

REGIONS FINANCIAL CORP
Form 10-K
February 21, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-K

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

For the fiscal year ended December 31, 2012

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 001-34034

REGIONS FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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

(Address of principal executive offices)

Registrant's telephone number, including area code: (800) 734-4667

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

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

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Depository Shares, each representing a 1/40th Interest in a Share of
6.375% Non-Cumulative Perpetual Preferred Stock, Series A
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 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). 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

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 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 \$9,273,757,331 as of June 30, 2012.

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 1,413,393,002 shares issued and outstanding as of February 15, 2013

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the Annual Meeting to be held on May 16, 2013 are incorporated by reference into Part III.

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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:

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) became law in July 2010, and a number of legislative, regulatory and tax proposals remain pending. 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. Future and proposed rules, including those that are part of the Basel III process are expected to require banking institutions to increase levels of capital and to meet more stringent liquidity requirements. All of the foregoing may have significant effects on Regions and the financial services industry, the exact nature and extent of which cannot be determined at this time.

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

Possible changes in interest rates may increase funding costs and reduce earning asset yields, thus reducing margins. Increases in benchmark interest rates could also increase debt service requirements for customers whose terms include a variable interest rate, which may negatively impact the ability of borrowers to pay as contractually obligated.

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

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

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

Possible regulations issued by the Consumer Financial Protection Bureau or other regulators which might adversely impact Regions business model or products and services.

Possible stresses in the financial and real estate markets, including possible deterioration in property values.

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

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

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

Regions' ability to keep pace with technological changes.

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

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

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

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

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

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

The effects of weather and natural disasters such as floods, droughts, wind, tornadoes and hurricanes, and the effects of man-made disasters.

Possible downgrades in ratings issued by rating agencies.

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

Possible acceleration of prepayments on mortgage-backed securities due to low interest rates, and the related acceleration of premium amortization on those securities.

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.

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Changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other regulatory agencies.

The effects of any damage to Regions' reputation resulting from developments related to any of the items identified above. The words believe, expect, anticipate, project and similar expressions often signify forward-looking statements. You should not place undue reliance on any forward-looking statements, which speak only as of the date made. We assume no obligation to update or revise any forward-looking statements that are made from time to time.

See also Item 1A. Risk Factors of this Annual Report on Form 10-K.

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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 in the South, Midwest and Texas. Regions provides traditional commercial, retail and mortgage banking services, as well as other financial services in the fields of asset management, wealth management, securities brokerage, insurance and other specialty financing. At December 31, 2012, Regions had total consolidated assets of approximately \$121.3 billion, total consolidated deposits of approximately \$95.5 billion and total consolidated stockholders' equity of approximately \$15.5 billion.

Regions is a Delaware corporation and 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 (800) 734-4667.

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, 2012, Regions operated approximately 2,100 ATMs and 1,700 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	242
Arkansas	97
Florida	374
Georgia	137
Illinois	65
Indiana	63
Iowa	13
Kentucky	16
Louisiana	114
Mississippi	144
Missouri	67
North Carolina	6
South Carolina	30
Tennessee	259
Texas	82
Virginia	2
Total	1,711

Other Financial Services Operations

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

Regions Insurance Group, Inc., a subsidiary of Regions Financial Corporation, is an insurance broker that offers insurance products through its subsidiaries Regions Insurance, Inc., headquartered in Birmingham, Alabama, and Regions Insurance Services, Inc., headquartered in Memphis, Tennessee. Through its insurance

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brokerage operations in Alabama, Arkansas, Indiana, Georgia, Louisiana, Missouri, Mississippi, Tennessee and Texas, Regions Insurance, Inc. offers insurance coverage for various lines of personal and commercial insurance, such as property, casualty, life, health and accident insurance. Regions Insurance Services, Inc. offers credit-related insurance products, such as title, mortgage, crop, term life, accidental death and dismemberment, and environmental insurance, as well as debt cancellation products to customers of Regions. Regions Insurance Group, Inc. is one of the twenty-five largest insurance brokers in the United States based on annual revenues.

Regions has several subsidiaries and affiliates that are agents or reinsurers of debt cancellations products and credit life insurance products relating to the activities of certain affiliates of Regions. Regions Investment Services, Inc., which sells annuities and life insurance products to Regions Bank customers, is a wholly-owned subsidiary of Regions Bank. Regions Equipment Finance Corporation, a subsidiary of Regions Bank, provides domestic and international equipment financing products, focusing on commercial clients.

Also, Regions Bank has entered into an agreement with Cetera Financial Institutions to provide advisory and investment solutions to Regions customers. Through this agreement Regions Bank customers will have access to a full range of financial advisory services, including managed accounts, mutual funds, annuities, financial aid, and financial and retirement planning tools, provided by licensed business consultants based in Regions Bank branches.

Acquisition Program

A substantial portion of the growth of Regions from its inception as a bank holding company in 1971 has been through the acquisition of other financial institutions, including commercial banks and thrift institutions, and the assets and deposits of those financial institutions. As part of its ongoing strategic plan, Regions periodically evaluates business combination opportunities. Any future business combination or series of business combinations that Regions might undertake may be material to Regions' financial condition, in terms of assets acquired or liabilities assumed. Historically, business combinations in the financial services industry have typically involved the payment of a premium over book and market values of assets and liabilities acquired. 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 Annual Report on 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 Federal Deposit Insurance Corporation's (FDIC) Deposit Insurance Fund (the DIF) 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 interpretation and application by regulatory agencies and other governmental authorities, cannot be predicted, but they may have a material effect on the business and results of Regions and its subsidiaries.

Overview

Regions is registered with the Board of Governors of the Federal Reserve System (the Federal Reserve) as a bank holding company and has elected to be treated as a financial holding company under the Bank Holding

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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.

Generally, the BHC Act provides for umbrella regulation of financial holding companies by the Federal Reserve and functional regulation of holding company subsidiaries by applicable regulatory agencies. The BHC Act, however, requires the Federal Reserve to examine any subsidiary of a bank holding company, other than a depository institution, engaged in activities permissible for a depository institution. The Federal Reserve is also granted the authority, in certain circumstances, to require reports of, examine and adopt rules applicable to any holding company subsidiary.

In general, the BHC Act limits the activities permissible for bank holding companies. Bank holding companies electing to be treated as financial holding companies, however, may engage in additional activities under the BHC Act as described below under Permissible Activities under the BHC Act. For a bank holding company to be eligible to elect financial holding company status, all of its subsidiary insured depository institutions must be well-capitalized and well-managed as described below under Regulatory Remedies Under the FDIA and must have received at least a satisfactory rating on such institution's most recent examination under the Community Reinvestment Act of 1977 (the CRA). The bank holding company itself must also be well-capitalized and well-managed in order to be eligible to elect financial holding company status. If a financial holding company fails to continue to meet any of the prerequisites for financial holding company status after engaging in activities not permissible for bank holding companies that have not elected to be treated as financial holding companies, 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 be required to discontinue or divest investments in companies engaged in activities permissible only for a bank holding company electing to be treated as a financial holding company.

Regions Bank is a member of the FDIC, and, as such, its deposits are insured by the FDIC to the extent provided by law. Regions Bank is an Alabama state-chartered bank and a member of the Federal Reserve System. It is generally subject to supervision and examination by both the Federal Reserve and the Alabama Banking Department. The Federal Reserve and the Alabama Banking Department regularly examine the operations of Regions Bank and are given authority to approve or disapprove mergers, acquisitions, 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. Regions Bank is subject to numerous statutes and regulations that affect its business activities and operations, including various consumer protection laws and regulations. As described below under Regulatory Reforms, Regions Bank is also subject to supervision by the Consumer Financial Protection Bureau. Some of Regions' non-bank subsidiaries are also subject to regulation by various federal and state agencies.

Regulatory Reforms

The events of the past few years have led to numerous new laws and regulations in the United States applicable to financial institutions. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), which was enacted in July 2010, significantly restructures the financial regulatory regime in the United States and provides for enhanced supervision and prudential standards for, among other things, bank holding companies like Regions that have total consolidated assets of \$50 billion or more. The implications of the Dodd-Frank Act for our business will depend to a large extent on the manner in which rules adopted pursuant to the Dodd-Frank Act are implemented by the Federal Reserve, the Consumer Financial Protection Bureau, the FDIC, the SEC, and other government agencies, as well as potential changes in market practices and structures in response to the requirements of those rules.

New laws or regulations or changes to existing laws and regulations (including changes in interpretation or enforcement) could materially adversely affect our financial condition or results of operations. As discussed

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further in this section, many aspects of the Dodd-Frank Act are subject to further rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on Regions and its subsidiaries or the financial services industry generally. In addition to the discussion in this section, see **Risk Factors** Recent legislation regarding the financial services industry may have a significant adverse effect on our operations for a discussion of the potential impact legislative and regulatory reforms may have on our results of operations and financial condition.

Financial Stability Oversight Council. The Dodd-Frank Act creates a new systemic risk oversight body, the Financial Stability Oversight Council (FSOC) to coordinate the efforts of the primary U.S. financial regulatory agencies (including the Federal Reserve, the FDIC and the SEC) in establishing regulations to address systemic financial stability concerns. The Dodd-Frank Act directs the FSOC to make recommendations to the Federal Reserve regarding supervisory requirements and prudential standards applicable to systemically important financial institutions (often referred to as SIFI, which includes bank holding companies with over \$50 billion in assets, such as Regions), including capital, leverage, liquidity and risk-management requirements. The Dodd-Frank Act mandates that the requirements applicable to systemically important financial institutions be more stringent than those applicable to other financial companies. The Federal Reserve has discretionary authority to establish additional prudential standards, on its own or at the FSOC's recommendation. The Dodd-Frank Act also requires the Federal Reserve to conduct annual analyses of such bank holding companies to evaluate whether the companies have sufficient capital on a total consolidated basis necessary to absorb losses as a result of adverse economic conditions.

Enhanced Supervision and Prudential Standards. In December 2011, the Federal Reserve introduced a new proposal aimed at minimizing risks associated with covered companies, including U.S. bank holding companies with consolidated assets of \$50 billion or more and other financial companies designated by the FSOC as systemically important (Proposed SIFI Rules). The Federal Reserve's proposal includes risk-based capital and leverage requirements, liquidity requirements, stress tests, single-counterparty credit limits and overall risk management requirements, early remediation requirements and resolution planning and credit exposure reporting. The proposed rules would address a wide, diverse array of regulatory areas, each of which is highly complex. In some cases they would implement financial regulatory requirements being proposed for the first time, and in others overlap with other regulatory reforms. The proposed rules also address the Dodd-Frank Act's early remediation requirements applicable to bank holding companies that have total consolidated assets of \$50 billion or more. The proposed remediation rules are modeled after the prompt corrective action regime, described under **Safety and Soundness Standards** below, but are designed to require action beginning in the earlier stages of a company's financial distress by mandating action on the basis of arranged triggers, including capital and leverage, stress test results, liquidity, and risk management. Except as described in the second paragraph under *Federal Reserve's Comprehensive Capital Analysis and Review* below regarding stress testing, the Proposed SIFI Rules have not become final as of February 2013. The full impact of the Proposed SIFI Rules on Regions is being analyzed, but will not be known until the rules, and other regulatory initiatives that overlap with these rules, are finalized and their combined impacts can be understood.

Federal Reserve's Comprehensive Capital Analysis and Review. In November 2011, the Federal Reserve published a final rule which requires U.S. bank holding companies with total consolidated assets of \$50 billion or more (such as Regions) to submit annual capital plans, along with related stress test requirements, to the Federal Reserve for approval. The capital analysis and review process provided for in the rule is known as the Comprehensive Capital Analysis and Review (CCAR). The purpose of the capital plan is to ensure that these bank holding companies have robust, forward-looking capital planning processes that account for each company's unique risks and that permit continued operations during times of economic and financial stress. The capital plans are required to be submitted on an annual basis. Such bank holding companies will also be required to collect and report certain related data on a quarterly basis to allow the Federal Reserve to monitor the companies' progress against their annual capital plans. The comprehensive capital plans, which Regions prepares using Basel I capital guidelines, include a view of capital adequacy under the stress test scenarios described below. The effect of the rules is that, among other things, a covered bank holding company may not make a

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capital distribution unless it will meet all minimum regulatory capital ratios and will have a ratio of Tier 1 common equity to risk-weighted assets of at least 5% after making the distribution. The rules also provide that the Federal Reserve may object to a capital plan if the plan does not show that the covered bank holding company will maintain a Tier 1 common equity ratio of at least 5% on a pro forma basis under expected and stressful conditions throughout the nine-quarter planning horizon covered by the capital plan. Covered bank holding companies, including Regions, may execute capital actions such as paying dividends and repurchasing stock only in accordance with a capital plan that has been reviewed and approved by the Federal Reserve. The CCAR rules, consistent with prior Federal Reserve guidance, provide that capital plans contemplating dividend payout ratios exceeding 30% of after-tax net income will receive particularly close scrutiny.

The Proposed SIFI Rules, discussed earlier in this section under *Enhanced Supervision and Prudential Standards*, proposed to expand the stress testing requirements to include, among other things, stress testing by the Federal Reserve under three economic and financial scenarios: baseline, adverse and severely adverse scenarios. In October 2012, the Federal Reserve published final rules implementing that portion of the Proposed SIFI Rules expanding the stress testing requirements. Also, we are required to conduct our own semi-annual stress analysis (together with the Federal Reserve's stress analysis, the *Stress Tests*) to assess the potential impact on Regions, including our consolidated earnings, losses and capital, under each of the economic and financial conditions used as part of the Federal Reserve's annual stress analysis. The Federal Reserve may also use, and require companies to use, additional components in the adverse and severely adverse scenarios or additional or more complex scenarios designed to capture salient risks to specific lines of business. Regions Bank is also required by final Federal Reserve rules to conduct annual stress testing and report the results to the Federal Reserve.

Under the Federal Reserve's guidance, the CCAR annual process for 2013 will be implemented in conjunction with the stress testing requirements described above. A summary of results of the Federal Reserve's analysis under the severely adverse stress scenario will be publicly disclosed, and the bank holding companies subject to the rules, including Regions, must disclose a summary of the company-run severely adverse stress test results. Regions is required to include in its disclosure a summary of the severely adverse scenario stress test conducted by Regions Bank using the scenarios defined by the Federal Reserve. Regions submitted its 2013 CCAR rule capital plan to the Federal Reserve on January 7, 2013 and the Federal Reserve committed to responding by March 14, 2013.

Living Will Requirement. As required by the Dodd-Frank Act, the Federal Reserve and the FDIC have jointly issued a final rule that requires certain organizations, including each bank holding company with consolidated assets of \$50 billion or more, to report periodically to regulators a plan (a so-called *living will*) for their rapid and orderly resolution in the event of material financial distress or failure. Regions' resolution plan must, among other things, ensure that our depository institution subsidiary is adequately protected from risks arising from our other subsidiaries. The final rule sets specific standards for the resolution plans, including requiring strategic analysis of the plan's components, a description of the range of specific actions the company proposes to take in resolution, and a description of the company's organizational structure, material entities, interconnections and interdependencies, and management information systems, among other elements. The plan must be submitted annually for review to the Federal Reserve and the FDIC.

In addition, the FDIC has issued a final rule that requires insured depository institutions with \$50 billion or more in total assets, such as Regions Bank, to submit to the FDIC for review periodic contingency plans for resolution in the event of the institution's failure. The rule requires these insured institutions to submit a resolution plan that will enable the FDIC, as receiver, to resolve the bank in a manner that ensures that depositors receive access to their insured deposits within one business day of the institution's failure, maximizes the net-present-value return from the sale or disposition of its assets, and minimizes the amount of any loss to be realized by the institution's creditors. The final rule also sets specific standards for the resolution plans, including requiring a strategic analysis of the plan's components, a description of the strategies for achieving the least

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costly resolution, and analyses of the financial company's organization, material entities, interconnections and interdependencies, and management information systems, among other elements. The two living will rules are complementary.

Consumer Financial Protection Bureau. The Dodd-Frank Act created the Consumer Financial Protection Bureau (the CFPB), a new consumer financial services regulator. The CFPB is directed to prevent unfair, deceptive and abusive practices and ensure that all consumers have access to fair, transparent, and competitive markets for consumer financial products and services. The Dodd-Frank Act gives the CFPB authority to enforce and issue rules and regulations implementing existing consumer protection laws and responsibility for all such existing regulations. Depository institutions with assets exceeding \$10 billion, such as Regions Bank, their affiliates, and other larger participants in the markets for consumer financial services (as determined by the CFPB) are subject to direct supervision by the CFPB, including any applicable examination, enforcement and reporting requirements the CFPB may establish.

Orderly Liquidation Authority. The Dodd-Frank Act creates the Orderly Liquidation Authority (OLA), a resolution regime for systemically important non-bank financial companies and their non-bank affiliates, including bank holding companies, under which the FDIC may be appointed receiver to liquidate such a company if, among other conditions, the company is in danger of default and presents a systemic risk to U.S. financial stability. This determination must come after supermajority recommendations by the Federal Reserve and the FDIC and consultation between the Secretary of the U.S. Treasury and the President. This resolution authority is generally based on the FDIC resolution model for depository institutions, and substantial differences exist between the rights of creditors under the U.S. Bankruptcy Code and in an orderly liquidation authority proceeding including the ability of the FDIC to disregard the strict priority of creditor claims in some circumstances, the use of an administrative claims procedure to determine creditors' claims (as opposed to the judicial procedure utilized in bankruptcy proceedings), and the ability of the FDIC to transfer claims to a bridge entity. In addition, OLA limits the ability of creditors to enforce contractual cross-defaults against potentially viable affiliates of the institution in receivership.

An Orderly Liquidation Fund will fund OLA liquidation proceedings through borrowings from the Treasury Department and risk-based assessments made, first, on entities that received more in the resolution than they would have received in liquidation to the extent of such excess, and second, if necessary, on bank holding companies with total consolidated assets of \$50 billion or more, such as Regions. If an orderly liquidation is triggered, Regions could face assessments for the Orderly Liquidation Fund. We do not yet have an indication of the level of such assessments.

U.S. Department of Treasury's Assessment Fee Program. In December 2011, the U.S. Department of the Treasury (U.S. Treasury) issued a proposed rule to implement Section 155 of the Dodd-Frank Act. Section 155 requires the U.S. Treasury to establish an assessment schedule for bank holding companies with total consolidated assets of \$50 billion or more. The rule became effective for bank holding companies on July 20, 2012, and, under the program, Regions is required to pay assessments on a semiannual basis to cover expenses associated with the Office of Financial Research, the FSOC, and the FDIC's Orderly Liquidation Authority. Regions believes the assessment will not be material to its consolidated financial position, results of operations or cash flows.

Volcker Rule. The Dodd-Frank Act requires the federal financial regulatory agencies to adopt rules that prohibit banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (defined as hedge funds and private equity funds). The statutory provision is commonly called the Volcker Rule. In October 2011, federal regulators proposed rules to implement the Volcker Rule that included an extensive request for comments on the proposal, which comment period closed in February 2012. The proposed rules are highly complex, and, because final rules have not yet been adopted, many aspects of their application remain uncertain. Based on the proposed rules, Regions does not currently anticipate that the Volcker Rule will have a material effect on the operations of Regions and its subsidiaries. Regions may

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incur costs if it is required to adopt additional policies and systems to ensure compliance with the Volcker Rule. Until a final rule is adopted, the precise financial impact of the rule on Regions, its customers or the financial industry more generally, cannot be determined.

Permissible Activities under the BHC Act

In general, the BHC Act limits the activities permissible for bank holding companies to the business of banking, managing or controlling banks and such other activities as the Federal Reserve has determined to be so closely related to banking as to be properly incident thereto. A bank holding company electing to be treated as a financial holding company may also engage in a range of activities that are (i) financial in nature or incidental to such financial activity or (ii) complementary to a financial activity and that do not pose a substantial risk to the safety and soundness of a depository institution or to the financial system generally. These activities include securities dealing, underwriting and market making, insurance underwriting and agency activities, merchant banking and insurance company portfolio investments.

The BHC Act does not place territorial restrictions on permissible non-banking activities of bank holding companies. 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.

Capital Requirements

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.

Risk-based Capital Standards. 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.

Currently 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 percent. The regulatory capital rules state that voting common stockholders' equity should be the predominant element within Tier 1 capital and that banking organizations should avoid over-reliance on non-common equity elements. At least half of the Total capital must be Tier 1 capital, which currently consists of qualifying common equity, qualifying noncumulative perpetual preferred stock (including related surplus), senior perpetual preferred stock issued to the U.S. Treasury as part of the Troubled Asset Relief Program Capital Purchase Program, minority interests relating to qualifying common or noncumulative perpetual preferred stock issued by a consolidated U.S. depository institution or foreign bank subsidiary, and certain restricted core capital elements, as discussed below, less goodwill and certain other intangible assets. Currently, Tier 2 capital may consist of, among other things, qualifying subordinated debt, mandatorily convertible debt securities, preferred stock and trust preferred securities not included in the definition of Tier 1 capital, 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 percent of Tier 1 capital. Pursuant to the Dodd-Frank Act, trust preferred securities will be phased-out of the definition of Tier 1 capital of bank holding companies having consolidated assets exceeding \$500 million, such as Regions, over a three-year period beginning in January 2013.

Currently the minimum guideline to be considered well-capitalized for Tier 1 capital and Total capital is 6.0 percent and 10.0 percent, respectively. As of December 31, 2012, Regions' consolidated Tier 1 capital to

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risk-adjusted assets and Total capital to risk-adjusted assets ratios were 12.00 percent and 15.38 percent, respectively. The elements currently comprising Tier 1 capital and Tier 2 capital and the minimum Tier 1 capital and Total capital ratios may be subject to change in the future, as discussed in greater detail below. The risk-based capital rules state that the capital requirements are minimum standards based primarily on broad credit-risk considerations and do not take into account the other types of risk a banking organization may be exposed to (e.g., interest rate, market, liquidity and operational risks).

Basel I and II Standards. Regions currently calculates its risk-based capital ratios under guidelines adopted by the Federal Reserve based on the 1988 Capital Accord (Basel I) of the Basel Committee on Banking Supervision (the Basel Committee). In 2004, the Basel Committee published a new set of risk-based capital standards (Basel II) to revise 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 sets capital requirements for operational risk and refines the existing capital requirements for market risk exposures.

A definitive final rule for implementing the advanced approaches of Basel II in the United States, which applies 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) became effective on April 1, 2008. Other U.S. banking organizations may elect to adopt the requirements of this rule (if they meet applicable qualification requirements), but are not 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. Regions Bank is currently not required to comply with Basel II.

In July 2008, the U.S. bank regulatory agencies issued a proposed rule that would provide banking organizations that do not use the advanced approaches with the option to implement a new risk-based capital framework. This framework would adopt the standardized approach of Basel II for credit risk, the basic indicator approach of Basel II for operational risk, and related disclosure requirements. While this proposed rule generally parallels the relevant approaches under Basel II, it diverges where United States markets have unique characteristics and risk profiles, most notably with respect to risk weighting residential mortgage exposures. Comments on the proposed rule were due to the agencies by October 27, 2008. The U.S. bank regulatory agencies did not take any other action on the 2008 proposed rule. On August 30, 2012, the agencies included in their Basel III rulemakings a proposed rule that builds on and expands the July 2008 proposed rule by, among other things, making the standardized approach applicable to all subject banks (a change from optional application included in the 2008 rule), as discussed below.

In August 2012, the Federal Reserve, the FDIC, the Office of the Comptroller of the Currency and the Department of the Treasury issued a revised Market Risk capital rule. The final rule applies to any U.S. banking organization, such as Regions, with combined trading assets and liabilities of at least \$1 billion, or 10 percent of its total assets, based on its most recent Call Report. Effective on January 1, 2013, the new, revised Market Risk Rule added additional modeling and reporting requirements, including Stressed Value-at-Risk (SVaR), and enhanced profit and loss reporting and back-testing. The new Market Risk Rule increases the calculated risk-weighted assets attributable to trading market risk, but will not have a material impact on Regions total risk-weighted assets.

Basel III Standards. In December 2010, the Basel Committee released its final framework for strengthening international capital and liquidity regulation, now officially identified by the Basel Committee as Basel III. Basel III, when implemented by the U.S. bank regulatory agencies and fully phased-in, will require bank holding companies and their bank subsidiaries to maintain substantially more capital, with a greater emphasis on common equity. Basel III provided that the capital calculation changes would become effective in stages, beginning January 1, 2013 and fully phased-in on January 1, 2019. As noted below, the Federal Reserve has delayed indefinitely the effective dates for implementation of Basel III.

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On August 30, 2012, the Federal Reserve, the FDIC and the Office of the Comptroller of the Currency published notices of three proposed rules implementing the Basel III capital provisions (the Basel III Proposed Rules). Initial versions of the proposed rules were first published by the Federal Reserve on June 7, 2012. The Basel III Proposed Rules generally follow the Basel III provisions, and, among other things, establish new risk-based and leverage capital ratios (described below) and narrow the definition of what constitutes capital for purposes of calculating those ratios. Also included in the Basel III Proposed Rules is a proposed rule that revises and in effect replaces the general risk-based capital requirements currently in effect with a much more risk-sensitive standardized approach similar to the standardized approach adopted by Basel II.

In particular, the Basel III Proposed Rules:

introduce as a new capital measure Common Equity Tier 1, or CET1, specifies that Tier 1 capital consists of CET1 and Additional Tier 1 capital instruments meeting specified requirements, defines CET1 narrowly by requiring that most adjustments to regulatory capital measures be made to CET1 and not to the other components of capital, and expand the scope of the adjustments as compared to existing regulations;

require banks to maintain once the Basel III provisions are fully phased in:

as a newly adopted international standard, a minimum ratio of CET1 to risk-weighted assets of at least 4.5 percent, plus a 2.5 percent capital conservation buffer (which is added to the 4.5 percent CET1 ratio as that buffer is phased in, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7 percent);

a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0 percent, plus the capital conservation buffer (which is added to the 6.0 percent Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5 percent upon full implementation);

a minimum ratio of Total (that is, Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0 percent, plus the capital conservation buffer (which is added to the 8.0 percent total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5 percent upon full implementation);

for institutions with less than \$250 billion in consolidated assets and on-balance sheet foreign exposures of less than \$10 billion, a minimum leverage ratio of 4.0 percent, calculated as the ratio of Tier 1 capital to total on-balance sheet exposures net of deductions from Tier 1 capital; and

under some circumstances, a countercyclical capital buffer, generally to be imposed when national regulators determine that excess aggregate credit growth becomes associated with a buildup of systemic risk, that would be a CET1 add-on to the capital conservation buffer in the range of 0 percent to 2.5 percent when fully implemented (potentially resulting in total buffers of between 2.5 percent and 5 percent). Under the Basel III Proposed Rules, as originally drafted, the countercyclical capital buffer only applies to institutions with more than \$250 billion in consolidated assets or on-balance sheet foreign exposures greater than \$10 billion.

The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

Citing the large number of comments received in response to the Basel III Proposed Rules, on November 9, 2012 the Federal Reserve issued a press release indefinitely delaying the effective date of the proposed rules and the Basel III capital requirements. As of February 2013, no additional guidance has been provided regarding the effective dates for the Basel III Proposed Rules and the Basel III capital framework.

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In July 2011, the Basel Committee introduced a consultative document establishing a requirement for a capital surcharge on certain globally systemically important banks (G-SIBs), and in November 2011, the Basel Committee issued final provisions substantially unchanged from the previous proposal. An indicator-based approach will be used to determine whether a bank is a G-SIB and the appropriate level of the surcharge to be applied. The indicator-based approach consists of five broad categories: size, interconnectedness, lack of substitutability, cross-jurisdictional activity and complexity. Under Basel III, banks found to be G-SIBs will be subject to a progressive CET1 surcharge ranging from 1% to 3.5% over the Basel III 7% CET1 requirement. The Basel III Proposed Rules do not address this surcharge although the U.S. bank regulatory agencies indicated in the proposed rules that they plan to implement a surcharge for all, or a portion, of the banks with \$50 billion or more in consolidated assets, based on the approach taken by the Basel Committee. The surcharge was originally intended to become fully effective on January 1, 2019. Regions is not currently subject to this CET1 surcharge. However, it is possible that regional banking organizations may be subject to CET1 or other surcharges in the future.

The Basel III Proposed Rules contemplated that the Basel III final framework would become effective January 1, 2013, with the full requirements being phased in over a number of years. Under the proposed rules, banking institutions initially would be required to meet the following minimum capital ratios:

3.5 percent CET1 to risk-weighted assets;

4.5 percent Tier 1 capital to risk-weighted assets; and

8.0 percent Total capital to risk-weighted assets.

Because the Federal Reserve has delayed indefinitely the effective date of the Basel III Proposed Rules, these minimum capital ratios are not currently in effect.

The Basel III final framework provides for a number of new deductions from and adjustments to CET1, such as the requirement that mortgage servicing rights, deferred tax assets and significant investments in non-consolidated financial entities be deducted from CET1.

Under Basel III, implementation of the deductions and other adjustments to CET1 would have begun on January 1, 2014, with a five-year phase-in period (20 percent per year). The capital conservation buffer would have been implemented on January 1, 2016 at 0.625 percent and phased in over a four-year period (increasing by 0.625 percent on each subsequent January 1, until it reached 2.5 percent on January 1, 2019).

Leverage Requirements. Neither Basel I nor Basel II includes a leverage requirement as an international standard; however, the Federal Reserve has established minimum leverage ratio guidelines for bank holding companies to be considered well-capitalized. These guidelines provide for a minimum ratio of Tier 1 capital to total consolidated quarterly average assets (as defined for regulatory purposes), net of the loan loss reserve, goodwill and certain other intangible assets (the leverage ratio), of 4.0 percent for all bank holding companies, with a lower 3.0 percent minimum for bank holding companies that meet certain specified criteria, including having the highest regulatory rating. The Basel III Proposed Rules would remove the more permissive 3.0 percent leverage ratio currently available under the rules for certain highly rated banking organizations.

Regions' leverage ratio at December 31, 2012 as defined under Basel I was 9.65 percent.

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.

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Liquidity Requirements. Historically, regulation and monitoring of bank and bank holding company liquidity has been addressed as a supervisory matter, both in the U.S. and internationally, without required formulaic measures. The Basel III final framework requires banks and bank holding companies to measure their liquidity against specific liquidity tests that, although similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes, going forward will be required by regulation. One test, referred to as the liquidity coverage ratio (LCR), is designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity's expected net cash outflow for a 30-day time horizon (or, if greater, 25 percent of its expected total cash outflow) under an acute liquidity stress scenario. The other, referred to as the net stable funding ratio (NSFR), is designed to promote more medium- and long-term funding of the assets and activities of banking entities over a one-year time horizon. These requirements will incentivize banking entities to increase their holdings of U.S. Treasury securities and other sovereign debt as a component of assets and increase the use of long-term debt as a funding source. The Basel III liquidity framework contemplates that the LCR will be subject to an observation period continuing through mid-2013 and subject to any revisions resulting from the analyses conducted and data collected during the observation period, implemented as a minimum standard on January 1, 2015. Similarly, it contemplates that the NSFR will be subject to an observation period through mid-2016 and, subject to any revisions resulting from the analyses conducted and data collected during the observation period, implemented as a minimum standard by January 1, 2018. In January 2013, the Basel Committee issued amendments to the LCR that, among other things, includes an easing of the phase-in period. Institutions must be in 60% compliance with the minimum LCR as of January 1, 2015 (rather than 100% compliance as originally contemplated), increasing 10% each year thereafter with 100% compliance required as of January 1, 2019. The amendments did not address the NSFR.

As discussed above under Regulatory Reforms, the Proposed SIFI Rules address liquidity requirements for bank holding companies including Regions, with \$50 billion or more in total consolidated assets. In the release accompanying those rules, the Federal Reserve states a general intention to incorporate the Basel III liquidity framework for the bank holding companies covered by the Proposed SIFI Rules or a subset of those bank holding companies. Although these rules do not include prescriptive ratios like the LCR and NSFR, they do include detailed liquidity-related requirements, including requirements for cash flow projections, liquidity stress testing (including, at a minimum, over time horizons that include an overnight time horizon, a 30-day time horizon, a 90-day time horizon and a 1-year time horizon), and a requirement that covered bank holding companies main