

REGIONS FINANCIAL CORP

Form 10-Q

November 09, 2007

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2007

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number: 000-50831

Regions Financial Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

incorporation or organization)

1900 Fifth Avenue North

Birmingham, Alabama
(Address of principal executive offices)

63-0589368
(IRS Employer

Identification Number)

35203
(Zip code)

(205) 944-1300

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

(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. Yes No

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

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

The number of shares outstanding of each of the issuer's classes of common stock was 695,095,000 shares of common stock, par value \$.01, outstanding as of October 31, 2007.

Table of Contents

REGIONS FINANCIAL CORPORATION

FORM 10-Q

INDEX

| | Page |
|--|-------------|
| <u>Part I. Financial Information</u> | |
| Item 1. <u>Financial Statements (Unaudited)</u> | |
| <u>Consolidated Balance Sheets September 30, 2007, December 31, 2006 and September 30, 2006</u> | 5 |
| <u>Consolidated Statements of Income Three and nine months ended September 30, 2007 and 2006</u> | 6 |
| <u>Consolidated Statements of Changes in Stockholders Equity Nine months ended September 30, 2007 and 2006</u> | 7 |
| <u>Consolidated Statements of Cash Flows Nine months ended September 30, 2007 and 2006</u> | 8 |
| <u>Notes to Consolidated Financial Statements</u> | 9 |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 22 |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 46 |
| Item 4. <u>Controls and Procedures</u> | 46 |
| <u>Part II. Other Information</u> | |
| Item 1. <u>Legal Proceedings</u> | 47 |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 47 |
| Item 6. <u>Exhibits</u> | 48 |
| <u>Signatures</u> | 49 |

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, unless the context implies otherwise, claim the protection afforded by the safe harbor in the Act. Forward-looking statements are not based on historical information, but rather are related to future operations, strategies, financial results, or other developments. Forward-looking statements are based on management s expectations as well as certain assumptions and estimates made by, and information available to, management at the time the statements are made. Those statements are based on general assumptions and are subject to various risks, uncertainties and other factors that may cause actual results to differ materially from the views, beliefs and projections expressed in such statements. These risks, uncertainties and other factors include, but are not limited to, those described below:

Regions ability to achieve the earnings expectations related to businesses that have been acquired, including its merger with AmSouth Bancorporation (AmSouth) in November 2006, or that may be acquired in the future, which in turn depends on a variety of factors, including:

Regions ability to achieve the anticipated cost savings and revenue enhancements with respect to the acquired operations, or lower than expected revenues from continuing operations;

The assimilation of the combined companies corporate cultures;

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

Difficulties related to the integration of the businesses, including integration of information systems and retention of key personnel;

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

Regions ability to keep pace with technological changes.

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

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

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

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

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

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

Further easing of restrictions on participants in the financial services industry, such as banks, securities brokers and dealers, investment companies and finance companies, may increase competitive pressures.

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

Possible changes in general economic and business conditions in the United States in general and in the communities Regions serves in particular.

Table of Contents

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

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

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

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

The effects of weather and natural disasters such as hurricanes.

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

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

| | September 30 | December 31 | September 30 |
|--|----------------|----------------|---------------|
| <i>(In thousands, except share data)</i> | 2007 | 2006 | 2006 |
| Assets | | | |
| Cash and due from banks | \$ 2,902,340 | \$ 3,550,742 | \$ 2,055,137 |
| Interest-bearing deposits in other banks | 29,895 | 270,601 | 38,981 |
| Federal funds sold and securities purchased under agreements to resell | 706,378 | 896,075 | 913,076 |
| Trading account assets | 1,355,007 | 1,442,994 | 1,438,427 |
| Securities available for sale | 16,957,077 | 18,514,332 | 12,425,555 |
| Securities held to maturity | 49,559 | 47,728 | 30,033 |
| Loans held for sale | 792,142 | 3,308,064 | 1,824,687 |
| Loans held for sale-divestitures | | 1,612,237 | |
| Margin receivables | 525,953 | 570,063 | 581,558 |
| Loans, net of unearned income | 94,373,632 | 94,550,602 | 59,477,905 |
| Allowance for loan losses | (1,070,716) | (1,055,953) | (778,465) |
| Net loans | 93,302,916 | 93,494,649 | 58,699,440 |
| Premises and equipment, net | 2,473,339 | 2,398,494 | 1,097,616 |
| Interest receivable | 664,974 | 666,410 | 456,978 |
| Excess purchase price | 11,453,078 | 11,175,647 | 4,967,799 |
| Mortgage servicing rights (MSRs) | 377,201 | 374,871 | 407,740 |
| Other identifiable intangible assets | 804,328 | 957,834 | 287,437 |
| Other assets | 5,841,002 | 4,088,280 | 1,755,627 |
| Total assets | \$ 138,235,189 | \$ 143,369,021 | \$ 86,980,091 |
| Liabilities and Stockholders Equity | | | |
| Deposits: | | | |
| Non-interest-bearing | \$ 18,834,856 | \$ 20,175,482 | \$ 12,570,051 |
| Non-interest-bearing-divestitures | | 533,295 | |
| Interest-bearing | 74,605,074 | 78,281,120 | 49,599,494 |
| Interest-bearing-divestitures | | 2,238,072 | |
| Total deposits | 93,439,930 | 101,227,969 | 62,169,545 |
| Borrowed funds: | | | |
| Short-term borrowings: | | | |
| Federal funds purchased and securities sold under agreements to repurchase | 8,063,739 | 7,676,254 | 4,943,568 |
| Other short-term borrowings | 1,727,346 | 1,990,817 | 1,368,480 |
| Total short-term borrowings | 9,791,085 | 9,667,071 | 6,312,048 |
| Long-term borrowings | 10,817,491 | 8,642,649 | 5,490,404 |
| Total borrowed funds | 20,608,576 | 18,309,720 | 11,802,452 |

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

| | | | |
|---|----------------|----------------|---------------|
| Other liabilities | 4,340,334 | 3,129,878 | 1,965,191 |
| Total liabilities | 118,388,840 | 122,667,567 | 75,937,188 |
| Stockholders' equity: | | | |
| Common stock, par value \$.01 a share: | | | |
| Authorized 1,500,000,000 shares | | | |
| Issued including treasury stock 734,615,634; 730,275,510 and 481,266,725 shares, respectively | 7,346 | 7,303 | 4,813 |
| Additional paid-in capital | 16,527,540 | 16,339,726 | 7,466,180 |
| Undivided profits | 4,632,033 | 4,493,245 | 4,547,845 |
| Treasury stock, at cost 37,283,713; 200,000 and 26,200,072 shares, respectively | (1,270,922) | (7,548) | (888,282) |
| Accumulated other comprehensive loss, net | (49,648) | (131,272) | (87,653) |
| Total stockholders' equity | 19,846,349 | 20,701,454 | 11,042,903 |
| Total liabilities and stockholders' equity | \$ 138,235,189 | \$ 143,369,021 | \$ 86,980,091 |

See notes to consolidated financial statements.

Table of Contents**REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME**

| <i>(In thousands, except per share data)</i> | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|--|--|--------------|---|--------------|
| | 2007 | 2006 | 2007 | 2006 |
| Interest income on: | | | | |
| Loans, including fees | \$ 1,742,172 | \$ 1,129,013 | \$ 5,249,854 | \$ 3,205,412 |
| Securities: | | | | |
| Taxable | 210,932 | 143,118 | 653,374 | 405,748 |
| Tax-exempt | 10,020 | 7,852 | 31,899 | 23,872 |
| Total securities | 220,952 | 150,970 | 685,273 | 429,620 |
| Loans held for sale | 12,302 | 11,890 | 82,007 | 33,508 |
| Federal funds sold and securities purchased under agreements to resell | 18,154 | 13,505 | 51,689 | 35,568 |
| Trading account assets | 10,271 | 12,519 | 41,676 | 31,930 |
| Margin receivables | 8,754 | 9,767 | 27,653 | 27,965 |
| Time deposits in other banks | 515 | 637 | 2,343 | 1,524 |
| Total interest income | 2,013,120 | 1,328,301 | 6,140,495 | 3,765,527 |
| Interest expense on: | | | | |
| Deposits | 673,585 | 411,178 | 2,038,283 | 1,082,912 |
| Short-term borrowings | 115,092 | 66,315 | 352,390 | 172,513 |
| Long-term borrowings | 144,662 | 84,429 | 395,668 | 261,953 |
| Total interest expense | 933,339 | 561,922 | 2,786,341 | 1,517,378 |
| Net interest income | 1,079,781 | 766,379 | 3,354,154 | 2,248,149 |
| Provision for loan losses | 90,000 | 24,914 | 197,000 | 82,548 |
| Net interest income after provision for loan losses | 989,781 | 741,465 | 3,157,154 | 2,165,601 |
| Non-interest income: | | | | |
| Service charges on deposit accounts | 288,296 | 166,555 | 870,031 | 474,407 |
| Brokerage and investment banking | 209,413 | 144,093 | 602,980 | 469,751 |
| Trust department income | 62,449 | 36,366 | 190,521 | 106,651 |
| Mortgage income | 29,806 | 43,637 | 107,657 | 134,554 |
| Securities gains (losses), net | 23,994 | 8,104 | (8,508) | 8,143 |
| Other | 115,186 | 62,628 | 360,176 | 198,645 |
| Total non-interest income | 729,144 | 461,383 | 2,122,857 | 1,392,151 |
| Non-interest expense: | | | | |
| Salaries and employee benefits | 581,425 | 398,848 | 1,793,010 | 1,253,686 |
| Net occupancy expense | 120,753 | 52,675 | 307,459 | 163,659 |
| Furniture and equipment expense | 74,127 | 32,922 | 220,984 | 98,592 |
| Impairment (recapture) of mortgage servicing rights | 20,000 | 8,000 | (17,000) | (11,000) |
| Other | 349,089 | 195,906 | 1,007,642 | 607,889 |
| Total non-interest expense | 1,145,394 | 688,351 | 3,312,095 | 2,112,826 |
| Income before income taxes from continuing operations | 573,531 | 514,497 | 1,967,916 | 1,444,926 |
| Income taxes | 179,291 | 156,575 | 645,868 | 444,400 |
| Income from continuing operations | 394,240 | 357,922 | 1,322,048 | 1,000,526 |
| Discontinued operations (Note 10): | | | | |
| Loss from discontinued operations before income taxes | (122) | (10,442) | (216,622) | (14,888) |
| Income tax benefit | (46) | (4,177) | (75,028) | (5,956) |

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

| | | | | |
|---|-------------------|-------------------|---------------------|-------------------|
| Loss from discontinued operations, net of tax | (76) | (6,265) | (141,594) | (8,932) |
| Net income | \$ 394,164 | \$ 351,657 | \$ 1,180,454 | \$ 991,594 |
| Weighted-average number of shares outstanding: | | | | |
| Basic | 700,589 | 454,441 | 712,181 | 455,463 |
| Diluted | 704,485 | 458,903 | 718,084 | 460,018 |
| Earnings per share from continuing operations(1): | | | | |
| Basic | \$ 0.56 | \$ 0.79 | \$ 1.86 | \$ 2.20 |
| Diluted | 0.56 | 0.78 | 1.84 | 2.17 |
| Earnings per share from discontinued operations(1): | | | | |
| Basic | 0.00 | (0.01) | (0.20) | (0.02) |
| Diluted | 0.00 | (0.01) | (0.20) | (0.02) |
| Earnings per share(1): | | | | |
| Basic | 0.56 | 0.77 | 1.66 | 2.18 |
| Diluted | 0.56 | 0.77 | 1.64 | 2.16 |
| Cash dividends declared per share | 0.36 | 0.35 | 1.08 | 1.05 |

(1) Certain per share amounts may not appear to reconcile due to rounding.

See notes to consolidated financial statements.

Table of Contents**REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

| <i>(In thousands, except per share amounts)</i> | Common Stock | | | Undivided Profits | Treasury Stock, At Cost | Accumulated Other Comprehensive Income (Loss) | | Total |
|---|--------------|----------|-----------------|-------------------|-------------------------|---|---------------|-------|
| | Shares | Amount | Paid-In Capital | | | Income (Loss) | | |
| BALANCE AT JANUARY 1, 2006 | 456,347 | \$ 4,738 | \$ 7,248,855 | \$ 4,034,905 | \$ (581,890) | \$ (92,325) | \$ 10,614,283 | |
| Comprehensive income: | | | | | | | | |
| Net income | | | | 991,594 | | | 991,594 | |
| Net change in unrealized gains and losses on securities available for sale, net of tax and reclassification adjustment* | | | | | | (3,467) | (3,467) | |
| Net change in unrealized gains and losses on derivative instruments, net of tax and reclassification adjustment* | | | | | | 8,139 | 8,139 | |
| Comprehensive income | | | | | | | 996,266 | |
| Cash dividends declared \$1.05 per share | | | | (478,654) | | | (478,654) | |
| Purchase of treasury stock | (8,692) | | | | (302,808) | | (302,808) | |
| Receipt of stock related to settlement of lawsuit | (99) | | | | (3,584) | | (3,584) | |
| Common stock transactions: | | | | | | | | |
| Stock issued to employees under incentive plans, net | 929 | 9 | (4,852) | | | | (4,843) | |
| Stock options exercised, net | 6,582 | 66 | 189,735 | | | | 189,801 | |
| Amortization of unearned restricted stock | | | 32,442 | | | | 32,442 | |
| BALANCE AT SEPTEMBER 30, 2006 | 455,067 | \$ 4,813 | \$ 7,466,180 | \$ 4,547,845 | \$ (888,282) | \$ (87,653) | \$ 11,042,903 | |
| BALANCE AT JANUARY 1, 2007 | 730,076 | \$ 7,303 | \$ 16,339,726 | \$ 4,493,245 | \$ (7,548) | \$ (131,272) | \$ 20,701,454 | |
| Cumulative effect of change in accounting principles (Notes 8 and 11) | | | | (269,403) | | | (269,403) | |
| Comprehensive income: | | | | | | | | |
| Net income | | | | 1,180,454 | | | 1,180,454 | |
| Net change in unrealized gains and losses on securities available for sale, net of tax and reclassification adjustment* | | | | | | 41,375 | 41,375 | |
| Net change in unrealized gains and losses on derivative instruments, net of tax and reclassification adjustment* | | | | | | 36,980 | 36,980 | |
| Net change from defined benefit pension plans, net of tax* | | | | | | 3,269 | 3,269 | |
| Comprehensive income | | | | | | | 1,262,078 | |
| Cash dividends declared \$1.08 per share | | | | (772,263) | | | (772,263) | |
| Purchase of treasury stock | (37,084) | | | | (1,263,374) | | (1,263,374) | |
| Common stock transactions: | | | | | | | | |
| Stock issued to employees under incentive plans, net | 795 | 8 | (12,298) | | | | (12,290) | |
| Stock options exercised, net | 3,545 | 35 | 146,382 | | | | 146,417 | |
| Amortization of unearned restricted stock | | | 53,730 | | | | 53,730 | |
| BALANCE AT SEPTEMBER 30, 2007 | 697,332 | \$ 7,346 | \$ 16,527,540 | \$ 4,632,033 | \$ (1,270,922) | \$ (49,648) | \$ 19,846,349 | |

* See disclosure of reclassification adjustment amount and tax effect, as applicable, in Note 4 to the consolidated financial statements.
See notes to consolidated financial statements.

Table of Contents**REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

| <i>(In thousands)</i> | Nine Months Ended September 30 | |
|---|---------------------------------------|--------------|
| | 2007 | 2006 |
| Operating activities: | | |
| Net income | \$ 1,180,454 | \$ 991,594 |
| Adjustments to reconcile net cash provided by operating activities: | | |
| Provision for loan losses | 197,000 | 82,500 |
| Depreciation and amortization of premises and equipment | 193,705 | 90,769 |
| Recapture of impairment of mortgage servicing rights | (17,000) | (11,000) |
| Provision for losses on other real estate, net | 2,549 | 3,037 |
| Net (accretion) amortization of securities | (19,792) | 2,501 |
| Net (accretion) amortization of loans and other assets | 187,619 | 121,690 |
| Net (accretion) amortization of deposits and borrowings | (44,136) | 331 |
| Net securities losses (gains) | 8,508 | (8) |
| Net loss (gain) on sale of premises and equipment | (1,284) | (13,919) |
| Gain on exchange of NYSE seats for NYSE publicly traded stock | | (13,111) |
| Deferred income tax (benefit) expense | (187,207) | 29,250 |
| Excess tax benefits from share-based payments | (4,043) | (19,840) |
| Originations and purchases of loans held for sale | (6,354,866) | (10,287,903) |
| Proceeds from sales of loans held for sale | 9,688,227 | 10,030,625 |
| Gain on sale of loans | (61,830) | (35,745) |
| Decrease (increase) in trading account assets | 87,987 | (424,280) |
| Decrease (increase) in margin receivables | 44,109 | (54,241) |
| Decrease (increase) in interest receivable | (4,363) | (36,160) |
| Decrease (increase) in other assets | (1,618,556) | (161,739) |
| (Decrease) increase in other liabilities | 858,656 | 85,555 |
| Other | 41,438 | 27,599 |
| Net cash provided by operating activities | 4,177,175 | 407,505 |
| Investing activities: | | |
| Proceeds from sale of securities available for sale | 1,372,270 | 384,206 |
| Proceeds from maturity of: | | |
| Securities available for sale | 1,850,327 | 2,081,272 |
| Securities held to maturity | 5,695 | 1,475 |
| Purchases of: | | |
| Securities available for sale | (1,471,717) | (2,949,635) |
| Securities held to maturity | (6,044) | (1,793) |
| Proceeds from sales of student loans | 945,478 | 294,992 |
| Net decrease (increase) in loans | (349,387) | (1,455,525) |
| Net purchase of premises and equipment | (278,079) | (52,177) |
| Net cash received from disposition of business | 5,700 | |
| Net cash provided by (used in) investing activities | 2,074,243 | (1,697,185) |
| Financing activities: | | |
| Net (decrease) increase in deposits | (7,760,054) | 1,790,847 |
| Net (decrease) increase in short-term borrowings | 124,014 | 1,345,769 |
| Proceeds from long-term borrowings | 5,168,241 | 210,669 |
| Payments on long-term borrowings | (2,977,247) | (1,691,946) |
| Cash dividends | (772,263) | (478,654) |
| Purchase of treasury stock | (1,263,374) | (306,392) |
| Proceeds from exercise of stock options | 146,417 | 189,801 |
| Excess tax benefits from share-based payments | 4,043 | 19,840 |

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

| | | |
|---|--------------|--------------|
| Net cash (used in) provided by financing activities | (7,330,223) | 1,079,934 |
| Decrease in cash and cash equivalents | (1,078,805) | (209,746) |
| Cash and cash equivalents at beginning of year | 4,717,418 | 3,216,940 |
| Cash and cash equivalents at end of period | \$ 3,638,613 | \$ 3,007,194 |

See notes to consolidated financial statements.

Table of Contents

REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Three and nine months ended September 30, 2007 and 2006

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 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 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, incorporated by reference, in Regions Annual Report on Form 10-K for the year ended December 31, 2006.

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

NOTE 2 Business Combinations

AmSouth Merger

On November 4, 2006, Regions completed its merger with AmSouth Bancorporation (AmSouth), headquartered in Birmingham, Alabama. In the transaction, AmSouth was merged with and into Regions Financial Corporation. Each share of AmSouth common stock was converted into 0.7974 of a share of Regions common stock. The merger was accounted for as a purchase of 100% of the voting interests of AmSouth by Regions for accounting and financial reporting purposes. As a result, the historical financial statements of Regions are the historical financial statements of the combined company.

The preliminary purchase price allocated to the assets acquired and liabilities assumed based upon their estimated fair values at the merger date was approximately \$6.2 billion. As of September 30, 2007, the preliminary excess purchase price allocated to the assets acquired and the liabilities assumed was approximately \$6.5 billion. The adjustment to the preliminary purchase price related primarily to finalizing the fair values for leveraged leases and related deferred taxes. Regions has not completed its full purchase price allocation, as the Company is still awaiting additional information regarding the fair value of the assets acquired and liabilities assumed. Therefore, the reported excess purchase price related to AmSouth is still preliminary and the assignment of excess purchase price by segment has not been completed.

Regions consolidated financial statements include the results of operations of acquired companies only from their respective dates of acquisition. The following unaudited summary information presents the consolidated results of operations of Regions on a pro forma basis for the three months and nine months ended September 30, 2006, as if AmSouth had been acquired on January 1, 2006. The pro forma summary information

Table of Contents

does not necessarily reflect the results of operations that would have occurred if the acquisition had occurred at the beginning of the period presented, or of results which may occur in the future.

| <i>(In thousands, except per share data)</i> | Three Months Ended September 30, 2006 | Nine Months Ended September 30, 2006 |
|---|---|--|
| Net interest income | \$ 1,185,644 | \$ 3,596,083 |
| Provision for loan losses | 50,414 | 159,348 |
| Net interest income after provision for loan losses | 1,135,230 | 3,436,735 |
| Non-interest income | 696,580 | 2,065,829 |
| Non-interest expense | 1,040,968 | 3,201,261 |
| Income before income taxes from continuing operations | 790,842 | 2,301,303 |
| Income taxes | 250,642 | 734,044 |
| Income from continuing operations | 540,200 | 1,567,259 |
| Discontinued operations (Note 10): | | |
| Loss from discontinued operations before income taxes | (10,442) | (14,888) |
| Income tax benefit | (4,177) | (5,956) |
| Loss from discontinued operations, net of taxes | (6,265) | (8,932) |
| Net income | \$ 533,935 | \$ 1,558,327 |
| Weighted-average number of shares outstanding: | | |
| Basic | 731,536 | 732,558 |
| Diluted | 735,998 | 737,113 |
| Earnings per share from continuing operations(1): | | |
| Basic | \$ 0.74 | \$ 2.14 |
| Diluted | 0.73 | 2.13 |
| Earnings per share from discontinued operations(1): | | |
| Basic | (0.01) | (0.01) |
| Diluted | (0.01) | (0.01) |
| Earnings per share(1): | | |
| Basic | 0.73 | 2.13 |
| Diluted | 0.73 | 2.11 |

(1) Certain per share amounts may not appear to reconcile due to rounding.

Restructuring Liabilities Relating to the AmSouth merger, approximately \$64.9 million of restructuring liabilities were recorded in the fourth quarter of 2006, resulting in an increase to excess purchase price. The balance was comprised of approximately \$42.1 million for severance and change-in-control provisions and \$22.8 million for contract terminations related to the acquisition. As of September 30, 2007, cash payments totaling \$35.7 million have been made for severance and change-in-control provisions, while \$9.0 million has been paid for contract terminations resulting in a remaining total liability of \$20.2 million at September 30, 2007. The Company has finalized its plans to exit certain activities related to AmSouth and/or involuntarily terminate former AmSouth employees and no additional restructuring liabilities will be accrued.

Branch Divestitures During the first quarter of 2007, Regions completed the divestiture of 52 former AmSouth branches. These divestitures were required by the Department of Justice and the Board of Governors of the Federal Reserve in markets where the merger may have affected competition. The premium received from the divestitures is reflected in excess purchase price.

Assets Held for Sale In February 2007, Regions listed more than 100 branch and land properties for sale related to the AmSouth merger. These properties exist in areas where the merger created an overlapping presence. Regions has classified these properties as held for sale in Other assets on the balance sheet. During

Table of Contents

the third quarter of 2007, Regions sold approximately \$19 million of the properties recorded as held for sale. A net loss of approximately \$5 million has been recognized in Other non-interest expense from continuing operations on the consolidated statement of income during the nine months ended September 30, 2007. The remaining balance of properties held for sale as of September 30, 2007 was approximately \$29 million.

Miles & Finch, Inc. Acquisition

On January 2, 2007, Regions Insurance Group, a subsidiary of Regions Financial Corporation, acquired certain assets of Miles & Finch, Inc., a multi-line insurance agency headquartered in Kokomo, Indiana with annual revenues of approximately \$10 million, for a purchase price of \$20.6 million.

Shattuck Hammond Partners LLC Acquisition

On June 15, 2007, Morgan Keegan & Co., Inc., a subsidiary of Regions Financial Corporation, acquired certain assets of Shattuck Hammond Partners LLC, an investment banking and financial advisory firm headquartered in New York, New York with annual revenues of approximately \$28 million, for a purchase price of \$25 million.

NOTE 3 Earnings per Share

The following table sets forth the computation of basic earnings per share and diluted earnings per share:

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|------------------------------------|------------|-----------------------------------|--------------|
| | 2007 | 2006 | 2007 | 2006 |
| <i>(In thousands, except per share data)</i> | | | | |
| Numerator: | | | | |
| For earnings per share basic and diluted | | | | |
| Income from continuing operations | \$ 394,240 | \$ 357,922 | \$ 1,322,048 | \$ 1,000,526 |
| Loss from discontinued operations, net of tax | (76) | (6,265) | (141,594) | (8,932) |
| Net income | 394,164 | 351,657 | 1,180,454 | 991,594 |
| Denominator: | | | | |
| For earnings per share basic | | | | |
| Weighted-average shares outstanding | 700,589 | 454,441 | 712,181 | 455,463 |
| Effect of dilutive securities: | | | | |
| Stock options | 3,612 | 4,379 | 5,611 | 4,475 |
| Other | 284 | 83 | 292 | 80 |
| | 3,896 | 4,462 | 5,903 | 4,555 |
| For earnings per share diluted | 704,485 | 458,903 | 718,084 | 460,018 |
| Earnings per share from continuing operations(1): | | | | |
| Basic | \$ 0.56 | \$ 0.79 | \$ 1.86 | \$ 2.20 |
| Diluted | 0.56 | 0.78 | 1.84 | 2.17 |
| Earnings per share from discontinued operations(1): | | | | |
| Basic | 0.00 | (0.01) | (0.20) | (0.02) |
| Diluted | 0.00 | (0.01) | (0.20) | (0.02) |
| Earnings per share(1): | | | | |
| Basic | 0.56 | 0.77 | 1.66 | 2.18 |
| Diluted | 0.56 | 0.77 | 1.64 | 2.16 |

(1) Certain per share amounts may not appear to reconcile due to rounding.

Table of Contents

The effect from the assumed exercise of 21,852,000 and 521,000 stock options for the three months ended and 10,962,000 and 998,000 stock options for the nine months ended September 30, 2007 and 2006, respectively, was not included in the above computations of diluted earnings per share because such amounts would have had an antidilutive effect on earnings per share.

NOTE 4 Comprehensive Income

Comprehensive income is the total of net income and all other non-owner changes in equity. Items that are to be recognized under accounting standards as components of comprehensive income are displayed in the consolidated statements of changes in stockholders' equity.

In the calculation of comprehensive income, certain reclassification adjustments are made to avoid double-counting items that are displayed as part of net income for a period that also had been displayed as part of other comprehensive income in that period or earlier periods.

The disclosure of the reclassification amount is as follows:

| <i>(In thousands)</i> | Three Months Ended September 30, 2007 | | |
|--|--|-------------------|-------------------|
| | Before Tax | Tax Effect | Net of Tax |
| Net income | \$ 573,409 | \$ (179,245) | \$ 394,164 |
| Net unrealized holding gains and losses on securities available for sale arising during the period | 214,774 | (80,336) | 134,438 |
| Less: reclassification adjustments for net securities gains realized in net income | 23,994 | (8,398) | 15,596 |
| Net change in unrealized gains and losses on securities available for sale | 190,780 | (71,938) | 118,842 |
| Net unrealized holding gains and losses on derivatives arising during the period | 104,612 | (38,373) | 66,239 |
| Less: reclassification adjustments for net losses realized in net income | (1,485) | 519 | (966) |
| Net change in unrealized gains and losses on derivative instruments | 106,097 | (38,892) | 67,205 |
| Net actuarial gains and losses and prior service costs and credits arising during the period | 3,499 | (1,346) | 2,153 |
| Less: amortization of actuarial loss and prior service credit realized in net income | 1,796 | (629) | 1,167 |
| Net change from defined benefit pension plans | 1,703 | (717) | 986 |
| Comprehensive income | \$ 871,989 | \$ (290,792) | \$ 581,197 |

| <i>(In thousands)</i> | Three Months Ended September 30, 2006 | | |
|--|--|-------------------|-------------------|
| | Before Tax | Tax Effect | Net of Tax |
| Net income | \$ 504,055 | \$ (152,398) | \$ 351,657 |
| Net unrealized holding gains and losses on securities available for sale arising during the period | 204,537 | (74,991) | 129,546 |
| Less: reclassification adjustments for net securities gains realized in net income | 8,104 | (2,836) | 5,268 |
| Net change in unrealized gains and losses on securities available for sale | 196,433 | (72,155) | 124,278 |
| Net unrealized holding gains and losses on derivatives arising during the period | 15,128 | (5,705) | 9,423 |
| Less: reclassification adjustments for net gains realized in net income | 104 | (36) | 68 |
| Net change in unrealized gains and losses on derivative instruments | 15,024 | (5,669) | 9,355 |
| Comprehensive income | \$ 715,512 | \$ (230,222) | \$ 485,290 |

Table of Contents

| <i>(In thousands)</i> | Nine Months Ended September 30, 2007 | | |
|--|---|-------------------|-------------------|
| | Before Tax | Tax Effect | Net of Tax |
| Net income | \$ 1,751,294 | \$ (570,840) | \$ 1,180,454 |
| Net unrealized holding gains and losses on securities available for sale arising during the period | 60,495 | (24,650) | 35,845 |
| Less: reclassification adjustments for net securities losses realized in net income | (8,508) | 2,978 | (5,530) |
| Net change in unrealized gains and losses on securities available for sale | 69,003 | (27,628) | 41,375 |
| Net unrealized holding gains and losses on derivatives arising during the period | 60,760 | (19,743) | 41,017 |
| Less: reclassification adjustments for net gains realized in net income | 6,211 | (2,174) | 4,037 |
| Net change in unrealized gains and losses on derivative instruments | 54,549 | (17,569) | 36,980 |
| Net actuarial gains and losses and prior service costs and credits arising during the period | 10,500 | (3,729) | 6,771 |
| Less: amortization of actuarial loss and prior service credit realized in net income | 5,388 | (1,886) | 3,502 |
| Net change from defined benefit pension plans | 5,112 | (1,843) | 3,269 |
| Comprehensive income | \$ 1,879,958 | \$ (617,880) | \$ 1,262,078 |

| <i>(In thousands)</i> | Nine Months Ended September 30, 2006 | | |
|--|---|-------------------|-------------------|
| | Before Tax | Tax Effect | Net of Tax |
| Net income | \$ 1,430,038 | \$ (438,444) | \$ 991,594 |
| Net unrealized holding gains and losses on securities available for sale arising during the period | 2,476 | (650) | 1,826 |
| Less: reclassification adjustments for net securities gains realized in net income | 8,143 | (2,850) | 5,293 |
| Net change in unrealized gains and losses on securities available for sale | (5,667) | 2,200 | (3,467) |
| Net unrealized holding gains and losses on derivatives arising during the period | 13,431 | (5,089) | 8,342 |
| Less: reclassification adjustments for net gains realized in net income | 312 | (109) | 203 |
| Net change in unrealized gains and losses on derivative instruments | 13,119 | (4,980) | 8,139 |
| Comprehensive income | \$ 1,437,490 | \$ (441,224) | \$ 996,266 |

Table of Contents**NOTE 5 Pension and Other Postretirement Benefits**

Net periodic pension expense and other postretirement benefits expense included the following components for the three months ended September 30:

| <i>(In thousands)</i> | Pension | | Other Postretirement Benefits | |
|--------------------------------------|-----------------|-----------------|-------------------------------|---------------|
| | 2007 | 2006 | 2007 | 2006 |
| Service cost | \$ 12,207 | \$ 4,830 | \$ 234 | \$ 100 |
| Interest cost | 24,052 | 7,560 | 766 | 533 |
| Expected return on plan assets | (32,851) | (9,955) | (67) | (62) |
| Amortization of prior service credit | (67) | (111) | (105) | (104) |
| Recognized actuarial loss | 1,863 | 3,907 | 12 | 59 |
| Curtailement gains | (1,740) | | | |
| Total expense | \$ 3,464 | \$ 6,231 | \$ 840 | \$ 526 |

Net periodic pension expense and other postretirement benefits expense included the following components for the nine months ended September 30:

| <i>(In thousands)</i> | Pension | | Other Postretirement Benefits | |
|--------------------------------------|-----------------|------------------|-------------------------------|-----------------|
| | 2007 | 2006 | 2007 | 2006 |
| Service cost | \$ 32,791 | \$ 14,332 | \$ 703 | \$ 299 |
| Interest cost | 64,756 | 22,432 | 2,297 | 1,602 |
| Expected return on plan assets | (87,325) | (29,539) | (202) | (185) |
| Amortization of prior service credit | (200) | (327) | (313) | (313) |
| Recognized actuarial loss | 5,588 | 11,591 | 36 | 177 |
| Settlement charge | 2,300 | | | |
| Curtailement gains | (8,792) | | | |
| Total expense | \$ 9,118 | \$ 18,489 | \$ 2,521 | \$ 1,580 |

The settlement charge during the first nine months of 2007 relates to the settlement of a liability under the Regions supplemental executive retirement plan for a certain executive officer that occurred during the first quarter of 2007. The curtailment gains resulted from merger-related employment terminations which occurred during the first and third quarters of 2007. As a result of the timing and significance of the first quarter 2007 curtailment, pension expense was remeasured as of March 31, 2007, for the fiscal year 2007.

NOTE 6 Share-Based Payments

Regions has stock option and long-term incentive compensation plans which permit the granting of incentive awards in the form of stock options, restricted stock, and stock appreciation rights. The terms of all awards issued under these plans are determined by the Compensation Committee of the Board of Directors, but no options may be granted after the tenth anniversary of the plans' adoption. Options and restricted stock granted usually vest based on employee service and generally vest within three years from the date of the grant. Grants of performance-based restricted stock typically have a one year performance period, after which shares vest within three years after the grant date. The contractual life of these options granted under these plans range from seven to ten years from the date of grant. Upon adoption of a new long-term incentive plan in 2006, Regions amended all other open stock and long-term incentive plans, such that no new awards may be granted under those plans subsequent to the amendment date. The outstanding awards were unaffected by this plan amendment. Refer to Regions' Annual Report on Form 10-K for the year ended December 31, 2006 for further disclosures related to share-based payments issued by Regions.

Table of Contents

Regions measures the fair value of each option award on the date of the grant using the Black-Scholes option pricing model. The following table summarizes the weighted-average assumptions used and the estimated fair values related to stock options granted during the nine months ended:

| | September 30 | |
|-------------------------|--------------|------------|
| | 2007 | 2006 |
| Expected dividend yield | 4.11% | 3.80% |
| Expected volatility | 19.70% | 19.50% |
| Risk-free interest rate | 4.52% | 4.57 5.04% |
| Expected option life | 5.0 yrs. | 4.0 yrs. |
| Fair value | \$5.23 | \$4.97 |

The following table details the activity during the first nine months of 2007 and 2006 related to stock options:

| | For the Nine Months Ended September 30 | | | |
|------------------------------------|--|--------------------------------|----------------------|--------------------------------|
| | 2007 | | 2006 | |
| | Number of Options | Wtd. Avg. Exercise Price | Number of Options | Wtd. Avg. Exercise Price |
| Outstanding at beginning of period | 48,805,147 | \$ 28.97 | 33,590,080 | \$ 27.76 |
| Granted | 4,916,960 | 35.08 | 941,403 | 35.09 |
| Exercised | (3,801,825) | 26.91 | (7,877,581) | 26.23 |
| Forfeited or cancelled | (1,190,021) | 30.35 | (290,990) | 28.51 |
| Outstanding at end of period | 48,730,261 | \$ 29.72 | 26,362,912 | \$ 28.48 |
| Exercisable at end of period | 43,578,027 | \$ 29.09 | 24,334,847 | \$ 28.00 |

The following table details the activity during the first nine months of 2007 and 2006 related to restricted shares awarded by Regions:

| | For the Nine Months Ended September 30 | | | |
|-----------------------------------|--|---------------------------------------|-----------|---------------------------------------|
| | 2007 | | 2006 | |
| | Shares | Wtd. Avg. Grant Date Fair Value | Shares | Wtd. Avg. Grant Date Fair Value |
| Non-vested at beginning of period | 3,290,589 | \$ 33.34 | 3,362,995 | \$ 31.39 |
| Granted | 1,511,596 | 35.57 | 1,306,192 | 34.50 |
| Vested | (1,147,091) | 32.14 | (595,895) | 27.78 |
| Forfeited | (365,804) | 35.03 | (244,000) | 31.83 |
| Non-vested at end of period | 3,289,290 | \$ 34.60 | 3,829,292 | \$ 32.98 |

In October 2007, the Company granted approximately 971,000 restricted stock units to certain executives and other key officers. These restricted stock unit grants have a five year cliff vesting period for which expense recognition begins in the fourth quarter of 2007.

Table of Contents

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 General 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. Prior to the second quarter of 2007, Regions had reported a Mortgage Banking segment that included the origination and servicing functions of Regions' conforming mortgage operation and mortgage warehouse operation, as well as Regions' non-conforming mortgage subsidiary, EquiFirst Holdings Corporation (EquiFirst). After the sale of EquiFirst at the end of the first quarter, management determined that the remaining functions of the mortgage operation were more aligned with the operations of the general bank. Therefore, during the second quarter of 2007, Regions combined the Mortgage Banking segment into the General Banking/Treasury segment. The 2006 amounts presented below have been adjusted to conform to the September 30, 2007 presentation. EquiFirst is presented separately as a discontinued operation in the consolidated statement of income. See Note 10 to the consolidated financial statements for further discussion.

In addition to General 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, in addition to credit life products sold to consumer customers. The reportable segment designated Other primarily includes merger charges and the parent company including eliminations. Regions' non-prime mortgage subsidiary, EquiFirst, is presented separately as a discontinued operation in the consolidated statements of income. See Note 10 to the consolidated financial statements for further discussion.

The accounting policies used by each reportable segment are the same as those discussed in Note 1 to the consolidated financial statements included in the 2006 Annual Report on Form 10-K. The following table presents financial information for each reportable segment.

| <i>(In thousands)</i> | General | Investment | | |
|--|--------------------------|---------------------------------|----------------|--------------|
| | Banking/ Treasury | Banking/ Brokerage/ Trust | Insurance | Other |
| Three months ended September 30, 2007 | | | | |
| Net interest income | \$ 1,051,839 | \$ 13,598 | \$ 1,587 | \$ 12,757 |
| Provision for loan losses | 90,000 | | | |
| Non-interest income | 414,824 | 283,028 | 24,214 | 7,078 |
| Non-interest expense | 774,735 | 225,469 | 20,367 | 124,823 |
| Income taxes (benefit) | 228,734 | 26,000 | 1,759 | (77,202) |
| Net income (loss) | \$ 373,194 | \$ 45,157 | \$ 3,675 | \$ (27,786) |
| Average assets | \$ 126,048,464 | \$ 3,625,844 | \$ 283,842 | \$ 6,918,279 |
| <i>(In thousands)</i> | Total | Discontinued | Total | |
| | Continuing Operations | Operations (EquiFirst) | Company | |
| Net interest income | \$ 1,079,781 | \$ | \$ 1,079,781 | |
| Provision for loan losses | 90,000 | | 90,000 | |
| Non-interest income | 729,144 | | 729,144 | |
| Non-interest expense | 1,145,394 | 122 | 1,145,516 | |
| Income taxes (benefit) | 179,291 | (46) | 179,245 | |
| Net income (loss) | \$ 394,240 | \$ (76) | \$ 394,164 | |
| Average assets | \$ 136,876,429 | \$ | \$ 136,876,429 | |

Table of Contents

| <i>(In thousands)</i> | General Banking/ Treasury | Investment Banking/ Brokerage/ Trust | Insurance | Other |
|--|--|---|-------------------|---------------------|
| Three months ended September 30, 2006 | | | | |
| Net interest income | \$ 738,454 | \$ 14,755 | \$ 1,546 | \$ 11,624 |
| Provision for loan losses | 24,901 | | | 13 |
| Non-interest income | 254,090 | 193,796 | 21,790 | (8,293) |
| Non-interest expense | 502,923 | 160,679 | 16,303 | 8,446 |
| Income taxes (benefit) | 174,616 | 17,251 | 2,690 | (37,982) |
| Net income (loss) | \$ 290,104 | \$ 30,621 | \$ 4,343 | \$ 32,854 |
| Average assets | \$ 80,373,038 | \$ 3,282,818 | \$ 221,025 | \$ 1,488,199 |

| <i>(In thousands)</i> | Total Continuing Operations | Discontinued Operations (EquiFirst) | Total Company |
|---------------------------|--|--|--------------------------|
| Net interest income | \$ 766,379 | \$ 11,321 | \$ 777,700 |
| Provision for loan losses | 24,914 | 86 | 25,000 |
| Non-interest income | 461,383 | 4,565 | 465,948 |
| Non-interest expense | 688,351 | 26,242 | 714,593 |
| Income taxes (benefit) | 156,575 | (4,177) | 152,398 |
| Net income (loss) | \$ 357,922 | \$ (6,265) | \$ 351,657 |
| Average assets | \$ 85,365,080 | \$ 1,610,742 | \$ 86,975,822 |

| <i>(In thousands)</i> | General Banking/ Treasury | Investment Banking/ Brokerage/ Trust | Insurance | Other |
|---|--|---|-------------------|---------------------|
| Nine months ended September 30, 2007 | | | | |
| Net interest income | \$ 3,298,212 | \$ 44,420 | \$ 4,438 | \$ 7,084 |
| Provision for loan losses | 196,925 | | | 75 |
| Non-interest income | 1,246,222 | 834,010 | 78,193 | (35,568) |
| Non-interest expense | 2,234,932 | 656,651 | 60,867 | 359,645 |
| Income taxes (benefit) | 857,643 | 80,970 | 7,177 | (299,922) |
| Net income (loss) | \$ 1,254,934 | \$ 140,809 | \$ 14,587 | \$ (88,282) |
| Average assets | \$ 130,684,432 | \$ 3,723,001 | \$ 270,321 | \$ 3,454,890 |

| <i>(In thousands)</i> | Total Continuing Operations | Discontinued Operations (EquiFirst) | Total Company |
|---------------------------|--|--|--------------------------|
| Net interest income | \$ 3,354,154 | \$ 11,967 | \$ 3,366,121 |
| Provision for loan losses | 197,000 | 182 | 197,182 |
| Non-interest income | 2,122,857 | (176,681) | 1,946,176 |
| Non-interest expense | 3,312,095 | 51,726 | 3,363,821 |
| Income taxes (benefit) | 645,868 | (75,028) | 570,840 |
| Net income (loss) | \$ 1,322,048 | \$ (141,594) | \$ 1,180,454 |
| Average assets | \$ 138,132,644 | \$ 641,625 | \$ 138,774,269 |

Table of Contents

| | General Banking/ Treasury | Investment Banking/ Brokerage/ Trust | Insurance | Other |
|---|--|---|--------------------------|---------------------|
| <i>(In thousands)</i> | | | | |
| Nine months ended September 30, 2006 | | | | |
| Net interest income | \$ 2,231,915 | \$ 37,508 | \$ 4,176 | \$ (25,450) |
| Provision for loan losses | 82,495 | | | 53 |
| Non-interest income | 719,801 | 621,635 | 64,150 | (13,435) |
| Non-interest expense | 1,494,349 | 495,606 | 47,871 | 75,000 |
| Income taxes (benefit) | 516,605 | 59,389 | 8,023 | (139,617) |
| Net income (loss) | \$ 858,267 | \$ 104,148 | \$ 12,432 | \$ 25,679 |
| Average assets | \$ 78,799,552 | \$ 3,188,346 | \$ 202,616 | \$ 2,386,052 |
| | Total Continuing Operations | Discontinued Operations (EquiFirst) | Total Company | |
| <i>(In thousands)</i> | | | | |
| Net interest income | \$ 2,248,149 | \$ 34,812 | \$ 2,282,961 | |
| Provision for loan losses | 82,548 | (48) | 82,500 | |
| Non-interest income | 1,392,151 | 34,626 | 1,426,777 | |
| Non-interest expense | 2,112,826 | 84,374 | 2,197,200 | |
| Income taxes (benefit) | 444,400 | (5,956) | 438,444 | |
| Net income (loss) | \$ 1,000,526 | \$ (8,932) | \$ 991,594 | |
| Average assets | \$ 84,576,566 | \$ 1,525,779 | \$ 86,102,345 | |

NOTE 8 Uncertain Tax Positions

Regions adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (Interpretation 48), as of January 1, 2007. Interpretation 48 requires that only benefits from tax positions that are more-likely-than-not of being sustained upon examination should be recognized in the financial statements. At the time these positions no longer meet the more-likely-than-not threshold, the tax benefits previously recognized would be reversed. Interpretation 48 permits entities to elect the classification of interest and penalties on unrecognized tax benefits as either interest expense or tax expense. As a result of the implementation of Interpretation 48, the Company recognized an approximate \$259 million increase in the liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007, balance of undivided profits. Consistent with accounting policies prior to the adoption of Interpretation 48, the Company recognizes accrued interest and penalties related to unrecognized tax benefits as tax expense.

Regions and its subsidiaries file income tax returns in the United States (U.S.), as well as various state jurisdictions. As the successor of acquired taxpayers, Regions is responsible for the resolution of audits from both federal and state taxing authorities. With few exceptions in certain state jurisdictions, the Company is no longer subject to U.S. federal or state and local income tax examinations by tax authorities for years before 1998, which would include audits of acquired entities. The Internal Revenue Service (IRS) has commenced an examination of the Company's U.S. federal income tax returns for 2000 through 2005, the fieldwork for which is anticipated to be completed by the end of 2008 for the latest taxable year currently under audit. As of January 1, 2007, the IRS and certain states have proposed various adjustments to the Company's previously filed tax returns. Management is currently evaluating those proposed adjustments; however, the Company does not anticipate the adjustments would result in a material change to its financial position or results of operations.

During the third quarter of 2007, the Company made a deposit with the IRS to stop the accrual of interest on materially all of its federal uncertain tax positions. The Company anticipates that it is likely to re-designate a portion of the deposit as an additional statutory payment to the IRS before the end of 2007 to settle a dispute related to certain leveraged lease transactions. The Company also anticipates that the federal examinations for the 1998 and 1999 tax years will be closed before the end of 2007.

Table of Contents

As of January 1, 2007 and September 30, 2007, the liability for gross unrecognized tax benefits was approximately \$636 million and \$727 million, respectively. Additionally, as of January 1, 2007 and September 30, 2007, the Company recognized a liability of approximately \$207 million and \$278 million, respectively, for interest, on a pretax basis. During the nine-month period ended September 30, 2007, Regions recognized interest expense, on a pretax basis, on uncertain tax positions of approximately \$62 million.

NOTE 9 Commitments and Contingencies

To accommodate the financial needs of its customers, Regions makes commitments under various terms to lend funds to consumers, businesses and other entities. These commitments include (among others) revolving credit agreements, term loan commitments and short-term borrowing agreements. Many of these loan commitments have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of these commitments are expected to expire without being funded, the total commitment amounts do not necessarily represent future liquidity requirements. Standby letters of credit are also issued, which commit Regions to make payments on behalf of customers if certain specified future events occur. Historically, a large percentage of standby letters of credit expire without being funded.

Both loan commitments and standby letters of credit have credit risk essentially the same as that involved in extending loans to customers and are subject to normal credit approval procedures and policies. Collateral is obtained based on management's assessment of the customer's credit. Loan commitments totaled \$41.4 billion at September 30, 2007, and \$22.6 billion at September 30, 2006. Standby letters of credit were \$6.9 billion at September 30, 2007, and \$3.7 billion at September 30, 2006. Commitments under commercial letters of credit used to facilitate customers' trade transactions were \$59.8 million at September 30, 2007, and \$47.9 million at September 30, 2006.

The Company and its affiliates are subject to litigation and claims arising out of the normal course of business. Regions evaluates these contingencies based on information currently available, including advice of counsel and assessment of available insurance coverage. Although it is not possible to predict the ultimate resolution or financial liability with respect to these litigation contingencies, management is of the opinion that the outcome of pending and threatened litigation would not have a material effect on Regions' consolidated financial position or results of operations.

NOTE 10 Discontinued Operations

On March 30, 2007, Regions sold EquiFirst, a non-conforming mortgage origination subsidiary, for approximately \$76 million and recorded an after-tax gain of approximately \$1 million. Consequently, the business related to EquiFirst has been accounted for as discontinued operations and the results are presented separately on the consolidated statements of income following the results from continuing operations. The purchase price is subject to final resolution of closing date values of net assets sold, which is not yet completed. Regions believes any adjustments to the purchase price will not have a material impact to the consolidated financial statements.

Regions recorded approximately \$141 million in after-tax losses related to the operations of EquiFirst for the three month period ended March 31, 2007. The primary factor in the recognition of these losses was the significant and rapid deterioration of the sub-prime market during the three month period ended March 31, 2007.

Table of Contents

The results from discontinued operations for the three-month periods ending September 30, 2007 and 2006 are presented in the following table:

| <i>(In thousands)</i> | Three Months Ended September 30 | |
|--|--|-------------------|
| | 2007 | 2006 |
| Net interest income | \$ | \$ 11,321 |
| Provision for loan losses | | 86 |
| Net interest income after provision for loan losses | | 11,235 |
| Total non-interest income, excluding gain on sale of discontinued operations | | 4,565 |
| Total non-interest expense | 122 | 26,242 |
| Loss from discontinued operations before income taxes | (122) | (10,442) |
| Income tax (benefit) expense | (46) | (4,177) |
| (Loss) income from discontinued operations, net of tax | \$ (76) | \$ (6,265) |

The results from discontinued operations for the nine-month periods ending September 30, 2007 and 2006 are presented in the following table:

| <i>(In thousands)</i> | Nine Months Ended September 30 | |
|--|---|-------------------|
| | 2007 | 2006 |
| Net interest income | \$ 11,967 | \$ 34,812 |
| Provision for loan losses | 182 | (48) |
| Net interest income after provision for loan losses | 11,785 | 34,860 |
| Total non-interest income, excluding gain on sale of discontinued operations | (188,658) | 34,626 |
| Total non-interest expense | 51,726 | 84,374 |
| Loss from discontinued operations, excluding gain on sale, before income taxes | (228,599) | (14,888) |
| Gain on sale of discontinued operations before income taxes | 11,977 | |
| Loss from discontinued operations before income taxes | (216,622) | (14,888) |
| Income tax benefit | (75,028) | (5,956) |
| Loss from discontinued operations, net of tax | \$ (141,594) | \$ (8,932) |

NOTE 11 Recent Accounting Pronouncements

In July 2006, the FASB issued Interpretation 48, which requires that only benefits from tax positions that are more-likely-than-not of being sustained upon examination should be recognized in the financial statements. See Note 8, *Uncertain Tax Positions* for additional information about the impact of this interpretation.

In July 2006, the FASB issued FASB Staff Position Statement of Financial Accounting Standards No. 13-2, *Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction* (FSP 13-2), which addresses how a change or projected change in the timing of cash flows relating to income taxes generated by a leveraged lease transaction affects the accounting by a lessor for that lease. FSP 13-2 requires the projected timing of income tax cash flows generated by a leveraged lease transaction to be reviewed annually or more frequently if changes in circumstances indicate that a change in timing has occurred or is projected to occur. If the projected timing of the income tax cash flows is revised during the lease term, the rate of return and the recognition of income

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

shall be recalculated from the inception of the lease as provided in FASB Statement No. 13, Accounting for Leases. FSP 13-2 is effective for fiscal years beginning after December 15, 2006 and the cumulative effect of applying the provisions of this FSP

Table of Contents

shall be reported as an adjustment to the beginning balance of retained earnings. Regions adopted FSP 13-2 on January 1, 2007, and the effect of adoption on the consolidated financial statements was a reduction in undivided profits of approximately \$10.4 million.

In September 2006, the FASB ratified the consensus the Emerging Issues Task Force (EITF) reached regarding EITF Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements (Issue 06-4), which provides accounting guidance for postretirement benefits related to endorsement split-dollar life insurance arrangements, whereby the employer owns and controls the insurance policies. The consensus concludes that an employer should recognize a liability for the postretirement benefit in accordance with Statement of Financial Accounting Standards No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions (Statement 106) or Accounting Principles Board Opinion No. 12 (APB 12). In addition, the consensus states that an employer should also recognize an asset based on the substance of the arrangement with the employee. Issue 06-4 is effective for fiscal years beginning after December 15, 2007 with early application permitted. Regions is in the process of reviewing the potential impact of Issue 06-4.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (Statement 157), which provides guidance for using fair value to measure assets and liabilities, but does not expand the use of fair value in any circumstance. Statement 157 also requires expanded disclosures about the extent to which a company measures assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on an entity s financial statements. The statement applies whenever other standards require or permit assets and liabilities to be measured at fair value. Statement 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, with early adoption permitted. Regions is in the process of reviewing the potential impact of this statement.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (Statement 159). Statement 159 allows entities to voluntarily choose, at specified election dates, to measure financial assets and financial liabilities (as well as certain nonfinancial instruments that are similar to financial instruments) at fair value (the fair value option). The election is made on an instrument-by-instrument basis and is irrevocable. If the fair value option is elected for an instrument, Statement 159 specifies that all subsequent changes in fair value for that instrument be reported in earnings. Statement 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007 and earlier adoption is permitted. Regions is in the process of reviewing the potential impact of this statement.

In March 2007, the FASB ratified the consensus the EITF reached regarding EITF Issue No. 06-10, Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements (Issue 06-10), which provides accounting guidance for postretirement benefits related to collateral assignment split-dollar life insurance arrangements, whereby the employee owns and controls the insurance policies. The consensus concludes that an employer should recognize a liability for the postretirement benefit in accordance with Statement 106 or APB 12, as well as recognize an asset based on the substance of the arrangement with the employee. Issue 06-10 is effective for fiscal years beginning after December 15, 2007 with early application permitted. Regions is in the process of reviewing the potential impact of Issue 06-10.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

INTRODUCTION

The following discussion and analysis is part of Regions Financial Corporation's (Regions or the Company) Quarterly Report on Form 10-Q to the Securities and Exchange Commission (SEC) and updates Regions' Annual Report on Form 10-K for the year ended December 31, 2006, which was previously filed with the SEC. This financial information is presented to aid in understanding Regions' financial position and results of operations and should be read together with the financial information contained in the Form 10-K. Certain prior period amounts presented in this discussion and analysis have been reclassified to conform to current period classifications. The emphasis of this discussion will be on the three months and nine months ended September 30, 2007 compared to the three months and nine months ended September 30, 2006 for the statement of income. For the balance sheet, the emphasis of this discussion will be the balances as of September 30, 2007 as compared to December 31, 2006.

This discussion and analysis contains statements that may be considered forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. See page 3 for additional information regarding forward-looking statements.

CORPORATE PROFILE

Regions is a financial holding company headquartered in Birmingham, Alabama, which operates in the South, Midwest and Texas. Regions' primary business is providing traditional commercial and retail banking services. Regions' principal banking subsidiary, Regions Bank, operates as an Alabama state-chartered bank with approximately 1,900 full-service banking offices in Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, South Carolina, Tennessee, Texas and Virginia.

In addition to providing traditional commercial and retail banking services, Regions provides additional financial services including securities brokerage, asset management, financial planning, mutual funds, investment banking, insurance, mortgage origination and servicing, equipment financing and other specialty financing. Regions provides brokerage services and investment banking from approximately 430 offices of Morgan Keegan & Company, Inc. (Morgan Keegan), one of the largest investment firms based in the South. Regions provides full-line insurance brokerage services primarily through Rebsamen Insurance, Inc., one of the 30 largest insurance brokers in the country.

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

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

Table of Contents

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

THIRD QUARTER HIGHLIGHTS

Regions reported income from continuing operations of \$394.2 million, or \$0.56 per diluted share in the third quarter of 2007, which included \$56.5 million in after-tax merger-related expenses (or 8 cents per diluted share). Primary drivers of the third quarter 2007 net income include solid fee income for Morgan Keegan, controlled expenses and accelerated merger cost savings. During the third quarter of 2007, Regions successfully completed the first of three branch systems conversions, which were in Alabama and Florida, related to the integration of AmSouth Bancorporation (AmSouth).

Net interest income from continuing operations, on a fully taxable equivalent basis, for the third quarter of 2007 was \$1.1 billion, compared to \$806.3 million in the third quarter of 2006. The taxable equivalent net interest margin (annualized and including discontinued operations) for the third quarter of 2007 was 3.74%, compared to 4.21% in the third quarter of 2006. The decrease in the net interest margin reflects the addition of the AmSouth Bancorporation (AmSouth) balance sheet, as well as a lower tax equivalent adjustment to net interest income from the first quarter adoption of FASB Interpretation No. 48 Uncertain Tax Positions (FIN 48) (see Note 8 to the consolidated financial statements). The third quarter 2007 net interest margin was also negatively impacted by narrower spreads on new assets, share repurchase activity, and the funding of a large tax deposit (see Note 8 to the consolidated financial statements), which decreased interest on tax exposures and therefore positively impacted tax expense.

Net charge-offs totaled \$63.1 million, or 0.27% of average loans, annualized, in the third quarter of 2007, compared to 0.16% for the third quarter of 2006. The provision for loan losses from continuing operations totaled \$90.0 million in the third quarter of 2007 compared to \$24.9 million during the same period of 2006. These increases during 2007 when compared to 2006 resulted from both a larger loan portfolio as a result of the AmSouth merger and weaker economic conditions during 2007. Total non-performing assets at September 30, 2007, were \$588.3 million, compared to \$379.1 million at December 31, 2006. The increase was primarily related to single family development loans and the synchronization of Regions' credit policies after the merger with AmSouth. To ensure consistency in the application of credit policies and risk ratings, Regions conducted credit servicing reviews (covering all loans in excess of \$3 million) during the second and third quarters of 2007. While non-performing loans increased, they are generally well-secured by real estate collateral. Also during the quarter, Regions sold \$41.5 million of non-performing loans and transferred \$32.7 million of non-performing loans to loans held for sale, which were subsequently sold in October 2007. The allowance for credit losses at September 30, 2007, was 1.19% of total loans, net of unearned income, compared to 1.17% at December 31, 2006 and 1.31% at September 30, 2006.

Non-interest income in the third quarter of 2007 from continuing operations, excluding securities gains and losses, was \$705.2 million, compared to \$453.3 million in the third quarter of 2006. This increase was attributable to the AmSouth merger, led by increases in service charges on deposit accounts (including interchange income), brokerage income, trust income and commercial credit fee income.

Total non-interest expense from continuing operations was \$1.1 billion in the third quarter of 2007, compared to \$688.4 million in the third quarter of 2006. Merger charges of \$91.8 million were incurred in the third quarter of 2007. Merger charges, primarily related to the first branch systems conversion event, coupled with the additional expenses attributable to AmSouth, were the primary drivers of the increase in non-interest expense during the third quarter of 2007 when compared to the third quarter of 2006. As an offset, non-interest expenses benefited from the realization of merger cost savings of approximately \$102 million during the third quarter of 2007.

Table of Contents**TOTAL ASSETS**

Regions' total assets at September 30, 2007, were \$138.2 billion, compared to \$143.4 billion at December 31, 2006. The decrease in total assets from year end 2006 resulted primarily from required branch divestitures related to Regions' merger with AmSouth and the sale of EquiFirst, both of which took place in the first quarter of 2007. Also, asset growth continued to be weak due to reduced overall loan demand.

LOANS

Regions' primary assets are loans. At September 30, 2007, loans represented 82% of Regions' interest-earning assets. The following table presents the distribution by loan type of Regions' loan portfolio, net of unearned income:

Table 1 Loan Portfolio

| <i>(In thousands)</i> | September 30 2007 | December 31 2006 | September 30 2006 |
|--------------------------|------------------------------|-----------------------------|------------------------------|
| Commercial | \$ 23,565,882 | \$ 24,145,411 | \$ 16,155,841 |
| Real estate mortgage | 35,337,366 | 35,230,343 | 23,534,691 |
| Real estate construction | 14,237,083 | 14,121,030 | 8,730,822 |
| Home equity lending | 14,835,319 | 14,888,599 | 7,529,539 |
| Indirect lending | 4,015,142 | 4,037,539 | 1,324,017 |
| Other consumer | 2,382,840 | 2,127,680 | 2,202,995 |
| | \$ 94,373,632 | \$ 94,550,602 | \$ 59,477,905 |

Loan growth remained challenging during the first nine months of 2007. Due to system conversion-related re-mapping of loan product types, approximately \$1 billion in commercial loans were reclassified into real estate mortgage during the third quarter of 2007. Additional re-mapping of loan product types will also occur in connection with the remaining system conversions scheduled for the fourth quarter of 2007. Excluding the effect of this reclassification, commercial and other consumer loans increased during the first nine months of 2007. However, net decreases in other loan categories, particularly real estate mortgage loans, more than offset portfolio growth. Home equity lending has experienced strong production, but high paydowns have prevented net loan growth in this category.

Regions has approximately \$100 million in book value of sub-prime loans retained from the disposition of EquiFirst. The credit loss exposure related to these loans is addressed in management's periodic determination of the allowance for credit losses.

ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses (allowance) represents management's estimate of probable credit losses inherent in the loan portfolio and off-balance sheet credit commitments as of September 30, 2007. The allowance consists of two components: the allowance for loan losses, which is recorded as a contra-asset to loans, and the reserve for unfunded credit commitments, which is recorded in other liabilities. The assessment of the adequacy of the allowance is based on the combination of both of these components. Regions determines its allowance in accordance with regulatory guidance, Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan (Statement 114) and Statement of Financial Accounting Standards No. 5, Accounting for Contingencies (Statement 5).

At September 30, 2007 and December 31, 2006, the allowance totaled approximately \$1.1 billion. The allowance as a percentage of net loans was 1.19% at September 30, 2007 compared to 1.17% at year-end 2006. Net loan losses as a percentage of average loans (annualized) were 0.23% and 0.19% in the first nine months of

Table of Contents

2007 and 2006, respectively. The reserve for unfunded credit commitments was \$55.8 million at September 30, 2007 compared to \$51.8 million at December 31, 2006. Details regarding the allowance and net charge-offs, including an analysis of activity from the previous year's totals, are included in Table 2.

Management's determination of the adequacy of the allowance is an ongoing, quarterly process and is based on an evaluation of the loan portfolio, including but not limited to: (1) detailed reviews of individual loans; (2) historical and current trends in gross and net loan charge-offs for the various portfolio segments evaluated; (3) the level of the allowance in relation to total loans and to historical loss levels; (4) levels and trends in non-performing and past due loans; (5) collateral values of properties securing loans; (6) the composition of the loan portfolio, including unfunded credit commitments; and (7) management's judgment of current economic conditions and their impact on credit performance.

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

For the majority of the loan portfolio, management uses information from its ongoing review processes to stratify the loan portfolio into pools sharing common risk characteristics. Loans which share common risk characteristics are assigned a portion of the allowance based on the assessment process described above. Credit exposures are categorized by type and assigned estimated amounts of inherent loss based on the processes described above.

Impaired loans are defined as commercial and commercial real estate loans (excluding leases) on non-accrual status. Impaired loans totaled approximately \$431.1 million at September 30, 2007, compared to \$237.5 million at December 31, 2006. The increase in impaired loans is consistent with the increase in non-performing loans, which is discussed in the Non-Performing Assets section of this report. All loans which management has identified as impaired, and which are greater than \$2.5 million, are evaluated individually for purposes of determining appropriate allowances for credit losses under Statement 114. For these loans, Regions measures the level of impairment based on the present value of the estimated cash flows, the estimated value of the collateral or, if available, observable market prices. Within total impaired loans, \$114.5 million of these loans had specific reserves of approximately \$22.6 million at September 30, 2007. This compares to \$70.1 million of impaired loans having specific reserves of approximately \$17.6 million at December 31, 2006. While impaired loans increased, they are generally well-secured by real estate collateral.

Except for specific allowances on loans subject to Statement 114, no portion of the resulting allowance is restricted to any individual credits or group of credits. The remaining allowance is available to absorb losses from any and all loans.

Management expects the allowance to vary over time due to changes in economic conditions, loan mix, management's estimates or variations in other factors that may affect inherent losses.

Table of Contents

Activity in the allowance for credit losses is summarized as follows:

Table 2 Allowance for Credit Losses

| <i>(Dollars in thousands)</i> | Nine months ended September 30 | |
|---|--------------------------------|---------------|
| | 2007 | 2006 |
| Allowance for loan losses, January 1 | \$ 1,055,953 | \$ 783,536 |
| Loans charged-off: | | |
| Commercial | 61,875 | 47,908 |
| Real estate mortgage | 36,156 | 37,310 |
| Real estate construction | 15,962 | 7,766 |
| Equity lending | 39,006 | 20,230 |
| Indirect lending | 25,260 | 10,874 |
| Other consumer | 59,538 | 14,726 |
| | 237,797 | 138,814 |
| Recoveries of loans previously charged-off: | | |
| Commercial | 23,264 | 25,531 |
| Real estate mortgage | 7,224 | 6,160 |
| Real estate construction | 1,451 | 1,949 |
| Equity lending | 9,845 | 4,588 |
| Indirect lending | 12,474 | 5,487 |
| Other consumer | 20,489 | 11,307 |
| | 74,747 | 55,022 |
| Net charge-offs: | | |
| Commercial | 38,611 | 22,377 |
| Real estate mortgage | 28,932 | 31,150 |
| Real estate construction | 14,511 | 5,817 |
| Equity lending | 29,161 | 15,642 |
| Indirect lending | 12,786 | 5,387 |
| Other consumer | 39,049 | 3,419 |
| | 163,050 | 83,792 |
| Allowance allocated to sold loans | (19,369) | (3,779) |
| Provision for loan losses continuing operations | 197,000 | 82,548 |
| Provision (credit) for loan losses discontinued operations | 182 | (48) |
| Allowance for loan losses, September 30 | \$ 1,070,716 | \$ 778,465 |
| Reserve for unfunded credit commitments, January 1 | 51,835 | |
| Provision for unfunded credit commitments | 4,003 | |
| Reserve for unfunded credit commitments, September 30 | 55,838 | |
| Total allowance for credit losses | \$ 1,126,554 | \$ 778,465 |
| Loans, net of unearned income, outstanding at end of period | \$ 94,373,632 | \$ 59,477,905 |
| Average loans, net of unearned income, outstanding for the period | 94,233,255 | 58,600,990 |
| Ratios: | | |
| Allowance for loan losses at end of period to loans, net of unearned income | 1.13% | 1.31% |
| Net charge-offs as percentage of average loans, net of unearned income* | 0.23 | 0.19 |
| Allowance for credit losses at end of period to loans, net of unearned income | 1.19 | 1.31 |

* Annualized

Table of Contents**NON-PERFORMING ASSETS**

Non-performing assets are summarized as follows:

Table 3 Non-Performing Assets

| <i>(Dollars in thousands)</i> | September 30 2007 | December 31 2006 | September 30 2006 |
|--|----------------------|---------------------|----------------------|
| Non-performing loans: | | | |
| Non-accrual loans | \$ 494,693 | \$ 306,471 | \$ 246,728 |
| Renegotiated loans | | | 103 |
| Total non-performing loans* | 494,693 | 306,471 | 246,831 |
| Foreclosed properties | 93,649 | 72,663 | 65,190 |
| Total non-performing assets** | \$ 588,342 | \$ 379,134 | \$ 312,021 |
| Accruing loans 90 days past due | \$ 332,116 | \$ 143,868 | \$ 78,785 |
| Non-performing assets** to loans, net of unearned income and foreclosed properties | 0.62% | 0.40% | 0.52% |

* Exclusive of approximately \$33 million of loans held for sale that are non-performing at September 30, 2007

** Exclusive of accruing loans 90 days past due

Non-performing loans at September 30, 2007 increased \$188.2 million from year-end 2006 levels. The increase was primarily related to single family development loans and the synchronization of Regions' new credit policy implemented after the merger with AmSouth. To ensure consistency in the application of credit policies and risk ratings, Regions conducted credit servicing reviews (covering all loans in excess of \$3 million) during the second and third quarters of 2007. While the non-performing loans increased, they are generally well-secured by real estate collateral. During the third quarter of 2007, Regions sold \$41.5 million of non-performing loans. Regions also transferred \$32.7 million of non-performing loans to held for sale and subsequently sold these loans in October 2007. In connection with these transactions, Regions recorded an additional \$11 million of loan loss provision, which coupled with \$7 million of existing reserves on these loans, resulted in an \$18 million reduction in the allowance for loan losses.

Loans past due 90 days or more and still accruing increased 131% from year-end 2006 levels, due primarily to individual commercial workouts on matured loans in the process of renewal, residential-related real estate loans (which is reflective of general market deterioration), and conforming Regions' and AmSouth's credit policies with respect to residential first mortgage and home equity loans during the first quarter of 2007. In addition, the increase in accruing loans 90 days past due reflects weaker economic conditions during 2007.

SECURITIES

The following table details the carrying values of securities:

Table 4 Securities

| <i>(In thousands)</i> | September 30 2007 | December 31 2006 | September 30 2006 |
|--|----------------------|---------------------|----------------------|
| U.S. Treasury securities | \$ 277,345 | \$ 400,065 | \$ 250,048 |
| Federal agency securities | 3,283,116 | 3,752,216 | 3,775,125 |
| Obligations of states and political subdivisions | 729,401 | 788,736 | 398,937 |
| Mortgage-backed securities | 11,374,198 | 12,777,358 | 7,305,529 |
| Other debt securities | 431,606 | 80,980 | 411,190 |
| Equity securities | 910,970 | 762,705 | 314,759 |

\$ 17,006,636 \$ 18,562,060 \$ 12,455,588

Table of Contents

Total securities at September 30, 2007, decreased approximately 8% from year-end 2006 levels, primarily due to the sales of approximately \$1.8 billion of securities during the period. Securities available for sale, which comprise nearly all of the securities portfolio, are an important tool used to manage interest rate sensitivity and provide a primary source of liquidity for the Company (see INTEREST RATE SENSITIVITY, *Exposure to Interest Rate Movements* and LIQUIDITY).

During the third quarter of 2007, Morgan Properties, LLC (a subsidiary of Morgan Keegan) purchased approximately \$55 million of securities in the RMK Select High Income Fund and approximately \$30 million of securities in the RMK Select Intermediate Bond Fund. Both of these funds are proprietary open-end mutual funds advised by Morgan Asset Management (also a subsidiary of Morgan Keegan). Included in the third quarter securities transactions was the sale of approximately \$24 million of the investment in the RMK Select High Income Fund, and a loss of \$4.3 million was realized on the sale.

Subsequent to the quarter ended September 30, 2007, Morgan Properties, LLC has purchased approximately \$35 million of securities in the RMK Select Intermediate Bond Fund.

OTHER INTEREST-EARNING ASSETS

All other interest-earning assets decreased approximately \$4.7 billion from year-end 2006 to September 30, 2007, primarily resulting from the reduction of loans held for sale due to the required branch divestitures related to Regions' merger with AmSouth and the sale of EquiFirst.

MORTGAGE SERVICING RIGHTS

A summary of mortgage servicing rights is presented in Table 5. The carrying amounts represent the original amounts capitalized, less accumulated amortization, permanent impairment, sales and valuation allowance. These assets represent the right to service mortgage loans owned by other investors. The carrying values of mortgage servicing rights are affected by various factors, including prepayments of the underlying mortgages. A significant change in prepayments of mortgages in the servicing portfolio could result in significant changes in the valuation allowance, thus creating potential volatility in the carrying amount of mortgage servicing rights.

Table 5 Mortgage Servicing Rights

| <i>(In thousands)</i> | Nine months ended | |
|------------------------------|--------------------------|-------------|
| | September 30 | |
| | 2007 | 2006 |
| Balance at beginning of year | \$ 416,217 | \$ 441,508 |
| Amounts capitalized | 43,065 | 36,757 |
| Sale of servicing assets | | (1,247) |
| Permanent impairment | | (3,719) |
| Amortization | (57,735) | (51,158) |
| | 401,547 | 422,141 |
| Valuation allowance | (24,346) | (14,401) |
| Balance at end of period | \$ 377,201 | \$ 407,740 |

Table of Contents**DEPOSITS**

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

The following table summarizes deposits by category:

Table 6 Deposits

| <i>(In thousands)</i> | September 30 2007 | December 31 2006 | September 30 2006 |
|---|----------------------|-----------------------|----------------------|
| Non-interest-bearing demand | \$ 18,834,856 | \$ 20,175,482 | \$ 12,570,051 |
| Non-interest-bearing demand divestitures | | 533,295 | |
| Total non-interest-bearing deposits | 18,834,856 | 20,708,777 | 12,570,051 |
| Savings accounts | 3,692,087 | 3,882,533 | 2,908,930 |
| Interest-bearing transaction accounts | 15,208,224 | 15,899,813 | 8,513,908 |
| Money market accounts | 23,501,476 | 22,802,258 | 13,882,716 |
| Certificates of deposits greater than \$100,000 | 10,076,459 | 12,776,086 | 9,124,935 |
| Other interest-bearing deposits | 22,126,828 | 22,920,430 | 15,169,005 |
| Interest-bearing deposits divestitures | | 2,238,072 | |
| Total interest-bearing deposits | 74,605,074 | 80,519,192 | 49,599,494 |
| | \$ 93,439,930 | \$ 101,227,969 | \$ 62,169,545 |

Total deposits at September 30, 2007, decreased approximately 8% compared to year-end 2006 levels. The decrease in deposits from December 31, 2006 resulted partially from required branch divestitures related to Regions' merger with AmSouth. These divestitures decreased September 30, 2007 deposit balances by approximately \$2.8 billion compared to year-end 2006.

Money market accounts increased \$699.2 million since December 31, 2006, due to the success of a money market campaign and emphasis on shifting funds from high-rate certificates of deposit into money market accounts. However, the decrease in non-interest-bearing demand, savings, and interest-bearing transaction accounts more than offset the increase in money market accounts, as market conditions during 2007 caused customers to move money out of lower-cost deposits into higher-yielding accounts. Also, the maturity of high-rate certificates of deposit and lower Eurodollar funding needs (which is included in Other interest-bearing deposits) contributed to the total decrease in deposits.

Table of Contents**SHORT-TERM BORROWINGS**

The following is a summary of short-term borrowings:

Table 7 Short-Term Borrowings

| <i>(In thousands)</i> | September 30 2007 | December 31 2006 | September 30 2006 |
|--|----------------------|---------------------|----------------------|
| Federal funds purchased | \$ 5,106,078 | \$ 3,709,080 | \$ 1,512,420 |
| Securities sold under agreements to repurchase | 2,957,661 | 3,967,174 | 3,431,148 |
| Federal Home Loan Bank advances | 350,000 | 500,000 | 350,000 |
| Senior bank notes | | 250,000 | |
| Brokerage customers liabilities | 552,900 | 492,631 | 464,143 |
| Short-sale liability | 539,395 | 587,747 | 436,287 |
| Other short-term borrowings | 285,051 | 160,439 | 118,050 |
| | \$ 9,791,085 | \$ 9,667,071 | \$ 6,312,048 |

Federal funds purchased and securities sold under agreements to repurchase totaled \$8.1 billion at September 30, 2007, compared to \$7.7 billion at year-end 2006. The level of Federal funds and securities sold under agreements to repurchase can fluctuate significantly on a day-to-day basis, depending on funding needs and which sources of funds are used to satisfy those needs.

LONG-TERM BORROWINGS

Long-term borrowings are summarized as follows:

Table 8 Long-Term Borrowings

| <i>(In thousands)</i> | September 30 2007 | December 31 2006 | September 30 2006 |
|--|----------------------|---------------------|----------------------|
| Federal Home Loan Bank structured advances | \$ 1,765,230 | \$ 2,102,356 | \$ 285,000 |
| Other Federal Home Loan Bank advances | 1,769,047 | 285,195 | 422,288 |
| 6.375% subordinated notes due 2012 | 597,196 | 599,060 | 600,000 |
| 7.75% subordinated notes due 2011 | 537,774 | 546,066 | 548,830 |
| 6.45% subordinated notes due 2037 (Regions Bank) | 497,183 | | |
| 7.00% subordinated notes due 2011 | 498,023 | 499,017 | 500,000 |
| 4.85% subordinated notes due 2013 (Regions Bank) | 487,192 | 485,718 | |
| 5.20% subordinated notes due 2015 (Regions Bank) | 344,336 | 344,032 | |
| 6.45% subordinated notes due 2018 (Regions Bank) | 322,058 | 323,227 | |
| 6.50% subordinated notes due 2018 (Regions Bank) | 311,740 | 312,617 | 312,909 |
| 6.125% subordinated notes due 2009 | 177,078 | 178,118 | |
| 6.75% subordinated debentures due 2025 | 163,950 | 164,269 | |
| 7.75% subordinated notes due 2024 | 100,000 | 100,000 | 100,000 |
| Senior bank notes | 100,000 | 703,204 | 1,004,947 |
| 4.375% senior notes due 2010 | 491,419 | 489,386 | 488,709 |
| LIBOR floating rate senior notes due 2012 | 350,000 | | |
| LIBOR floating rate senior notes due 2009 | 249,952 | | |
| LIBOR floating rate senior debt notes due 2008 | 399,667 | 399,390 | 400,000 |
| 4.50% senior debt notes due 2008 | 349,572 | 349,212 | 350,000 |
| 6.625% junior subordinated notes | 699,814 | | |
| 8.20% junior subordinated notes | | 225,768 | 225,974 |
| Other long-term debt | 565,367 | 530,280 | 254,493 |

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

| | | | |
|--|---------------|--------------|--------------|
| Valuation adjustments on hedged long-term debt | 40,893 | 5,734 | (2,746) |
| | \$ 10,817,491 | \$ 8,642,649 | \$ 5,490,404 |

Table of Contents

Long-term borrowings have increased \$2.2 billion since year-end 2006 due primarily to new Federal Home Loan Bank (FHLB) advances, as well as new subordinated notes, including junior subordinated notes, and senior note issuances. These issuances were offset by decreases in FHLB structured advances and senior bank notes. Additionally, approximately \$200 million of junior subordinated notes were paid off in the second quarter of 2007.

On April 24, 2007, Regions Financial Corporation issued \$700 million of junior subordinated notes (JSNs) bearing an initial fixed interest rate of 6.625%. The JSNs have a scheduled maturity of May 15, 2047 and a final maturity of May 1, 2077. On June 26, 2007, Regions Bank issued \$500 million of subordinated notes bearing an initial fixed interest rate of 6.45%. The subordinated notes have a scheduled maturity of June 26, 2037. Also on June 26, 2007, Regions issued \$350 million of LIBOR floating rate senior notes with a maturity of June 26, 2012, and \$250 million of LIBOR floating rate senior notes with a maturity of June 26, 2009.

STOCKHOLDERS EQUITY

Stockholders equity was \$19.8 billion at September 30, 2007, compared to \$20.7 billion at December 31, 2006. During the first nine months of 2007, net income added \$1.2 billion to stockholders equity, while cash dividends declared and purchases of treasury stock reduced equity by \$0.8 billion and \$1.3 billion, respectively. In addition, Regions recorded a cumulative effect of a change in accounting principles that reduced stockholders equity by \$269.4 million from the adoption of FIN 48 and FSP 13-2. See Note 8 and Note 11 to the consolidated financial statements for further details.

Regions ratio of stockholders equity to total assets was 14.36% at September 30, 2007, compared to 14.44% at December 31, 2006. Regions ratio of tangible stockholders equity to tangible assets was 6.02% at September 30, 2007, compared to 6.53% at December 31, 2006.

At September 30, 2007, Regions had 27.6 million common shares available for repurchase through open market transactions under existing share repurchase authorizations. During the first nine months of 2007, the Company repurchased 37.1 million common shares at a cost of \$1.3 billion.

On April 27, 2007, Regions entered into an agreement to repurchase approximately 14.2 million shares of its outstanding common stock for an initial purchase price of \$500 million. These shares were accounted for as treasury stock on the date of purchase. Regions simultaneously entered into a forward contract indexed to these same shares. In August 2007, Regions received approximately 781,000 shares upon settlement of the forward contract.

The Board of Directors declared a \$.36 cash dividend for the third quarter of 2007, compared to a \$.35 cash dividend declared for the third quarter of 2006 and \$.36 for second quarter 2007. On October 17, 2007, Regions declared a quarterly cash dividend of \$.38 for the fourth quarter payable January 2, 2008.

REGULATORY CAPITAL REQUIREMENTS

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

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

Table of Contents

The minimum standard for the ratio of total capital to risk-weighted assets is 8%. At least 50% of that capital level must consist of common equity, undivided profits and non-cumulative perpetual preferred stock, less goodwill and certain other intangibles (Tier 1 capital). The remainder (Tier 2 capital) may consist of a limited amount of other preferred stock, mandatory convertible securities, subordinated debt, and a limited amount of the allowance for loan losses. The sum of Tier 1 capital and Tier 2 capital is total risk-based capital.

The banking regulatory agencies also have adopted regulations that supplement the risk-based guidelines to include a minimum ratio of 3% of Tier 1 capital to average assets less goodwill (the leverage ratio). Depending upon the risk profile of the institution and other factors, the regulatory agencies may require a leverage ratio of 1% to 2% above the minimum 3% level.

The following chart summarizes the applicable bank regulatory capital requirements. Regions capital ratios at September 30, 2007, December 31, 2006 and September 30, 2006 substantially exceeded all regulatory requirements.

Table 9 Regulatory Capital Requirements

| | To Be Well Capitalized | September 30, 2007 Ratio | December 31, 2006 Ratio | September 30, 2006 Ratio |
|-------------------------------|------------------------|--------------------------|-------------------------|--------------------------|
| Tier 1 Capital: | | | | |
| Regions Financial Corporation | 6.00% | 7.73% | 8.07% | 8.92% |
| Regions Bank | 6.00 | 9.53 | 9.77 | 10.63 |
| Total Capital: | | | | |
| Regions Financial Corporation | 10.00% | 11.30% | 11.54% | 12.57% |
| Regions Bank | 10.00 | 11.90 | 11.76 | 12.15 |
| Leverage: | | | | |
| Regions Financial Corporation | 5.00% | 7.02% | 8.30% | 7.68% |
| Regions Bank | 5.00 | 8.70 | 10.55 | 9.32 |

LIQUIDITY*GENERAL*

Liquidity is an important factor in the financial condition of Regions and affects Regions ability to meet the borrowing needs and deposit withdrawal requirements of its customers. Assets, consisting principally of loans and securities, are funded by customer deposits, purchased funds, borrowed funds and stockholders equity.

The securities portfolio is one of Regions primary sources of liquidity. Maturities of securities provide a constant flow of funds available for cash needs. Maturities in the loan portfolio also provide a steady flow of funds. Additional funds are provided from payments on consumer loans and one-to-four family residential mortgage loans. Historically, Regions high levels of earnings have also contributed to cash flow. In addition, liquidity needs can be met by the borrowing of funds in state and national money markets. Regions liquidity also continues to be enhanced by a relatively stable deposit base.

Refer to Note 8 to the consolidated financial statements for a discussion of the Company s obligations related to uncertain tax positions.

Regions also has the ability to obtain additional FHLB advances subject to collateral requirements and other limitations. The FHLB has been and is expected to continue to be a reliable and economical source of funding and can be used to fund debt maturities as well as other obligations.

In May 2007, Regions filed a universal shelf registration statement that allows the company to issue various debt and equity securities at market rates for future funding and liquidity needs. The shelf registration has no limit and is automatically renewable.

Table of Contents

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

Morgan Keegan maintains certain lines of credit with unaffiliated banks to manage liquidity in the ordinary course of business.

RATINGS

The table below reflects the most recent debt ratings of Regions Financial Corporation and Regions Bank by Standard & Poor's Corporation, Moody's Investors Service, Fitch IBCA and Dominion Bond Rating Service:

Table 10 Credit Ratings

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

Table reflects ratings as of September 30, 2007.

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

OPERATING RESULTS

For the third quarter of 2007, income from continuing operations totaled \$394.2 million (\$0.56 per diluted share), compared to \$357.9 million (\$0.78 per diluted share) for the same period in 2006. After-tax merger-related expenses of approximately \$0.08 per diluted share were incurred in the third quarter of 2007. For the nine months ended September 30, 2007, income from continuing operations was \$1.3 billion (\$1.84 per diluted share), compared to \$1.0 billion (\$2.17 per diluted share) for the corresponding year earlier period. After-tax merger-related expenses of approximately \$0.17 per diluted share were incurred in the first nine months of 2007.

For the third quarter and first nine months of 2007, return on average stockholders' equity, return on average assets, and return on average tangible stockholders' equity decreased when compared to the third quarter and first nine months of 2006 as a result of the merger with AmSouth.

Table of Contents**NET INTEREST INCOME**

The following table presents an analysis of net interest income/margin for the three months ended September 30 and includes discontinued operations:

Table 11 Consolidated Average Daily Balances and Yield/Rate Analysis Including Discontinued Operations

| <i>(Dollars in thousands; yields on taxable-equivalent basis)</i> | Three Months Ended September 30 | | | | | |
|--|---------------------------------|----------------------------|----------------|-----------------|----------------------------|----------------|
| | Average Balance | 2007 Income/ Expense | Yield/ Rate | Average Balance | 2006 Income/ Expense | Yield/ Rate |
| Assets | | | | | | |
| Interest-earning assets: | | | | | | |
| Interest-bearing deposits in other banks | \$ 51,740 | \$ 515 | 3.95% | \$ 41,821 | \$ 637 | 6.04% |
| Federal funds sold and securities purchased under agreements to resell | 1,141,666 | 18,154 | 6.31 | 937,005 | 13,505 | 5.72 |
| Trading account assets | 1,213,485 | 10,385 | 3.40 | 1,130,260 | 12,667 | 4.45 |
| Securities: | | | | | | |
| Taxable | 16,545,332 | 210,932 | 5.06 | 11,612,748 | 143,483 | 4.90 |
| Tax-exempt | 722,663 | 15,235 | 8.36 | 397,160 | 12,003 | 11.99 |
| Loans held for sale | 779,918 | 12,302 | 6.26 | 2,263,608 | 45,416 | 7.96 |
| Margin receivables | 521,497 | 8,754 | 6.66 | 553,946 | 9,767 | 7.00 |
| Loans, net of unearned income(1)(2) | 94,309,811 | 1,743,636 | 7.34 | 59,111,355 | 1,130,704 | 7.59 |
| Total interest-earning assets | 115,286,112 | 2,019,913 | 6.95 | 76,047,903 | 1,368,182 | 7.14 |
| Allowance for loan losses | (1,062,432) | | | (780,715) | | |
| Cash and due from banks | 2,751,656 | | | 1,959,441 | | |
| Other assets | 19,901,093 | | | 9,749,193 | | |
| | \$ 136,876,429 | | | \$ 86,975,822 | | |
| Liabilities and Stockholders Equity | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Savings accounts | \$ 3,756,311 | 2,795 | 0.30 | \$ 2,988,548 | 3,053 | 0.41 |
| Interest-bearing transaction accounts | 15,268,807 | 79,618 | 2.07 | 9,187,008 | 35,127 | 1.52 |
| Money market accounts | 23,853,236 | 214,371 | 3.57 | 12,875,034 | 105,756 | 3.26 |
| Certificates of deposit of \$100,000 or more | 10,872,861 | 133,290 | 4.86 | 8,297,133 | 97,632 | 4.67 |
| Other interest-bearing deposit accounts | 21,337,142 | 243,511 | 4.53 | 15,875,539 | 169,610 | 4.24 |
| Total interest-bearing deposits | 75,088,357 | 673,585 | 3.56 | 49,223,262 | 411,178 | 3.31 |
| Federal funds purchased and securities sold under agreements to repurchase | 8,121,636 | 98,522 | 4.81 | 4,806,594 | 56,898 | 4.70 |
| Other short-term borrowings | 1,598,989 | 16,570 | 4.11 | 927,313 | 9,417 | 4.03 |
| Long-term borrowings | 10,085,073 | 144,662 | 5.69 | 5,810,710 | 84,429 | 5.76 |
| Total interest-bearing liabilities | 94,894,055 | 933,339 | 3.90 | 60,767,879 | 561,922 | 3.67 |
| Non-interest-bearing deposits | 18,850,607 | | | 12,482,899 | | |
| Other liabilities | 3,338,644 | | | 2,847,404 | | |
| Stockholders equity | 19,793,123 | | | 10,877,640 | | |
| | \$ 136,876,429 | | | \$ 86,975,822 | | |
| Net interest income/margin on a taxable equivalent basis(3) | | \$ 1,086,574 | 3.74% | | \$ 806,260 | 4.21% |

Notes:

- (1) Loans, net of unearned income, includes non-accrual loans for all periods presented.
- (2) Interest income includes loan fees of \$17,529,000 and \$19,150,000 for the three months ended September 30, 2007 and 2006, respectively.
- (3) The computation of taxable equivalent net interest income is based on the statutory federal income tax rate of 35%, adjusted for applicable state income taxes net of the related federal tax benefit.

Table of Contents

The following table presents an analysis of net interest income/margin for the nine months ended September 30 and includes discontinued operations:

Table 12 Consolidated Average Daily Balances and Yield/Rate Analysis Including Discontinued Operations

| | Nine Months Ended September 30 | | | | | |
|--|--------------------------------|--------------|---------|---------------|--------------|-------|
| | 2007 | | 2006 | | | |
| | Average | Yield/ | Average | Income/ | Yield/ | |
| (Dollars in thousands; yields on taxable-equivalent basis) | Balance | Income/ | Rate | Expense | Rate | |
| Assets | | | | | | |
| Interest-earning assets: | | | | | | |
| Interest-bearing deposits in other banks | \$ 57,237 | \$ 2,343 | 5.47% | \$ 44,310 | \$ 1,524 | 4.60% |
| Federal funds sold and securities purchased under agreements to resell | 1,109,718 | 51,689 | 6.23 | 914,821 | 35,568 | 5.20 |
| Trading account assets | 1,413,882 | 42,259 | 4.00 | 1,008,569 | 32,574 | 4.32 |
| Securities: | | | | | | |
| Taxable | 17,175,282 | 653,374 | 5.09 | 11,417,447 | 406,816 | 4.76 |
| Tax-exempt | 741,012 | 48,452 | 8.74 | 409,767 | 36,421 | 11.88 |
| Loans held for sale | 1,833,863 | 100,861 | 7.35 | 2,150,833 | 126,559 | 7.87 |
| Loans held for sale - divestitures | 379,302 | 21,520 | 7.59 | | | |
| Margin receivables | 536,021 | 27,653 | 6.90 | 548,760 | 27,965 | 6.81 |
| Loans, net of unearned income(1)(2) | 94,233,255 | 5,224,248 | 7.41 | 58,600,990 | 3,214,163 | 7.33 |
| Total interest-earning assets | 117,479,572 | 6,172,399 | 7.02 | 75,095,497 | 3,881,590 | 6.91 |
| Allowance for loan losses | (1,060,347) | | | (782,596) | | |
| Cash and due from banks | 2,854,408 | | | 2,001,710 | | |
| Other assets | 19,500,636 | | | 9,787,734 | | |
| | \$ 138,774,269 | | | \$ 86,102,345 | | |
| Liabilities and Stockholders Equity | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Savings accounts | \$ 3,840,451 | 8,643 | 0.30 | \$ 3,081,155 | 9,259 | 0.40 |
| Interest-bearing transaction accounts | 15,729,996 | 247,296 | 2.10 | 9,763,915 | 105,422 | 1.44 |
| Money market accounts | 23,322,675 | 611,285 | 3.50 | 12,277,398 | 270,730 | 2.95 |
| Certificates of deposit of \$100,000 or more | 12,186,977 | 441,636 | 4.85 | 7,780,404 | 252,087 | 4.33 |
| Other interest-bearing deposit accounts | 21,456,129 | 717,332 | 4.47 | 15,133,773 | 445,414 | 3.94 |
| Interest-bearing deposits- divestitures | 500,276 | 12,091 | 3.23 | | | |
| Total interest-bearing deposits | 77,036,504 | 2,038,283 | 3.54 | 48,036,645 | 1,082,912 | 3.01 |
| Federal funds purchased and securities sold under agreements to repurchase | 7,919,188 | 285,285 | 4.82 | 4,430,637 | 145,392 | 4.39 |
| Other short-term borrowings | 2,018,881 | 67,105 | 4.44 | 937,539 | 27,121 | 3.87 |
| Long-term borrowings | 9,240,605 | 395,668 | 5.72 | 6,416,037 | 261,953 | 5.46 |
| Total interest-bearing liabilities | 96,215,178 | 2,786,341 | 3.87 | 59,820,858 | 1,517,378 | 3.39 |
| Non-interest-bearing deposits | 19,256,294 | | | 12,762,560 | | |
| Other liabilities | 3,209,836 | | | 2,773,706 | | |
| Stockholders equity | 20,092,961 | | | 10,745,221 | | |
| | \$ 138,774,269 | | | \$ 86,102,345 | | |
| Net interest income/margin on a taxable equivalent basis(3) | | \$ 3,386,058 | 3.85% | | \$ 2,364,212 | 4.21% |

Notes:

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

- (1) Loans, net of unearned income, includes non-accrual loans for all periods presented.
- (2) Interest income includes loan fees of \$61,384,000 and \$57,106,000 for the nine months ended September 30, 2007 and 2006, respectively.
- (3) The computation of taxable equivalent net interest income is based on the statutory federal income tax rate of 35%, adjusted for applicable state income taxes net of the related federal tax benefit.

Table of Contents

For the third quarter of 2007, net interest income (taxable equivalent basis) totaled \$1.1 billion compared to \$0.8 billion in the third quarter of 2006. The net yield on interest-earning assets (taxable equivalent basis) was 3.74% in the third quarter of 2007, compared to 4.21% during the third quarter of 2006. For the nine months ended September 30, 2007, net interest income (taxable equivalent basis) totaled \$3.4 billion compared to \$2.4 billion for the nine months ended September 30, 2006. The net yield on interest-earning assets (taxable equivalent basis) was 3.85% for the nine months ended September 30, 2007, compared to 4.21% for the same period of 2006. These changes in both taxable-equivalent net interest income and net interest margin are attributable to the addition of the AmSouth balance sheet. In addition to the AmSouth merger, spreads continued to tighten during 2007, and a lower tax equivalent adjustment also resulted from the first quarter 2007 adoption of FIN 48 relating to accounting for uncertain tax positions (see Note 8 to the consolidated financial statements). Third quarter and year-to-date 2007 net interest margin was impacted by continued incremental margin compression, a large tax deposit (see Note 8 to the consolidated financial statements) and replacement of maturing loans at lower yields.

MARKET RISK

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, exchange rates, commodity prices, equity prices, or the credit quality of debt securities.

INTEREST RATE SENSITIVITY

Regions' primary market risk is interest rate risk, including uncertainty with respect to absolute interest rate levels as well as uncertainty with respect to relative interest rate levels, which is impacted by both the shape and the slope of the various yield curves that affect the financial products and services that the Company offers. To quantify this risk, Regions measures the change in its net interest income in various interest rate scenarios as compared to a base case scenario. Net interest income sensitivity is a useful short-term indicator of Regions' interest rate risk.

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

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

Table of Contents

Exposure to Interest Rate Movements As of September 30, 2007, Regions exhibited limited net interest income exposure to both gradual and instantaneous rate shifts of plus or minus 100 and 200 basis points. The following table demonstrates the estimated potential effect that gradual (over six months beginning at September 30, 2007) and instantaneous parallel interest rate shifts would have on Regions' annual net interest income. Results of the same analysis for the comparable period for 2006 are presented for comparison purposes.

Table 13 Interest Rate Sensitivity

| <i>(Dollars in thousands)</i> | September 30, 2007 | | September 30, 2006 | |
|---|-------------------------------|--------|-------------------------------|-------|
| | Increase (Decrease) in | | Increase (Decrease) in | |
| Gradual Change in Interest Rates | Net Interest Income | | Net Interest Income | |
| + 200 basis points | \$ 32,000 | 0.8% | \$ 96,000 | 3.2% |
| + 100 basis points | 19,000 | 0.5 | 48,000 | 1.6 |
| - 100 basis points | (29,000) | (0.7) | (26,000) | (1.0) |
| - 200 basis points | (40,000) | (1.0) | (53,000) | (1.8) |
| | | | | |
| <i>(Dollars in thousands)</i> | September 30, 2007 | | September 30, 2006 | |
| | Increase (Decrease) in | | Increase (Decrease) in | |
| Instantaneous Change in Interest Rates | Net Interest Income | | Net Interest Income | |
| + 200 basis points | \$ (4,000) | (0.1)% | \$ 106,000 | 3.6% |
| + 100 basis points | 5,000 | 0.1 | 56,000 | 1.9 |
| - 100 basis points | (30,000) | (0.7) | (28,000) | (1.0) |
| - 200 basis points | (53,000) | (1.3) | (73,000) | (2.4) |

DERIVATIVES

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

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

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

Table of Contents

Regions manages the credit risk of these instruments in much the same way as it manages credit risk of the loan portfolios by establishing credit limits for each counterparty and through collateral agreements for dealer transactions. For non-dealer transactions, the need for collateral is evaluated on an individual transaction basis and is primarily dependent on the financial strength of the counterparty. Contracts are cross-collateralized to loans when available. Credit risk is also reduced significantly by entering into legally enforceable master netting agreements. When there is more than one transaction with a counterparty and there is a legally enforceable master netting agreement in place, the exposure represents the net of the gain and loss positions with that counterparty.

Regions also uses derivatives to meet the needs of its customers. Interest rate swaps, interest rate options and foreign exchange forwards are the most common derivatives sold to customers. Positions with similar characteristics are used to hedge the market risk and minimize income statement volatility associated with this portfolio. Instruments used to service customers are entered into the trading account with changes in value recorded in the statement of income.

The objective of Regions' hedging strategies is to mitigate the impact of interest rate changes, from an economic perspective, on net interest income and the net present value of its balance sheet. The overall effectiveness of these hedging strategies is subject to market conditions, the quality of Regions' execution, the accuracy of its asset valuation assumptions, counterparty credit risk and changes in interest rates. As a result, Regions' hedging strategies may be ineffective in mitigating the impact of interest rate changes on its earnings.

BROKERAGE AND MARKET MAKING ACTIVITY

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

Morgan Keegan trades for its own account in corporate and tax-exempt securities and U.S. government, agency and guaranteed securities. Most of these transactions are entered into to facilitate the execution of customers' orders to buy or sell these securities. In addition, it trades certain equity securities in order to "make a market" in these securities. Morgan Keegan's trading activities require the commitment of capital. All principal transactions place the subsidiary's capital at risk. Profits and losses are dependent upon the skills of employees and market fluctuations. In some cases, in order to mitigate the risks of carrying inventory, Morgan Keegan limits its trading activity in U.S. Treasury note futures.

Morgan Keegan, as part of its normal brokerage activities, assumes short positions on securities. The establishment of short positions exposes Morgan Keegan to off-balance sheet risk in the event that prices increase, as it may be obligated to cover such positions at a loss. Morgan Keegan manages its exposure to these instruments by entering into offsetting or other positions in a variety of financial instruments.

Morgan Keegan will occasionally economically hedge a portion of its long proprietary inventory position through the use of short positions in interest rate swaps, which are included in securities sold, not yet purchased at market value. At September 30, 2007, Morgan Keegan had \$20 million notional value of interest rate swaps. The notional amounts do not necessarily represent future cash requirements.

In the normal course of business, Morgan Keegan enters into underwriting and forward and future commitments. At September 30, 2007, the contract amounts were \$2 million to purchase and \$138 million to sell U.S. Government and municipal securities. Morgan Keegan typically settles its position by entering into equal but opposite contracts and, as such, the contract amounts do not necessarily represent future cash requirements. Settlement of the transactions relating to such commitments is not expected to have a material effect on Regions' consolidated financial position. Transactions involving future settlement give rise to market risk, which represents the potential loss that can be caused by a change in the market value of a particular financial instrument. Regions' exposure to market risk is determined by a number of factors, including the size, composition and diversification of positions held, the absolute and relative levels of interest rates, and market volatility.

Table of Contents

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

Interest rate risk at Morgan Keegan arises from the exposure of holding interest-sensitive financial instruments such as government, corporate and municipal bonds and certain preferred equities. Morgan Keegan manages its exposure to interest rate risk by setting and monitoring limits and, where feasible, economically hedging with offsetting positions in securities with similar interest rate risk characteristics. Securities inventories are marked to market, and accordingly there are no unrecorded gains or losses in value. While a significant portion of the securities inventories have contractual maturities in excess of five years, these inventories, on average, turn over in excess of twelve times per year. Accordingly, the exposure to interest rate risk inherent in Morgan Keegan's securities inventories is less than that of similar financial instruments held by firms in other industries. Morgan Keegan's equity securities inventories are exposed to risk of loss in the event of unfavorable price movements. The equity securities inventories are marked to market and there are no unrecorded gains or losses.

Morgan Keegan is also subject to credit risk arising from non-performance by trading counterparties, customers, and issuers of debt securities owned. This risk is managed by imposing and monitoring position limits, monitoring trading counterparties, reviewing security concentrations, holding and marking to market collateral and conducting business through clearing organizations that guarantee performance. Morgan Keegan regularly participates as an agent in the trading of some derivative securities for its customers; however, this activity does not involve Morgan Keegan acquiring a position or commitment in these products and this trading is not a significant portion of Morgan Keegan's business.

To manage trading risks arising from interest rate and equity price risks, Regions uses a Value at Risk (VAR) model to measure the potential fair value the Company could lose on its trading positions given a specified statistical confidence level and time-to-liquidate time horizon. Regions assesses market risk at a 99% confidence level over a one-day holding period. Regions' primary VAR model is based upon a variance-covariance approach with delta-gamma approximations for non-linear securities.

The end-of-period VAR was approximately \$1.4 million as of September 30, 2007. Maximum daily VAR utilization during the third quarter of 2007 was \$6.8 million and average daily VAR during the same period was \$1.1 million.

PROVISION FOR LOAN LOSSES

The provision for loan losses is used to maintain the allowance for loan losses at a level that in management's judgment is adequate. In the third quarter of 2007, the provision for loan losses from continuing operations was \$90.0 million and net charge-offs were \$63.1 million. In the same quarter of 2006, provision from continuing operations was \$24.9 million, while net charge-offs were \$24.3 million. For the nine months ended September 30, 2007 and 2006, the provision for loan losses was \$197.0 million and \$82.5 million, respectively, and net charge-offs were \$163.1 million and \$83.8 million, respectively. Net charge-offs as a percent of average loans (annualized) was 0.27% for the third quarter of 2007 compared to 0.16% for the corresponding period in 2006. On a year-to-date basis, net-charge offs as a percent of average loans (annualized) was 0.23% for the nine months ended September 30, 2007 and 0.19% for the same period of 2006. The increase in loan loss provision for the quarter and year-to-date 2007 was primarily due to the increase in loans applicable to the merger with AmSouth, as well as increased non-performing loans and delinquencies related to weaker economic conditions. For further information on the allowance for loan losses and net charge-offs see Table 2 Allowance for Credit Losses.

Table of Contents

CREDIT RISK

Regions' objective regarding credit risk is to maintain a high quality credit portfolio that provides for stable credit costs with acceptable volatility through an economic cycle. Regions has a well-diversified credit portfolio, diversified by product type, collateral and geography. The commercial loan portfolio primarily consists of loans to middle market commercial customers doing business in Regions' geographic footprint. Loans in this portfolio are generally underwritten individually and usually secured with the assets of the company and/or the personal guarantee of the business owners.

The real estate mortgage portfolio includes various loan types, one of which is owner-occupied loans to businesses for long-term financing of land and buildings. These loans are generally underwritten and managed in the commercial business line. Regions attempts to minimize risk on owner-occupied properties by requiring collateral values that exceed the loan amount, adequate cash flow to service the debt and in many cases the personal guarantees of the principals of the borrowers. Another large component of real estate mortgage loans is loans to real estate developers and investors for the financing of land or buildings, where the repayment is generated by the real estate property. Also included in this category are loans on one-to-four family residential properties, which are secured principally by single-family residences. Loans of this type are generally smaller in size and are geographically dispersed throughout Regions' market areas. Equity loans and lines, while not included in this category, are similar in nature, size and risk profile to one-to-four family loans. Losses on the residential loan portfolio depend, to a large degree, on the level of interest rates, the unemployment rate, economic conditions and collateral values, and thus are difficult to predict.

Real estate construction loans are primarily extensions of credit to real estate developers or investors where repayment is dependent on the sale of real estate or income generated from the real estate collateral. A construction loan may also be to a commercial business for the development of land or construction of a building where the repayment is usually derived from revenues generated from the business of the borrower. These loans are generally underwritten and managed by a specialized real estate group that also manages loan disbursements during the construction process. Real estate construction loans are individually underwritten and closely monitored by management, since these loans are generally vulnerable to economic downturns. Regions generally requires different underwriting requirements for this type of lending as compared to other real estate lending. Credit quality of the construction portfolio is sensitive to risks associated with construction loans such as cost overruns, project completion risk, general contractor credit risk, environmental and other hazard risks and market risks associated with the sale or rental of completed properties.

Regions' consumer loans consist primarily of borrowings for student loans, automobiles and other personal and household purposes. Losses within this grouping vary according to the specific type of loan. Certain risks, such as a general slowing of the economy and changes in consumer demand, may impact future loss rates.

Table of Contents**NON-INTEREST INCOME**

The following tables present a summary of non-interest income from continuing operations:

Table 14 Non-Interest Income

| <i>(In thousands)</i> | Three months ended September 30 | | % |
|-------------------------------------|---------------------------------|------------|---------|
| | 2007 | 2006 | |
| Service charges on deposit accounts | \$ 288,296 | \$ 166,555 | 73.09% |
| Brokerage and investment banking | 209,413 | 144,093 | 45.33 |
| Trust income | 62,449 | 36,366 | 71.72 |
| Mortgage income | 29,806 | 43,637 | (31.70) |
| Securities gains, net | 23,994 | 8,104 | 196.07 |
| Insurance premiums and commissions | 23,340 | 21,330 | 9.42 |
| Commercial credit fee income | 29,217 | 18,563 | 57.39 |
| Gain on sale of loans | 1,919 | 191 | NM |
| Other miscellaneous income | 60,710 | 22,544 | 169.29 |
| | \$ 729,144 | \$ 461,383 | 58.03% |

| <i>(In thousands)</i> | Nine months ended September 30 | | % |
|-------------------------------------|--------------------------------|--------------|---------|
| | 2007 | 2006 | |
| Service charges on deposit accounts | \$ 870,031 | \$ 474,407 | 83.39% |
| Brokerage and investment banking | 602,980 | 469,751 | 28.36 |
| Trust income | 190,521 | 106,651 | 78.64 |
| Mortgage income | 107,657 | 134,554 | (19.99) |
| Securities (losses) gains, net | (8,508) | 8,143 | NM |
| Insurance premiums and commissions | 76,045 | 63,991 | 18.84 |
| Commercial credit fee income | 68,762 | 50,423 | 36.37 |
| Gain on sale of loans | 30,118 | 391 | NM |
| Other miscellaneous income | 185,251 | 83,840 | 120.96 |
| | \$ 2,122,857 | \$ 1,392,151 | 52.49% |

Total non-interest income (excluding securities transactions) increased in the third quarter and first nine months of 2007 compared to the same periods of 2006, due primarily to income added in connection with the AmSouth merger. This increase is primarily led by increases in service charges on deposit accounts (including interchange income), brokerage income, trust income and commercial credit fee income. Offsetting these increases was a decrease in mortgage income. Expanded discussion of changes in various categories of non-interest income are discussed below.

Service charges on deposit accounts Service charges on deposit accounts increased in the third quarter and first nine months of 2007 by \$121.7 million and \$395.6 million, respectively, compared to the same periods in 2006, due primarily to an increase in the number of deposit accounts as a result of the AmSouth merger. Also, the increase in 2007 was affected by a pricing increase in late 2006, a volume-related increase in NSF fees and higher interchange income compared to the same periods in 2006.

Brokerage and investment banking Brokerage and investment banking income increased \$65.3 million compared to the third quarter of 2006 and \$133.2 million compared to the first nine months of 2006, due primarily to continued solid results at Morgan Keegan driven by active equity and fixed income markets. Furthermore, Regions successfully converted the former AmSouth brokerage system into its current operations during the first quarter of 2007. Morgan Keegan continues to benefit from Regions' expanded customer base, primarily through the new offices opened in former AmSouth branches.

Table of Contents

The following table details the components of revenue contributed by Morgan Keegan:

Table 15 Morgan Keegan**Summary Income Statement**

| <i>(Dollars in thousands)</i> | Three months ended September 30 | | Nine months ended September 30 | |
|-------------------------------|------------------------------------|------------------|-----------------------------------|-------------------|
| | 2007 | 2006 | 2007 | 2006 |
| Revenues: | | | | |
| Commissions | \$ 82,071 | \$ 56,194 | \$ 232,039 | \$ 170,227 |
| Principal transactions | 43,916 | 38,381 | 125,351 | 113,328 |
| Investment banking | 48,958 | 25,767 | 134,287 | 110,417 |
| Interest | 35,388 | 36,721 | 115,239 | 99,559 |
| Trust fees and services | 55,803 | 29,966 | 169,109 | 87,026 |
| Investment advisory | 42,146 | 35,425 | 132,026 | 100,461 |
| Other | 10,134 | 8,063 | 41,198 | 40,175 |
| Total revenues | 318,416 | 230,517 | 949,249 | 721,193 |
| Expense: | | | | |
| Interest expense | 21,790 | 21,966 | 70,819 | 62,050 |
| Non-interest expense | 225,469 | 160,679 | 656,651 | 495,599 |
| Total expenses | 247,259 | 182,645 | 727,470 | 557,649 |
| Income before income taxes | 71,157 | 47,872 | 221,779 | 163,544 |
| Income taxes | 26,000 | 17,251 | 80,970 | 59,396 |
| Net income | \$ 45,157 | \$ 30,621 | \$ 140,809 | \$ 104,148 |

The following table details the breakout of revenue by division contributed by Morgan Keegan:

Table 16 Morgan Keegan**Breakout of Revenue by Division**

| <i>(Dollars in thousands)</i> | Private Client | Fixed-Income Capital Markets | Equity Capital Markets | Regions MK Trust | Asset Management | Interest And Other |
|---|-------------------|------------------------------------|------------------------------|---------------------|---------------------|--------------------------|
| Three months ended September 30, 2007: | | | | | | |
| Gross revenue | \$ 97,577 | \$ 55,647 | \$ 30,191 | \$ 55,803 | \$ 47,646 | \$ 31,552 |
| Percent of gross revenue | 30.6% | 17.5% | 9.5% | 17.5% | 15.0% | 9.9% |
| Three months ended September 30, 2006: | | | | | | |
| Gross revenue | \$ 67,271 | \$ 43,292 | \$ 18,094 | \$ 29,967 | \$ 37,003 | \$ 34,889 |
| Percent of gross revenue | 29.2% | 18.8% | 7.8% | 13.0% | 16.1% | 15.1% |
| Nine months ended September 30, 2007: | | | | | | |
| Gross revenue | \$ 294,506 | \$ 164,863 | \$ 73,349 | \$ 169,110 | \$ 138,839 | \$ 108,582 |
| Percent of gross revenue | 31.0% | 17.4% | 7.7% | 17.8% | 14.6% | 11.5% |

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

Nine months ended September 30, 2006:

| | | | | | | |
|--------------------------|------------|------------|-----------|-----------|------------|------------|
| Gross revenue | \$ 215,329 | \$ 136,509 | \$ 70,460 | \$ 87,029 | \$ 105,380 | \$ 106,485 |
| Percent of gross revenue | 29.9% | 18.9% | 9.8% | 12.0% | 14.6% | 14.8% |

Table of Contents

Trust income Trust income for the third quarter and first nine months of 2007 increased \$26.1 million and \$83.9 million, respectively, compared to the same periods of 2006, primarily due to increased trust fees and services resulting from the addition of AmSouth trust balances. Regions successfully completed the trust system conversion in the third quarter of 2007.

Mortgage income Currently, the primary source of this category of income is Regions mortgage banking operations, Regions Mortgage (a division of Regions Bank). Regions Mortgage's primary business and source of income is generated from the origination and servicing of conforming mortgage loans for long-term investors and sales of mortgage loans in the secondary market.

For the third quarter and first nine months of 2007, mortgage income from continuing operations decreased \$13.8 million and \$26.9 million, respectively, compared to the same periods in 2006, reflecting the challenging operating environment for the mortgage industry as a whole.

On March 30, 2007, Regions sold EquiFirst, a former subsidiary that originated non-conforming mortgage loans which were sold to third-party investors with servicing released. Results of operations for EquiFirst are reported as discontinued operations in the consolidated statements of income. See Note 10 to the consolidated financial statements for further discussion.

During the third quarter of 2007, Regions exited the wholesale warehouse lending function, as it was not providing adequate returns given the risk it posed. Regions believes that there will be no material effect on future revenue or earnings related to this business decision.

Commercial credit fee income Commercial credit fee income increased \$10.7 million compared to the third quarter of 2006 and \$18.3 million compared to the first nine months of 2006, due primarily to the market volatility that existed during the quarter. Higher customer derivative business resulted as customers actively managed their interest rate exposure given the uncertainty regarding the direction of interest rates.

Other income In the third quarter and first nine months of 2007, other non-interest income increased over the same periods in 2006, due primarily to the impact of the AmSouth merger. Gains on sales of loans, primarily student loans, in the first nine months of 2007 totaled \$30.1 million compared to \$0.4 million in the same period in 2006. Insurance premiums and commissions increased as a result of the acquisition of Miles & Finch, Inc. that occurred during the first quarter of 2007 (see Note 2 to the consolidated financial statements). Other non-interest income also includes a \$32.8 million loss on the sale of approximately \$1 billion of securities available for sale in the second quarter of 2007. Also in the second quarter of 2007, a \$9.1 million gain was recognized in other miscellaneous income due to the termination of approximately \$225 million of junior subordinated debt. Third quarter 2007 other non-interest income includes a \$24.0 million net gain on the sale of approximately \$760 million of investment securities and a \$10.5 million gain related to the sale of a residual interest in a former subsidiary.

Table of Contents**NON-INTEREST EXPENSE**

Table 17 presents a summary of non-interest expense from continuing operations, as well as a detail of merger charges included in non-interest expense. Regions incurred merger-related expenses during the third quarter and first nine months of 2007 and also during the third quarter of 2006 in connection with the integration of Regions and AmSouth. For further expanded discussion of non-interest expense, refer to the discussion of each component following the tables presented.

Table 17 Non-Interest Expense

| | Three months ended September 30 | | | |
|--|---------------------------------|----------------|------------|----------------|
| | 2007 | Merger Charges | 2006 | Merger Charges |
| <i>(In thousands)</i> | NIE | | NIE | |
| Salaries and employee benefits | \$ 581,425 | \$ 14,811 | \$ 398,848 | \$ 38 |
| Net occupancy expense | 120,753 | 21,428 | 52,675 | |
| Furniture and equipment expense | 74,127 | 1,942 | 32,922 | |
| Impairment of mortgage servicing rights, net | 20,000 | | 8,000 | |
| Professional fees | 36,320 | 8,787 | 22,847 | 410 |
| Amortization of core deposit intangible | 37,432 | | 10,073 | |
| Amortization of mortgage servicing rights | 17,308 | | 16,592 | |
| Loss on early extinguishment of debt | | | (547) | |
| Other | 258,029 | 44,817 | 146,941 | 573 |
| | \$ 1,145,394 | \$ 91,785 | \$ 688,351 | \$ 1,021 |

| | Nine months ended September 30 | | | |
|---|--------------------------------|----------------|--------------|----------------|
| | 2007 | Merger Charges | 2006 | Merger Charges |
| <i>(In thousands)</i> | NIE | | NIE | |
| Salaries and employee benefits | \$ 1,793,010 | \$ 61,389 | \$ 1,253,686 | \$ 38 |
| Net occupancy expense | 307,459 | 29,943 | 163,659 | |
| Furniture and equipment expense | 220,984 | 3,179 | 98,592 | |
| Recapture of mortgage servicing rights, net | (17,000) | | (11,000) | |
| Professional fees | 100,119 | 25,912 | 65,573 | 410 |
| Amortization of core deposit intangible | 113,246 | | 31,167 | |
| Amortization of mortgage servicing rights | 57,734 | | 51,158 | |
| Loss on early extinguishment of debt | | | 6,532 | |
| Other | 736,543 | 80,282 | 453,459 | 573 |
| | \$ 3,312,095 | \$ 200,705 | \$ 2,112,826 | \$ 1,021 |

Total 2007 non-interest expense from continuing operations, both including and excluding merger-related charges, increased compared to the third quarter and first nine months of 2006, due primarily to expenses added in connection with the AmSouth merger. Changes in various categories of non-interest expense are discussed below.

Salaries and employee benefits In the third quarter and first nine months of 2007, salaries and employee benefits increased compared to the same periods in 2006 primarily due to the inclusion of AmSouth, as well as merit increases. These increases were offset partially by headcount reductions occurring since the merger in November 2006. As of September 30, 2007, Regions employed 33,630 associates compared to 36,517 (including approximately 1,400 EquiFirst associates and 500 associates from branch divestitures) at December 31, 2006.

Table of Contents

Net occupancy expense Net occupancy expense in the third quarter and first nine months of 2007 increased compared to the corresponding year-earlier periods due primarily to the AmSouth merger. Year-to-date net occupancy expense includes a benefit of \$15.3 million due to hurricane-related insurance proceeds during the first nine months of 2007.

Furniture and equipment expense In the third quarter and first nine months of 2007, furniture and equipment expense increased due to increased depreciation expense associated with fixed asset additions from the AmSouth merger.

Other expenses In the third quarter and first nine months of 2007, other non-interest expense increased compared to the third quarter and first nine months of 2006, due primarily to increases in core deposit amortization resulting from the AmSouth merger, as well as the addition of AmSouth operations. Also included in other non-interest expense is \$20.0 million and \$8.0 million impairment of mortgage servicing rights during the third quarter of 2007 and 2006, respectively. For the first nine months of 2007 and 2006, non-interest expense included a \$17.0 million and \$11.0 million recapture of mortgage servicing rights impairment, respectively. Valuation of mortgage servicing rights is impacted by interest rates and other market factors at the measurement date at each quarter-end (see Table 5).

INCOME TAXES

Regions' third quarter and year-to-date 2007 provision for income taxes from continuing operations increased \$22.7 million and \$201.5 million, respectively, compared to the same periods in 2006, primarily due to increased consolidated earnings. The effective tax rate from continuing operations for the third quarter and first nine months of 2007 was 31.3% and 32.8%, respectively, compared to 30.4% and 30.8% in the third quarter and first nine months of 2006, respectively. The primary driver of the increased effective tax rate during 2007 is the adoption of FIN 48. As a result of the adoption, Regions recorded a cumulative reduction in equity of \$259.0 million. As of September 30, 2007, the adoption of FIN 48 has increased income tax expense and decreased after-tax net income by approximately \$50 million. These adjustments resulted from a change in the recognition of the tax benefit related to a transaction in 2000 with a mortgage-related subsidiary. During the third quarter of 2007, the Company made a deposit with the IRS to stop the accrual of interest on materially all of its federal uncertain tax positions. As a result, the Company's accrual of interest expense on uncertain tax positions is expected to trend lower in the subsequent quarters assuming that the level of uncertain tax positions remains constant or decreases over the subsequent quarters. Refer to Note 8 of the consolidated financial statements for further details.

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

Periodically, Regions invests in pass-through investment vehicles that generate tax credits, principally low-income housing credits and non-conventional fuel source credits, which directly reduce Regions' federal income tax liability. Congress has legislated these tax credit programs to encourage capital inflows to these investment vehicles. The amount of tax benefit recognized from these tax credits was \$22.6 million and \$80.7 million in the third quarter and first nine months of 2007, respectively, compared to \$7.3 million and \$19.9 million in the third quarter and first nine months of 2006, respectively.

Regions has segregated a portion of its investment securities and intellectual property into separate legal entities in order to, among other business purposes, protect such intangible assets from inappropriate claims of Regions' creditors, and to maximize the return on such assets by the professional and focused management thereof. Regions has recognized state tax benefits related to these legal entities of \$13.3 million and \$34.9 million in the third quarter and first nine months of 2007, respectively, compared to \$9.0 million and \$28.8 million in the third quarter and first nine months of 2006, respectively.

Table of Contents

Management's determination of the realization of deferred tax assets is based upon management's judgment of various future events and uncertainties, including the timing, nature and amount of future income earned by certain subsidiaries and the implementation of various plans to maximize realization of deferred tax assets. Management believes that the subsidiaries will generate sufficient operating earnings to realize the deferred tax benefits. However, management does not believe that it is more-likely-than-not that all of its state net operating loss carryforwards will be realized. Accordingly, a valuation allowance has been established in the amount of \$19.2 million against such benefits at September 30, 2007, compared to \$15.0 million at September 30, 2006. In addition, Regions had a \$19.7 million valuation allowance related to capital loss carryforwards at September 30, 2006; however, since the capital loss carryforward was fully utilized in 2006, the valuation allowance was also eliminated by year-end 2006.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Reference is made to pages 36 through 39 included in Management's Discussion and Analysis.

Item 4. Controls and Procedures

Based on an evaluation, as of the end of the period covered by this Form 10-Q, under the supervision and with the participation of Regions management, including its Chief Executive Officer and Chief Financial Officer, the Chief Executive Officer and Chief Financial Officer have concluded that Regions' disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) are effective. As of the end of the period covered by this report, there have been no changes in Regions' internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, Regions' internal control over financial reporting.

Table of Contents**PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

Regions is subject to litigation, including class action litigation, and claims in the ordinary course of business. Punitive damages are routinely claimed in these cases. Regions continues to be concerned about the general trend in litigation involving large damage awards against financial service company defendants.

Regions evaluates these contingencies based on information currently available, including advice of counsel and assessment of available insurance coverage. Although it is not possible to predict the ultimate resolution or financial liability with respect to these litigation contingencies, management is of the opinion that the outcome of pending and threatened litigation would not have a material effect on Regions consolidated financial position or results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Information concerning Regions' repurchases of its outstanding common stock during the three month period ended September 30, 2007, is set forth in the following table:

Issuer Purchases of Equity Securities

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of | Maximum Number of Shares that May Yet Be |
|------------------------|-------------------------------------|---------------------------------|--|---|
| | | | Publicly Announced Plans or Programs | Purchased Under the Plans or Programs |
| July 1 - 31, 2007 | 600,000 | \$ 33.08 | 600,000 | 33,565,534 |
| August 1 - 31, 2007 | 6,722,834 | 30.97 | 6,722,834 | 27,623,734 |
| September 1 - 30, 2007 | | | | 27,623,734 |
| Total | 7,322,834 | \$ 31.17 | 7,322,834 | 27,623,734 |

On January 18, 2007, Regions' Board of Directors assessed the repurchase authorization of Regions and authorized the repurchase of an additional 50 million shares of Regions' common stock through open market or privately negotiated transactions and announced the authorization of this repurchase. As indicated in the table above, approximately 27.6 million shares remain available for repurchase under the existing plan.

On April 27, 2007, Regions entered into an agreement to repurchase approximately 14.2 million shares of its outstanding common stock for an initial purchase price of \$500 million. These shares were accounted for as treasury stock on the date of purchase. Regions simultaneously entered into a forward contract indexed to these same shares. In August 2007, Regions received approximately 781,000 shares upon settlement of the forward contract.

Table of Contents

ITEM 6. EXHIBITS

The following is a list of exhibits including items incorporated by reference

- 3.1 Restated Certificate of Incorporation filed as Exhibit 3.1 to Form 10-Q Quarterly Report filed by registrant on August 3, 2007, incorporated herein by reference
- 3.2 By-laws as restated filed as Exhibit 3.2 to Form 8-K Current Report filed by registrant on July 19, 2007, incorporated herein by reference
- 10.1 Amendment Six to the Regions Financial Corporation Supplemental 401(K) Plan
- 10.2 Amendment Number Four to the AmSouth Bancorporation Supplemental Thrift Plan
- 10.3 Amendment Number 2 to the First American Corporation Directors Deferred Compensation Plan
- 12 Computation of Ratio of Earnings to Fixed Charges
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by undersigned thereunto duly authorized.

DATE: November 9, 2007

Regions Financial Corporation

/s/ ALTON E. YOTHER
Alton E. Yother
Senior Executive Vice President and

Chief Financial Officer

(Principal Financial Officer and Authorized Officer)