REGIONS FINANCIAL CORP
Form 10-Q
May 11, 2009
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended March 31, 2009

or

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

Commission File Number: 000-50831

Regions Financial Corporation

(Exact name of registrant as specified in its charter)

Delaware	**63-0589368**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification Number)**
1900 Fifth Avenue North 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 whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

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

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

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

The number of shares outstanding of each of the issuer s classes of common stock was 695,030,000 shares of common stock, par value $.01, outstanding as of April 30, 2009.

Table of Contents

REGIONS FINANCIAL CORPORATION

FORM 10-Q

INDEX

Table of Contents

Forward-Looking Statements

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

In October 2008 Congress enacted and the President signed into law, the Emergency Economic Stabilization Act of 2008, and on February 17, 2009 the American Recovery and Reinvestment Act of 2009 was signed into law. Additionally, the U.S. Treasury and federal banking regulators are implementing a number of programs to address capital and liquidity issues in the banking system and may announce additional programs that Regions is subject to in the future, all of which may have significant effects on Regions and the financial services industry, the exact nature and extent of which cannot be determined at this time.

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

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

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

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

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

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

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

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

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

Regions ability to keep pace with technological changes.

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

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

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

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

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

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

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

Table of Contents

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In millions, except share data)	March 31 2009	December 31 2008	March 31 2008
Assets			
Cash and due from banks	$ 2,429	$ 2,643	$ 3,061
Interest-bearing deposits in other banks	2,288	7,540	48
Federal funds sold and securities purchased under agreements to resell	418	790	852
Trading account assets	1,348	1,050	1,519
Securities available for sale	20,970	18,850	17,766
Securities held to maturity	45	47	50
Loans held for sale (includes $1,365 measured at fair value at March 31, 2009)	1,956	1,282	757
Loans, net of unearned income	95,686	97,419	96,385
Allowance for loan losses	(1,861)	(1,826)	(1,376)
Net loans	93,825	95,593	95,009
Other interest-earnings assets	849	897	617
Premises and equipment, net	2,808	2,786	2,666
Interest receivable	426	458	549
Goodwill	5,551	5,548	11,510
Mortgage servicing rights	161	161	269
Other identifiable intangible assets	603	638	746
Other assets	8,303	7,965	8,830
Total assets	$ 141,980	$ 146,248	$ 144,249
Liabilities and Stockholders Equity			
Deposits:			
Non-interest-bearing	$ 19,988	$ 18,457	$ 18,182
Interest-bearing	73,548	72,447	71,005
Total deposits	93,536	90,904	89,187
Borrowed funds:			
Short-term borrowings:			
Federal funds purchased and securities sold under agreements to repurchase	2,828	3,143	8,451
Other short-term borrowings	6,525	12,679	8,717
Total short-term borrowings	9,353	15,822	17,168
Long-term borrowings	18,762	19,231	12,357
Total borrowed funds	28,115	35,053	29,525
Other liabilities	3,512	3,478	5,515
Total liabilities	125,163	129,435	124,227
Stockholders equity:			
Preferred stock, cumulative perpetual participating, par value $1.00 (liquidation preference $1,000.00) per share, net of discount:			
Authorized 10,000,000 shares			
Issued 3,500,000 shares in 2008	3,316	3,307	

Common stock, par value $.01 per share:			
Authorized 1,500,000,000 shares			
Issued including treasury stock 738,570,609; 735,667,650 and 735,775,383 shares, respectively	7	7	7
Additional paid-in capital	16,828	16,815	16,560
Retained earnings (deficit)	(1,913)	(1,869)	4,495
Treasury stock, at cost 43,676,701; 44,301,693 and 41,054,113 shares, respectively	(1,415)	(1,425)	(1,371)
Accumulated other comprehensive income (loss), net	(6)	(22)	331
Total stockholders equity	16,817	16,813	20,022
Total liabilities and stockholders equity	$ 141,980	$ 146,248	$ 144,249

See notes to consolidated financial statements.

5

Table of Contents

REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In millions, except per share data)	Three Months Ended March 31 2009	2008
Interest income on:		
Loans, including fees	$ 1,099	$ 1,529
Securities:		
Taxable	239	200
Tax-exempt	7	10
Total securities	246	210
Loans held for sale	15	9
Federal funds sold and securities purchased under agreements to resell	1	7
Trading account assets	12	21
Other interest-earning assets	6	7
Total interest income	1,379	1,783
Interest expense on:		
Deposits	366	503
Short-term borrowings	20	113
Long-term borrowings	184	149
Total interest expense	570	765
Net interest income	809	1,018
Provision for loan losses	425	181
Net interest income after provision for loan losses	384	837
Non-interest income:		
Service charges on deposit accounts	269	272
Brokerage, investment banking and capital markets	217	273
Mortgage income	73	46
Trust department income	46	57
Securities gains, net	53	91
SILO termination gains	323	
Other	85	169
Total non-interest income	1,066	908
Non-interest expense:		
Salaries and employee benefits	539	643
Net occupancy expense	107	107
Furniture and equipment expense	76	80
Impairment of mortgage servicing rights		42
Other	336	378
Total non-interest expense	1,058	1,250
Income before income taxes	392	495
Income taxes	315	158
Net income	$ 77	$ 337

Net income available to common shareholders	$ 26	$ 337
Weighted-average number of shares outstanding:		
Basic	693	695
Diluted	694	696
Earnings per common share:		
Basic	0.04	0.48
Diluted	0.04	0.48
Cash dividends declared per common share	0.10	0.38

See notes to consolidated financial statements.

Table of Contents

REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(In millions, except per share data)	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings (Deficit)	Treasury Stock, At Cost	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE AT JANUARY 1, 2008		$	694	$ 7	$ 16,545	$ 4,439	$ (1,371)	$ 203	$ 19,823
Cumulative effect of changes in accounting principles due to adoption of EITF 06-4, EITF 06-10 and FAS 158 (see Note 12)						(17)			(17)
Comprehensive income:									
Net income						337			337
Net change in unrealized gains and losses on securities available for sale, net of tax and reclassification adjustment*								24	24
Net change in unrealized gains and losses on derivative instruments, net of tax and reclassification adjustment*								104	104
Comprehensive income									465
Cash dividends declared $0.38 per share						(264)			(264)
Common stock transactions:									
Stock transactions with employees under compensation plans, net			1		(1)				(1)
Stock options exercised, net					3				3
Amortization of unearned restricted stock					13				13
BALANCE AT MARCH 31, 2008		$	695	$ 7	$ 16,560	$ 4,495	$ (1,371)	$ 331	$ 20,022
BALANCE AT JANUARY 1, 2009	4	$ 3,307	691	$ 7	$ 16,815	$ (1,869)	$ (1,425)	$ (22)	$ 17,512
Comprehensive income:									
Net income						77			77
Net change in unrealized gains and losses on securities available for sale, net of tax and reclassification adjustment*								52	52
Net change in unrealized gains and losses on derivative instruments, net of tax and reclassification adjustment*								(35)	(35)
Net change from defined benefit pension plans, net of tax*								(1)	(1)
Comprehensive income									93
Cash dividends declared $0.10 per share						(70)			(70)
Preferred dividends						(42)			(42)
Preferred stock transactions:									
Discount accretion		9				(9)			(9)
Common stock transactions:									
Stock transactions with employees under compensation plans, net			4				10		10
Stock options exercised, net					5				5
Amortization of unearned restricted stock					8				8
BALANCE AT MARCH 31, 2009	4	$ 3,316	695	$ 7	$ 16,828	$ (1,913)	$ (1,415)	$ (6)	$ 17,507

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

See notes to consolidated financial statements.

Table of Contents

REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)	Three Months Ended March 31 2009	2008
Operating activities:		
Net income	$ 77	$ 337
Adjustments to reconcile net cash provided by operating activities:		
Provision for loan losses	425	181
Depreciation and amortization of premises and equipment	68	66
Impairment of mortgage servicing rights		42
Provision for losses on other real estate, net	19	4
Net accretion of securities	(5)	(4)
Net amortization of loans and other assets	64	48
Net accretion of deposits and borrowings	(4)	(5)
Net securities gains	(53)	(91)
Loss on early extinguishment of debt		66
Deferred income tax benefit	(139)	(22)
Excess tax benefits from share-based payments		(1)
Originations and purchases of loans held for sale	(2,787)	(1,458)
Proceeds from sales of loans held for sale	2,210	1,445
Gain on sale of loans, net	(37)	(23)
Increase in trading account assets	(298)	(428)
Decrease (increase) in other interest-earning assets	48	(112)
Decrease in interest receivable	32	65
Increase in other assets	(285)	(1,040)
Increase in other liabilities	32	339
Other	12	12
Net cash used in operating activities	(621)	(579)
Investing activities:		
Proceeds from sale of securities available for sale	795	2,011
Proceeds from maturity of:		
Securities available for sale	1,089	888
Securities held to maturity	2	1
Purchases of:		
Securities available for sale	(3,865)	(3,106)
Proceeds from sales of loans		81
Net decrease (increase) in loans	1,255	(1,196)
Net purchases of premises and equipment	(90)	(121)
Net cash received from deposits assumed	279	
Net cash used in investing activities	(535)	(1,442)
Financing activities:		
Net increase (decrease) in deposits	2,354	(5,585)
Net (decrease) increase in short-term borrowings	(6,469)	6,047
Proceeds from long-term borrowings	100	1,841
Payments on long-term borrowings	(560)	(806)
Cash dividends on common stock	(70)	(264)
Cash dividends on preferred stock	(42)	
Proceeds from exercise of stock options	5	3
Excess tax benefits from share-based payments		1

Net cash (used in) provided by financing activities	(4,682)	1,237
Decrease in cash and cash equivalents	(5,838)	(784)
Cash and cash equivalents at beginning of year	10,973	4,745
Cash and cash equivalents at end of period	$ 5,135	$ 3,961

See notes to consolidated financial statements.

Table of Contents

REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Three Months Ended March 31, 2009 and 2008

NOTE 1 Basis of Presentation

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

The accounting and reporting policies of Regions and the methods of applying those policies that materially affect the consolidated financial statements conform with accounting principles generally accepted in the United States (GAAP) and with general financial services industry practices. The accompanying interim financial statements have been prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all information and notes to the consolidated financial statements necessary for a complete presentation of financial position, results of operations and cash flows in conformity with GAAP. In the opinion of management, all adjustments, consisting of only normal and recurring items, necessary for the fair presentation of the consolidated financial statements have been included. These interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto in Regions Form 10-K for the year ended December 31, 2008.

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

NOTE 2 Earnings per Common Share

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

(In millions, except per share amounts)	**Three Months Ended March 31 2009**	**2008**
Numerator:		
Net income	$ 77	$ 337
Preferred stock dividends	(51)	
Net income available to common shareholders	$ 26	$ 337
Denominator:		
Weighted-average common shares outstanding basic	693	695
Common stock equivalents	1	1
Weighted-average common shares outstanding diluted	694	696
Earnings per common share:		
Basic	$ 0.04	$ 0.48
Diluted	0.04	0.48

The effect from the assumed exercise of 52.6 million and 53.3 million stock options for the three months ended March 31, 2009 and 2008, respectively, was not included in the above computations of diluted earnings per common share because such amounts would have had an antidilutive effect on earnings per common share.

Table of Contents

NOTE 3 Comprehensive Income

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

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

The disclosure of the reclassification amount is as follows:

	Three Months Ended March 31, 2009		
(In millions)	**Before Tax**	**Tax Effect**	**Net of Tax**
Net income	$ 392	$ (315)	$ 77
Net unrealized holding gains and losses on securities available for sale arising during the period	134	(48)	86
Less: reclassification adjustments for net securities gains realized in net income	53	(19)	34
Net change in unrealized gains and losses on securities available for sale	81	(29)	52
Net unrealized holding gains and losses on derivatives arising during the period	39	(15)	24
Less: reclassification adjustments for net gains realized in net income	95	(36)	59
Net change in unrealized gains and losses on derivative instruments	(56)	21	(35)
Net actuarial gains and losses arising during the period	9	(3)	6
Less: amortization of actuarial loss and prior service credit realized in net income	11	(4)	7
Net change from defined benefit plans	(2)	1	(1)
Comprehensive income	$ 415	$ (322)	$ 93

	Three Months Ended March 31, 2008		
(In millions)	**Before Tax**	**Tax Effect**	**Net of Tax**
Net income	$ 495	$ (158)	$ 337
Net unrealized holding gains and losses on securities available for sale arising during the period	126	(43)	83
Less: reclassification adjustments for net securities gains realized in net income	91	(32)	59
Net change in unrealized gains and losses on securities available for sale	35	(11)	24
Net unrealized holding gains and losses on derivatives arising during the period	181	(69)	112
Less: reclassification adjustments for net losses realized in net income	13	(5)	8
Net change in unrealized gains and losses on derivative instruments	168	(64)	104
Net actuarial gains and losses arising during the period	1		1
Less: amortization of actuarial loss and prior service credit realized in net income	1		1
Net change from defined benefit plans			
Comprehensive income	$ 698	$ (233)	$ 465

10

Table of Contents

NOTE 4 Pension and Other Postretirement Benefits

Net periodic pension and other postretirement benefits cost included the following components for the three months ended March 31:

(In millions)	Pension 2009	Pension 2008	Other Postretirement Benefits 2009	Other Postretirement Benefits 2008
Service cost	$ 1	$ 10	$	$
Interest cost	22	22		1
Expected return on plan assets	(22)	(30)		
Amortization of prior service cost		1		
Amortization of actuarial loss	11			
	$ 12	$ 3	$	$ 1

For 2009, benefit accruals in the Regions Financial Corporation Retirement Plan have been temporarily suspended. Matching contributions in the 401(k) plans will be temporarily suspended beginning in the second quarter of 2009.

NOTE 5 Share-Based Payments

Regions has long-term incentive compensation plans that permit the granting of incentive awards in the form of stock options, restricted stock awards and units, and stock appreciation rights. The terms of all awards issued under these plans are determined by the Compensation Committee of the Board of Directors, but no options may be granted after the tenth anniversary of the plans adoption. Options and restricted stock usually vest based on employee service, generally within three years from the date of the grant. The contractual life of options granted under these plans ranges from seven to ten years from the date of grant. Upon adoption of a new long-term incentive plan in 2006, Regions amended all other open stock and long-term incentive plans, such that no new awards may be granted under those plans subsequent to the amendment date. The outstanding awards were unaffected by this plan amendment. Additionally, in connection with the AmSouth Bancorporation (AmSouth) merger, Regions assumed AmSouth s long-term incentive plans. The number of remaining share equivalents authorized for future issuance under long-term compensation plans was approximately 6.2 million share equivalents at March 31, 2009. Refer to Regions Annual Report on Form 10-K for the year ended December 31, 2008 for further disclosures related to share-based payments issued by Regions.

During the first quarter of 2009, Regions made a stock option grant that vests based upon a service condition and a market condition. The fair value of these stock options was estimated on the date of the grant using a Monte-Carlo simulation. The simulation generates a defined number of stock price paths in order to develop a reasonable estimate of the range of future expected stock prices and minimize standard error. For all other grants that vest solely upon a service condition, the fair value of stock options is estimated at the date of the grant using a Black-Scholes option pricing model and related assumptions.

The following table summarizes the weighted-average assumptions used and the estimated fair values related to stock options granted during the three months ended March 31:

	March 31 2009	March 31 2008
Expected dividend yield	1.85%	6.93%
Expected volatility	67.15%	26.40%
Risk-free interest rate	2.80%	2.90%
Expected option life	6.8 yrs.	5.8 yrs.
Fair value	$ 1.78	$ 2.48

During 2009, expected volatility increased based upon increases in the historical volatility of Regions stock price and the implied volatility measurements from traded options on the Company s stock. The expected option life increased due to changes in the employee grant base and employee exercise behavior. The expected dividend yield decreased based upon the market s expectation of reduced dividends in the near term.

The following table details the activity during the first three months of 2009 and 2008 related to stock options:

	For the Three Months Ended March 31			
	2009		2008	
	Number of Options	Wtd. Avg. Exercise Price	Number of Options	Wtd. Avg. Exercise Price
Outstanding at beginning of period	52,955,298	$ 28.22	48,044,207	$ 29.71
Granted	4,063,209	3.29	9,100,305	21.94
Exercised			(28,108)	17.79
Forfeited or cancelled	(1,179,861)	31.87	(1,041,864)	31.45
Outstanding at end of period	55,838,646	$ 26.34	56,074,540	$ 28.42
Exercisable at end of period	43,097,681	$ 28.72	42,628,182	$ 29.20

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

The following table details the activity during the first three months of 2009 and 2008 related to restricted share awards and units:

	For the Three Months Ended March 31			
	2009		2008	
	Shares	Wtd. Avg. Grant Date Fair Value	Shares	Wtd. Avg. Grant Date Fair Value
Non-vested at beginning of period	4,123,911	$ 27.67	3,651,054	$ 32.60
Granted	2,939,701	2.76	1,440,598	22.04
Vested	(200,102)	33.50	(112,451)	34.03
Forfeited	(78,068)	27.67	(242,175)	32.48
Non-vested at end of period	6,785,442	$ 16.71	4,737,026	$ 29.36

NOTE 6 Business Segment Information

Regions segment information is presented based on Regions key segments of business. Each segment is a strategic business unit that serves specific needs of Regions customers. The Company s primary segment is General Banking/Treasury, which represents the Company s branch network, including consumer and commercial banking functions, and has separate management that is responsible for the operation of that business unit. This segment also includes the Company s Treasury function, including the Company s securities portfolio and other wholesale funding activities. Prior to year-end 2008, Regions had reported an Other segment that

Table of Contents

included merger charges and the parent company. Regions realigned to include the parent company with General Banking/Treasury as parent company transactions essentially support the Treasury function. The 2008 amounts presented below have been adjusted to conform to the 2009 presentation.

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

The reportable segment designated Merger Charges includes merger charges related to the AmSouth acquisition for the periods presented. These amounts are excluded from other reportable segments because management reviews the results of the other reportable segments excluding these items.

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

(In millions)	General Banking/ Treasury	Investment Banking/ Brokerage/ Trust	Insurance	Merger Charges	Total Company
Three months ended March 31, 2009					
Net interest income	$ 792	$ 16	$ 1	$	$ 809
Provision for loan losses	425				425
Non-interest income	784	253	29		1,066
Non-interest expense	787	248	23		1,058
Income tax expense	305	8	2		315
Net income	$ 59	$ 13	$ 5	$	$ 77
Average assets	$ 139,534	$ 3,549	$ 480	$	$ 143,563

(In millions)	General Banking/ Treasury	Investment Banking/ Brokerage/ Trust	Insurance	Merger Charges	Total Company
Three months ended March 31, 2008					
Net interest income	$ 997	$ 20	$ 1	$	$ 1,018
Provision for loan losses	181				181
Non-interest income	571	305	32		908
Non-interest expense	875	276	23	76	1,250
Income tax expense (benefit)	166	18	3	(29)	158
Net income (loss)	$ 346	$ 31	$ 7	$ (47)	$ 337
Average assets	$ 137,870	$ 3,677	$ 328	$	$ 141,875

NOTE 7 Goodwill

Goodwill allocated to each reportable segment as of March 31, 2009, December, 31, 2008, and March 31, 2008 is presented as follows:

(In millions)	March 31 2009	December 31 2008	March 31 2008
General Banking/Treasury	$ 4,691	$ 4,691	$ 10,668

Investment Banking/Brokerage/Trust	740	740	728
Insurance	120	117	114
Balance at end of period	$ 5,551	$ 5,548	$ 11,510

Table of Contents

In December 2008, Regions evaluated each reporting unit s goodwill for impairment. As a result, Regions recorded a goodwill impairment charge of $6.0 billion in the General Banking/Treasury reporting unit. During the first quarter of 2009, Regions assessed the indicators of impairment noting there had been no significant changes since the year-end evaluation. Thus, Regions concluded that goodwill was not impaired as of March 31, 2009. Regions will continue to monitor and test goodwill as appropriate.

NOTE 8 Loan Servicing

Effective January 1, 2009, the Company made an election allowed by Statement of Financial Accounting Standards No. 156, Accounting for Servicing of Financial Assets, an Amendment of FASB Statement No. 140 (FAS 156) to prospectively change the policy for accounting for residential mortgage servicing rights from the amortization method to the fair value measurement method. Under the fair value measurement method, servicing assets are measured at fair value each period with changes in fair value recorded as a component of mortgage banking income. The adoption did not have a material impact on the consolidated financial statements.

The fair value of mortgage servicing rights is calculated using various assumptions including future cash flows, market discount rates, expected prepayment rates, servicing costs and other factors. A significant change in prepayments of mortgages in the servicing portfolio could result in significant changes in the valuation adjustments, thus creating potential volatility in the carrying amount of mortgage servicing rights. Concurrent with the election to use the fair value measurement method, Regions began using various derivative instruments to mitigate the income statement effect of changes in the fair value of its mortgage servicing rights. During the first three months of 2009, Regions recognized a $1.0 million loss associated with changes in mortgage servicing rights and the aforementioned derivatives, which is included in mortgage income.

An analysis of mortgage servicing rights for the three months ended March 31, 2009, is presented below:

(In millions)	
Carrying value, January 1, 2009	$ 161
Additions	19
Increase (decrease) in fair value:	
Due to change in valuation inputs or assumptions	(9)
Other changes(1)	(10)
Carrying value, March 31, 2009	$ 161

(1) Represents economic amortization associated with borrower repayments.

Data and assumptions used in the fair value calculation related to residential mortgage servicing rights (excluding related derivative instruments) for the three months ended March 31, 2009 are as follows:

(Dollars in millions)	
Unpaid principal balance	$ 22,341
Weighted-average prepayment speed (CPR)	37.33
Estimated impact on fair value of a 10% increase	$ (9)
Estimated impact on fair value of a 20% increase	$ (18)
Weighted-average discount rate	10.63%
Estimated impact on fair value of a 10% increase	$ (3)
Estimated impact on fair value of a 20% increase	$ (6)
Weighted-average coupon interest rate	6.06%
Weighted-average remaining maturity (months)	278
Weighted-average servicing fee (basis points)	28.8

The sensitivity calculations above are hypothetical and should not be considered to be predictive of future performance. Changes in fair value based on adverse changes in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, the

14

Table of Contents

effect of an adverse variation in a particular assumption on the fair value of the mortgage servicing rights is calculated without changing any other assumption; while in reality, changes in one factor may result in changes in another which may magnify or counteract the effect of the change.

The derivative instruments utilized by Regions would serve to reduce the estimated impacts to fair value included in the table above.

NOTE 9 Derivative Financial Instruments and Hedging Activities

Regions enters into derivative financial instruments to manage interest rate risk, facilitate asset/liability management strategies and manage other exposures. These derivative instruments primarily include interest rate swaps, options on interest rate swaps, interest rate caps and floors, Eurodollar futures, forward rate contracts and forward sale commitments. All derivative financial instruments are recognized on the consolidated balance sheets as other assets or other liabilities at fair value as required by Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities as amended (FAS 133). Regions enters into master netting agreements with counterparties and/or requires collateral based on counterparty credit ratings to cover exposures.

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

The following table presents the fair value of derivative instruments on a gross basis as of March 31, 2009:

	Asset Derivatives		Liability Derivatives	
(In millions)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments under FAS 133:				
Interest rate swaps	Other assets	$ 575	Other liabilities	$ 2
Interest rate options	Other assets	97	Other liabilities	
Eurodollar futures(1)	Other assets		Other liabilities	