by Regions customers and loan origination or sales volumes.

The effects of problems encountered by larger or similar financial institutions that adversely affect Regions or the banking industry generally.

Regions ability to receive dividends from its subsidiaries.

The effects of the failure of any component of Regions business infrastructure which is provided by a third party.

The effects of any damage to Regions reputation resulting from developments related to any of the items identified above.

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

See also Item 1A. Risk Factors of this Form 10-Q and of Regions Annual Report on Form 10-K for the year ended December 31, 2009 and Quarterly Report on Form 10-Q for the quarter ended March 31, 2010.

4

Table of Contents

**PART I**

**FINANCIAL INFORMATION**

**Item 1. Financial Statements (Unaudited)**

**REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

| | June 30 2010 | December 31 2009 | June 30 2009 |
|---|---|---|---|
| | (In millions, except share data) | | |
| **Assets** | | | |
| Cash and due from banks | $ 2,097 | $ 2,052 | $ 2,363 |
| Interest-bearing deposits in other banks | 4,562 | 5,580 | 2,846 |
| Federal funds sold and securities purchased under agreements to resell | 752 | 379 | 3,221 |
| Trading account assets | 1,261 | 3,039 | 1,109 |
| Securities available for sale | 24,166 | 24,069 | 19,681 |
| Securities held to maturity | 28 | 31 | 43 |
| Loans held for sale (includes $819, $780 and $1,373 measured at fair value, respectively) | 1,162 | 1,511 | 1,932 |
| Loans, net of unearned income | 85,945 | 90,674 | 96,149 |
| Allowance for loan losses | (3,185) | (3,114) | (2,282) |
| Net loans | 82,760 | 87,560 | 93,867 |
| Other interest-earning assets | 1,082 | 734 | 829 |
| Premises and equipment, net | 2,588 | 2,668 | 2,789 |
| Interest receivable | 466 | 468 | 501 |
| Goodwill | 5,561 | 5,557 | 5,556 |
| Mortgage servicing rights | 220 | 247 | 202 |
| Other identifiable intangible assets | 443 | 503 | 568 |
| Other assets | 8,192 | 7,920 | 7,304 |
| Total assets | $ 135,340 | $ 142,318 | $ 142,811 |
| **Liabilities and Stockholders Equity** | | | |
| Deposits: | | | |
| Non-interest-bearing | $ 22,993 | $ 23,204 | $ 20,995 |
| Interest-bearing | 73,257 | 75,476 | 73,731 |
| Total deposits | 96,250 | 98,680 | 94,726 |
| Borrowed funds: | | | |
| Short-term borrowings: | | | |
| Federal funds purchased and securities sold under agreements to repurchase | 1,929 | 1,893 | 2,265 |
| Other short-term borrowings | 1,035 | 1,775 | 4,927 |
| Total short-term borrowings | 2,964 | 3,668 | 7,192 |
| Long-term borrowings | 15,415 | 18,464 | 18,238 |
| Total borrowed funds | 18,379 | 22,132 | 25,430 |
| Other liabilities | 3,248 | 3,625 | 3,918 |
| Total liabilities | 117,877 | 124,437 | 124,074 |
| Stockholders equity: | | | |
| Preferred stock, authorized 10 million shares | | | |
| Series A, cumulative perpetual participating, par value $1.00 (liquidation preference $1,000.00) per share, net of discount; | | | |
| Issued 3,500,000 shares | 3,360 | 3,343 | 3,325 |

| | | | |
|---|---|---|---|
| Series B, mandatorily convertible, cumulative perpetual participating, par value $1,000.00 (liquidation preference $1,000.00) per share; | | | |
| Issued 0; 267,665 and 287,500 shares, respectively | | 259 | 278 |
| Common stock, par value $.01 per share: | | | |
| Authorized 1.5 billion shares | | | |
| Issued including treasury stock 1,298,911,598; 1,235,850,589 and 1,231,643,211 shares, respectively | 13 | 12 | 12 |
| Additional paid-in capital | 19,038 | 18,781 | 18,740 |
| Retained earnings (deficit) | (3,849) | (3,235) | (2,169) |
| Treasury stock, at cost 42,969,345; 43,241,020 and 43,439,788 shares, respectively | (1,405) | (1,409) | (1,413) |
| Accumulated other comprehensive income (loss), net | 306 | 130 | (36) |
| Total stockholders equity | 17,463 | 17,881 | 18,737 |
| Total liabilities and stockholders equity | $ 135,340 | $ 142,318 | $ 142,811 |

See notes to consolidated financial statements.

Table of Contents

**REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | (In millions, except per share data) | | | |
| Interest income on: | | | | |
| Loans, including fees | $ 930 | $ 1,073 | $ 1,875 | $ 2,171 |
| Securities: | | | | |
| Taxable | 224 | 239 | 466 | 478 |
| Tax-exempt | | 5 | 1 | 12 |
| Total securities | 224 | 244 | 467 | 490 |
| Loans held for sale | 9 | 15 | 17 | 31 |
| Federal funds sold and securities purchased under agreements to resell | 1 | 1 | 1 | 2 |
| Trading account assets | 9 | 10 | 21 | 22 |
| Other interest-earning assets | 7 | 8 | 14 | 14 |
| Total interest income | 1,180 | 1,351 | 2,395 | 2,730 |
| Interest expense on: | | | | |
| Deposits | 194 | 330 | 436 | 696 |
| Short-term borrowings | 2 | 16 | 5 | 36 |
| Long-term borrowings | 128 | 174 | 267 | 358 |
| Total interest expense | 324 | 520 | 708 | 1,090 |
| Net interest income | 856 | 831 | 1,687 | 1,640 |
| Provision for loan losses | 651 | 912 | 1,421 | 1,337 |
| Net interest income (loss) after provision for loan losses | 205 | (81) | 266 | 303 |
| Non-interest income: | | | | |
| Service charges on deposit accounts | 302 | 288 | 590 | 557 |
| Brokerage, investment banking and capital markets | 254 | 263 | 490 | 480 |
| Mortgage income | 63 | 64 | 130 | 137 |
| Trust department income | 49 | 48 | 97 | 94 |
| Securities gains, net | | 108 | 59 | 161 |
| Leveraged lease termination gains | | 189 | 19 | 512 |
| Other | 88 | 239 | 183 | 324 |
| Total non-interest income | 756 | 1,199 | 1,568 | 2,265 |
| Non-interest expense: | | | | |
| Salaries and employee benefits | 560 | 586 | 1,135 | 1,125 |
| Net occupancy expense | 110 | 112 | 230 | 219 |
| Furniture and equipment expense | 79 | 78 | 153 | 154 |
| Other-than-temporary impairments (1) | | 69 | 1 | 72 |
| Regulatory charge | 200 | | 200 | |
| Other | 377 | 386 | 837 | 719 |
| Total non-interest expense | 1,326 | 1,231 | 2,556 | 2,289 |
| Income (loss) before income taxes | (365) | (113) | (722) | 279 |
| Income taxes | (88) | 75 | (249) | 390 |
| Net income (loss) | $ (277) | $ (188) | $ (473) | $ (111) |
| Net income (loss) available to common shareholders | $ (335) | $ (244) | $ (590) | $ (218) |

| | | | | |
|---|---|---|---|---|
| Weighted-average number of shares outstanding: | | | | |
| Basic | 1,200 | 876 | 1,197 | 785 |
| Diluted | 1,200 | 876 | 1,197 | 785 |
| Earnings (loss) per common share: | | | | |
| Basic | $ (0.28) | $ (0.28) | $ (0.49) | $ (0.28) |
| Diluted | (0.28) | (0.28) | (0.49) | (0.28) |
| Cash dividends declared per common share | 0.01 | 0.01 | 0.02 | 0.11 |

(1) Includes $260 million for the three months ended and $263 million for the six months ended June 30, 2009, respectively, of gross charges, net of $191 million non-credit portion reported in other comprehensive income (loss). The corresponding 2010 amounts are immaterial.

See notes to consolidated financial statements.

Table of Contents

**REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY**

| | Preferred Stock | | Common Stock | | Additional Paid-In Capital | Retained Earnings (Deficit) | Treasury Stock, At Cost | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | | | | | |
| | (In millions, except per share data) | | | | | | | | |
| **BALANCE AT JANUARY 1, 2009** | 4 | $ 3,307 | 691 | $ 7 | $ 16,815 | $ (1,869) | $ (1,425) | $ (22) | $ 16,813 |
| Comprehensive income: | | | | | | | | | |
| Net income (loss) | | | | | | (111) | | | (111) |
| Net change in unrealized gains and losses on securities available for sale, net of tax and reclassification adjustment, excluding non-credit portion of other-than temporary impairments* | | | | | | | | 170 | 170 |
| Non-credit portion of other-than-temporary impairments recognized in other comprehensive income, net of tax* | | | | | | | | (124) | (124) |
| Net change in unrealized gains and losses on derivative instruments, net of tax and reclassification adjustment* | | | | | | | | (78) | (78) |
| Net change from defined benefit pension plans, net of tax* | | | | | | | | 18 | 18 |
| Comprehensive income (loss) | | | | | | | | | (125) |
| Cash dividends declared $0.11 per share | | | | | | (82) | | | (82) |
| Preferred dividends | | | | | | (89) | | | (89) |
| Preferred stock transactions: | | | | | | | | | |
| Net proceeds from issuance of 287.5 thousand shares of mandatorily convertible preferred stock | | 278 | | | | | | | 278 |
| Discount accretion | | 18 | | | | (18) | | | |
| Common stock transactions: | | | | | | | | | |
| Net proceeds from issuance of 460 million shares of common stock | | | 460 | 5 | 1,764 | | | | 1,769 |
| Issuance of 33 million shares of common stock in connection with early extinguishment of debt | | | 33 | | 135 | | | | 135 |
| Stock transactions under compensation plans, net | | | 4 | | 9 | | 12 | | 21 |
| Amortization of unearned restricted stock and related adjustments | | | | | 17 | | | | 17 |
| **BALANCE AT JUNE 30, 2009** | 4 | $ 3,603 | 1,188 | $ 12 | $ 18,740 | $ (2,169) | $ (1,413) | $ (36) | $ 18,737 |
| **BALANCE AT JANUARY 1, 2010** | 4 | $ 3,602 | 1,193 | $ 12 | $ 18,781 | $ (3,235) | $ (1,409) | $ 130 | $ 17,881 |
| Comprehensive income: | | | | | | | | | |
| Net income (loss) | | | | | | (473) | | | (473) |
| Net change in unrealized gains and losses on securities available for sale, net of tax and reclassification adjustment* | | | | | | | | 234 | 234 |
| Net change in unrealized gains and losses on derivative instruments, net of tax and reclassification adjustment* | | | | | | | | (67) | (67) |
| Net change from defined benefit pension plans, net of tax* | | | | | | | | 9 | 9 |
| Comprehensive income (loss) | | | | | | | | | (297) |
| Cash dividends declared $0.02 per share | | | | | | (24) | | | (24) |
| Preferred dividends | | | | | 3 | (100) | | | (97) |
| Preferred stock transactions: | | | | | | | | | |
| Conversion of mandatorily convertible preferred stock into 63 million shares of common stock | | (259) | 63 | 1 | 258 | | | | |
| Discount accretion | | 17 | | | | (17) | | | |
| Common stock transactions: | | | | | | | | | |
| Stock transactions under compensation plans, net | | | | | (5) | | 4 | | (1) |
| | | | | | 1 | | | | 1 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Amortization of unearned restricted stock and related adjustments | | | | | | | | | |
| **BALANCE AT JUNE 30, 2010** | 4 | $ 3,360 | 1,256 | $ 13 | $ 19,038 | $ (3,849) | $ (1,405) | $ 306 | $ 17,463 |

See notes to consolidated financial statements.

* See disclosure of reclassification adjustment amount and tax effect, as applicable, in Note 3 to the consolidated financial statements.

Table of Contents

**REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Six Months Ended June 30 | |
|---|---|---|
| | 2010 | 2009 |
| | (In millions) | |
| Operating activities: | | |
| Net income (loss) | $ (473) | $ (111) |
| Adjustments to reconcile net cash provided by operating activities: | | |
| Provision for loan losses | 1,421 | 1,337 |
| Depreciation and amortization of premises and equipment | 145 | 140 |
| Provision for losses on other real estate, net | 64 | 36 |
| Net amortization (accretion) of securities | 92 | (9) |
| Net amortization of loans and other assets | 109 | 131 |
| Net accretion of deposits and borrowings | (3) | (9) |
| Net securities gains | (59) | (161) |
| Loss (gain) on early extinguishment of debt | 53 | (61) |
| Other-than-temporary impairments, net | 1 | 72 |
| Deferred income tax benefit | (146) | (302) |
| Originations and purchases of loans held for sale | (2,294) | (4,683) |
| Proceeds from sales of loans held for sale | 2,853 | 4,261 |
| Gain on sale of loans, net | (33) | (67) |
| Decrease (increase) in trading account assets | 1,778 | (59) |
| (Increase) decrease in other interest-earning assets | (348) | 68 |
| Decrease (increase) in interest receivable | 2 | (43) |
| (Increase) decrease in other assets | (58) | 1,130 |
| (Decrease) increase in other liabilities | (365) | 458 |
| Other | 61 | (38) |
| Net cash from operating activities | 2,800 | 2,090 |
| Investing activities: | | |
| Proceeds from sales of securities available for sale | 1,460 | 2,413 |
| Proceeds from maturities of: | | |
| Securities available for sale | 3,686 | 2,674 |
| Securities held to maturity | 3 | 4 |
| Purchases of: | | |
| Securities available for sale | (4,899) | (5,741) |
| Proceeds from sales of loans | 630 | 168 |
| Net decrease (increase) in loans | 2,209 | (364) |
| Net purchases of premises and equipment | (71) | (143) |
| Net cash received from deposits assumed | | 279 |
| Net cash from investing activities | 3,018 | (710) |
| Financing activities: | | |
| Net (decrease) increase in deposits | (2,430) | 3,545 |
| Net decrease in short-term borrowings | (704) | (8,630) |
| Proceeds from long-term borrowings | 743 | 1,200 |
| Payments on long-term borrowings | (3,901) | (1,923) |
| Net proceeds from issuance of mandatorily convertible preferred stock | | 278 |
| Net proceeds from issuance of common stock | | 1,769 |
| Cash dividends on common stock | (24) | (82) |
| Cash dividends on preferred stock | (97) | (89) |
| Proceeds from stock transactions under compensation plans | (5) | 9 |

| | | |
|---|---|---|
| Net cash from financing activities | (6,418) | (3,923) |
| Decrease in cash and cash equivalents | (600) | (2,543) |
| Cash and cash equivalents at beginning of year | 8,011 | 10,973 |
| Cash and cash equivalents at end of period | $ 7,411 | $ 8,430 |

See notes to consolidated financial statements.

Table of Contents

**REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Three and Six Months Ended June 30, 2010 and 2009**

**NOTE 1 Basis of Presentation**

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

The accounting and reporting policies of Regions and the methods of applying those policies that materially affect the consolidated financial statements conform with accounting principles generally accepted in the United States ( GAAP ) and with general financial services industry practices. The accompanying interim financial statements have been prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all information and notes to the consolidated financial statements necessary for a complete presentation of financial position, results of operations and cash flows in conformity with GAAP. In the opinion of management, all adjustments, consisting of only normal and recurring items, necessary for the fair presentation of the consolidated financial statements have been included. These interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto in Regions Form 10-K for the year ended December 31, 2009.

Regions has evaluated all subsequent events for potential recognition and disclosure through the filing date of this Form 10-Q.

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

**NOTE 2 Earnings (Loss) per Common Share**

The following table sets forth the computation of basic earnings (loss) per common share and diluted earnings (loss) per common share:

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | (In millions, except per share amounts) | | | |
| Numerator: | | | | |
| Net income (loss) | $ (277) | $ (188) | $ (473) | $ (111) |
| Preferred stock dividends and accretion | (58) | (56) | (117) | (107) |
| Net income (loss) available to common shareholders | $ (335) | $ (244) | $ (590) | $ (218) |
| Denominator: | | | | |
| Weighted-average common shares outstanding basic | 1,200 | 876 | 1,197 | 785 |
| Common stock equivalents | | | | |
| Weighted-average common shares outstanding diluted | 1,200 | 876 | 1,197 | 785 |
| Earnings (loss) per common share: | | | | |
| Basic | $ (0.28) | $ (0.28) | $ (0.49) | $ (0.28) |
| Diluted | (0.28) | (0.28) | (0.49) | (0.28) |

Table of Contents

The effect from the assumed exercise of 57 million stock options for both the quarter and six months ended June 30, 2010 and 55 million stock options for both the quarter and six months ended June 30, 2009 was not included in the above computations of diluted earnings (loss) per common share because such amounts would have had an antidilutive effect on earnings (loss) per common share.

As discussed in Note 3 to the consolidated financial statements, approximately 63 million common shares were issued in June of 2010 in connection with the conversion of the remaining Series B mandatorily convertible preferred shares, which were originally issued in May 2009. Under applicable accounting literature, such shares should be included in the denominator in arriving at diluted earnings per share as if they were issued at the beginning of the reporting period or as of the date issued, if later. However, the assumed conversion was not included in the computation above because such amounts would have had an antidilutive effect on earnings (loss) per common share.

**NOTE 3 Stockholders Equity and Comprehensive Income (Loss)**

On November 14, 2008, Regions completed the sale of 3.5 million shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series A, par value $1.00 and liquidation preference $1,000.00 per share (and $3.5 billion liquidation preference in the aggregate) to the U.S. Treasury as part of the Capital Purchase Program ( CPP ). Regions will pay the U.S. Treasury on a quarterly basis a 5 percent dividend, or $175 million annually, for each of the first five years of the investment, and 9 percent thereafter unless Regions redeems the shares. Regions performed a discounted cash flow analysis to value the preferred stock at the date of issuance. For purposes of this analysis, Regions assumed that the preferred stock would most likely be redeemed five years from the valuation date based on optimal financial budgeting considerations. Regions used the Bloomberg USD US Bank BBB index to derive the market yield curve as of the valuation date to discount future expected cash flows to the valuation date. The discount rate used to value the preferred stock was 7.46 percent, based on this yield curve at a 5-year maturity. Dividends were assumed to be accrued until redemption. While the discounting was required based on a 5-year redemption, Regions did not have a 5-year security or similarly termed security available. As a result, it was necessary to use a benchmark yield curve to calculate the 5-year value. To determine the appropriate yield curve that was applicable to Regions, the yield to maturity on the outstanding debt instrument with the longest dated maturity (8.875% junior subordinated notes due June 2048) was compared to the longest point on the USD US Bank BBB index as of November 14, 2008. Regions concluded that the yield to maturity as of the valuation date of the debt, which was 11.03 percent, was consistent with the indicative yield of the curve noted above. The longest available point on this curve was 10.55 percent at 30 years.

As part of its purchase of the preferred securities, the U.S. Treasury also received a warrant to purchase 48.3 million shares of Regions common stock at an exercise price of $10.88 per share, subject to anti-dilution and other adjustments. The warrant expires ten years from the issuance date. Regions used the Cox-Ross-Rubinstein Binomial Option Pricing Model ( CRR Model ) to value the warrant at the date of issuance. The CRR Model is a standard option pricing model which incorporates optimal early exercise in order to receive the benefit of future dividend payments. Based on the transferability of the warrant, the CRR Model approach that was applied assumes that the warrant holder will not sub-optimally exercise its warrant. The following assumptions were used in the CRR Model:

| | |
|---|---|
| Stock price (a) | $ 9.67 |
| Exercise price (b) | $ 10.88 |
| Expected volatility (c) | 45.22% |
| Risk-free rate (d) | 4.25% |
| Dividend yield (e) | 3.88% |
| Warrant term (in years) (b) | 10 |

(a) Closing stock price of Regions as of the valuation date (November 14, 2008).
(b) As outlined in the Warrant to Purchase Agreement, dated November 14, 2008.

(c) Expected volatility based on Regions historical volatility, as of November 14, 2008, over a look-back period of 10 years, commensurate with the terms of the warrant.
(d) The risk-free rate represents the yield on 10-year U.S. Treasury Strips as of November 14, 2008.
(e) The dividend yield assumption was calculated based on a weighting of 30% on management s dividend yield expectations for the next 3 years and a weighting of 70% on Regions average dividend yield over the 10 years prior to the valuation date.

The fair value allocation of the $3.5 billion between the preferred shares and the warrant resulted in $3.304 billion allocated to the preferred shares and $196 million allocated to the warrant. Accrued dividends on the preferred shares reduced retained earnings by $88 million during the first six months of both 2010 and 2009. The unamortized discount on the preferred shares was $140 million at June 30, 2010, $157 million at December 31, 2009 and $175 million at June 30, 2009. Discount accretion on the preferred shares reduced retained earnings by $17 million and $18 million during the first six months of 2010 and 2009, respectively. Both the preferred securities and the warrant are accounted for as components of Regions regulatory Tier 1 Capital.

On May 20, 2009 the Company issued 287,500 shares of mandatorily convertible preferred stock, Series B ( Series B shares ), generating net proceeds of approximately $278 million. Accrued dividends on the Series B shares reduced retained earnings by $12 million and $1 million for the first six months of 2010 and 2009, respectively. In November 2009, a single investor converted approximately 20,000 Series B shares to common shares as allowed under the original transaction documents. On June 18, 2010, as allowed by the terms of the Series B shares, Regions initiated an early conversion of all of the remaining outstanding Series B shares. Dividends accrued and unpaid at the conversion date were settled through issuance of common shares in accordance with the original document. No Series B shares were outstanding at June 30, 2010. Approximately 63 million common shares were issued in the conversion and dividend settlement.

On May 20, 2009, the Company announced a public equity offering and issued 460 million shares of common stock at $4 per share, generating proceeds of $1.8 billion, net of issuance costs.

In addition to the offerings mentioned above, in the second quarter of 2009, the Company also exchanged approximately 33 million common shares for $202 million of outstanding 6.625% trust preferred securities issued by Regions Financing Trust II ( the Trust ). The trust preferred securities were exchanged for junior subordinated notes issued by the Company to the Trust. The Company recognized a pre-tax gain of approximately $61 million on the extinguishment of the junior subordinated notes. The increase in shareholders equity related to the debt for common share exchange was approximately $135 million, net of issuance costs.

At June 30, 2010, Regions had 23.1 million common shares available for repurchase through open market transactions under an existing share repurchase authorization. There were no treasury stock purchases through open market transactions during the first six months of 2010. The Company s ability to repurchase its common stock is limited by the terms of the CPP mentioned above.

The Board of Directors declared a $0.01 cash dividend for the second quarters of both 2010 and 2009. Regions does not expect to increase its quarterly dividend above $0.01 for the foreseeable future. Cash dividends declared for the first six months of 2010 and 2009 were $0.02 and $0.11, respectively.

Comprehensive income (loss) is the total of net income (loss) and all other non-owner changes in equity. Items are recognized as components of comprehensive income (loss) and are displayed in the consolidated statements of changes in stockholders equity. In the calculation of comprehensive income (loss), certain reclassification adjustments are made to avoid double-counting items that are displayed as part of net income (loss) for a period that also had been displayed as part of other comprehensive income (loss) in that period or earlier periods.

**Table of Contents**

The following disclosure reflects the components of comprehensive income (loss) and any associated reclassification amounts:

| | Three Months Ended June 30, 2010 | | |
|---|---|---|---|
| | Before Tax | Tax Effect (In millions) | Net of Tax |
| Net income (loss) | $ (365) | $ 88 | $ (277) |
| Net unrealized holding gains and losses on securities available for sale arising during the period | 331 | (126) | 205 |
| Less: reclassification adjustments for net securities gains realized in net income (loss) | | | |
| Net change in unrealized gains and losses on securities available for sale | 331 | (126) | 205 |
| Net unrealized holding gains and losses on derivatives arising during the period | (16) | 6 | (10) |
| Less: reclassification adjustments for net gains realized in net income (loss) | 63 | (24) | 39 |
| Net change in unrealized gains and losses on derivative instruments | (79) | 30 | (49) |
| Net actuarial gains and losses arising during the period | 22 | (9) | 13 |
| Less: amortization of actuarial loss and prior service credit realized in net income (loss) | 11 | (4) | 7 |
| Net change from defined benefit plans | 11 | (5) | 6 |
| Comprehensive income (loss) | $ (102) | $ (13) | $ (115) |

| | Three Months Ended June 30, 2009 | | |
|---|---|---|---|
| | Before Tax | Tax Effect (In millions) | Net of Tax |
| Net income (loss) | $ (113) | $ (75) | $ (188) |
| Net unrealized holding gains and losses on securities available for sale arising during the period | 297 | (108) | 189 |
| Less: non-credit portion of other-than-temporary impairments recognized in other comprehensive income (loss) | 191 | (67) | 124 |
| Less: reclassification adjustments for net securities gains realized in net income (loss) | 108 | (37) | 71 |
| Net change in unrealized gains and losses on securities available for sale | (2) | (4) | (6) |
| Net unrealized holding gains and losses on derivatives arising during the period | 34 | (13) | 21 |
| Less: reclassification adjustments for net gains realized in net income (loss) | 103 | (39) | 64 |
| Net change in unrealized gains and losses on derivative instruments | (69) | 26 | (43) |
| Net actuarial gains and losses arising during the period | 39 | (13) | 26 |
| Less: amortization of actuarial loss and prior service credit realized in net income (loss) | 11 | (4) | 7 |
| Net change from defined benefit plans | 28 | (9) | 19 |
| Comprehensive income (loss) | $ (156) | $ (62) | $ (218) |

**Table of Contents**

| | Six Months Ended June 30, 2010 | | |
|---|---|---|---|
| | Before Tax | Tax Effect (In millions) | Net of Tax |
| Net income (loss) | $ (722) | $ 249 | $ (473) |
| Net unrealized holding gains and losses on securities available for sale arising during the period | 437 | (165) | 272 |
| Less: reclassification adjustments for net securities gains realized in net income (loss) | 59 | (21) | 38 |
| Net change in unrealized gains and losses on securities available for sale | 378 | (144) | 234 |
| Net unrealized holding gains and losses on derivatives arising during the period | 18 | (7) | 11 |
| Less: reclassification adjustments for net gains realized in net income (loss) | 126 | (48) | 78 |
| Net change in unrealized gains and losses on derivative instruments | (108) | 41 | (67) |
| Net actuarial gains and losses arising during the period | 39 | (16) | 23 |
| Less: amortization of actuarial loss and prior service credit realized in net income (loss) | 22 | (8) | 14 |
| Net change from defined benefit plans | 17 | (8) | 9 |
| Comprehensive income (loss) | $ (435) | $ 138 | $ (297) |

| | Six Months Ended June 30, 2009 | | |
|---|---|---|---|
| | Before Tax | Tax Effect (In millions) | Net of Tax |
| Net income (loss) | $ 279 | $ (390) | $ (111) |
| Net unrealized holding gains and losses on securities available for sale arising during the period | 431 | (156) | 275 |
| Less: non-credit portion of other-than-temporary impairments recognized in other comprehensive income (loss) | 191 | (67) | 124 |
| Less: reclassification adjustments for net securities gains realized in net income (loss) | 161 | (56) | 105 |
| Net change in unrealized gains and losses on securities available for sale | 79 | (33) | 46 |
| Net unrealized holding gains and losses on derivatives arising during the period | 73 | (28) | 45 |
| Less: reclassification adjustments for net gains realized in net income (loss) | 198 | (75) | 123 |
| Net change in unrealized gains and losses on derivative instruments | (125) | 47 | (78) |
| Net actuarial gains and losses arising during the period | 48 | (16) | 32 |
| Less: amortization of actuarial loss and prior service credit realized in net income (loss) | 22 | (8) | 14 |
| Net change from defined benefit plans | 26 | (8) | 18 |
| Comprehensive income (loss) | $ 259 | $ (384) | $ (125) |

Table of Contents

**NOTE 4 Pension and Other Postretirement Benefits**

Net periodic pension and other postretirement benefits cost included the following components:

| | For The Three Months Ended June 30 | | | |
|---|---|---|---|---|
| | Pension | | Other Postretirement Benefits | |
| | 2010 | 2009 | 2010 | 2009 |
| | (In millions) | | | |
| Service cost | $ 10 | $ 1 | $ | $ |
| Interest cost | 23 | 21 | 1 | 1 |
| Expected return on plan assets | (25) | (22) | | |
| Amortization of prior service cost (credit) | 1 | 1 | (1) | (1) |
| Amortization of actuarial loss | 10 | 11 | | |
| | $ 19 | $ 12 | $ | $ |

| | For The Six Months Ended June 30 | | | |
|---|---|---|---|---|
| | Pension | | Other Postretirement Benefits | |
| | 2010 | 2009 | 2010 | 2009 |
| | (In millions) | | | |
| Service cost | $ 19 | $ 2 | $ | $ |
| Interest cost | 46 | 43 | 2 | 1 |
| Expected return on plan assets | (50) | (44) | | |
| Amortization of prior service cost (credit) | 1 | 1 | (1) | (1) |
| Amortization of actuarial loss | 21 | 22 | | |
| | $ 37 | $ 24 | $ 1 | $ |

During 2009, participant accruals of service in the Regions Financial Corporation Retirement Plan and the Company s current active non-qualified supplemental retirement plan (the SERP ) were temporarily suspended resulting in a reduction in service cost. Effective January 1, 2010, the benefit accruals were reinstated for pension plan and SERP participants.

Matching contributions in the 401(k) plan were temporarily suspended beginning in the second quarter of 2009. Effective January 1, 2010, Regions restored matching contributions to the 401(k) plan to pre-existing levels.

**NOTE 5 Share-Based Payments**

Regions has long-term incentive compensation plans that permit the granting of incentive awards in the form of stock options, restricted stock awards and units, and/or stock appreciation rights. The terms of all awards issued under these plans are determined by the Compensation Committee of the Board of Directors; however, no awards may be granted after the tenth anniversary of the plans adoption. Options and restricted stock usually vest based on employee service, generally within three years from the date of the grant. The contractual lives of options granted under these plans range from seven to ten years from the date of grant.

On May 13, 2010, the shareholders of the Company approved the Regions Financial Corporation 2010 Long-Term Incentive Plan ( 2010 LTIP ), which permits the Company to grant to employees and directors various forms of incentive compensation. These forms of incentive compensation are similar to the types of compensation approved in prior plans. The 2010 LTIP authorizes 100 million common share equivalents available for grant, where grants of options count as one share equivalent and grants of full value awards (e.g., shares of restricted stock and restricted stock units) count as 2.25 share equivalents. Unless otherwise determined

14

**Table of Contents**

by the Compensation Committee of the Board of Directors, grants of restricted stock and restricted stock units accrue dividends as they are declared by the Board of Directors, and the dividends are paid upon vesting of the award. The 2010 LTIP closed all prior long-term incentive plans to new grants, and accordingly, prospective grants must be made under the 2010 LTIP or a successor plan. All existing grants under prior long-term incentive plans were unaffected by this amendment. The number of remaining share equivalents available for future issuance under the active long-term compensation plan was approximately 91 million at June 30, 2010.

In the second quarter of 2010, Regions made stock option grants that vest based upon a service condition. The fair value of these stock options was estimated on the date of the grant using a Black-Scholes option pricing model and related assumptions. The stock options vest ratably over a 3-year term. During the first quarter of 2009, Regions made stock option grants from prior long-term incentive plans that vest based upon a service condition and a market condition in addition to awards that were similar to prior grants. The fair value of these stock options was estimated on the date of the grant using a Monte-Carlo simulation method. The simulation generates a defined number of stock price paths in order to develop a reasonable estimate of the range of future expected stock prices and minimize standard error.

The following table summarizes the weighted-average assumptions used and the estimated fair values related to stock options granted during the six months ended June 30:

| | June 30 | |
|---|---|---|
| | **2010** | **2009** |
| Expected option life | 5.8 yrs. | 6.8 yrs. |
| Expected volatility | 74.04% | 67.15% |
| Expected dividend yield | 2.22% | 1.85% |
| Risk-free interest rate | 2.24% | 2.80% |
| Fair value | $ 3.86 | $ 1.78 |

The second quarter 2010 awards of stock options were granted to a broader pool of employees than the 2009 awards. The expected exercise behavior of the broader base of employees receiving awards resulted in a lower expected option life when comparing 2010 to 2009. The expected volatility increased based upon increases in the historical volatility of Regions stock price, offset slightly by reductions in the implied volatility measurements from traded options on the Company s stock. The expected dividend yield increased based upon the company s expectation of increased dividends over the long term.

The following table details the activity during the first six months of 2010 and 2009 related to stock options:

| | For the Six Months Ended June 30 | | | |
|---|---|---|---|---|
| | 2010 | | 2009 | |
| | **Number of Options** | **Wtd. Avg. Exercise Price** | **Number of Options** | **Wtd. Avg. Exercise Price** |
| Outstanding at beginning of period | 52,968,560 | $ 26.34 | 52,955,298 | $ 28.22 |
| Granted | 7,173,667 | 7.00 | 4,063,209 | 3.29 |
| Exercised | (24,589) | 3.29 | | |
| Forfeited or cancelled | (3,281,332) | 19.85 | (1,594,451) | 30.37 |
| Outstanding at end of period | 56,836,306 | $ 24.29 | 55,424,056 | $ 26.31 |
| Exercisable at end of period | 45,905,668 | $ 27.77 | 44,376,343 | $ 28.79 |

In the second quarter of 2010, Regions granted 800 thousand restricted shares that vest based upon a service condition. The fair value of these restricted shares was estimated based upon the fair value of the underlying shares on the date of the grant. The valuation was not adjusted for the deferral of dividends.

**Table of Contents**

In the first quarter of 2009, Regions granted 2.9 million restricted shares from prior long-term incentive plans that vest based upon a service condition and a market condition in addition to awards that were similar to prior grants. The fair value of these restricted shares was estimated on the date of the grant using a Monte-Carlo simulation method. The assumptions related to this grant included expected volatility of 84.81 percent, expected dividend yield of 1.00 percent, and an expected term of 4.0 years based on the vesting term of the market condition. The risk-free rate is consistent with the assumption used to value stock options. For all other grants that vest solely upon a service condition, the fair value of the awards is estimated based upon the fair value of the underlying shares on the date of the grant.

The following table details the activity during the first six months of 2010 and 2009 related to restricted share awards and units:

| | For the Six Months Ended June 30 | | | |
|---|---|---|---|---|
| | 2010 | | 2009 | |
| | Number of Shares | Wtd. Avg. Grant Date Fair Value | Number of Shares | Wtd. Avg. Grant Date Fair Value |
| Non-vested at beginning of period | 5,964,594 | $ 17.15 | 4,123,911 | $ 27.67 |
| Granted | 1,151,968 | 6.96 | 3,100,415 | 2.87 |
| Vested | (844,787) | 34.44 | (288,406) | 33.44 |
| Forfeited | (1,024,271) | 16.65 | (155,303) | 26.64 |
| Non-vested at end of period | 5,247,504 | $ 12.23 | 6,780,617 | $ 16.11 |

**NOTE 6 Securities**

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

| June 30, 2010 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| | | (In millions) | | |
| **Securities available for sale:** | | | | |
| U.S. Treasury securities | $ 59 | $ 5 | $ | $ 64 |
| Federal agency securities | 43 | 2 | | 45 |
| Obligations of states and political subdivisions | 33 | 5 | | 38 |
| Mortgage-backed securities: | | | | |
| Residential agency | 22,040 | 784 | | 22,824 |
| Residential non-agency | 22 | 3 | | 25 |
| Commercial agency | 19 | 2 | | 21 |
| Other debt securities | 29 | | (3) | 26 |
| Equity securities | 1,110 | 13 | | 1,123 |
| | $ 23,355 | $ 814 | $ (3) | $ 24,166 |
| **Securities held to maturity:** | | | | |
| U.S. Treasury securities | $ 7 | $ | $ | $ 7 |
| Federal agency securities | 5 | 1 | | 6 |
| Mortgage-backed securities: | | | | |
| Residential agency | 14 | | | 14 |
| Other debt securities | 2 | | | 2 |
| | $ 28 | $ 1 | $ | $ 29 |

Table of Contents

| December 31, 2009 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| | | (In millions) | | |
| **Securities available for sale:** | | | | |
| U.S. Treasury securities | $ 46 | $ 4 | $ | $ 50 |
| Federal agency securities | 44 | 1 | | 45 |
| Obligations of states and political subdivisions | 70 | | | 70 |
| Mortgage-backed securities: | | | | |
| Residential agency | 22,271 | 474 | (61) | 22,684 |
| Residential non-agency | 33 | 3 | | 36 |
| Commercial agency | 20 | 1 | | 21 |
| Other debt securities | 22 | | (3) | 19 |
| Equity securities | 1,132 | 12 | | 1,144 |
| | $ 23,638 | $ 495 | $ (64) | $ 24,069 |
| **Securities held to maturity:** | | | | |
| U.S. Treasury securities | $ 7 | $ | $ | $ 7 |
| Federal agency securities | 6 | | | 6 |
| Mortgage-backed securities: | | | | |
| Residential agency | 16 | | | 16 |
| Other debt securities | 2 | | | 2 |
| | $ 31 | $ | $ | $ 31 |

Regions evaluates securities in a loss position for other-than-temporary impairment, considering such factors as the length of time and the extent to which the market value has been below cost, the credit standing of the issuer, Regions intent to hold the security and the likelihood that the Company will hold the security until its market value recovers. Activity related to the credit loss component of other-than-temporary impairment is recognized in earnings. For debt securities, the portion of other-than-temporary impairment related to all other factors is recognized in other comprehensive income. For the three and six months ended June 30, 2010, Regions recorded a credit related impairment charge of approximately $0 and $1 million, respectively. For the three and six months ended June 30, 2009, Regions recorded a credit related impairment charge of approximately $69 million and $72 million, respectively. There were no non-credit related impairment charges recorded during the three and six months ended June 30, 2010. For both the three and six months ended June 30, 2009, $191 million non-credit portion of other-than-temporary impairment charges were recorded in other comprehensive income (loss).

The following tables present unrealized loss and estimated fair value of securities available for sale at June 30, 2010 and December 31, 2009. These securities are segregated between investments that have been in a continuous unrealized loss position for less than twelve months and twelve months or more.

| | Less Than Twelve Months | | Twelve Months or More | | Total | |
|---|---|---|---|---|---|---|
| June 30, 2010 | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses |
| | | | (In millions) | | | |
| Other debt securities | $ | $ | $ 7 | $ (3) | $ 7 | $ (3) |

17

| December 31, 2009 | Less Than Twelve Months | | Twelve Months or More | | Total | |
|---|---|---|---|---|---|---|
| | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses |
| | (In millions) | | | | | |
| Mortgage-backed securities: | | | | | | |
| Residential agency | $ 6,686 | $ (61) | $ | $ | $ 6,686 | $ (61) |
| Other debt securities | | | 8 | (3) | 8 | (3) |
| | $ 6,686 | $ (61) | $ 8 | $ (3) | $ 6,694 | $ (64) |

For securities included in the tables above, management does not believe that any of the 57 securities and 151 securities at June 30, 2010 and December 31, 2009, respectively, in an individual loss position represented an other-than-temporary impairment as of those dates.

The gross unrealized loss on debt securities held to maturity was less than $1 million at June 30, 2010 and December 31, 2009.

The cost and estimated fair value of securities available for sale and securities held to maturity at June 30, 2010, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | Amortized Cost | Estimated Fair Value |
|---|---|---|
| | (In millions) | |
| **Securities available for sale:** | | |
| Due in one year or less | $ 32 | $ 33 |
| Due after one year through five years | 77 | 82 |
| Due after five years through ten years | 11 | 11 |
| Due after ten years | 44 | 47 |
| Mortgage-backed securities: | | |
| Residential agency | 22,040 | 22,824 |
| Residential non-agency | 22 | 25 |
| Commercial agency | 19 | 21 |
| Equity securities | 1,110 | 1,123 |
| | $ 23,355 | $ 24,166 |
| **Securities held to maturity:** | | |
| Due in one year or less | $ 4 | $ 4 |
| Due after one year through five years | 7 | 8 |
| Due after five years through ten years | 3 | 3 |
| Due after ten years | | |
| Mortgage-backed securities: | | |
| Residential agency | 14 | 14 |
| | $ 28 | $ 29 |

Proceeds from sales of securities available for sale in the three and six months of 2010 were $17 million and $1.5 billion, respectively. Gross realized gains and losses were each less than $1 million for the three months ended June 30, 2010 and $82 million and $23 million, respectively, for the six months ended June 30, 2010. Proceeds from sales of securities available for sale in the three and six months of 2009 were $1.6 billion and $2.4 billion, respectively. Gross realized gains and losses were $108 million and $0 million, respectively, for the three months ended June 30, 2009 and $161 million and $0 million, respectively, for the six months ended June 30, 2009.

18

Equity securities included $477 million and $472 million, respectively, of amortized cost related to Federal Reserve Bank stock and Federal Home Loan Bank ( FHLB ) stock as of June 30, 2010 and $492 million and $533 million, respectively, of amortized cost related to Federal Reserve Bank stock and FHLB stock as of December 31, 2009. The estimated fair value of both Federal Reserve Bank and FHLB stock approximates their carrying amounts.

Securities with carrying values of $13.7 billion and $12.4 billion at June 30, 2010 and December 31, 2009, respectively, were pledged to secure public funds, trust deposits and certain borrowing arrangements.

Trading account net gains (losses) totaled $(5) million and $9 million for the three and six months ended June 30, 2010, respectively, (including $(12) million and $4 million of net unrealized gains (losses) for the three months and six months ended June 30, 2010, respectively). Trading account net gains totaled $29 million and $23 million for the three and six months ended June 30, 2009, respectively, (including $6 million and $(12) million of net unrealized gains (losses) for the three months and six months ended June 30, 2009, respectively).

**NOTE 7 Business Segment Information**

Regions segment information is presented based on Regions key segments of business. Each segment is a strategic business unit that serves specific needs of Regions customers. The Company s primary segment is Banking/Treasury, which represents the Company s branch network, including consumer and commercial banking functions, and has separate management that is responsible for the operation of that business unit. This segment also includes the Company s Treasury function, including the Company s securities portfolio and other wholesale funding activities.

In addition to Banking/Treasury, Regions has designated as distinct reportable segments the activity of its Investment Banking/Brokerage/Trust and Insurance divisions. Investment Banking/Brokerage/Trust includes trust activities and all brokerage and investment activities associated with Morgan Keegan. Insurance includes all business associated with commercial insurance and credit life products sold to consumer customers.

The following tables present financial information for each reportable segment for the period indicated.

| **Three months ended June 30, 2010** | **Banking/ Treasury** | **Investment Banking/ Brokerage/ Trust** | **Insurance** | **Total Company** |
|---|---|---|---|---|
| | | **(In millions)** | | |
| Net interest income | $ 840 | $ 15 | $ 1 | $ 856 |
| Provision for loan losses | 651 | | | 651 |
| Non-interest income | 437 | 292 | 27 | 756 |
| Non-interest expense | 829 | 275 | 22 | 1,126 |
| Regulatory charge | | 200 | | 200 |
| Income taxes | (101) | 12 | 1 | (88) |
| Net income (loss) | $ (102) | $ (180) | $ 5 | $ (277) |
| Average assets | $ 131,420 | $ 5,359 | $ 506 | $ 137,285 |

**Table of Contents**

| Three months ended June 30, 2009 | Banking/ Treasury | Investment Banking/ Brokerage/ Trust | Insurance | Total Company |
|---|---|---|---|---|
| | | (In millions) | | |
| Net interest income | $ 816 | $ 14 | $ 1 | $ 831 |
| Provision for loan losses | 912 | | | 912 |
| Non-interest income | 854 | 318 | 27 | 1,199 |
| Non-interest expense | 926 | 285 | 20 | 1,231 |
| Income taxes | 55 | 17 | 3 | 75 |
| Net income (loss) | $ (223) | $ 30 | $ 5 | $ (188) |
| Average assets | $ 140,783 | $ 4,817 | $ 487 | $ 146,087 |

| Six months ended June 30, 2010 | Banking/ Treasury | Investment Banking/ Brokerage/ Trust | Insurance | Total Company |
|---|---|---|---|---|
| | | (In millions) | | |
| Net interest income | $ 1,656 | $ 29 | $ 2 | $ 1,687 |
| Provision for loan losses | 1,421 | | | 1,421 |
| Non-interest income | 925 | 589 | 54 | 1,568 |
| Non-interest expense | 1,765 | 547 | 44 | 2,356 |
| Regulatory charge | | 200 | | 200 |
| Income taxes | (278) | 26 | 3 | (249) |
| Net income (loss) | $ (327) | $ (155) | $ 9 | $ (473) |
| Average assets | $ 132,705 | $ 5,208 | $ 506 | $ 138,419 |

| Six months ended June 30, 2009 | Banking/ Treasury | Investment Banking/ Brokerage/ Trust | Insurance | Total Company |
|---|---|---|---|---|
| | | (In millions) | | |
| Net interest income | $ 1,608 | $ 30 | $ 2 | $ 1,640 |
| Provision for loan losses | 1,337 | | | 1,337 |
| Non-interest income | 1,639 | 571 | 55 | 2,265 |
| Non-interest expense | 1,714 | 533 | 42 | 2,289 |
| Income taxes | 360 | 25 | 5 | 390 |
| Net income (loss) | $ (164) | $ 43 | $ 10 | $ (111) |
| Average assets | $ 140,162 | $ 4,186 | $ 484 | $ 144,832 |

**NOTE 8 Goodwill**

Goodwill allocated to each reportable segment as of June 30, 2010, December, 31, 2009, and June 30, 2009 is presented as follows:

| | June 30 2010 | December 31 2009 | June 30 2009 |
|---|---|---|---|
| | | (In millions) | |
| Banking/Treasury | $ 4,691 | $ 4,691 | $ 4,691 |

| | | | |
|---|---|---|---|
| Investment Banking/Brokerage/Trust | 745 | 745 | 745 |
| Insurance | 125 | 121 | 120 |
| Total goodwill | $ 5,561 | $ 5,557 | $ 5,556 |

The Company s goodwill is tested for impairment on an annual basis, or more often if events or circumstances indicate that there may be impairment. Adverse changes in the economic environment, declining

operations, or other factors could result in a decline in the implied fair value of goodwill. A goodwill impairment test includes two steps. Step One, used to identify potential impairment, compares the estimated fair value of a reporting unit with its carrying amount, including goodwill. If the estimated fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired. If the carrying amount of a reporting unit exceeds its estimated fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. Step Two of the goodwill impairment test compares the implied estimated fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of goodwill for that reporting unit exceeds the implied fair value of that unit s goodwill, an impairment loss is recognized in an amount equal to that excess.

During the second quarter of 2010, Regions assessed the indicators of goodwill impairment as of May 31, 2010, and through the date of the filing of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2010. The indicators assessed included:

- Recent operating performance,
- Changes in market capitalization,
- Regulatory actions and assessments,
- Changes in the business climate (including legal factors and competition),
- Company-specific factors (including changes in key personnel, asset impairments, and business dispositions), and
- Trends in the banking industry.

Based on the assessment of the indicators above, quantitative testing of goodwill was required for the Banking/Treasury, Investment Banking/ Brokerage/Trust, and Insurance reporting units for the June 30, 2010, interim period.

For purposes of performing Step One of the goodwill impairment test, Regions uses both the income and market approaches to value its reporting units. The income approach, which is the primary valuation approach, consists of discounting projected long-term future cash flows, which are derived from internal forecasts and economic expectations for the respective reporting units. The significant inputs to the income approach include expected future cash flows, the long-term target tangible equity to tangible assets ratio, and the discount rate.

Regions uses the public company method and the transaction method as the two market approaches. The public company method applies a value multiplier derived from each reporting unit s peer group to a financial metric of the reporting unit (e.g. tangible common equity or last twelve months net income) and an implied control premium to the respective reporting unit. The control premium is evaluated and compared to similar financial services transactions. The transaction method applies a value multiplier to a financial metric of the reporting unit based on comparable observed purchase transactions in the financial services industry for the reporting unit (where available).

**Table of Contents**

Regions uses the output from these approaches to determine the estimated fair value of each reporting unit. Below is a table of assumptions used in estimating the fair value of each reporting unit for the June 30, 2010 interim period. The table includes the discount rate used in the income approach, the market multiplier used in the market approaches, and the public company method control premium applied to all reporting units.

| | Banking/ Treasury | Investment Banking/ Brokerage/ Trust | Insurance |
|---|---|---|---|
| Discount rate used in income approach | 16% | 13% | 12% |
| Public company method market multiplier (a) | 0.9x | 1.6x | 19.8x |
| Public company method control premium | 30% | 30% | 30% |
| Transaction method market multiplier (b) | 1.0x | 2.1x | n/a |

(a) For the Banking/Treasury and Investment Banking/Brokerage/Trust reporting units, these multipliers are applied to tangible common book value. For the Insurance reporting unit, this multiplier is applied to the last twelve months of net income.

(b) For the Banking/Treasury and Investment Banking/Brokerage/Trust reporting units, these multipliers are applied to tangible common book value.

Regions utilizes the capital asset pricing model (CAPM) in order to drive the base discount rate. The inputs to the CAPM include the 20-year risk-free rate, 5-year beta for a select peer set, and the market risk premium based on published data. Once the output of the CAPM is determined, a size premium is added (also based on a published source) as well as a company-specific risk premium, which is an estimate determined by the Company and meant to compensate for the risk inherent in the future cash flow projections and inherent differences (such as business model and market perception of risk) between Regions and the peer set. The table below summarizes the discount rate used in the goodwill impairment tests of the Banking/Treasury reporting unit for the reporting periods indicated:

| | 2nd Quarter 2010 | 1st Quarter 2010 | Annual Test 2009 | 3rd Quarter 2009 | 2nd Quarter 2009 |
|---|---|---|---|---|---|
| Discount Rate | 16% | 16% | 18% | 18% | 20% |

The decrease in discount rates during the periods was driven primarily by reductions in the company-specific risk premium, which was lowered as a result of updated forecasts that reduced uncertainty from the projected cash flows.

In estimating future cash flows, a balance sheet as of the test date and an income statement for the last twelve months of activity for the reporting unit are compiled. From that point, future balance sheets and income statements are projected based on the inputs discussed below. Cash flows are based on expected future capitalization requirements due to balance sheet growth and anticipated changes in regulatory capital requirements. The baseline cash flows utilized in all models correspond to the most recent internal forecasts and/or budgets that range from 1 to 5 years. These internal forecasts are typically projections submitted to regulators and are based on inputs developed by the Company s internal economic forecasting committee.

Specific factors as of the date of filing our financial statements that could negatively impact the assumptions used in assessing goodwill for impairment include: disparities in the level of fair value changes in net assets compared to equity; adverse business trends resulting from litigation and/or regulatory actions; increasing FDIC premiums; higher loan losses resulting from a double-dip recession or deflation; lengthened forecasts of unemployment in excess of 10 percent beyond 2011; future increased minimum regulatory capital requirements above current thresholds (refer to Note 14, Regulatory Capital Requirements and Restrictions of the consolidated financial statements included in the 2009 Form 10-K for a discussion of current minimum regulatory requirements); future federal rules and regulations resulting from the Dodd-Frank Wall Street Reform and Consumer Protection Act; and/or a protraction in the current low level of interest rates beyond 2011.

Table of Contents

The Step One analyses performed for the Investment Banking/Brokerage/Trust and Insurance reporting units during the second quarter of 2010 indicated that the estimated fair value exceeded its carrying value (including goodwill). Therefore, a Step Two analysis was not required for these reporting units.

The Step One analysis performed for the Banking/Treasury reporting unit during the second quarter of 2010 indicated that the carrying value (including goodwill) of the reporting unit exceeded its estimated fair value. Therefore, Step Two was performed for the Banking/Treasury reporting unit as discussed below.

For purposes of performing Step Two of the goodwill impairment test, Regions compared the implied estimated fair value of the Banking/Treasury reporting unit goodwill with the carrying amount of that goodwill. In order to determine the implied estimated fair value, a full purchase price allocation was performed in the same manner as if a business combination had occurred. As part of the Step Two analysis, Regions estimated the fair value of all of the assets and liabilities of the reporting unit, including unrecognized assets and liabilities. The fair values of certain material financial assets and liabilities and the valuation methodologies are discussed in Note 11, Fair Value Measurements. Based on the results of the Step Two analysis performed, Regions concluded the Banking/Treasury reporting unit s goodwill was not impaired for the June 30, 2010 interim period.

**NOTE 9 Loan Servicing**

The fair value of mortgage servicing rights is calculated using various assumptions including future cash flows, market discount rates, expected prepayment rates, servicing costs and other factors. 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. Regions uses various derivative instruments and/or trading securities to mitigate the effect of changes in the fair value of its mortgage servicing rights in the statement of operations. The table below presents the impact on the statements of operations associated with changes in mortgage servicing rights and related derivative and/or trading securities for the three and six months ended June 30, 2010 and 2009.

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | (In millions) | | | |
| Net interest income | $ | $ | $ 3 | $ |
| Brokerage, investment banking and capital markets income | | | 4 | |
| Mortgage income | 12 | (2) | 28 | (3) |
| Total | $ 12 | $ (2) | $ 35 | $ (3) |

Beginning in the third quarter of 2009, Regions began using an option-adjusted spread (OAS) valuation approach. The OAS represents the additional spread over the swap rate that is required in order for the asset s discounted cash flows to equal its market price.

The table below presents an analysis of mortgage servicing rights for the three and six months ended June 30, 2010 and 2009, under the fair value measurement method:

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | (In millions) | | | |
| Carrying value, beginning of period | $ 270 | $ 161 | $ 247 | $ 161 |
| Additions | 13 | 33 | 30 | 52 |
| Increase (decrease) in fair value: | | | | |
| Due to change in valuation inputs or assumptions | (57) | 18 | (46) | 9 |
| Other changes (1) | (6) | (10) | (11) | (20) |
| Carrying value, end of period | $ 220 | $ 202 | $ 220 | $ 202 |

(1) Represents economic amortization associated with borrower repayments.

Table of Contents

Data and assumptions used in the fair value calculation related to mortgage servicing rights (excluding related derivative instruments) as of June 30, 2010 and 2009 are as follows:

| | June 30 | |
|---|---|---|
| | 2010 | 2009 |
| | (Dollars in millions) | |
| Unpaid principal balance | $ 23,502 | $ 22,984 |
| Weighted-average prepayment speed (CPR; percentage) | 17.8% | 27.3% |
| Estimated impact on fair value of a 10% increase | $ (15) | $ (9) |
| Estimated impact on fair value of a 20% increase | $ (28) | $ (18) |
| Option-adjusted spread (basis points) | 580.2 | (NA) |
| Estimated impact on fair value of a 10% increase | $ (4) | (NA) |
| Estimated impact on fair value of a 20% increase | $ (9) | (NA) |
| Weighted-average coupon interest rate | 5.69% | 5.91% |
| Weighted-average remaining maturity (months) | 289 | 282 |
| Weighted-average servicing fee (basis points) | 29.1 | 28.8 |

(NA) Regions adopted the option-adjusted spread valuation approach during the third quarter of 2009.

The decrease in the weighted-average prepayment speed assumption from June 30, 2009 to June 30, 2010 was driven by the impact of historically low interest rates on prepayments. During the first six months of 2009, low market interest rates led to a higher level of refinancing activity and higher prepayment speeds. Refinancing activity for the corresponding 2010 period was lower, consequently decreasing the prepayment speed assumption.

The sensitivity calculations above are hypothetical and should not be considered to be predictive of future performance. Changes in fair value based on adverse changes in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, the effect of an adverse variation in a particular assumption on the fair value of the mortgage servicing rights is calculated without changing any other assumption, while in reality changes in one factor may result in changes in another which may either magnify or counteract the effect of the change. The derivative instruments utilized by Regions would serve to reduce the estimated impacts to fair value included in the table above.

**NOTE 10 Derivative Financial Instruments and Hedging Activities**

Regions enters into derivative financial instruments to manage interest rate risk, facilitate asset/liability management strategies and manage other exposures. These derivative instruments primarily include interest rate swaps, options on interest rate swaps, interest rate caps and floors, Eurodollar futures, forward rate contracts and forward sale commitments. All derivative financial instruments are recognized on the consolidated balance sheets as other assets or other liabilities at fair value. Regions enters into master netting agreements with counterparties and/or requires collateral based on counterparty credit ratings to cover exposures.

Interest rate swaps are agreements to exchange interest payments based upon notional amounts. Interest rate swaps subject Regions to market risk associated with changes in interest rates, as well as the credit risk that the counterparty will fail to perform. Option contracts involve rights to buy or sell financial instruments on a specified date or over a period at a specified price. These rights do not have to be exercised. Some option contracts such as interest rate floors, involve the exchange of cash based on changes in specified indices. Interest rate floors are contracts to hedge interest rate declines based on a notional amount. Interest rate floors subject Regions to market risk associated with changes in interest rates, as well as the credit risk that the counterparty will fail to perform. Forward rate contracts are commitments to buy or sell financial instruments at a future date at a specified price or yield. Regions primarily enters into forward rate contracts on market instruments, which expose Regions to market risk associated with changes in the value of the underlying financial instrument, as well as the credit risk that the counterparty will fail to perform. Eurodollar futures are futures contracts on Eurodollar deposits. Eurodollar futures subject Regions to market risk associated with changes in interest rates. Because futures contracts are cash settled daily, there is minimal credit risk associated with Eurodollar futures.

Table of Contents

The following tables present the fair value of derivative instruments on a gross basis as of June 30, 2010 and December 31, 2009, respectively:

**June 30, 2010**

| | Asset Derivatives | | Liability Derivatives | |
|---|---|---|---|---|
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| | | (In millions) | | |
| Derivatives designated as hedging instruments | | | | |
| Interest rate swaps | Other assets | $ 411 | Other liabilities | $ 29 |
| Interest rate options | Other assets | 30 | Other liabilities | |
| Eurodollar futures (1) | Other assets | | Other liabilities | |
| Total derivatives designated as hedging instruments | | $ 441 | | $ 29 |
| Derivatives not designated as hedging instruments | | | | |
| Interest rate swaps | Other assets | $ 1,817 | Other liabilities | $ 1,831 |
| Interest rate options | Other assets | 273 | Other liabilities | 234 |
| Interest rate futures and forward commitments | Other assets | 6 | Other liabilities | 25 |
| Other contracts | Other assets | 9 | Other liabilities | 5 |
| Total derivatives not designated as hedging instruments | | $ 2,105 | | $ 2,095 |
| Total derivatives | | $ 2,546 | | $ 2,124 |

(1) Changes in fair value are cash-settled daily; therefore there is no ending balance at any given reporting period.

**December 31, 2009**

| | Asset Derivatives | | Liability Derivatives | |
|---|---|---|---|---|
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| | | (In millions) | | |
| Derivatives designated as hedging instruments | | | | |
| Interest rate swaps | Other assets | $ 390 | Other liabilities | $ 22 |
| Interest rate options | Other assets | 52 | Other liabilities | |
| Eurodollar futures (1) | Other assets | | Other liabilities | |
| Total derivatives designated as hedging instruments | | $ 442 | | $ 22 |
| Derivatives not designated as hedging instruments | | | | |
| Interest rate swaps | Other assets | $ 1,518 | Other liabilities | $ 1,505 |
| Interest rate options | Other assets | 26 | Other liabilities | 33 |
| Interest rate futures and forward commitments | Other assets | 13 | Other liabilities | |
| Other contracts | Other assets | 20 | Other liabilities | 19 |
| Total derivatives not designated as hedging instruments | | $ 1,577 | | $ 1,557 |
| Total derivatives | | $ 2,019 | | $ 1,579 |

(1) Changes in fair value are cash-settled daily; therefore there is no ending balance at any given reporting period.

Table of Contents

**HEDGING DERIVATIVES**

Derivatives entered into to manage interest rate risk and facilitate asset/liability management strategies are designated as hedging derivatives. Derivative financial instruments that qualify in a hedging relationship are classified, based on the exposure being hedged, as either fair value or cash flow hedges. The Company formally documents all hedging relationships between hedging instruments and the hedged items, as well as its risk management objective and strategy for entering into various hedge transactions. The Company performs periodic assessments to determine whether the hedging relationship has been highly effective in offsetting changes in fair values or cash flows of hedged items and whether the relationship is expected to continue to be highly effective in the future.

When a hedge is terminated or hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, or because it is probable that the forecasted transaction will not occur by the end of the specified time period, the derivative will continue to be recorded in the consolidated balance sheets at its fair value, with changes in fair value recognized currently in other non-interest income. Any asset or liability that was recorded pursuant to recognition of the firm commitment is removed from the consolidated balance sheets and recognized currently in other non-interest expense. Gains and losses that were accumulated in other comprehensive income pursuant to the hedge of a forecasted transaction are recognized immediately in other non-interest expense.

The following tables present the effect of derivative instruments on the statements of operations for the periods indicated:

**Three Months Ended June 30, 2010**

| Derivatives in Fair Value Hedging Relationships | Location of Gain(Loss) Recognized in Income on Derivatives | Amount of Gain(Loss) Recognized in Income on Derivatives | Hedged Items in Fair Value Hedge Relationships | Location of Gain(Loss) Recognized in Income on Related Hedged Item | Amount of Gain(Loss) Recognized in Income on Related Hedged Item |
|---|---|---|---|---|---|
| | | (In millions) | | | |
| Interest rate swaps | Other non-interest expense | $ 50 | Debt/CDs | Other non-interest expense | $ (47) |
| Interest rate swaps | Interest expense | 61 | Debt | Interest expense | 1 |
| **Total** | | $ 111 | | | $ (46) |

| Derivatives in Cash Flow Hedging Relationships | Amount of Gain(Loss) Recognized in OCI on Derivatives (Effective Portion) (1) | Location of Gain(Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Amount of Gain(Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (2) | Location of Gain(Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) | Amount of Gain(Loss) Recognized in Income on Derivatives (Ineffective |
|---|---|---|---|---|---|