

REGIONS FINANCIAL CORP
Form 10-Q
May 09, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended **March 31, 2006**

or

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

Commission File Number: 0-6159

Regions Financial Corporation

(Exact name of registrant as specified in its charter)

Delaware

63-0589368

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification Number)

417 North 20th Street
Birmingham, Alabama

35203

(Address of principal executive offices)

(Zip code)

(205) 944-1300

(Registrant's telephone number, including area code)

NOT APPLICABLE

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. (Check one):

Yes No

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

The number of shares outstanding of each of the issuer's classes of common stock was 456,116,552 shares of common stock, par value \$.01, outstanding as of April 30, 2006.

REGIONS FINANCIAL CORPORATION

INDEX

	Page Number	
PART I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements (Unaudited)	
	<u>Consolidated Statements of Condition -</u> March 31, 2006, December 31, 2005 and March 31, 2005	4
	<u>Consolidated Statements of Income -</u> Three months ended March 31, 2006 and March 31, 2005	5
	<u>Consolidated Statement of Stockholders'</u> <u>Equity -</u> Three months ended March 31, 2006	6
	<u>Consolidated Statements of Cash Flows -</u> Three months ended March 31, 2006 and March 31, 2005	7
	<u>Notes to Consolidated Financial Statements</u>	8
Item 2.		

	<u>Management's Discussion and Analysis of</u>	23
	<u>Financial Condition and Results of Operations</u>	
Item 3.	<u>Qualitative and Quantitative Disclosures about</u>	
	<u>Market Risk</u>	56
Item 4.	<u>Controls and Procedures</u>	56
PART II.	OTHER INFORMATION	
Item 1A.	<u>Risk Factors</u>	56
Item 2.	<u>Unregistered Sale of Equity Securities and Use of Proceeds</u>	56
Item 6.	<u>Exhibits</u>	57
		58
	<u>SIGNATURES</u>	

Forward Looking Statements

This Quarterly Report on Form 10-Q, other periodic reports filed by Regions Financial Corporation ("the Company") under the Securities Exchange Act of 1934, as amended, and any other written or oral statements made by or on behalf of Regions may include forward looking statements which reflect Regions' current views with respect to future events and financial performance. Such forward-looking statements are made in good faith by Regions pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. The forward-looking statements are based on current expectations and general assumptions and are subject to various risks, uncertainties, and other factors that may cause actual results to differ materially from the views, beliefs, and projections expressed in such statements. These risks, uncertainties and other factors include, but are not limited to, those described below.

- Regions' ability to achieve the earnings expectations related to the businesses that were acquired, including its merger with Union Planters Corporation in July 2004, 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 acquired operations to Regions' corporate culture, including the ability to instill Regions' credit practices and efficient approach to the acquired operations;
 - ◆ the continued growth of the markets that the acquired entities serve, consistent with recent historical experience;
 - ◆ difficulties related to the integration of the businesses, including integration of information systems and retention of key personnel.
- Regions' ability to expand into new markets and to maintain profit margins in the face of pricing pressures.
 - Regions' ability to keep pace with technological changes.
 - Regions' ability to develop competitive new products and services in a timely manner and the acceptance of such products and services by Regions' customers and potential customers.
 - Regions' ability to effectively manage interest rate risk, market risk, credit risk and operational risk.
 - Regions' ability to manage fluctuations in the value of assets and liabilities and off-balance sheet exposure so as to maintain sufficient capital and liquidity to support Regions' business.
 - The cost and other effects of material contingencies, including litigation contingencies.
- Further easing of restrictions on participants in the financial services industry, such as banks, securities brokers and dealers, investment companies and finance companies, may increase competitive pressures.
 - Possible changes in interest rates may increase funding costs and reduce earning asset yields, thus reducing margins.
 - Possible changes in general economic and business conditions in the United States in general and in the communities Regions serves in particular may lead to a deterioration in credit quality, thereby increasing provisioning costs, or a reduced demand for credit, thereby reducing earning assets.
 - The occurrence of natural disasters or the threat or occurrence of war or acts of terrorism and the existence or exacerbation of general geopolitical instability and uncertainty.
 - Possible changes in trade, monetary and fiscal policies, laws, and regulations, and other activities of governments, agencies, and similar organizations, including changes in accounting standards, may have an adverse effect on business.
 - Possible changes in consumer and business spending and saving habits could affect Regions' ability to increase assets and to attract deposits.

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

Table of Contents

REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CONDITION
(DOLLAR AMOUNTS IN THOUSANDS) (UNAUDITED)

<u>ASSETS</u>	March 31, 2006	December 31, 2005	March 31, 2005
Cash and due from banks	\$ 2,059,251	\$ 2,414,560	\$ 1,978,199
Interest-bearing deposits in other banks	37,049	92,098	126,678

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

Securities held to maturity	30,591	31,464	31,893
Securities available for sale	11,823,198	11,947,810	12,182,651
Trading account assets	1,119,854	992,082	953,364
Loans held for sale	1,547,840	1,531,664	1,976,967
Federal funds sold and securities purchased under agreements to resell	869,117	710,282	521,093
Margin receivables	563,202	527,317	551,075
Loans	58,658,565	58,591,816	58,169,485
Unearned income	(198,354)	(186,903)	(204,982)
Loans, net of unearned income	58,460,211	58,404,913	57,964,503
Allowance for loan losses	(782,368)	(783,536)	(760,032)
Net loans	57,677,843	57,621,377	57,204,471
Premises and equipment	1,109,587	1,122,289	1,108,469
Interest receivable	402,072	420,818	337,383
Due from customers on acceptances	25,481	22,924	41,313
Excess purchase price	4,987,770	5,027,044	4,997,232
Mortgage servicing rights	413,672	412,008	425,180
Other identifiable intangible assets	304,008	314,368	344,447
Other assets	1,623,983	1,597,495	1,503,217
	<u>\$84,594,518</u>	<u>\$84,785,600</u>	<u>\$84,283,632</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits:

Non-interest-bearing	\$ 13,328,143	\$ 13,699,038	\$ 11,655,721
Interest-bearing	47,191,336	46,679,329	47,931,950
Total deposits	60,519,479	60,378,367	59,587,671

Borrowed Funds:

Short-term borrowings:

Federal funds purchased and securities sold under agreements to repurchase	3,900,737	3,928,185	4,212,431
Other short-term borrowings	995,312	1,038,094	1,240,292
Total short-term borrowings	4,896,049	4,966,279	5,452,723
Long-term borrowings	6,621,710	6,971,680	7,153,910
Total borrowed funds	11,517,759	11,937,959	12,606,633
Bank acceptances outstanding	25,481	22,924	41,313
Other liabilities	1,875,014	1,832,067	1,402,872
Total liabilities	73,937,733	74,171,317	73,638,489

Stockholders' Equity:

Common stock, par value \$.01 a share:

Authorized 1,500,000,000 shares

Issued, including treasury stock, 477,796,812; 473,756,429; and 468,554,363 shares, respectively	4,778	4,738	4,686
Surplus	7,360,704	7,248,855	7,117,820
Undivided profits	4,169,678	4,034,905	3,746,113
Treasury stock, 21,096,200; 17,408,800; and 5,325,500 shares, respectively	(708,593)	(581,890)	(176,252)
Accumulated other comprehensive loss	(169,782)	(92,325)	(47,224)
Total Stockholders' Equity	10,656,785	10,614,283	10,645,143
	<u>\$84,594,518</u>	<u>\$84,785,600</u>	<u>\$84,283,632</u>

See notes to consolidated financial statements.

Table of Contents

REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

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

	Three Months Ended	
	March 31,	
	<u>2006</u>	<u>2005</u>
Interest Income:		
Interest and fees on loans	\$992,523	\$810,834
Interest on securities:		
Taxable interest income	131,651	122,752
Tax-exempt interest income	8,116	7,016
Total Interest on Securities	139,767	129,768
Interest on loans held for sale	33,882	31,180
Interest on margin receivables	8,673	6,142
Interest on federal funds sold and securities purchased under agreements to resell	10,490	3,053
Interest on time deposits in other banks	544	435
Interest on trading account assets	9,853	10,564
Total Interest Income	1,195,732	991,976
Interest Expense:		
Interest on deposits	314,708	199,892
Interest on short-term borrowings	50,133	38,978

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

Interest on long-term borrowings	88,164	72,535
Total Interest Expense	453,005	311,405
Net Interest Income	742,727	680,571
Provision for loan losses	27,500	30,000
Net Interest Income After Provision for Loan Losses	715,227	650,571
Non-Interest Income:		
Brokerage and investment banking	166,793	144,490
Trust department income	34,555	31,990
Service charges on deposit accounts	128,529	123,818
Mortgage servicing and origination fees	32,698	39,312
Securities gains (losses), net	11	(33,966)
Other	107,531	125,266
Total Non-Interest Income	470,117	430,910
Non-Interest Expense:		
Salaries and employee benefits	447,008	437,658
Net occupancy expense	59,888	54,284
Furniture and equipment expense	34,083	32,209
Other	215,115	209,795
Total Non-Interest Expense	756,094	733,946
Income Before Income Taxes	429,250	347,535
Applicable income taxes	134,570	105,894
Net Income	\$294,680	\$241,641
Average number of shares outstanding-basic	456,442	465,122
Average number of shares outstanding-diluted	461,043	470,759
Per share:		
Net income-basic	\$0.65	\$0.52
Net income-diluted	\$0.64	\$0.51
Cash dividends declared	\$0.35	\$0.34

See notes to consolidated financial statements.

[Table of Contents](#)

REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(AMOUNTS IN THOUSANDS) (UNAUDITED)

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

	Common Stock	Surplus	Undivided Profits	Treasury Stock	Accumulated Other Comprehensive (Loss) Income	Total
BALANCE AT JANUARY 1, 2006	\$4,738	\$7,248,855	\$4,034,905	\$(581,890)	\$ (92,325)	\$10,614,283
Comprehensive Income:						
Net income			294,680			294,680
Unrealized loss on available for sale securities, net of tax and reclassification adjustment					(77,950)	(77,950)
Other comprehensive loss from derivatives, net of tax and reclassification adjustment					493	493
Comprehensive income*			294,680		(77,457)	217,223
Cash dividends declared (\$.35 per common share)			(159,907)			(159,907)
Purchase of treasury stock				(126,703)		(126,703)
Common stock transactions:						
Stock options exercised	31	102,512				102,543
Stock issued to employees under incentive plan, net	9	(1,175)				(1,166)
Amortization of unearned restricted stock		10,512				10,512
BALANCE AT March 31, 2006	\$4,778	\$7,360,704	\$4,169,678	\$(708,593)	\$(169,782)	\$10,656,785

Disclosure of
reclassification amount:

Unrealized holding losses, net of \$46,674 in income taxes, on available for sale securities arising during period					\$(77,943)	
---	--	--	--	--	------------	--

Less: Reclassification adjustment, net of (\$4) in income taxes, for net gain realized in net income	7
Unrealized holding gain on derivatives, net of (\$333) in income taxes	560
Less: Reclassification adjustment, net of (\$36) in income taxes, for amortization of cash flow hedges	67
Comprehensive loss, net of \$46,381 in income taxes	\$(77,457)

*Comprehensive income for the three months ended March 31, 2005 was \$144.2 million.

See notes to consolidated financial statements.

Table of Contents

REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(DOLLAR AMOUNTS IN THOUSANDS) (UNAUDITED)

	Three Months Ended	
	March 31,	
Operating Activities:	2006	2005
Net income	\$ 294,680	\$ 241,641
Adjustments to reconcile net cash provided by (used in) operating activities		
Depreciation and amortization of premises and equipment	30,053	26,766
Provision for loan losses	27,500	30,000
Net amortization of securities	1,759	6,490
Amortization of intangible and other assets	41,755	44,500
Recapture of mortgage servicing rights	(9,000)	(35,000)
Gain on exchange of NYSE seats for NYSE publicly traded stock	(13,111)	-0-
Amortization of deposits and borrowings	110	112
Provision for losses on other real estate	1,184	946

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

Excess tax benefits from share-based payments	(8,512)	-0-
Deferred income tax expense	5,860	5,551
(Gain) loss on sale of premises and equipment	(2,920)	310
Realized securities (gains) losses	(11)	33,966
Increase in trading account assets (1)	(105,737)	(24,688)
Increase in loans held for sale	(16,176)	(193,636)
Increase in margin receivables	(35,885)	(73,262)
Decrease in interest receivable	18,746	8,180
(Increase) decrease in other assets (1)	(21,391)	94,651
Increase in other liabilities	95,105	26,283
Other	(1,166)	26,452
Net Cash Provided By Operating Activities	302,843	219,262
Investing Activities:		
Net increase in loans	(83,956)	(462,234)
Proceeds from sale of securities available for sale	10,324	1,467,145
Proceeds from maturity of securities held to maturity	954	144
Proceeds from maturity of securities available for sale	617,505	548,495
Purchases of securities held to maturity	(981)	(348)
Purchases of securities available for sale	(629,028)	(1,803,068)
Net decrease (increase) in interest-bearing deposits in other banks	55,049	(11,660)
Proceeds from sale of premises and equipment	23,090	4,074
Purchases of premises and equipment	(37,521)	(50,524)
Net increase in customers' acceptance liability	(2,557)	(9,331)
Net Cash Used In Investing Activities	(47,121)	(317,307)
Financing Activities:		
Net increase in deposits	141,002	920,536
Net decrease in short-term borrowings	(70,230)	(542,888)
Proceeds from long-term borrowings	49,925	47,202
Payments on long-term borrowings	(399,895)	(132,876)
Net increase in bank acceptance liability	2,557	9,331
Cash dividends	(159,907)	(158,499)
Purchases of treasury stock	(126,703)	(146,857)
Excess tax benefits from share-based payments	8,512	-0-
Proceeds from exercise of stock options	102,543	30,426
Net Cash (Used In) Provided by Financing Activities	(452,196)	26,375
Decrease in Cash and Cash Equivalents	(196,474)	(71,670)
Cash and Cash Equivalents, Beginning of Period	3,124,842	2,570,962
Cash and Cash Equivalents, End of Period	<u>\$ 2,928,368</u>	<u>\$ 2,499,292</u>

See notes to consolidated financial statements.

(1)

In 2006, excludes effect of \$8.9 million non-cash exchange of NYSE seats for NYSE publicly traded stock.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

March 31, 2006

NOTE A - Basis of Presentation

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

The accompanying unaudited consolidated 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 accounting principles generally accepted in the United States. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included under Item 8 of the Annual Report on Form 10-K for the year ended December 31, 2005. It is management's opinion that all adjustments, consisting of only normal and recurring items necessary for a fair presentation, have been included. Please also refer to "Critical Accounting Policies" included in Management's Discussion and Analysis.

Certain amounts in prior periods have been reclassified to conform to the current period presentation.

NOTE B - Earnings Per Share

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

	Three Months Ended March 31,	
(in thousands, except per share amounts)	2006	2005

Numerator:

For basic net income per share and
diluted net income per share, net

income	<u>\$294,680</u>	<u>\$241,641</u>
--------	------------------	------------------

Denominator:

For basic net income per share --

Weighted average shares outstanding	456,442	465,122
-------------------------------------	---------	---------

Effect of dilutive securities --

Stock options	4,525	5,637
---------------	-------	-------

Performance restricted stock	<u>76</u>	<u>-0-</u>
------------------------------	-----------	------------

For diluted net income per share	<u>461,043</u>	<u>470,759</u>
----------------------------------	----------------	----------------

Basic net income per share	\$0.65	\$0.52
----------------------------	--------	--------

Diluted net income per share	0.64	0.51
------------------------------	------	------

-

NOTE C - Stock-Based Compensation

Statement of Financial Accounting Standards No. 123 (revised 2004) (Statement 123(R)), "Share-based Payment" was adopted by the Company as of January 1, 2006. This accounting standard revises Statement of Financial Accounting Standards No. 123 (Statement 123), "Accounting for Stock-Based Compensation" by requiring that all share-based payments to employees, including grants of employee stock options, be recognized in the financial statements based on their fair values at the date of grant. See additional discussion of this new accounting standard in Note H "Recent Accounting Pronouncements."

Prior to January 1, 2006, the Company accounted for those stock-based employee compensation plans under the recognition and measurement provisions of APB Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees", and related Interpretations, as permitted by Statement 123; therefore, no stock-based employee compensation cost was recognized in the consolidated statement of income for the quarter ended March 31, 2005; rather, pro forma compensation cost amounts were disclosed in the notes to the consolidated financial statements. Effective January 1, 2006, the Company adopted the fair value recognition provisions of Statement 123 (R) using the modified-prospective transition method. Under that transition method, compensation cost recognized in first quarter of 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of Statement 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of Statement 123(R). As the modified-retrospective transition method was not selected, results for prior periods have not been restated.

The fair value of each option award is estimated on the date of grant using a Black-Scholes-Merton (BSM) option valuation model that uses the assumptions noted in the following table. Expected volatility is based on implied volatility from traded options on the Company's stock, historical volatility of the Company's stock, and other factors. Regions uses historical data to estimate option exercise and employee termination within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant and the weighted average expected life of the grant.

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

The weighted average fair value of options granted was \$4.60 and \$4.93 for the three months ended March 31, 2006 and 2005, respectively. The fair value of each grant is estimated on the date of grant using the BSM option-pricing model with the following weighted average assumptions used for grants in 2006 and 2005:

	2006	2005
Expected Dividend Yield	4.00%	4.20%
Expected Option Life (in years)	4.0	5.0
Expected Volatility	19.5%	21.4%
Risk-Free Interest Rate	4.3%	4.2%

During the first quarter of 2006, the Company made refinements to the expected volatility and expected option life assumptions used in valuing stock option grants as part of its adoption of Statement 123 (R). Expected volatility decreased to 19.5%, based upon the consideration of historical and implied volatility measurements upon the adoption of Statement 123(R); historically, the Company considered only historical stock price changes over a specified period of time. Expected option life declined from five years to four years, based upon the decrease in contractual life on new grants from ten years (historically) to seven years.

As a result of adopting Statement 123(R) on January 1, 2006, the Company's income before taxes and net income for the quarter ended March 31, 2006, are approximately \$738,000 and \$593,360 lower, respectively, than if it had continued to account for share-based compensation expense under APB 25. Basic and diluted earnings per share were not impacted by the adoption of Statement 123(R) during the first quarter of 2006.

Prior to the adoption of Statement 123(R), the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the statement of cash flows. Statement 123(R) requires the cash flows resulting from the tax benefits of tax deductions in excess of the compensation cost recognized for those options to be classified as financing cash flows. Based on the adoption of Statement 123(R), Regions recognized \$8,511,808 in excess tax benefits as financing cash inflows during the first quarter of 2006; since the Company selected the modified-prospective transition method, first quarter 2005 cash flows are not restated.

Regions has various stock option plans for certain key employees that provide for the granting of options to purchase up to 7,061,912 shares of Regions' common stock (excluding options assumed in connection with acquisitions) at March 31, 2006. The terms of options granted are determined by the compensation committee of the Board of Directors; however, no options may be granted after ten years from the plans' adoption, and no options may be exercised beyond ten years from the date granted. Option awards generally have a three year graded vesting term and have seven or ten year contractual terms. The option price per share of incentive stock options cannot be less than the fair market value of the common stock on the date of the grant; however, the option price of non-qualified options may be less than the fair market value of the common stock on the date of the grant (see disclosure regarding acceleration of vesting on non-qualified stock options during the fourth quarter of 2005 below). The plans also permit the granting of stock appreciation rights to holders of stock options. No stock appreciation rights were attached to options outstanding at March 31, 2006 and 2005.

Regions' long-term incentive plans provide for the granting of up to 54,086,434 shares of common stock in the form of stock options, stock appreciation rights, performance awards or restricted stock awards. The terms of stock options granted under the long-term incentive plans are generally subject to the same terms as options granted under Regions' stock option plans discussed above. A maximum of 6,790,300 shares of restricted stock and 37,038,000 shares of performance awards may be granted. During the first quarters of 2006 and 2005, Regions granted 1,010,327 and 93,376 shares, respectively, as restricted stock. Grantees of restricted stock must remain employed with Regions for certain periods from the date of the grant (generally three years) in order for the shares to be released, or the grantees

must meet the standards of a retiree at which time the restricted shares may be prorated and released. However, during this period the grantee is eligible to receive dividends and exercise voting privileges on such restricted shares. In the first quarters of 2006 and 2005, 128,815 and 242,868 restricted shares, respectively, were released. Total expense for restricted stock was \$10,512,000 for the first quarter of 2006 and \$6,357,000 for the first quarter of 2005. Restricted stock is amortized on a straight-line basis over the requisite service period (generally three years). During the first quarter of 2006, common shares outstanding reflected a net increase of approximately 900,000 shares related to restricted stock grants and cancellations.

Unvested stock options as of January 1, 2006 and options granted on or after January 1, 2006 (adoption date for Statement 123(R)) are amortized into earnings on a straight-line basis over the requisite service period of the options. During the first quarter of 2006, net shares increased approximately 3.1 million shares due to option exercises.

Stock Options	Shares Under Option	Weighted Avg. Exercise Price	Weighted Avg. Intrinsic Value
Outstanding (Bal. at Jan. 1, 2006)	33,590,080	\$27.76	
Granted	359,109	34.02	
Exercised	(3,659,426)	25.74	
Canceled	(220,074)	28.25	
Outstanding at March 31, 2006	30,069,689	28.08	\$213,194,095
Vested at March 31, 2006	28,232,758	27.73	\$210,051,720
Exercisable at March 31, 2006	28,232,758	27.73	\$210,051,720

Restricted Stock	Number of Shares	Weighted Avg. FV (Grant Date)
Nonvested Jan. 1, 2006	3,362,995	\$31.39
Granted	1,010,327	\$34.45
Vested	(128,815)	\$27.38
Forfeited	(60,568)	\$33.42
Nonvested at March 31, 2006	4,183,939	\$32.22

As disclosed in the 2005 Form 10-K, the Company approved the acceleration of vesting of certain unvested nonqualified stock options outstanding as of December 20, 2005, and recognized approximately \$399,000 in compensation expense in conjunction with the acceleration of vesting. The decision to accelerate the vesting of the unvested nonqualified options primarily was made to reduce non-cash compensation expense that would otherwise have been recorded in Regions' financial statements in future periods, in accordance with Statement 123(R), and also in connection with restructuring change of control agreements for certain employees. The expense that otherwise would have been recorded in future periods, absent the accelerated vesting, totaled approximately \$14.7 million (pre-tax).

Prior to the adoption of Statement 123 (R) on January 1, 2006, Statement 123 allowed for the choice of continuing to follow APB 25, and the related interpretations, or selecting the fair value method of expense recognition as described in Statement 123. The Company elected to follow APB 25 in accounting for its employee stock options in prior

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

periods. Pro forma net income and net income per share data is presented below for the three months ended March 31, 2005, as if the fair-value method had been applied in measuring compensation costs (Note: pro forma amounts for the three months ended March 31, 2006 are not applicable based upon the adoption of Statement 123(R) during the first quarter of 2006):

(in thousands, except per share amounts)	Three Months Ended March 31, 2005
Net income	\$241,641
Add: Stock-based compensation expense included in net income, net of related tax effects	4,131
Less: Total stock-based compensation expense based on fair value method for all awards, net of related tax effects	(7,402)
Pro forma net income	\$238,370
Per share:	
Net income	\$0.52
Net income-diluted	0.51
Pro forma net income	0.51
Pro forma net income-diluted	0.51

NOTE D - Business Segment Information

Regions' segment information is presented based on Regions' primary segments of business. Each segment is a strategic business unit that serves specific needs of Regions' customers. The Company's primary segment is community banking. Community banking represents the Company's branch banking functions and has separate management that is responsible for the operation of that business unit. In addition, Regions has designated as distinct reportable segments the activities of its treasury, mortgage banking, investment banking/brokerage/trust, and insurance divisions. The treasury division includes the Company's bond portfolio, mortgage lending portfolio, and other wholesale activities. Mortgage banking consists of origination and servicing functions of Regions' mortgage operations. Investment banking 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" includes activity of Regions' indirect consumer lending division and the parent company, including eliminations. Prior period amounts have been restated to reflect changes in methodology.

The accounting policies used by each reportable segment are the same as those discussed in Note 1 to the consolidated financial statements included under Item 8 of the Annual Report on Form 10-K. The following table presents financial information for each reportable segment.

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

Three months ended March 31, 2006

(in thousands)	Total Banking			
	Community Banking	Treasury	Combined	Mortgage Banking
Net interest income	\$ 662,500	\$ 81,785	\$ 744,285	\$ 16,552
Provision for loan losses	21,665	5,499	27,164	49
Non-interest income	160,508	394	160,902	69,571
Non-interest expense	424,545	37,039	461,584	77,799
Income taxes (benefit)	141,612	14,866	156,478	2,931
Net income (loss)	\$ 235,186	\$ 24,775	\$ 259,961	\$ 5,344
Average assets	\$48,334,322	\$29,582,920	\$77,917,242	\$2,878,386

(in thousands)	Investment Banking/ Brokerage/ Trust	Insurance	Other	Total Company
	Net interest income	\$ 12,241	\$ 1,297	\$ (31,648)
Provision for loan losses	-0-	-0-	287	27,500
Non-interest income	221,621	21,232	(3,209)	470,117
Non-interest expense	169,351	15,384	31,976	756,094
Income taxes (benefit)	23,703	2,805	(51,347)	134,570
Net income (loss)	\$ 40,808	\$ 4,340	\$ (15,773)	\$ 294,680
Average assets	\$3,132,914	\$186,061	\$1,323,121	\$85,437,724

Three months ended March 31, 2005

(in thousands)	Total Banking			
	Community Banking	Treasury	Combined	Mortgage Banking
Net interest income	\$ 579,933	\$ 86,993	\$ 666,926	\$ 3,925
Provision for loan losses	23,953	4,304	28,257	54

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

Non-interest income	143,009	(33,832)	109,177	87,696
Non-interest expense	418,513	10,259	428,772	54,199
Income taxes (benefit)	105,097	14,474	119,571	14,191

Net income (loss)	\$ 175,379	\$ 24,124	\$ 199,503	\$ 23,177
-------------------	------------	-----------	------------	-----------

Average assets (in thousands)	\$49,105,561	\$29,155,979	\$78,261,540	\$3,160,364
----------------------------------	--------------	--------------	--------------	-------------

	Investment Banking/ Brokerage/ Trust	Insurance	Other	Total Company
Net interest income	\$ 8,666	\$ 653	\$ 401	\$ 680,571
Provision for loan losses	-0-	-0-	1,689	30,000
Non-interest income	184,642	21,887	27,508	430,910
Non-interest expense	151,403	14,018	85,554	733,946
Income taxes (benefit)	15,672	3,068	(46,608)	105,894

Net income (loss)	\$ 26,233	\$ 5,454	\$(12,726)	\$ 241,641
-------------------	-----------	----------	------------	------------

Average assets	\$2,698,047	\$159,511	\$ 37,862	\$84,317,324
----------------	-------------	-----------	-----------	--------------

NOTE E - 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 also 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 \$20.9 billion at March 31, 2006, and \$17.6 billion at March 31, 2005. Standby letters of credit were \$3.6 billion at March 31, 2006, and \$2.6 billion at March 31, 2005. Commitments under commercial letters of credit used to facilitate customers' trade transactions were \$51.6 million at March 31, 2006, and \$152.4 million at March 31, 2005.

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 F - Derivative Financial Instruments

Regions maintains positions in derivative financial instruments to manage interest rate risk, to facilitate asset/liability management strategies, and to serve the risk management needs of customers. The most common derivative instruments are forward rate agreements, interest rate swaps, credit default swaps, and put and call options. For those derivative contracts that qualify for hedge accounting, according to Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", Regions designates the hedging instrument as either a cash flow or fair value hedge. The accounting policies associated with derivative financial instruments are discussed further in Note 1 to the consolidated financial statements included under Item 8 of the Annual Report on Form 10-K.

Regions utilizes certain derivative instruments to hedge the interest cash flows of certain variable-rate loans and certain debt instruments. Regions reported a \$3.8 million loss in accumulated other comprehensive income related to cash flow hedges of variable-rate loans at March 31, 2006. To the extent that the hedge of future cash flows is deemed effective, changes in the fair value of the derivative are recognized as a component of other comprehensive income in stockholder' equity. To the extent that the hedge of future cash flows is deemed ineffective, changes in the fair value of the derivative are recognized in earnings as a component of other non-interest expense. For the three months ended March 31, 2006, there was no gain or loss related to hedge ineffectiveness recognized in other non-interest expense attributable to cash flow hedges on variable-rate loans. In addition, Regions also reported a \$2.1 million accumulated loss at March 31, 2006, as compared to \$2.5 million at March 31, 2005, related to discontinued cash flow hedges of debt instruments. Approximately \$104,000 was amortized into expense during the first quarter of 2006. The remaining \$2.1 million of accumulated other comprehensive income will be amortized into earnings through 2011.

Regions hedges the changes in the fair value of assets using forward contracts, which represent commitments to sell money market instruments at a future date at a specified price or yield. The contracts are utilized by the Company to hedge interest rate risk positions associated with the origination of mortgage loans held for sale. The Company is subject to the market risk associated with changes in the value of the underlying financial instrument, as well as the risk that the other party will fail to perform. A net gain of \$2.6 million, including approximately \$5,000 of loss on hedge ineffectiveness, was recognized for the three months ended March 31, 2006 related to these hedging instruments. The gross amount of forward contracts totaled \$1.2 billion at March 31, 2006 and March 31, 2005.

Regions has also entered into interest rate swap agreements converting a portion of its fixed rate long-term debt to floating-rate. The fair values of the derivative instruments used in these fair value hedges are included in other assets on the statements of financial condition. For the three months ended March 31, 2006, there was ineffectiveness of approximately \$325,000 in gains recorded in earnings related to these fair value hedges. No gains or losses were recognized as of March 31, 2006 related to components of derivative instruments that were excluded from the assessment of hedge effectiveness.

In prior years, Union Planters, acquired by Regions in July 2004, issued letters of credit to facilitate business in its factored receivables division. Certain of these assets were sold in 2005; however, the letters of credit remained with Regions. As part of this transaction, Regions received a \$75 million notional credit default swap as default protection related to the outstanding letters of credit. At March 31, 2006, the estimated fair value of this instrument is approximately \$714,000. Also, Regions has two \$29.3 million notional credit default swaps, which hedge default risk associated with an interest rate swap agreement entered into with a municipality and an offsetting interest rate swap

agreement with a counterparty.

The Company also maintains a derivatives trading portfolio of interest rate swaps, option contracts and futures and forward commitments used to meet the needs of its customers. The portfolio is used to generate trading profit and help clients manage interest rate risk. The Company is subject to the risk that a counterparty will fail to perform. These trading derivatives are recorded in other assets and other liabilities. The net fair value of the derivatives in the trading portfolio at March 31, 2006, was an asset of \$3.0 million.

Foreign currency contracts involve the exchange of one currency for another on a specified date and at a specified rate. These contracts are executed on behalf of the Company's customers and are used to manage fluctuations in foreign exchange rates. The notional amount of forward foreign exchange contracts totaled \$66 million at March 31, 2006, and \$12 million at March 31, 2005. The Company is subject to the risk that another party will fail to perform.

In the normal course of business, Morgan Keegan enters into underwriting and forward and future commitments. At March 31, 2006, the contract amount of future contracts to purchase and sell U.S. Government and municipal securities was \$48 million and \$172 million, respectively. The brokerage subsidiary 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 the subsidiary's 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. The exposure to market risk is determined by a number of factors, including size, composition and diversification of positions held, the absolute and relative levels of interest rates and market volatility.

Additionally, in the normal course of business, Morgan Keegan enters into transactions for delayed delivery, to-be-announced securities, which are recorded on the consolidated statement of financial condition 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.

Regions' derivative financial instruments are summarized as follows:

(dollar amounts in millions)	Other Than Trading Derivatives				
	As of March 31, 2006				
	Notional Amount	Fair Value	Receive	Pay	Average Maturity in Years
Forward sale commitments	\$1,238	\$ 2			0.1
Mortgage-backed security options	15	-			0.1
Credit default swaps	75	1			2.0
Interest rate swaps	4,010	(41)	4.66%	5.09%	4.0
Total	\$5,338	\$ (38)			
	As of March 31, 2005				
(dollar amounts in millions)	Notional Amount	Fair Value	Receive	Pay	Average Maturity in Years

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

Forward sale commitments	\$1,211	\$ 9			0.1
Mortgage-backed security options	25	-			0.1
Interest rate swaps	4,548	26	4.75%	3.19%	6.2
Total	\$5,784	\$ 35			

Derivative Financial Instruments

As of March 31,

	2006			2005		
	Contract or Notional Amount			Contract or Notional Amount		
	Other Than Trading	Trading	Credit Risk Amount*	Other Than Trading	Trading	Credit Risk Amount*
	(in millions)					
Interest rate swaps	\$ 4,010	\$10,683	\$ 27	\$ 4,548	\$10,618	\$ 57
Interest rate options	-0-	1,487	-0-	-0-	1,635	-0-
Credit default swaps	75	59	-0-	-0-	-0-	-0-
Futures and forward commitments	1,238	6,387	-0-	1,211	11,675	-0-
Mortgage-backed security options	15	-0-	-0-	25	-0-	-0-
Foreign exchange forwards	-0-	66	-0-	-0-	12	-0-
Total	\$ 5,338	\$18,682	\$ 27	\$ 5,784	\$23,940	\$ 57

The following table is a summary of Regions' derivative financial instruments as of December 31, 2005 and 2004, and is presented for comparison purposes.

Derivative Financial Instruments

As of December 31,

	2005			2004		
	Contract or Notional Amount			Contract or Notional Amount		
	Other Than Trading	Trading	Credit Risk Amount*	Other Than Trading	Trading	Credit Risk Amount*
	(in millions)					
Interest rate swaps	\$ 4,298	\$9,814	\$ 6	\$ 4,548	\$10,508	\$ 107
Interest rate options	-0-	934	-0-	-0-	1,237	-0-

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

Credit default swaps	75	60	-0-			
Futures and forward commitments	1,085	7,199	-0-	1,141	10,564	-0-
Mortgage-backed security options	20	-0-	-0-	50	-0-	-0-
Foreign exchange forwards	-0-	67	-0-	-0-	25	-0-
Total	\$ 5,478	\$18,074	\$ 6	\$ 5,739	\$22,334	\$ 107

*Credit Risk Amount is defined as all positive exposures not collateralized with cash on deposit. Any credit risk arising under option contracts is combined with swaps to reflect netting agreements.

-

NOTE G - Pension and Postretirement Benefits

The following table provides the net pension cost and postretirement benefit cost recognized for the three months ended March 31, 2006 and 2005:

(in thousands)	Pension Cost		Postretirement Benefit Cost	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2006	2005	2006	2005
Service cost	\$ 4,762	\$ 3,913	\$ 100	\$ 122
Interest cost	7,454	6,145	536	534
Expected return on plan assets	(9,816)	(7,326)	(62)	(82)
Net amortization	3,743	2,860	(46)	44
Net periodic pension expense	\$ 6,143	\$ 5,592	\$ 528	\$ 618

NOTE H - Recent Accounting Pronouncements

In November 2005, the FASB issued FASB Staff Position Statement of Financial Accounting Standards 115-1 and 124-1 ("FSP 115-1 ") which codified existing guidance addressing the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. The FSP is effective beginning in 2006. Regions has considered this FSP in its quarterly testing for other-than-temporary impairment

On December 16, 2004, the FASB issued Statement 123 (R). Statement 123(R) revises Statement 123, and supersedes Opinion 25 and requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. Statement 123 (R) was adopted by the Company as of January 1, 2006; see Note C "Stock-Based Compensation" to the financial statements for additional discussion.

On June 1, 2005, the FASB issued Statement No. 154, "Accounting Changes and Error Corrections" ("Statement 154"), a replacement of Accounting Principles Board Opinion No. 20, "Accounting Changes," and Statement of Financial Accounting Standards No. 3, "Reporting Accounting Changes in Interim Financial Statements". The Statement applies to all voluntary changes in accounting principle, and changes the requirements for accounting for and reporting of a change in accounting principle. In the absence of specific transition requirements to the contrary in the adoption of an accounting principle, Statement 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable for comparability and consistency of financial information between periods. Statement 154 is effective for accounting changes and corrections of errors made in fiscal years beginning in 2006.

On July 14, 2005, the FASB issued an Exposure Draft on Accounting for Uncertain Tax Positions, a proposed interpretation of Statement 109. The proposed interpretation requires that only benefits from tax positions that are more-likely-than-not of being sustained should be recognized in the financial statements. These benefits would be recorded at amounts considered to be the maximum amounts more-likely-than-not of being sustained. At the time these positions become more-likely-than-not to be disallowed, their recognition would be reversed. Regions is currently reviewing the potential impact of this proposed interpretation; any cumulative effect associated with the allocation of the provisions of the proposed interpretation will be reported as a change in accounting principle in the period in which the interpretation is adopted. The final interpretation is expected to be effective as of the beginning of the first annual period beginning after December 15, 2006.

On March 17, 2006, the FASB issued Statement No. 156, "Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140" ("Statement 156"), "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." The Statement requires that all servicing assets and liabilities be initially measured at fair value and allows for two alternatives in the subsequent accounting for servicing assets and liabilities: the amortization method and the fair value method. The amortization method requires that the servicing assets and liabilities be amortized over the remaining estimated lives of the serviced assets with impairment testing to be performed periodically. The fair value method requires the servicing assets and liabilities to be measured at fair value each period with an offset to income. This Statement is to be adopted in the first fiscal year that begins after September 15, 2006 and early adoption is permitted. An entity can elect the fair value method at the beginning of any fiscal year provided that interim financial statements have not been issued. However, once the fair value election is made, an entity cannot revert back to the amortization method. Regions is currently reviewing the potential impact of this Statement, as well as the accounting alternatives available.

On March 31, 2006, the FASB issued an Exposure Draft of a Proposed Statement of Financial Accounting Standards on Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R). The proposed statement is the first phase of a two phase project by the FASB to change the current accounting for these types of entity-sponsored plans. This statement would require that an entity recognize in its statement of financial position the overfunded or underfunded status of a defined benefit postretirement plan measured as the difference between the fair value of plan assets and the benefit obligation. For a pension plan, the benefit obligation would be the projected benefit obligation; for any other postretirement plan, the benefit obligation would be the accumulated benefit obligation. In addition, entities would be required to recognize as a component of other comprehensive income, net of tax, the actuarial gains and losses and the prior service costs and credits that arise during the period but are not recognized as components of net periodic benefit cost. These amounts would be adjusted as they are amortized into income as components of net periodic benefit costs in subsequent periods. These requirements are effective for fiscal years ending after December 15, 2006 and should be applied retrospectively. The final requirement of the proposed statement is that the defined benefit plan assets and defined benefit plan obligations be measured as of the date of the entity's statement of financial position as opposed to a date not to exceed three months prior to the date of an entity's statement of financial position as in current practice. This requirement is effective for the first fiscal year beginning after December 15, 2006 but can be adopted earlier. Regions is currently reviewing the potential impact of this proposed statement.

Table of Contents

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

INTRODUCTION

The following discussion and financial information is presented to aid in understanding Regions Financial Corporation's ("Regions" or "the Company") financial position and results of operations. The emphasis of this discussion will be on the three months ended March 31, 2006, as compared to the three months ended March 31, 2005, and the three months ended December 31, 2005.

CORPORATE PROFILE

Regions' primary business is providing traditional commercial and retail banking services to customers throughout the South, Midwest and Texas. Regions' principal banking subsidiary, Regions Bank, operates as an Alabama state-chartered bank with branch offices in Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, South Carolina, Tennessee, Texas and Virginia.

In addition to providing traditional commercial and retail banking services, Regions provides other financial services in the fields of investment banking, asset management, trust, mutual funds, securities brokerage, mortgage banking, insurance, leasing, and other specialty financing. Regions provides investment banking and brokerage services from 301 offices of Morgan Keegan & Company, Inc. ("Morgan Keegan"), one of the largest investment firms based in the South. Regions' mortgage banking operations, Regions Mortgage (a division of Regions Bank) and EquiFirst Corporation ("EquiFirst"), provide residential mortgage loan origination and servicing activities for customers. Regions Mortgage services approximately \$36.7 billion in mortgage loans. Regions provides full-line insurance brokerage services, primarily through Rebsamen Insurance, Inc., one of the 50 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 and the interest rate spread it earns. Non-interest income includes fees from service charges on deposit accounts, trust and securities brokerage activities, mortgage origination and servicing, insurance and other customer services which Regions provides.

Results of operations are also affected by the provision for loan losses and non-interest expenses such as salaries and employee benefits, occupancy and other operating expenses, including income taxes.

Economic conditions, competition and the monetary and fiscal policies of the Federal government 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, spending and savings, capital market activities, competition among financial institutions, customer preferences, interest rate conditions and prevailing market rates on competing products in Regions' primary market areas.

Regions' business strategy has been and continues to be focused on providing a competitive suite of products and services, delivering quality customer service and maintaining a branch distribution network with offices in convenient locations.

The Company's principal market areas are located in the states of Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, South Carolina, Tennessee, Texas and Virginia. Morgan Keegan also operates offices in Massachusetts and New York.

FIRST QUARTER HIGHLIGHTS

Regions reported record net income of \$.64 per diluted share in the first quarter of 2006, compared to \$.51 per diluted share for the first quarter of 2005 and \$.55 per diluted share for the fourth quarter of 2005. Primary drivers of the record first quarter 2006 net income were increased net interest income, strong Morgan Keegan performance and reduced credit costs.

Net interest income for the first quarter of 2006 was \$742.7 million, compared to \$680.6 million in the first quarter of 2005 and \$725.9 million in the fourth quarter of 2005. The taxable equivalent net interest margin (annualized) for the first quarter of 2006 was 4.18%, up from 3.84% in the first quarter of 2005 and 4.01% in the fourth quarter of 2005. The increase in the net interest margin was due primarily to favorable balance sheet positioning in a rising interest rate environment over the last year; Regions, being in an asset sensitive balance sheet position, benefited from rising interest rates, as increases in asset yields outpaced increases in interest-bearing liability costs. Additionally, a favorable shift in the mix of earning assets and interest-bearing liabilities benefited the interest margin over the last four quarters.

Morgan Keegan's revenues were a record \$251.9 million in the first quarter of 2006, compared to \$204.3 million in the first quarter of 2005 and \$211.0 million in the fourth quarter of 2005. Revenue increases during the first quarter of 2006 were primarily related to strong equity trading volumes, increased sales and underwriting of fixed income products (including a new proprietary closed-end fund) and a \$13.1 million pre-tax gain on the exchange of New York Stock Exchange (NYSE) seats for stock (see TRADING ACCOUNT ASSETS and NON-INTEREST INCOME below).

The banking unit produced expanded net interest margin and increased net interest income during the first quarter of 2006. Loan growth of \$55.3 million, linked quarter, was driven by residential real estate and construction lending. Modest loan growth during the first quarter of 2006 (based on linked-quarter and year-over-year comparisons) continued to reflect discipline in pricing and strict underwriting standards. Deposits increased by \$141.1 million, linked quarter, driven by an increase in retail certificates of deposits, partially offset by declines in commercial interest-free deposits and wholesale certificates of deposit.

Net charge-offs totaled \$28.7 million, or 0.20%, of average loans, annualized, in the first quarter of 2006, compared to 0.17% for the first quarter of 2005 and 0.28% in the fourth quarter of 2005. On a linked-quarter basis, non-performing assets increased \$2.2 million to \$409.1 million at March 31, 2006. Loans past due greater than 90 days increased \$5.2 million in the first quarter of 2006, compared to the prior quarter, primarily due to delinquent residential mortgage loans in Hurricane Katrina-affected areas.

The provision for loan losses totaled \$27.5 million in the first quarter of 2006 compared to \$30.0 million during the same period of 2005 and \$40.0 million during the fourth quarter of 2005. The allowance for loan losses at March 31, 2006, was 1.34% of total loans, net of unearned income, compared to 1.31% at March 31, 2005 and 1.34% at year end 2005.

Non-interest income, excluding securities gains and losses, increased \$5.2 million compared to the first quarter of 2005 and \$29.7 million on a linked-quarter comparison, primarily due to increases in brokerage and investment banking revenues and trust fees, partially offset by declines in mortgage servicing and reduced gains on the sale of mortgage loans. Brokerage and investment banking revenues totaled \$166.8 million in the first quarter of 2006, compared to \$144.5 million in the first quarter of 2005 and \$140.3 million in the fourth quarter of 2005. Trust fees totaled \$34.6 million in the first quarter of 2006, compared to \$32.0 million in the same period in 2005 and \$30.8

million in the fourth quarter of 2005. Regions' mortgage servicing and origination fees totaled \$32.7 million in the first quarter 2006, compared to \$39.3 million in the first quarter of 2005 and \$33.7 million in the fourth quarter of 2005. Gains on the sale of mortgage loans decreased 64% from the first quarter of 2005 and 43% compared to the fourth quarter of 2005, due to reduced gain on sale margins and declining mortgage loan sales volumes.

Total non-interest expense increased \$22.1 million compared to first quarter 2005 and \$2.1 million on a linked-quarter comparison. Regions recognized \$9.0 million of recapture in the value of mortgage servicing rights ("MSR") during the first quarter of 2006, which is included in other non-interest expense. The recapture was essentially offset by an \$8.2 million loss recognized on the call of trust preferred securities during the first quarter of 2006. Total non-interest expenses, excluding merger-related and other charges, mortgage servicing rights impairment/recapture and loss on early extinguishment of debt securities, increased \$26.9 million compared to the first quarter of 2005 and \$38.2 million on a linked-quarter comparison, due primarily to an increase in salaries and employee benefits and net occupancy expense (partially attributable to Hurricane Katrina-related expenses), partially offset by merger cost savings.

CRITICAL ACCOUNTING POLICIES

In preparing financial information, management is required to make significant estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses for the periods shown. The accounting principles followed by Regions and the methods of applying these principles conform with accounting principles generally accepted in the United States and general banking practices. Estimates and assumptions most significant to Regions are related primarily to allowance for loan losses, intangibles, and income taxes and are summarized in the following discussion and the Notes to the consolidated financial statements included under Item 8 of the Annual Report on Form 10-K.

Allowance for Loan Losses

Management's determination of the adequacy of the allowance for loan losses, which is based on the factors and risk identification procedures discussed in the following pages, requires the use of judgments and estimates that may change in the future. Changes in the factors used by management to determine the adequacy of the allowance, or the availability of new information, could cause the allowance for loan losses to be increased or decreased in future periods. For example, management has used judgments and estimates in its determination of the adequacy of the allowance for loan losses related to the impact of Hurricane Katrina. The availability of additional or different information affecting customers in the Katrina-impacted areas could cause the allowance for loan losses to be increased or decreased in future periods. In addition, bank regulatory agencies, as part of their examination process, may require that additions be made to the allowance for loan losses based on their judgments and estimates.

Intangible Assets

Regions' intangible assets consist primarily of excess of cost over the fair value of net assets of acquired businesses (excess purchase price), other identifiable intangible assets (primarily core deposit intangibles) and amounts capitalized for the right to service mortgage loans.

Regions' excess purchase price (the amount in excess of the fair value of net assets acquired) is tested for impairment annually, or more often if events or circumstances indicate impairment may exist. Adverse changes in the economic environment, operations of acquired business units or other factors could result in a decline in implied fair value of excess purchase price. If the implied fair value is less than the carrying amount, a loss would be recognized to reduce the carrying amount to implied fair value.

Other identifiable intangible assets, primarily core deposits intangibles, are reviewed at least annually for events or circumstances which could impact the recoverability of the intangible asset, such as loss of core deposits, increased competition or adverse changes in the economy. To the extent an other identifiable intangible asset is deemed unrecoverable, an impairment loss would be recorded to reduce the carrying amount to the fair value.

For purposes of evaluating mortgage servicing impairment, Regions must value its mortgage servicing rights. Mortgage servicing rights do not trade in an active market with readily observable market prices. Although sales of mortgage servicing rights do occur, the exact terms and conditions of sales may not be readily available. As a result, Regions stratifies its mortgage servicing portfolio on the basis of certain risk characteristics including loan type and contractual note rate and values its mortgage servicing rights using discounted cash flow modeling techniques, which require management to make estimates regarding future net servicing cash flows, taking into consideration actual and expected mortgage loan prepayment rates and discount rates. Changes in interest rates, prepayment speeds or other factors could result in impairment of the servicing asset and a charge against earnings to reduce the recorded carrying amount. Based on a hypothetical sensitivity analysis, Regions estimates that a reduction in the primary mortgage market rates of 25 basis points and 50 basis points would reduce the March 31, 2006 fair value of mortgage servicing rights by 5% and 12%, respectively.

Income Taxes

Management's determination of the realization of the deferred tax asset is based upon management's judgment of various future events and uncertainties, including the timing and amount of future income earned by certain subsidiaries and the implementation of various tax plans to maximize realization of the deferred tax asset. Management believes that the subsidiaries will generate sufficient operating earnings to realize the deferred tax benefits. Regions' 1998 to 2004 consolidated federal income tax returns are open for examination. 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 plans should prevail, examination of Regions' income tax returns or changes in tax law may impact these plans and resulting provisions for income taxes. For example, as a result of normal examinations of Regions' income tax returns, Regions has received notices of proposed adjustments relating to taxes due for certain years. Regions believes that adequate provisions for income taxes have been recorded and intends to vigorously contest the proposed adjustments. To the extent, however, that final resolution of the proposed adjustments results in significantly different conclusions from Regions' current assessment of the proposed adjustments, Regions' effective tax rate in any given financial reporting period may be materially different from its current effective tax rate.

TOTAL ASSETS

Regions' total assets at March 31, 2006, were \$84.6 billion. Total assets have not changed significantly compared to March 31, 2005 and December 31, 2005.

LOANS AND ALLOWANCE FOR LOAN LOSSES

LOAN PORTFOLIO

Regions' primary investment is loans. At March 31, 2006, loans represented 79% of Regions' earning assets.

The following table includes a distribution of Regions' loan portfolio.

Loan Portfolio
(period end data)

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

(in thousands)	First Quarter 2006	Fourth Quarter 2005	First Quarter 2005
Commercial	\$14,953,740	\$14,979,811	\$15,580,577
Residential mortgages	12,925,223	12,678,332	11,564,122
Other real estate loans	13,379,282	13,745,201	14,470,703
Construction	7,701,478	7,363,353	6,895,472
Branch installment	1,591,127	1,625,929	1,732,933
Indirect installment	1,319,819	1,353,929	1,507,689
Consumer lines of credit	5,661,990	5,786,770	5,370,837
Student loans	927,552	871,588	842,170
	<u>\$58,460,211</u>	<u>\$58,404,913</u>	<u>\$57,964,503</u>

Total loans at March 31, 2006, increased 1% from March 31, 2005, and remained relatively flat compared to year-end 2005 total loans. The strongest categories of growth in the loan portfolio have been in residential real estate mortgages, construction loans and student loans. The average yield on loans during the first quarter of 2006 was 7.05%, compared to 5.83% during the first quarter of 2005 and 6.64% during the fourth quarter of 2005. The increase in average yield corresponds with the rising interest rate environment during 2005 and 2006.

ALLOWANCE FOR LOAN LOSSES

Every loan carries some degree of credit risk. This risk is reflected in the consolidated financial statements by the allowance for loan losses, the amount of loans charged off and the provision for loan losses charged to operating expense. It is Regions' policy that when a loss is identified, it is charged against the allowance for loan losses in the current period. The policy regarding recognition of losses requires immediate recognition of a loss if significant doubt exists as to principal repayment.

Regions' provision for loan losses is a reflection of actual losses experienced during the period and management's judgment as to the adequacy of the allowance for loan losses. Some of the factors considered by management in determining the amount of the provision and resulting allowance include: (1) detailed reviews of individual loans; (2) gross and net loan charge-offs in the current period; (3) the current level of the allowance in relation to total loans and to historical loss levels; (4) past due and non-accruing loans; (5) collateral values of properties securing loans; (6) the composition of the loan portfolio (types of loans) and risk profiles; and (7) management's analysis of economic conditions and the resulting impact on Regions' loan portfolio.

A coordinated effort is undertaken to identify credit losses in the loan portfolio for management purposes and to establish the loan loss provision and resulting allowance for accounting purposes. A regular, formal and ongoing loan review is conducted to identify loans with unusual risks or possible losses. Credit administration and internal audit are jointly responsible for this review, which tests the accuracy of loan gradings assigned at the individual banking offices, reviews significant portfolio segments for early identification of problems or potential problems, and tests for compliance with laws, regulations, and internal policies and procedures. This process provides information that helps in assessing the quality of the portfolio, assists in the prompt identification of problems and potential problems, and aids in deciding if a loan represents a probable loss that should be recognized or a risk for which an allowance should be maintained.

If it is determined that payment of interest on a loan is questionable, it is Regions' policy to classify the loan as non-accrual and reverse interest previously accrued and uncollected on the loan against interest income. Interest on such loans is thereafter recorded on a "cash basis" and is included in earnings only when actually received in cash and when full payment of principal is no longer doubtful.

Although it is Regions' policy to immediately charge off as a loss all loan amounts judged to be uncollectible, historical experience indicates that certain losses exist in the loan portfolio that have not been specifically identified. To anticipate and provide for these unidentifiable losses, the allowance for loan losses is established by charging the provision for loan loss expense against current earnings. No portion of the resulting allowance is in any way allocated or restricted to any individual loan or group of loans. The entire allowance is available to absorb losses from any and all loans.

Regions determines its allowance for loan losses in accordance with Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan-an Amendment of FASB Statements No. 5 and 15" and Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies." In determining the amount of the allowance for loan losses, management uses information from its ongoing loan review process to stratify the loan portfolio into loan pools with common risk characteristics. The higher-risk-graded loans in the portfolio are assigned estimated amounts of loss based on several factors, including current and historical loss experience of each higher-risk category, regulatory guidelines for losses in each higher-risk category and management's judgment of economic conditions and the resulting impact on the higher-risk-graded loans. All loans deemed to be impaired, which include all non-accrual loans greater than \$1 million, excluding loans to individuals, are evaluated individually. Impaired

loans totaled approximately \$67 million at March 31, 2006 and \$64 million at December 31, 2005. The vast majority of Regions' impaired loans are dependent upon collateral for repayment. For these loans, impairment is measured by evaluating collateral value as compared to the current investment in the loan. For all other loans, Regions compares the amount of estimated discounted cash flows to the investment in the loan. In the event a particular loan's collateral value or discounted cash flows are not sufficient to support the collection of the investment in the loan, the loan is specifically considered in the determination of the allowance for loan losses or a charge is immediately taken against the allowance for loan losses. The percentage of the allowance for loan losses related to the higher-risk loans was approximately 37% at March 31, 2006, compared to approximately 47% at December 31, 2005. Higher-risk loans, which include impaired loans, consist of loans classified as OLEM (other loans especially mentioned) and below and loans in other loan categories that are significantly past due.

In addition to establishing allowance levels for specifically identified higher-risk-graded loans, management determines allowance levels for all other loans in the portfolio for which historical experience indicates that certain losses exist. These loans are categorized by loan type and assigned estimated amounts of loss based on several factors, including current and historical loss experience of each loan type and management's judgment of economic conditions and the resulting impact on each category of loans. The percentage of the allowance for loan losses related to all other loans in the portfolio for which historical experience indicates that certain losses exist was approximately 63% of Regions' allowance for loan losses at March 31, 2006 and 53% at December 31, 2005. The amount of the allowance related to these loans is combined with the amount of the allowance related to the higher-risk-graded loans to evaluate the overall level of the allowance for loan losses.

During the third quarter of 2005, Hurricane Katrina struck the Gulf Coast (mainly impacting Louisiana, Mississippi, and Alabama) as a Category 3 hurricane, causing significant flood and wind damage and loss of life, property, power, and income. Regions had loans of approximately \$1.1 billion (\$440 million in commercial real estate loans, \$293 million in commercial and industrial loans, \$164 million in consumer loans, and \$199 million in mortgage loans) in the most significantly impacted areas at March 31, 2006. Approximately 56% of the consumer loans are home equity lines of credit. As part of its ongoing evaluation process at March 31, 2006, Regions has identified approximately \$58 million in allowance for loan losses related to this portion of its loan portfolio. The Company recognized net charge-offs of approximately \$3.2 million during the first quarter of 2006 (\$1,878,000 for mortgage loans, \$788,000 for commercial loans and \$565,000 for consumer/retail loans) for loans in Hurricane Katrina-affected areas.

Management considers the current level of allowance for loan losses adequate to absorb probable losses on loans in the portfolio. Management's determination of the adequacy of the allowance for loan losses, which is based on the factors and risk identification procedures previously discussed, requires the use of judgments and estimations that may

change in the future. Changes in the factors used by management to determine the adequacy of the allowance or the availability of new information could cause the allowance for loan losses to be increased or decreased in future periods. The amount of the allowance for loan losses related to the Hurricane Katrina impacted portfolio may change in the future as additional or different information affecting customers in the Katrina-impacted areas is obtained. Changes in (1) risk assessments of individual loans in this area, (2) collateral values of properties securing loans in this area, (3) levels of past due and non-accruing loans in this area, (4) economic conditions in the Hurricane Katrina impacted area and (5) other factors, could result in changes in Regions' allowance for loan losses in the future. In addition, bank regulatory agencies, as part of their examination process, may require that additions be made to the allowance for loan losses based on their judgments and estimates.

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

(dollar amounts in thousands)	Three Months Ended	
	March 31, 2006	March 31, 2005
Balance at beginning of period	\$783,536	\$754,721
Loans charged-off:		
Commercial	24,526	21,670
Real estate	11,982	12,259
Installment	11,625	13,314
Total	48,133	47,243
Recoveries:		
Commercial	11,713	12,445
Real estate	1,773	2,318
Installment	5,979	7,791
Total	19,465	22,554
Net loans charged off:		
Commercial	12,813	9,225
Real estate	10,209	9,941
Installment	5,646	5,523
Total	28,668	24,689
Provision charged to expense	27,500	30,000
Balance at end of period	\$782,368	\$760,032
Average loans outstanding:		
Commercial	\$14,760,926	\$15,100,706
Real estate	34,376,749	33,354,288
Installment	9,053,837	9,057,000
Total	\$58,191,512	\$57,511,994
Net charge-offs as percent of average loans outstanding (annualized):		

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

Commercial	.35%	.25%
Real estate	.12%	.12%
Installment	.25%	.25%
Total	.20%	.17%

Net loan losses as a percentage of average loans (annualized) were 0.20% in the first quarter of 2006, compared to 0.17% in the first quarter 2005 and 0.28% in the fourth quarter of 2005. At March 31, 2006, the allowance for loan losses was 1.34% of loans, compared to 1.31% at March 31, 2005 and 1.34% at December 31, 2005. The allowance for loan losses as a percentage of non-performing loans was 227% at March 31, 2006, compared to 177% at March 31, 2005, and 229% at December 31, 2005.

NON-PERFORMING ASSETS

Non-performing assets are summarized as follows:

(dollar amounts in thousands)	March 31, 2006	December 31, 2005	March 31, 2005
Non-performing loans:			
Non-accruing loans	\$343,880	\$341,177	\$429,171
Renegotiated loans	190	241	257
Total non-performing loans	\$344,070	\$341,418	\$429,428
Other real estate	64,999	65,459	57,624
Total non-performing assets	\$409,069	\$406,877	\$487,052

Non-performing assets as a percentage of loans and

other real estate	0.70%	0.70%	0.84%
-------------------	-------	-------	-------

Loans past due 90 days or more	\$92,766	\$87,523	\$62,074
--------------------------------	----------	----------	----------

Non-accruing loans at March 31, 2006 decreased \$85.3 million from March 31, 2005 levels, due primarily to the disposition of a single large commercial credit during the fourth quarter of 2005 and increased \$2.7 million from year-end 2005 levels. At March 31, 2006, real estate loans comprised \$211.3 million (\$157.4 million in residential) of total non-accruing loans, with commercial loans accounting for \$93.4 million and consumer loans accounting for \$39.2 million. Loans past due 90 days or more increased \$30.7 million compared to March 31, 2005, due primarily to increased delinquencies in the consumer loan portfolio and increased \$5.2 million from year-end 2005 levels, due primarily to delinquencies on residential mortgage loans in Hurricane Katrina-affected areas. Renegotiated loans decreased \$67,000 compared to March 31, 2005 and \$51,000 from year-end 2005 levels. Other real estate increased \$7.4 million from March 31, 2005 and decreased \$460,000 million since December 31, 2005.

INTEREST-BEARING DEPOSITS IN OTHER BANKS

Interest-bearing deposits in other banks are used primarily as temporary investments and generally have short-term maturities. At March 31, 2006, this category of earning asset totaled \$37.0 million compared to \$126.7 million at March 31, 2005 and \$92.1 million at December 31, 2005.

SECURITIES

The following table shows the carrying values of securities as follows:

(in thousands)	March 31, 2006	December 31, 2005	March 31, 2005
Securities held to maturity:			
U.S. Treasury and Federal agency securities	\$ 30,591	\$ 31,464	\$ 31,893
Total	\$ 30,591	\$ 31,464	\$ 31,893
Securities available for sale:			
U.S. Treasury and Federal agency securities	\$ 3,175,763	\$ 3,384,709	\$ 3,528,199
Obligations of states and political subdivisions	415,237	447,195	519,460
Mortgage-backed securities	7,554,157	7,427,886	7,574,977
Other securities	94,644	108,163	72,662
Equity securities	583,397	579,857	487,353
Total	\$11,823,198	\$11,947,810	\$12,182,651

Total securities at March 31, 2006, decreased 3% from March 31, 2005, due primarily to the sale of government and agency securities during 2005 for balance sheet management purposes and decreased 1% since year-end 2005 levels, primarily due to maturities of securities. Securities available for sale 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).

TRADING ACCOUNT ASSETS

Trading account assets increased \$166.5 million compared to March 31, 2005 and \$127.8 million compared to year-end 2005, due primarily to increases in government and other securities, as well as the receipt of NYSE stock obtained from the exchange of ownership of NYSE seats, partially offset by a decrease in agency securities. Trading account assets are held for the purpose of selling at a profit and are carried at market value.

LOANS HELD FOR SALE

Loans held for sale decreased \$429.1 million compared to March 31, 2005, due primarily to declining levels of residential mortgages held for sale because of lower production and the sale of factored accounts receivable during 2005. Since year end, loans held for sale have increased \$16.2 million.

MARGIN RECEIVABLES

Margin receivables at March 31, 2006, totaled \$563.2 million, compared to \$551.1 million at March 31, 2005, and \$527.3 million at December 31, 2005. Margin receivables represent funds advanced to brokerage customers for the purchase of securities that are secured by certain marketable securities held in the customer's brokerage account. The risk of loss from these receivables is minimized by requiring that customers maintain marketable securities in the brokerage account which have a fair market value substantially in excess of the funds advanced to the customer.

Fluctuations in these balances are caused by trends in general market conditions, volatility in equity retail products, and investor sentiment toward economic stability.

PREMISES AND EQUIPMENT

Premises and equipment at March 31, 2006 increased by \$1.1 million in comparison with the same quarter in 2005 and decreased \$12.7 million from December 31, 2005. These fluctuations resulted from additions of premises and equipment related to new branches, offset by ongoing depreciation and amortization, sales of properties during the first quarter of 2006 and the sale in the second quarter of 2005 of certain properties to a third party, in which Regions agreed to lease back a portion of these properties. As a part of this transaction, Regions maintained a continuing involvement in certain properties and, as such, continues to incur depreciation expense related to these properties. In addition, Regions recorded a long term debt obligation totaling \$83.1 million relating to the continuing involvement in these properties (See BORROWINGS) as a part of the transaction.

EXCESS PURCHASE PRICE

Excess purchase price at March 31, 2006, March 31, 2005 and December 31, 2005 totaled \$5.0 billion. A significant portion of this balance is comprised of excess purchase price added in connection with the 2004 acquisition of Union Planters Corporation ("Union Planters").

MORTGAGE SERVICING RIGHTS

Mortgage servicing rights at March 31, 2006 decreased \$11.5 million compared to March 31, 2005 due to amortization of the servicing rights, partially offset by a \$9 million recapture during the first quarter of 2006 of previous impairment, resulting from rising mortgage rates and related declines in prepayment speed assumptions. Since year end, mortgage servicing rights increased \$1.7 million. At March 31, 2006, mortgage servicing rights totaled \$413.7 million.

OTHER IDENTIFIABLE INTANGIBLE ASSETS

Other identifiable intangible assets at March 31, 2006 totaled \$304.0 million compared to \$344.4 million at March 31, 2005 and \$314.4 million at year-end 2005. The decreases from the first quarter of 2005 and fourth quarter 2005 are related to amortization of other identifiable intangible assets.

OTHER ASSETS

Other assets increased \$120.8 million compared to March 31, 2005, and \$26.5 million since year-end 2005. The increase from first quarter 2005 was primarily the result of increases in computer software, deferred tax assets and customer derivatives. The increase from fourth quarter 2005 was primarily related to increases in deferred tax assets and customer derivatives.

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 purchase of funds in state and national money markets. Regions' liquidity also continues to be enhanced by a relatively stable deposit base.

The loan to deposit ratio at March 31, 2006, was 96.60%, compared to 97.28% at March 31, 2005 and 96.73% at December 31, 2005.

In April 2005, Regions filed a universal shelf registration statement that allows the company to issue up to \$2 billion of various debt and equity securities at market rates for future funding and liquidity needs. During the third quarter of 2005, Regions issued \$750 million of senior debt notes (\$400 million of 3-year floating rate notes and \$350 million of 3-year fixed rate notes) under the above universal shelf registration statement.

Regions also has the ability to obtain additional Federal Home Loan Bank ("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 addition, Regions Bank has the requisite agreements in place to issue and sell up to \$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 and Fitch IBCA:

	S&P	Moody's	Fitch
Regions Financial Corporation:			
Senior notes	A	A1	A+
Subordinated notes	A-	A2	A
Trust preferred securities	BBB+	A2	A
Regions Bank:			
Short-term certificates of deposit	A-1	P-1	F1+
Short-term debt	A-1	P-1	F1+
Long-term certificates of deposit	A+	Aa3	AA-
Long-term debt	A+	Aa3	A+

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.

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 employs both traditional and non-traditional means to meet customers' needs and enhance competitiveness.

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

The traditional means include providing well-designed products, providing a high level of customer service, providing attractive pricing and expanding the traditional branch network to provide convenient branch locations for customers throughout the South, Midwest and Texas. Regions also employs non-traditional approaches to enhance its competitiveness. These include providing centralized, high quality telephone banking services and alternative product delivery channels like Internet banking.

Total deposits at March 31, 2006, increased 2% compared to March 31, 2005, and remained relatively flat from year-end 2005 levels. The increase in deposits from first quarter 2005 was due primarily to an increase in retail certificates of deposits and interest free deposits, which were heavily marketed during 2005. Additionally, the Company has seen a significant inflow of interest-free deposits and retail certificates of deposits in Hurricane Katrina-affected areas, mainly during the fourth quarter of 2005 and, to a lesser extent, during the first quarter of 2006. Increases in community banking deposits during the last year have been partially offset by declines in wholesale deposits, due to decreased reliance on this funding source.

The following table presents the average rates paid on deposits by category for the three months ended March 31, 2006 and 2005 (annualized):

	Average Rates Paid	
	March 31, 2006	March 31, 2005
Interest-bearing transaction accounts	1.97%	1.62%
Savings accounts	0.37	0.23
Money market savings accounts	2.04	0.97
Certificates of deposit of \$100,000 or more	3.97	2.61
Other interest-bearing deposits	3.61	2.63
Total interest-bearing deposits	2.71%	1.73%

The following table presents the average amounts of deposits outstanding by category for the three months ended March 31, 2006 and 2005:

(in thousands)	Average Amounts Outstanding	
	Three months ended March 31,	
	2006	2005
Non-interest-bearing demand deposits	\$12,926,748	\$11,465,076
Interest-bearing transaction accounts	2,272,440	3,133,340
Savings accounts	3,100,922	2,902,368
Money market savings accounts	19,873,074	19,271,295
Certificates of deposit of \$100,000 or more	7,383,192	7,494,832
Other interest-bearing deposits	14,442,354	14,121,224
Total interest-bearing deposits	47,071,982	46,923,059
Total deposits	\$59,998,730	\$58,388,135

BORROWINGS

Following is a summary of short-term borrowings:

(in thousands)	March 31, 2006	December 31, 2005	March 31, 2005
Federal funds purchased	\$ 812,675	\$ 1,195,790	\$1,631,953
Securities sold under agreements to repurchase	3,088,062	2,732,395	2,580,478
Federal Home Loan Bank structured notes	-0-	-0-	350,000
Notes payable to unaffiliated banks	94,800	129,700	59,600
Treasury, tax and loan note	-0-	-0-	4,984
Due to brokerage customers	459,469	547,666	463,539
Other short-term borrowings	441,043	360,728	362,169
Total	\$4,896,049	\$4,966,279	\$5,452,723

Net federal funds purchased and security repurchase agreements totaled \$3.0 billion at March 31, 2006, compared to \$3.7 billion at March 31, 2005, and \$3.2 billion at year-end 2005. The level of federal funds and security repurchase agreements can fluctuate significantly on a day-to-day basis, depending on funding needs and which sources of funds are used to satisfy those needs. During the first three months of 2006, net funds purchased averaged \$3.2 billion compared to \$4.4 billion for the same period in 2005. Other short-term borrowings decreased \$245.0 million since March 31, 2005, due primarily to reductions in FHLB structured notes, partially offset by increases in short sale liabilities (included in "Other short-term borrowings" in the preceding table above).

Long-term borrowings are summarized as follows:

(in thousands)	March 31, 2006	December 31, 2005	March 31, 2005
6.375% subordinated notes due 2012	\$ 600,000	\$ 600,000	\$ 600,000
7.00% subordinated notes due 2011	500,000	500,000	500,000
7.75% subordinated notes due 2024	100,000	100,000	100,000
6.75% subordinated notes due 2005	-0-	-0-	102,258
6.50% subordinated notes due 2018	313,496	313,779	318,350
7.75% subordinated notes due 2011	554,391	557,156	565,453
4.50% senior notes due 2008	350,000	350,000	-0-
Floating rate senior notes due 2008	400,000	400,000	-0-
Senior holding company notes due 2010	487,345	486,668	484,634
Senior bank notes	1,008,469	1,010,182	1,015,266
Federal Home Loan Bank structured notes	1,035,000	1,035,000	1,785,000
Federal Home Loan Bank advances	835,944	837,300	949,186
8.00% junior subordinated notes	-0-	300,640	299,485

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

8.20% junior subordinated notes	226,390	223,503	224,123
Mark-to-market on hedged long-term debt	(35,156)	10,121	40,293
Other long-term debt	245,831	247,331	169,862
Total	\$6,621,710	\$6,971,680	\$7,153,910

Long-term borrowings have decreased \$532.2 million since March 31, 2005, due primarily to prepayments and maturities on FHLB notes and advances and early extinguishment of junior subordinated notes resulting from the call of trust preferred securities, partially offset by the issuance of \$750 million in senior notes from the 2005 shelf registration and \$83.1 million added to other long-term debt in connection with the seller-lessee transaction with continuing involvement (see PREMISES AND EQUIPMENT). The decrease of \$350.0 million since year-end 2005 was due primarily to the call of trust preferred securities during the first quarter of 2006 and the resulting early extinguishment of approximately \$300 million in junior subordinated notes, as well as the decrease in the mark to market on hedged long-term debt.

OTHER LIABILITIES

Other liabilities increased \$472.1 million compared to March 31, 2005, due primarily to increases in accrued interest, accrued income taxes and derivative liabilities, and increased by \$42.9 million compared to year-end 2005, primarily due to increases in accrued income taxes and derivative liabilities.

STOCKHOLDERS' EQUITY

Stockholders' equity was \$10.7 billion at March 31, 2006, compared to \$10.6 billion at March 31, 2005 and \$10.6 billion at December 31, 2005. Accumulated other comprehensive loss totaled \$170.0 million at March 31, 2006, compared to a loss of \$47.2 million at March 31, 2005 and a loss of \$92.3 million at year-end 2005. Fluctuations in accumulated other comprehensive income/loss primarily relate to changes in the carrying value of available for sale securities.

Regions' ratio of equity to total assets was 12.60% at March 31, 2006, compared to 12.63% at March 31, 2005 and 12.52% at December 31, 2005. Regions' ratio of tangible equity to tangible assets was 6.77% at March 31, 2006, compared to 6.72% at March 31, 2005 and 6.64% at December 31, 2005.

At March 31, 2006, Regions had 23.9 million common shares available for repurchase through open market transactions under existing share repurchase authorizations. During the first quarter of 2006, the Company repurchased 3.7 million common shares at a cost of \$126.7 million.

The Board of Directors declared a \$.35 cash dividend for the first quarter of 2006, compared to a \$.34 cash dividend declared for the first quarter of 2005 and \$.34 for fourth quarter 2005.

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.

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

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 March 31, 2006 and 2005, substantially exceeded all regulatory requirements.

	Minimum Regulatory Requirement	Well Capitalized Regulatory Requirement	Regions at March 31, 2006	Regions at March 31, 2005
Tier 1 capital to risk-adjusted assets	4.00%	6.00%	8.52%	8.90%
Total risk-based capital to risk-adjusted assets	8.00	10.00	12.31	13.20
Tier 1 leverage ratio	3.00	5.00	7.25	7.46

OPERATING RESULTS

For the first quarter of 2006, net income totaled \$294.7 million (\$0.64 per diluted share), compared to \$241.6 million (\$0.51 per diluted share) in the first quarter of 2005 and \$254.0 million (\$0.55 per diluted share) in the fourth quarter of 2005.

Annualized return on average stockholders' equity for the three months ended March 31, 2006 was 11.18%, compared to 9.15% for the same period in 2005. Annualized return on average assets for the three months ended March 31, 2006 was 1.40%, compared to 1.16% for the same period in 2005.

Annualized return on average tangible stockholders' equity was 22.32% for the three months ended March 31, 2006, compared to 18.00% for the same period in 2005 and 19.34% for the fourth quarter of 2005.

NET INTEREST INCOME

The following table presents a summary of net interest income for the quarters ended March 31, 2006, December 31, 2005, and March 31, 2005.

(dollar amounts in thousands)	March 31, 2006	December 31, 2005	March 31, 2005
Interest income	\$1,195,732	\$1,149,160	\$991,976
Interest expense	453,005	423,247	311,405

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

Net interest income	742,727	725,913	680,571
Tax equivalent adjustment	23,955	22,729	20,535
Net interest income (taxable equivalent)	<u>\$766,682</u>	<u>\$748,642</u>	<u>\$701,106</u>
Net interest margin (taxable equivalent)	4.18%	4.01%	3.84%

For the first quarter of 2006, net interest income (taxable equivalent basis) increased \$65.6 million, or 9%, compared to the first quarter of 2005, due to improved spreads and growth in earning assets. The net yield on interest earning assets (taxable equivalent basis) was 4.18% in the first quarter of 2006, compared to 3.84% during the first quarter of 2005. The increase in the net interest margin was due primarily to favorable balance sheet positioning in a rising interest rate environment over the last year; Regions, being in an asset sensitive balance sheet position, benefited from rising interest rates, as increases in asset yields outpaced increases in interest-bearing liability costs. The yield on interest earning assets increased 110 basis points and the rate on interest bearing liabilities increased 102 basis points, compared to the first quarter of 2005. A favorable shift in the mix of earning assets and interest bearing liabilities benefited the interest margin over the last four quarters.

From a linked-quarter perspective, net interest income (taxable equivalent basis) increased \$18.0 million, due primarily to modest earning asset growth combined with higher spreads. The net yield on interest earning assets (taxable equivalent basis) was 4.18% in the first quarter of 2006, compared to 4.01% in the fourth quarter of 2005. The yield on interest-earning assets increased 38 basis points, while the rate on interest-bearing liabilities increased 27 basis points.

Analysis of Changes in Net Interest Income

(in thousands)	Three months ended March 31,		
	2006 over 2005		
	Volume	Yield/Rate	Total
Increase (decrease) in:			
Interest income on:			
Loans	\$ 9,686	\$172,002	\$181,688
Federal funds sold	3,057	4,380	7,437
Taxable securities	(5,856)	14,755	8,899
Non-taxable securities	(1,703)	2,803	1,100
Other earning assets	3	4,628	4,631
Total	<u>5,187</u>	<u>198,568</u>	<u>203,755</u>
Interest expense on:			
Savings deposits	120	1,072	1,192
Other interest-bearing deposits	(224)	113,847	113,623
Borrowed funds	(12,582)	39,366	26,784
Total	<u>(12,686)</u>	<u>154,285</u>	<u>141,599</u>
Increase in net interest income	<u>\$17,873</u>	<u>\$ 44,283</u>	<u>\$ 62,156</u>

Note: The change in interest due to both rate and volume has been allocated to change due to volume and change due to rate in proportion to the absolute dollar amounts of the change in each.

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 impact both the shape and the slope of the various yield curves affecting 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 (as measured over 12 months) 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 hypothetical deterministic and stochastic simulations, these tools provide management with extensive information on the potential impact to net interest income caused by changes in interest rates.

These 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 about 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 to mitigate the risk of changes in the values of selected assets and liabilities resulting from changes in interest rates. The effect of these hedges is included in the simulations of net interest income.

The primary objectives of asset/liability management at Regions are balance sheet coordination and the management of interest rate risk in achieving 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. Gradual scenarios could include curve steepening, flattening, and parallel movements of various magnitudes phased in over a 6-month period.

Exposure to Interest Rate Movements.

Based on the foregoing discussion, management has estimated the potential effect of shifts in interest rates on net interest income. As of March 31, 2006, Regions maintains an asset sensitive position to gradual rate shifts of plus or minus 100 and 200 basis points. The following table demonstrates the expected effect that a gradual (over six months

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

beginning at March 31, 2006 and 2005) parallel interest rate shift would have on Regions' annual net interest income. Results of the same analysis for the comparable period for 2005 are presented for comparison purposes.

Gradual Change in Interest Rates	March 31, 2006		March 31, 2005	
	\$ Change in Net Interest Income	% Change in Net Interest Income	\$ Change in Net Interest Income	% Change in Net Interest Income
(in basis points)	(dollar amounts in thousands)			
+200	\$ 134,000	4.6%	\$ 101,000	3.7%
+100	76,000	2.6	59,000	2.2
-100	(72,000)	(2.5)	(59,000)	(2.2)
-200	(168,000)	(5.8)	(122,000)	(4.5)

As of March 31, 2006, Regions maintains an asset sensitive position to instantaneous rate shifts of plus or minus 100 and 200 basis points. The following table demonstrates the expected effect that an instantaneous parallel rate shift would have on Regions' annual net interest income. Results of the same analysis for the comparable period of 2005 are presented for comparison purposes.

Instantaneous Change in Interest Rates	March 31, 2006		March 31, 2005	
	\$ Change in Net Interest Income	% Change in Net Interest Income	\$ Change in Net Interest Income	% Change in Net Interest Income
(in basis points)	(dollar amounts in thousands)			
+200	\$ 157,000	5.4%	\$ 136,000	5.0%
+100	92,000	3.1	75,000	2.8
-100	(85,000)	(2.9)	(72,000)	(2.7)
-200	(221,000)	(7.6)	(183,000)	(6.8)

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 the Company employs are interest rate swaps, interest rate options, forward sale commitments, interest rate and foreign exchange forward contracts and credit default swaps.

Interest rate swaps are contractual agreements typically entered into to exchange fixed for variable streams of interest payments. The notional principal is not exchanged but is used as a reference for the size of the interest payments. Interest rate options are contracts that allow the buyer to purchase or sell a financial instrument at a pre-determined 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. Credit default swaps are contractual agreements between counterparties whereby one party pays the other at a fixed periodic rate for the specified life of the agreement. The other party makes no payments unless a specified credit event occurs. Credit events are typically defined to include a material default, bankruptcy or debt restructuring for a specified reference asset. If such a credit event occurs, the

party makes a payment to the first party, and the swap then terminates.

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. 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 adverse changes in interest rates. 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. Futures and forward sale commitment positions are used to protect the Company from the risk of such adverse changes. The change in value of the hedging contracts is expected to be highly effective in offsetting the change in value of specific assets and liabilities over the life of the hedge relationship.

Regions also uses derivatives to meet the needs of its customers. Interest rate swaps, interest rate options, futures and forward commitments and foreign exchange forwards are the most common derivatives sold to customers. Positions with similar characteristics are used to offset 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 income statement.

The objective of Regions' hedging strategies is to mitigate the impact of interest rate changes, from an economic and accounting perspective, on net interest income and the net present value of our 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 expose it to market risk, including its securities inventory positions and securities held for investment.

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 enters into a low level of activity involving 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 financial future contracts, which are included in securities sold, not yet purchased at market value. At March 31, 2006, Morgan Keegan had no outstanding futures contracts. The contract 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 March 31, 2006, the contract amounts of futures contracts were \$48 million to purchase and \$172 million to sell U.S. Government and municipal securities. Morgan Keegan typically settles its position by entering into equal but opposite contracts and, as such, the contract amounts do not necessarily represent future cash requirements. Settlement of the

transactions relating to such commitments is not expected to have a material effect on Regions' consolidated financial position. Transactions involving future settlement give rise to market risk, which represents the potential loss that can be caused by a change in the market value of a particular financial instrument. Regions' exposure to market risk is determined by a number of factors, including the size, composition and diversification of positions held, the absolute and relative levels of interest rates, and market volatility.

Additionally, in the normal course of business, Morgan Keegan enters into transactions for delayed delivery, to-be-announced securities which are recorded on the consolidated statement of financial condition 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, 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 \$445,000 as of March 31, 2006, and approximately \$642,000 as of December 31, 2005. Maximum daily VAR utilization during the first quarter of 2006 was \$799,000 and average daily VAR was \$607,000.

PROVISION FOR LOAN LOSSES

The provision for loan losses is used to establish the allowance for loan losses. Actual loan losses, net of recoveries, are charged directly to the allowance. The expense recorded each period is a reflection of management's judgment as to the adequacy of the allowance. The provision for loan losses was \$27.5 million, or 0.19% (annualized), of average loans in the first quarter of 2006, compared to \$30.0 million or 0.21% (annualized) of average loans in the first quarter of 2005 and \$40.0 million, or 0.27% (annualized), in the fourth quarter of 2005. The provision for loan losses recorded in the first quarter of 2006 was based on management's assessment of inherent losses associated with the

loan portfolio and management's evaluation of current economic factors, including the impact of Hurricane Katrina (see "ALLOWANCE FOR LOAN LOSSES").

NON-INTEREST INCOME

The following table presents a summary of non-interest income for the quarters ended March 31, 2006, December 31, 2005, and March 31, 2005.

(in thousands)	March 31, 2006	December 31, 2005	March 31, 2005
Brokerage and investment banking	\$166,793	\$140,255	\$144,490
Trust department income	34,555	30,847	31,990
Service charges on deposit accounts	128,529	129,992	123,818
Mortgage servicing and origination fees	32,698	33,651	39,312
Securities gains (losses), net	11	(17,609)	(33,966)
Insurance premiums and commissions	21,394	18,616	22,006
Gain on sale of mortgage loans	12,351	21,623	33,909
Derivative income	6,194	6,434	3,983
SOI and Capital Factors	-0-	-0-	13,371
Other	67,592	58,976	51,997
Total non-interest income	\$470,117	\$422,785	\$430,910

Total non-interest income (excluding securities transactions) increased \$5.2 million, or 1%, compared to the first quarter of 2005, and increased \$29.7 million, or 7%, compared to the fourth quarter of 2005, due primarily to an increase in brokerage and investment banking revenues and to the \$13.1 million pre-tax gain from the exchange of NYSE seats for publicly traded NYSE stock (included in other non-interest income).

BROKERAGE AND INVESTMENT BANKING

Brokerage and investment banking income increased \$22.3 million compared to the first quarter of 2005 and \$26.5 million linked-quarter, due primarily to strong equity trading volumes, increased sales and underwriting of fixed income products, including a new proprietary closed-end fund (RMK Multi-Sector High Income Fund) during the first quarter of 2006.

The following table shows the breakout of revenue by division contributed by Morgan Keegan for the three months ended March 31, 2006, December 31, 2005, and March 31, 2005.

Morgan Keegan						
Breakout of Revenue by Division						
(dollar amounts in thousands)	Private Client	Fixed-income Capital Markets	Equity Capital Markets	Regions MK Trust	Investment Advisory	Interest & Other
Three months ended						

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

March 31, 2006:

\$ amount of revenue	\$78,085	\$42,687	\$28,003	\$28,047	\$32,301	\$42,825
% of gross revenue	31.0%	17.0%	11.1%	11.1%	12.8%	17.0%

Three months ended

December 31, 2005:

\$ amount of revenue	\$63,690	\$41,851	\$20,960	\$24,687	\$35,495	\$24,344
% of gross revenue	30.2%	19.8%	9.9%	11.7%	16.8%	11.6%

Three months ended

March 31, 2005:

\$ amount of revenue	\$63,174	\$40,285	\$26,416	\$25,856	\$28,352	\$20,207
% of gross revenue	30.9%	19.7%	12.9%	12.7%	13.9%	9.9%

The following table shows the components of revenue contributed by Morgan Keegan for the three months ended March 31, 2006, December 31, 2005, and March 31, 2005.

Morgan Keegan Summary Income Statement						
(dollar amounts in thousands)	Three months ended March 31, 2006	Three months ended Dec. 31, 2005	Three months ended March 31, 2005	% Change from December 31, 2005	% Change from March 31, 2005	
Revenues:						
Commissions	\$57,073	\$51,619	\$49,650	10.6%	15.0%	
Principal transactions	41,951	34,752	38,277	20.7	9.6	
Investment banking	43,027	25,894	36,905	66.2	16.6	
Interest	30,327	24,735	17,833	22.6	70.1	
Trust fees and services	28,046	24,680	25,856	13.6	8.5	
Investment advisory	28,885	37,557	26,520	(23.1)	8.9	
Other	22,639	11,790	9,249	92.0	144.8	
Total revenues	251,948	211,027	204,290	19.4	23.3	
Expenses:						
Interest expense	18,085	16,855	9,168	7.3	97.3	
Non-interest expense	169,352	152,280	153,218	11.2	10.5	
Total expenses	187,437	169,135	162,386	10.8	15.4	

Income before income taxes	64,511	41,892	41,904	54.0	53.9
Income taxes	23,703	14,942	15,672	58.6	51.2
Net income	\$40,808	\$26,950	\$26,232	51.4%	55.6%

TRUST INCOME

First quarter 2006 trust department income increased \$2.6 million, or 8%, compared to the same period of 2005 and increased \$3.7 million linked-quarter, or 12%, primarily due to an increase in managed assets and mutual fund revenues.

SERVICE CHARGES ON DEPOSIT ACCOUNTS

In the first quarter of 2006, service charges on deposit accounts increased \$4.7 million, or 4%, over the first quarter of 2005, due primarily to an increase in the number of deposit accounts, as well as revised fee schedules. On a linked-quarter comparison, service charges on deposit accounts decreased \$1.5 million, or 1%, attributable primarily to expanded offering of free checking products and lower fee structures on recently converted accounts.

MORTGAGE SERVICING AND ORIGINATION FEES

The primary source of this category of income is Regions' mortgage banking operations, Regions Mortgage (a division of Regions Bank) and EquiFirst. Regions Mortgage's primary business and source of income is the origination and servicing of conforming mortgage loans for long-term investors. EquiFirst typically originates non-conforming mortgage loans which are sold to third-party investors with servicing released. Net gains and losses related to the sale of mortgage loans are included in other non-interest income.

For first quarter 2006, mortgage servicing and origination fees decreased \$6.6 million, or 17%, compared to the first quarter of 2005, due to a decline in servicing volume and a reduction in mortgage loan origination volumes resulting from a rising mortgage rate environment. Linked-quarter, mortgage servicing and origination fees decreased \$1.0 million, or 3%, due to the aforementioned items. Single-family mortgage production was \$3.1 billion in the first quarter of 2006, compared to \$3.8 billion in the first quarter of 2005 and \$3.7 billion in the fourth quarter of 2005. The mortgage operation's servicing portfolio totaled \$36.7 billion at March 31, 2006, compared to \$39.5 billion at March 31, 2005 and \$37.2 billion at December 31, 2005.

A summary of mortgage servicing rights is presented as follows. The balances shown represent the original amounts capitalized, less accumulated amortization and valuation allowance, for the right to service mortgage loans that are 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 volatility in the carrying amount of mortgage servicing rights.

Three Months Ended

(dollar amounts in thousands)

March 31,
2006

March 31,
2005

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

Balance at beginning of year	\$441,508	\$458,053
Additions	13,350	18,789
Sales	(2,383)	(3,783)
Amortization	(18,303)	(21,379)
	<u>434,172</u>	<u>451,680</u>
Valuation allowance	(20,500)	(26,500)
Balance at end of period	<u>\$413,672</u>	<u>\$425,180</u>

The changes in the valuation allowance for mortgage servicing assets for the three months ended March 31, 2006 and 2005 were as follows:

(in thousands)	Three Months Ended	
	March 31, 2006	March 31, 2005
Balance at beginning of the year	\$29,500	\$61,500
(Recapture of) provisions for impairment valuation	(9,000)	(35,000)
Balance at end of the period	<u>\$20,500</u>	<u>\$26,500</u>

SECURITIES GAINS/LOSSES

Securities gains for the three months ended March 31, 2006 totaled \$11,000, compared to losses of \$34.0 million for the same period of 2005 and \$17.6 million during the fourth quarter of 2005. Securities gains/losses primarily relate to the sale of agency and mortgage-related securities in conjunction with balance sheet management activities.

OTHER INCOME

The components of other income consist mainly of fees and commissions, insurance premiums, customer derivative fees and gains related to the sale of mortgage loans. In the first quarter of 2006, other non-interest income decreased \$17.7 million over the first quarter of 2005 due primarily to reduced premiums and lower volumes from mortgage loan sales, partially offset by increased customer derivative fees and the \$13.1 million gain from the exchange of NYSE seats for NYSE publicly traded stock. Other non-interest income increased \$1.9 million compared to the fourth quarter of 2005 based on improved insurance premiums and commissions and the \$13.1 million gain from the exchange of NYSE seats for NYSE publicly traded stock, partially offset by the decline in gains on the sale of mortgage loans.

NON-INTEREST EXPENSE

The following table presents a summary of non-interest expense for the quarters ended March 31, 2006, December 31, 2005, and March 31, 2005.

(in thousands)	March 31, 2006	December 31, 2005	March 31, 2005
	<u></u>	<u></u>	<u></u>

Salaries and employee benefits	\$447,008	\$436,965	\$437,658
Net occupancy expense	59,888	56,558	54,284
Furniture and equipment expense	34,083	34,171	32,209
(Recapture) Impairment of MSRs	(9,000)	(18,000)	(35,000)
Loss on early extinguishment of debt	8,168	-0-	-0-
Merger-related and other charges	-0-	53,333	38,894
Other	215,947	191,009	205,901
Total non-interest expense	\$756,094	\$754,036	\$733,946

First quarter 2006 non-interest expense increased \$22.1 million compared to the first quarter of 2005 and \$2.1 million compared to the fourth quarter of 2005. These increases were due primarily to increased salaries and benefits expense and a reduction in the benefit from MSR recapture, partially offset by the realization of merger-related cost savings and the absence of merger-related and other charges in the first quarter of 2006.

Regions incurred merger-related expenses throughout 2005 in connection with the integration of Regions and Union Planters. The following tables show the impact of merger-related and other charges affecting the components of non-interest expense for the quarters ended March 31, 2006, December 31, 2005, and March 31, 2005. Included in merger-related and other charges is the recapture and impairment of mortgage servicing rights, loss on early extinguishment of debt, and merger and other charges. Management believes the following tables are useful in evaluating trends in non-interest expense. For further discussion of non-interest expense, refer to the discussion of each component following the tables below.

Three months ended March 31, 2006

(in thousands)	<u>As Reported</u>	<u>Less: Merger-related and Other Charges</u>	<u>As Adjusted</u>
Salaries and employee benefits	\$ 447,008	\$ -0-	\$ 447,008
Net occupancy expense	59,888	-0-	59,888
Furniture and equipment expense	34,083	-0-	34,083
Recapture of MSRs	(9,000)	(9,000)	-0-
Loss on early extinguishment of debt	8,168	8,168	-0-
Other	215,947	-0-	215,947
Total	\$ 756,094	\$ (832)	\$ 756,926

Three months ended December 31, 2005

(in thousands)	<u>As Reported</u>	<u>Less: Merger-related and Other Charges</u>	<u>As Adjusted</u>
----------------	--------------------	---	--------------------

Salaries and employee benefits	\$ 436,965	\$ 28,092	\$ 408,873
Net occupancy expense	56,558	2,425	54,133
Furniture and equipment expense	34,171	299	33,872
Impairment (recapture) of MSRs	(18,000)	(18,000)	-0-
Other	244,342	22,517	221,825
Total	<u>\$ 754,036</u>	<u>\$ 35,333</u>	<u>\$ 718,703</u>

Three months ended March 31, 2005

(in thousands)	As Reported	Less: Merger-related and Other Charges	As Adjusted
Salaries and employee benefits	\$ 437,658	\$ 12,368	\$ 425,290
Net occupancy expense	54,284	366	53,918
Furniture and equipment expense	32,209	319	31,890
Impairment of MSRs	(35,000)	(35,000)	-0-
Other	244,795	25,841	218,954
Total	<u>\$ 733,946</u>	<u>\$ 3,894</u>	<u>\$ 730,052</u>

SALARIES AND EMPLOYEE BENEFITS

In the first quarter of 2006, salaries and employee benefits increased \$9.4 million compared to the first quarter of 2005 and \$10.0 million in comparison with the fourth quarter of 2005. The increase from the first quarter of 2005 resulted primarily from increased commission expense resulting from revenue production, severance expense related to the standardization of staffing models across Region' branch system and normal and promotional merit increases, partially offset by the realization of merger-related cost savings and the absence of merger-related and other expenses in the first quarter of 2006. The increase from fourth quarter 2005 was related to seasonal increases in payroll taxes, increased commissions from revenue production and severance expenses for standardization of branch staffing models, partially offset by the realization of merger-related cost savings and the absence of merger-related and other expenses in the first quarter of 2006. As of March 31, 2006, Regions had 24,928 full-time equivalent employees.

NET OCCUPANCY EXPENSE

Net occupancy expense includes rents, depreciation and amortization, utilities, maintenance, insurance, taxes and other expenses of premises occupied by Regions and its affiliates. Regions' affiliates operate banking offices in Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, South Carolina, Tennessee, Texas and Virginia.

Net occupancy expense in the first quarter of 2006 increased \$5.6 million compared to first quarter of 2005 and \$3.3 million linked-quarter. These increases from first quarter 2005 and fourth quarter 2005 were due primarily to hurricane-related expenses, net of insurance proceeds, combined with occupancy expenses of new branch facilities.

FURNITURE AND EQUIPMENT EXPENSE

In the first quarter of 2006, furniture and equipment expense increased \$1.9 million compared to the first quarter of 2005, due primarily to increased depreciation related to new equipment, and was relatively flat compared to the fourth quarter of 2005.

IMPAIRMENT (RECAPTURE) OF MORTGAGE SERVICING RIGHTS

In the first quarter of 2006, recapture of previously recognized MSR impairment totaled \$9.0 million compared to the first and fourth quarters of 2005, in which recaptures of impairment totaling \$35.0 million and \$18 million, respectively, were recognized. Recapture of previously recognized impairment on MSRs occurs when mortgage rates increase, thus reducing prepayments on the mortgage loans being serviced. Impairment/recapture can fluctuate with significant volatility from quarter to quarter depending upon changes in the interest rate environment.

EARLY EXTINGUISHMENT OF DEBT

Losses on early extinguishment of debt totaled \$8.2 million in the first quarter of 2006 and were related to the call of trust preferred securities, resulting in the prepayment of underlying junior subordinated debt (see BORROWINGS). There was no early extinguishment of debt in either the first or fourth quarters of 2005.

OTHER EXPENSES

The significant components of other expense include other non-credit losses, amortization, outside computer expense and other outside services. In the first quarter of 2006, other non-interest expense decreased \$28.8 million compared to the first quarter of 2005, due primarily to decreases in advertising expenses and legal and professional fees and the absence of merger-related and other expenses in the first quarter of 2006. Other non-interest expense decreased by \$28.4 million compared to the fourth quarter of 2005, due primarily to decreases in advertising, legal and professional fees, stationary and supplies expense and outside computer services and the absence of merger-related and other expenses in the first quarter of 2006.

APPLICABLE INCOME TAXES

Regions' first quarter 2006 provision for income taxes increased \$28.7 million compared to the first quarter of 2005 due to increased consolidated earnings. Regions effective income tax rate for the first quarter of 2006 was 31.4%, compared to 30.5% in the first quarter of 2005 and 28.4 % in the fourth quarter of 2005.

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

Periodically, Regions invests in pass-through investment vehicles that generate tax credits, principally low-income housing 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 \$5.8 million in the first quarter of 2006, compared to \$10.7 million in the first quarter of 2005 and \$16.5 million in the fourth quarter of 2005.

During the fourth quarter of 2000, Regions recapitalized a mortgage-related subsidiary by raising Tier 2 capital, which resulted in a reduction in taxable income of that subsidiary attributable to Regions. The reduction in the taxable income of this subsidiary attributable to Regions is expected to result in a lower effective tax rate applicable to the

consolidated taxable income before taxes of Regions for future periods. The impact on Regions' effective tax rate applicable to consolidated income before taxes of the reduction in the subsidiary's taxable income attributable to Regions will, however, depend on a number of factors, including, but not limited to: the amount of assets in the subsidiary, the yield of the assets in the subsidiary, the cost of funding the subsidiary, possible loan losses in the subsidiary, the level of expenses of the subsidiary, the level of income attributable to obligations of states and political subdivisions, and various other factors. The amount of federal and state tax benefits recognized related to the recapitalized subsidiary was \$13.5 million in the first quarter of 2006 (\$11.5 million federal), compared to \$11.9 million in the first quarter of 2005 (\$9.5 million federal) and \$15.2 million in the fourth quarter of 2005 (\$11.3 million federal).

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 \$10.8 million in the first quarter of 2006, compared to \$6.4 million in the first quarter of 2005 and \$8.2 million in the fourth quarter of 2005.

Regions' federal and state income tax returns for the years 1998 through 2004 are open for review and examination by governmental authorities. In the normal course of these examinations, Regions is subject to challenges from governmental authorities regarding amounts of taxes due. Regions has received notices of proposed adjustments relating to taxes due for the years 1999 through 2003, which includes proposed adjustments relating to an increase in taxable income of the mortgage-related subsidiary discussed above. Regions believes adequate provision for income taxes has been recorded for all years open for review and intends to vigorously contest the proposed adjustments. To the extent that final resolution of the proposed adjustments results in significantly different conclusions from Regions' current assessment of the proposed adjustments, Regions' effective tax rate in any given financial reporting period may be materially different from its current effective tax rate.

Management's determination of the realization of the deferred tax asset is based upon management's judgment of various future events and uncertainties, including the timing, nature and amount of future income earned by certain subsidiaries and the implementation of various plans to maximize realization of the deferred tax asset. Management believes that the subsidiaries will generate sufficient operating earnings to realize the deferred tax benefits. However, management does not believe that it is more likely than not to realize all of its capital loss carryforwards nor all of its state net operating loss carryforwards. Accordingly, it has set up a valuation allowances of \$55.2 million and \$14.1 million, respectively, against such benefits as of the first quarter 2006, compared to \$63.8 million and \$9.0 million, respectively, in the first quarter of 2005.

Table of Contents

Item 3. Qualitative and Quantitative Disclosures about Market Risk

Reference is made to pages 42 through 46 'Market Risk' 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.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

Please refer to the section above at the beginning of Part I captioned "Forward Looking Statements" for a discussion of the risk factors applicable to Regions.

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 March 31, 2006, is set forth in the following table:

Period	Issuer Purchases of Equity Securities			
	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs ^{(1) (2)}
January 1, 2006 - January 31, 2006	1,391,000	\$34.16	1,391,000	26,200,200
February 1, 2006 - February 28, 2006	1,346,800	\$34.09	1,346,800	24,853,400
March 1, 2006 - March 31, 2006	949,600	\$35.04	949,600	23,903,800
Total	3,687,400		3,687,400	

(1)

On July 15, 2004, Regions' Board of Directors assessed the pre-merger repurchase authorizations of both Regions and Union Planters and authorized the repurchase of up to 20.0 million shares of Regions' \$.01 par value common stock through open market transactions.

(2)

On October 20, 2005, Regions' Board of Directors assessed the repurchase authorizations of Regions and authorized the repurchase of an additional 25.0 million shares of Regions' \$.01 par value common stock through open market transactions.

Item 6. Exhibits

Exhibit No.

Exhibit No.	Description
10.1	Amendment effective as of July 1, 2006 to employment agreement between registrant and H. Lynn Harton, executive vice president and chief credit officer, incorporated by reference to exhibit 99.1 to Form 8-K dated March 23, 2006, and filed by registrant on March 29, 2006.
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.

Regions Financial
Corporation

DATE: May 8, 2006

/s/ Ronald C.
Jackson

Ronald C. Jackson
Senior Vice
President and
Comptroller
(Chief Accounting
Officer and
Duly Authorized
Officer)