

REGIONS FINANCIAL CORP
Form 10-Q
November 05, 2012
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2012

or

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

Commission File Number: 001-34034

Regions Financial Corporation

(Exact name of registrant as specified in its charter)

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

Delaware
(State or other jurisdiction of
incorporation or organization)

63-0589368
(IRS Employer
Identification No.)

1900 Fifth Avenue North

Birmingham, Alabama
(Address of principal executive offices)

35203
(Zip Code)

(800) 734-4667

(Registrant's telephone number, including area code)

NOT APPLICABLE

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

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

Indicate by check mark whether the registrant 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 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 No

The number of shares outstanding of each of the issuer's classes of common stock was 1,413,003,000 shares of common stock, par value \$.01, outstanding as of October 24, 2012.

Table of Contents

REGIONS FINANCIAL CORPORATION

FORM 10-Q

INDEX

| | Page |
|---|-------------|
| Part I. Financial Information | |
| Item 1. Financial Statements (Unaudited) | |
| <u>Consolidated Balance Sheets September 30, 2012 and December 31, 2011</u> | 5 |
| <u>Consolidated Statements of Income Three and nine months ended September 30, 2012 and 2011</u> | 6 |
| <u>Consolidated Statements of Comprehensive Income Three and nine months ended September 30, 2012 and 2011</u> | 7 |
| <u>Consolidated Statements of Changes in Stockholders' Equity Nine months ended September 30, 2012 and 2011</u> | 8 |
| <u>Consolidated Statements of Cash Flows Nine months ended September 30, 2012 and 2011</u> | 9 |
| <u>Notes to Consolidated Financial Statements</u> | 10 |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 65 |
| Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u> | 108 |
| Item 4. <u>Controls and Procedures</u> | 108 |
| Part II. Other Information | |
| Item 1. <u>Legal Proceedings</u> | 109 |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 109 |
| Item 6. <u>Exhibits</u> | 110 |
| <u>Signatures</u> | 111 |

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:

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) became law in July 2010, and a number of legislative, regulatory and tax proposals remain pending. Additionally, the U.S. Treasury Department and federal banking regulators continue to implement, but are also beginning to wind down, a number of programs to address capital and liquidity in the banking system. Future and proposed rules, including those that are part of the Basel III process, are expected to require banking institutions to increase levels of capital. All of the foregoing may have significant effects on Regions and the financial services industry, the exact nature and extent of which cannot be determined at this time.

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

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

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

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

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

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

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

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

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.

Table of Contents

Regions ability to keep pace with technological changes.

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

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

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

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

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

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

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

Possible downgrades in ratings issued by rating agencies.

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

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

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

Regions ability to receive dividends from its subsidiaries.

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

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

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

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

See also the "Forward-Looking Statements" and "Risk Factors" sections of Regions' Annual Report on Form 10-K for the year ended December 31, 2011 and the "Forward-Looking Statements" section of Regions' Quarterly Report on Form 10-Q for the quarters ended March 31, 2012 and June 30, 2012, as filed with the Securities and Exchange Commission.

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

| | September 30 | December 31 |
|---|----------------------------------|-------------------|
| | 2012 | 2011 |
| | (In millions, except share data) | |
| Assets | | |
| Cash and due from banks | \$ 1,738 | \$ 2,132 |
| Interest-bearing deposits in other banks | 2,192 | 4,913 |
| Federal funds sold and securities purchased under agreements to resell | | 200 |
| Trading account assets | 114 | 1,266 |
| Securities available for sale | 27,603 | 24,471 |
| Securities held to maturity | 12 | 16 |
| Loans held for sale (includes \$1,130 and \$844 measured at fair value, respectively) | 1,265 | 1,193 |
| Loans, net of unearned income | 75,259 | 77,594 |
| Allowance for loan losses | (2,062) | (2,745) |
| Net loans | 73,197 | 74,849 |
| Other interest-earning assets | 881 | 1,085 |
| Premises and equipment, net | 2,274 | 2,375 |
| Interest receivable | 362 | 361 |
| Goodwill | 4,816 | 4,816 |
| Mortgage servicing rights | 176 | 182 |
| Other identifiable intangible assets | 365 | 449 |
| Other assets | 6,803 | 8,742 |
| Total assets | \$ 121,798 | \$ 127,050 |
| Liabilities and Stockholders Equity | | |
| Deposits: | | |
| Non-interest-bearing | \$ 30,345 | \$ 28,209 |
| Interest-bearing | 64,536 | 67,418 |
| Total deposits | 94,881 | 95,627 |
| Borrowed funds: | | |
| Short-term borrowings: | | |
| Federal funds purchased and securities sold under agreements to repurchase | 1,866 | 2,333 |
| Other short-term borrowings | 70 | 734 |
| Total short-term borrowings | 1,936 | 3,067 |
| Long-term borrowings | 6,224 | 8,110 |
| Total borrowed funds | 8,160 | 11,177 |
| Other liabilities | 3,856 | 3,747 |
| Total liabilities | 106,897 | 110,551 |
| Stockholders equity: | | |
| Preferred stock, authorized 10 million shares | | 3,419 |

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

Series A, cumulative perpetual participating, par value \$1.00 (liquidation preference \$1,000.00) per share, net of discount;

Issued 0 and 3,500,000 shares, respectively

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

Authorized 3 billion shares

| | | |
|--|---------|---------|
| Issued including treasury stock 1,454,291,608 and 1,301,230,838 shares, respectively | 15 | 13 |
| Additional paid-in capital | 19,910 | 19,060 |
| Retained earnings (deficit) | (3,849) | (4,527) |
| Treasury stock, at cost 41,289,074 and 42,414,444 shares, respectively | (1,377) | (1,397) |
| Accumulated other comprehensive income (loss), net | 202 | (69) |

| | | |
|----------------------------|--------|--------|
| Total stockholders' equity | 14,901 | 16,499 |
|----------------------------|--------|--------|

| | | |
|--|------------|------------|
| Total liabilities and stockholders' equity | \$ 121,798 | \$ 127,050 |
|--|------------|------------|

See notes to consolidated financial statements.

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

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|--|---|-------------|---|-------------|
| | 2012 | 2011 | 2012 | 2011 |
| | (In millions, except per share data) | | | |
| Interest income on: | | | | |
| Loans, including fees | \$ 783 | \$ 867 | \$ 2,401 | \$ 2,590 |
| Securities: | | | | |
| Taxable | 170 | 177 | 523 | 592 |
| Tax-exempt | | | | |
| Total securities | 170 | 177 | 523 | 592 |
| Loans held for sale | 9 | 7 | 23 | 29 |
| Trading account assets | | | 1 | |
| Other interest-earning assets | 2 | 4 | 7 | 10 |
| Total interest income | 964 | 1,055 | 2,955 | 3,221 |
| Interest expense on: | | | | |
| Deposits | 67 | 112 | 231 | 377 |
| Short-term borrowings | 1 | | 1 | 1 |
| Long-term borrowings | 79 | 93 | 241 | 282 |
| Total interest expense | 147 | 205 | 473 | 660 |
| Net interest income | 817 | 850 | 2,482 | 2,561 |
| Provision for loan losses | 33 | 355 | 176 | 1,235 |
| Net interest income after provision for loan losses | 784 | 495 | 2,306 | 1,326 |
| Non-interest income: | | | | |
| Service charges on deposit accounts | 244 | 310 | 731 | 905 |
| Investment fee income (loss) | 34 | (5) | 79 | 45 |
| Mortgage income | 106 | 68 | 273 | 163 |
| Trust department income | 48 | 49 | 147 | 150 |
| Securities gains (losses), net | 12 | (1) | 36 | 105 |
| Leveraged lease termination gains (losses), net | | (2) | 14 | (2) |
| Other | 89 | 94 | 284 | 270 |
| Total non-interest income | 533 | 513 | 1,564 | 1,636 |
| Non-interest expense: | | | | |
| Salaries and employee benefits | 449 | 383 | 1,325 | 1,212 |
| Net occupancy expense | 99 | 95 | 285 | 293 |
| Furniture and equipment expense | 65 | 70 | 196 | 212 |
| Other | 256 | 302 | 818 | 1,021 |
| Total non-interest expense | 869 | 850 | 2,624 | 2,738 |
| Income from continuing operations before income taxes | 448 | 158 | 1,246 | 224 |
| Income tax expense (benefit) | 136 | 17 | 344 | (46) |
| Income from continuing operations | 312 | 141 | 902 | 270 |
| Discontinued operations: | | | | |
| Income (loss) from discontinued operations before income taxes | (19) | 24 | (80) | 64 |
| Income tax expense (benefit) | (8) | 10 | (33) | 1 |
| Income (loss) from discontinued operations, net of tax | (11) | 14 | (47) | 63 |

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

| | | | | |
|--|---------|---------|---------|---------|
| Net income | \$ 301 | \$ 155 | \$ 855 | \$ 333 |
| Net income from continuing operations available to common shareholders | \$ 312 | \$ 87 | \$ 777 | \$ 110 |
| Net income available to common shareholders | \$ 301 | \$ 101 | \$ 730 | \$ 173 |
| Weighted-average number of shares outstanding: | | | | |
| Basic | 1,414 | 1,259 | 1,370 | 1,258 |
| Diluted | 1,423 | 1,261 | 1,375 | 1,260 |
| Earnings per common share from continuing operations: | | | | |
| Basic | \$ 0.22 | \$ 0.07 | \$ 0.57 | \$ 0.09 |
| Diluted | 0.22 | 0.07 | 0.57 | 0.09 |
| Earnings per common share: | | | | |
| Basic | \$ 0.21 | \$ 0.08 | \$ 0.53 | \$ 0.14 |
| Diluted | 0.21 | 0.08 | 0.53 | 0.14 |
| Cash dividends declared per common share | 0.01 | 0.01 | 0.03 | 0.03 |

See notes to consolidated financial statements.

Table of Contents

REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Three Months Ended September 30 | |
|--|------------------------------------|--------|
| | 2012 | 2011 |
| | (In millions) | |
| Net income | \$ 301 | \$ 155 |
| Other comprehensive income, net of tax:* | | |
| Unrealized gains on securities available for sale: | | |
| Unrealized holding gains arising during the period (net of \$93 and \$104 tax effect for the three months ended September 30, 2012 and 2011, respectively) | 150 | 166 |
| Less: reclassification adjustments for securities gains realized in net income (net of \$5 and zero tax effect for the three months ended September 30, 2012 and 2011, respectively) | 7 | (1) |
| Net change in unrealized gains on securities available for sale | 143 | 167 |
| Unrealized gains on derivative instruments designated as cash flow hedges: | | |
| Unrealized holding gains on derivatives arising during the period (net of \$2 and \$74 tax effect for the three months ended September 30, 2012 and 2011, respectively) | 4 | 124 |
| Less: reclassification adjustments for gains realized in net income (net of \$6 and \$17 tax effect for the three months ended September 30, 2012 and 2011, respectively) | 10 | 29 |
| Net change in unrealized gains (losses) on derivative instruments | (6) | 95 |
| Defined benefit pension plans and other post employment benefits: | | |
| Amortization of actuarial loss and prior service cost realized in net income, and other (net of \$7 and \$5 tax effect for the three months ended September 30, 2012 and 2011, respectively) | 11 | 7 |
| Net change from defined benefit pension plans | 11 | 7 |
| Other comprehensive income, net of tax* | \$ 148 | \$ 269 |
| Comprehensive income | \$ 449 | \$ 424 |

| | Nine Months Ended September 30 | |
|---|-----------------------------------|--------|
| | 2012 | 2011 |
| | (In millions) | |
| Net income | \$ 855 | \$ 333 |
| Other comprehensive income, net of tax:* | | |
| Unrealized gains on securities available for sale: | | |
| Unrealized holding gains arising during the period (net of \$145 and \$185 tax effect for the nine months ended September 30, 2012 and 2011, respectively) | 238 | 310 |
| Less: reclassification adjustments for securities gains realized in net income (net of \$13 and \$37 tax effect for the nine months ended September 30, 2012 and 2011, respectively) | 23 | 68 |
| Net change in unrealized gains on securities available for sale | 215 | 242 |
| Unrealized gains on derivative instruments designated as cash flow hedges: | | |
| Unrealized holding gains on derivatives arising during the period (net of \$31 and \$109 tax effect for the nine months ended September 30, 2012 and 2011, respectively) | 51 | 180 |
| Less: reclassification adjustments for gains realized in net income (net of \$19 and \$54 tax effect for the nine months ended September 30, 2012 and 2011, respectively) | 31 | 89 |
| Net change in unrealized gains on derivative instruments | 20 | 91 |
| Defined benefit pension plans and other post employment benefits: | | |
| Amortization of actuarial loss and prior service cost realized in net income, and other (net of \$22 and \$13 tax effect for the nine months ended September 30, 2012 and 2011, respectively) | 36 | 19 |

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

| | | |
|---|----------|--------|
| Net change from defined benefit pension plans | 36 | 19 |
| Other comprehensive income, net of tax* | \$ 271 | \$ 352 |
| Comprehensive income | \$ 1,126 | \$ 685 |

* All other comprehensive amounts are shown net of tax.

See notes to consolidated financial statements.

Table of Contents

REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

| | Preferred Stock | | Common Stock | | Additional Paid-In Capital | Retained Earnings (Deficit) | Treasury Stock, At Cost | Accumulated Other Comprehensive Income (Loss) | Total |
|--|-----------------|----------|--------------|--------|----------------------------|-----------------------------|-------------------------|---|-----------|
| | Shares | Amount | Shares | Amount | | | | | |
| BALANCE AT JANUARY 1, 2011 | 4 | \$ 3,380 | 1,256 | \$ 13 | \$ 19,050 | \$ (4,047) | \$ (1,402) | \$ (260) | \$ 16,734 |
| Net income | | | | | | 333 | | | 333 |
| Net change in unrealized gains and losses on securities available for sale, net of tax and reclassification adjustment | | | | | | | | 242 | 242 |
| Net change in unrealized gains and losses on derivative instruments, net of tax and reclassification adjustment | | | | | | | | 91 | 91 |
| Net change from defined benefit pension plans, net of tax | | | | | | | | 19 | 19 |
| Cash dividends declared \$0.03 per share | | | | | | (39) | | | (39) |
| Preferred dividends | | | | | | (131) | | | (131) |
| Preferred stock transactions: | | | | | | | | | |
| Discount accretion | | 29 | | | | (29) | | | |
| Common stock transactions: | | | | | | | | | |
| Impact of stock transactions under compensation plans, net | | | 3 | | 9 | | 5 | | 14 |
| BALANCE AT SEPTEMBER 30, 2011 | 4 | \$ 3,409 | 1,259 | \$ 13 | \$ 19,059 | \$ (3,913) | \$ (1,397) | \$ 92 | \$ 17,263 |
| BALANCE AT JANUARY 1, 2012 | 4 | \$ 3,419 | 1,259 | \$ 13 | \$ 19,060 | \$ (4,527) | \$ (1,397) | \$ (69) | \$ 16,499 |
| Net income | | | | | | 855 | | | 855 |
| Net change in unrealized gains and losses on securities available for sale, net of tax and reclassification adjustment | | | | | | | | 215 | 215 |
| Net change in unrealized gains and losses on derivative instruments, net of tax and reclassification adjustment | | | | | | | | 20 | 20 |
| Net change from defined benefit pension plans, net of tax | | | | | | | | 36 | 36 |
| Cash dividends declared \$0.03 per share | | | | | | (41) | | | (41) |
| Preferred dividends | | | | | | (44) | | | (44) |
| Preferred stock transactions: | | | | | | | | | |
| Discount accretion | | 10 | | | | (10) | | | |
| Repurchase of Series A preferred stock issued to the U.S. Treasury and associated accelerated accretion | (4) | (3,429) | | | | (71) | | | (3,500) |
| Repurchase of warrant from the U.S. Treasury | | | | | | (45) | | | (45) |
| Common stock transactions: | | | | | | | | | |
| Net proceeds from issuance of 153 million shares of common stock | | | 153 | 2 | 873 | | | | 875 |
| Impact of stock transactions under compensation plans, net | | | 1 | | 22 | (11) | 20 | | 31 |

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

| | | | | | | | | | | | | | | |
|--------------------------------------|----|-------|----|----|----|--------|----|---------|----|---------|----|-----|----|--------|
| BALANCE AT SEPTEMBER 30, 2012 | \$ | 1,413 | \$ | 15 | \$ | 19,910 | \$ | (3,849) | \$ | (1,377) | \$ | 202 | \$ | 14,901 |
|--------------------------------------|----|-------|----|----|----|--------|----|---------|----|---------|----|-----|----|--------|

See notes to consolidated financial statements.

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

| | 2012 | Nine Months Ended September 30 | 2011 |
|---|----------------|-----------------------------------|----------|
| | (In millions) | | |
| Operating activities: | | | |
| Net income | \$ 855 | | \$ 333 |
| Adjustments to reconcile net cash provided by operating activities: | | | |
| Provision for loan losses | 176 | | 1,235 |
| Depreciation, amortization and accretion | 530 | | 504 |
| Provision for losses on other real estate, net | 24 | | 97 |
| Net securities gains | (36) | | (105) |
| Gain on disposition of business | (16) | | |
| Deferred income tax expense (benefit) | 299 | | (57) |
| Excess tax benefits from share-based payments | (1) | | |
| Originations and purchases of loans held for sale | (4,598) | | (3,314) |
| Proceeds from sales of loans held for sale | 4,393 | | 4,602 |
| Gain on sale of loans, net | (117) | | (69) |
| Valuation charges on loans held for sale | 8 | | 8 |
| Branch consolidation and property and equipment charges | | | 77 |
| Decrease (increase) in trading account assets | 189 | | (346) |
| (Increase) decrease in other interest-earning assets | (162) | | 138 |
| Increase in interest receivable | (4) | | (1) |
| Decrease in other assets | 42 | | 1,931 |
| Increase (decrease) in other liabilities | 628 | | (379) |
| Other | 5 | | (38) |
| Net cash from operating activities | 2,215 | | 4,616 |
| Investing activities: | | | |
| Proceeds from sales of securities available for sale | 1,745 | | 6,531 |
| Proceeds from maturities of securities available for sale | 4,923 | | 3,630 |
| Proceeds from maturities of securities held to maturity | 4 | | 7 |
| Purchases of securities available for sale | (8,812) | | (11,156) |
| Proceeds from sales of loans | 764 | | 1,294 |
| Purchases of loans | (661) | | (1,718) |
| Net decrease in loans | 1,321 | | 1,145 |
| Net purchases of premises and equipment | (114) | | (163) |
| Proceeds from disposition of business, net of cash transferred | 855 | | |
| Net cash from investing activities | 25 | | (430) |
| Financing activities: | | | |
| Net (decrease) increase in deposits | (746) | | 1,324 |
| Net decrease in short-term borrowings | (202) | | (994) |
| Proceeds from long-term borrowings | | | 1,001 |
| Payments on long-term borrowings | (1,853) | | (4,003) |
| Cash dividends on common stock | (41) | | (39) |
| Cash dividends on preferred stock | (44) | | (131) |
| Net proceeds from issuance of common stock | 875 | | |
| Repurchase of Series A preferred stock | (3,500) | | |
| Repurchase of warrant | (45) | | |
| Excess tax benefits from share-based payments | 1 | | |

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

| | | |
|--|----------|----------|
| Net cash from financing activities | (5,555) | (2,842) |
| (Decrease) increase in cash and cash equivalents | (3,315) | 1,344 |
| Cash and cash equivalents at beginning of year | 7,245 | 6,919 |
| Cash and cash equivalents at end of period | \$ 3,930 | \$ 8,263 |

See notes to consolidated financial statements.

Table of Contents

REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Three and Nine Months Ended September 30, 2012 and 2011

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, comprehensive income and cash flows in conformity with GAAP. In the opinion of management, all adjustments, consisting of 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, 2011. Regions has evaluated all subsequent events for potential recognition and disclosure through the filing date of this Form 10-Q. See Note 17.

Beginning with first quarter 2012 financial reporting, as required by new accounting literature, Regions began presenting separate consolidated statements of comprehensive income. Comprehensive income is the total of net income and all other non-owner changes in equity. Items are recognized as components of comprehensive income and are displayed net of tax in the consolidated statements of comprehensive income. 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 prior period is also shown for comparability.

On January 11, 2012, Regions entered into an agreement to sell Morgan Keegan & Company, Inc. (Morgan Keegan) and related affiliates. The transaction closed on April 2, 2012. See Note 2 and Note 15 for further details. Results of operations for the entities sold are presented separately as discontinued operations for all periods presented on the consolidated statements of income. Other expenses related to the transaction are also included in discontinued operations. This presentation is consistent with the consolidated financial statements included in the 2011 Form 10-K.

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, comprehensive income, total assets or stockholders' equity as previously reported.

NOTE 2 Discontinued Operations

On January 11, 2012, Regions entered into a stock purchase agreement to sell Morgan Keegan and related affiliates to Raymond James Financial, Inc. (Raymond James). The transaction closed on April 2, 2012. Regions Investment Management, Inc. (formerly known as Morgan Asset Management, Inc.) and Regions Trust were not included in the sale. The total purchase price received by the Company was \$1.2 billion.

Table of Contents

An estimated \$15 million pre-tax gain on sale, which included a \$256 million adjustment of liabilities to record the legal indemnification at fair value as discussed in the next paragraph, was recorded in the second quarter of 2012 as a component of discontinued operations. In order to estimate the gain on sale, Regions made assumptions regarding the finalization of elections for income tax purposes to be made by Raymond James and Regions. A pre-tax adjustment to increase the gain by \$1 million was made in the third quarter based upon adjustments required by the terms of the sale.

In connection with the closing of the sale, Regions agreed to indemnify Raymond James for all litigation matters related to pre-closing activities. Losses under the indemnification include legal and other expenses, such as costs for defense, judgments, settlements and awards associated with the resolution of litigation related to pre-closing activities. Regions increased existing liabilities on the consolidated balance sheet in the second quarter by approximately \$256 million such that the resulting amount of \$385 million reflected the fair value of the indemnification at the close of the transaction. See Note 15 for related disclosure.

The following table represents the condensed results of operations for discontinued operations for the three and nine months ended September 30:

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|--|--------------------------------------|---------|-----------------------------------|---------|
| | 2012 | 2011 | 2012 | 2011 |
| | (In millions, except per share data) | | | |
| Interest income | \$ | \$ 9 | \$ 8 | \$ 29 |
| Interest expense | | 1 | 1 | 5 |
| Net interest income | | 8 | 7 | 24 |
| Non-interest income: | | | | |
| Brokerage, investment banking and capital markets | | 222 | 233 | 688 |
| Gain on sale | 1 | | 16 | |
| Other | | 10 | 7 | 45 |
| Total non-interest income | 1 | 232 | 256 | 733 |
| Non-interest expense: | | | | |
| Salaries and employee benefits | | 146 | 171 | 472 |
| Net occupancy expense | | 9 | 9 | 27 |
| Furniture and equipment expense | | 7 | 8 | 21 |
| Professional and legal expenses | 19 | 22 | 125 | 70 |
| Other | 1 | 32 | 30 | 103 |
| Total non-interest expense | 20 | 216 | 343 | 693 |
| Income (loss) from discontinued operations before income taxes | (19) | 24 | (80) | 64 |
| Income tax expense (benefit) | (8) | 10 | (33) | 1 |
| Income (loss) from discontinued operations, net of tax | \$ (11) | \$ 14 | \$ (47) | \$ 63 |
| Earnings (loss) per common share from discontinued operations: | | | | |
| Basic | \$ (0.01) | \$ 0.01 | \$ (0.04) | \$ 0.05 |
| Diluted | \$ (0.01) | \$ 0.01 | \$ (0.04) | \$ 0.05 |

Table of Contents**NOTE 3 Securities**

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

| | Amortized Cost | September 30, 2012 | | Estimated Fair Value |
|--|-------------------|------------------------------|-------------------------------|----------------------------|
| | | Gross Unrealized Gains | Gross Unrealized Losses | |
| (In millions) | | | | |
| Securities available for sale: | | | | |
| U.S. Treasury securities | \$ 49 | \$ 2 | \$ | \$ 51 |
| Federal agency securities | 617 | 3 | | 620 |
| Obligations of states and political subdivisions | 12 | | | 12 |
| Mortgage-backed securities: | | | | |
| Residential agency | 22,213 | 734 | (11) | 22,936 |
| Residential non-agency | 12 | 1 | | 13 |
| Commercial agency | 703 | 21 | | 724 |
| Commercial non-agency | 916 | 42 | | 958 |
| Corporate and other debt securities | 1,526 | 71 | (2) | 1,595 |
| Equity securities | 692 | 3 | (1) | 694 |
| | \$ 26,740 | \$ 877 | \$ (14) | \$ 27,603 |
| Securities held to maturity: | | | | |
| U.S. Treasury securities | \$ 2 | \$ 1 | \$ | \$ 3 |
| Federal agency securities | 2 | | | 2 |
| Mortgage-backed securities: | | | | |
| Residential agency | 8 | | | 8 |
| | \$ 12 | \$ 1 | \$ | \$ 13 |
| December 31, 2011 | | | | |
| | Amortized Cost | December 31, 2011 | | Estimated Fair Value |
| | | Gross Unrealized Gains | Gross Unrealized Losses | |
| (In millions) | | | | |
| Securities available for sale: | | | | |
| U.S. Treasury securities | \$ 95 | \$ 3 | \$ | \$ 98 |
| Federal agency securities | 147 | | | 147 |
| Obligations of states and political subdivisions | 24 | 12 | | 36 |
| Mortgage-backed securities: | | | | |
| Residential agency | 21,688 | 494 | (7) | 22,175 |
| Residential non-agency | 15 | 1 | | 16 |
| Commercial agency | 318 | 8 | | 326 |
| Commercial non-agency | 314 | 7 | | 321 |
| Corporate and other debt securities | 539 | 5 | (7) | 537 |
| Equity securities | 817 | 2 | (4) | 815 |
| | \$ 23,957 | \$ 532 | \$ (18) | \$ 24,471 |
| Securities held to maturity: | | | | |
| U.S. Treasury securities | \$ 4 | \$ | \$ | \$ 4 |

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

| | | |
|-----------------------------|-------|-------|
| Federal agency securities | 3 | 3 |
| Mortgage-backed securities: | | |
| Residential agency | 9 | 1 |
| | | 10 |
| | \$ 16 | \$ 1 |
| | | \$ 17 |

Table of Contents

Entities included with the sale of Morgan Keegan and related affiliates had approximately \$2 million in securities available for sale at December 31, 2011, which are included in the table above. There were no such securities at September 30, 2012 as these entities were sold during the second quarter as discussed in Note 2.

Equity securities in the tables above included the following amortized cost related to Federal Reserve Bank stock and Federal Home Loan Bank (FHLB) stock. Shares in the Federal Reserve Bank and FHLB are accounted for at amortized cost, which approximates fair value.

| | September 30 2012 | December 31 2011 |
|------------------------|----------------------|---------------------|
| | (In millions) | |
| Federal Reserve Bank | \$ 480 | \$ 481 |
| Federal Home Loan Bank | 100 | 219 |

Securities with carrying values of \$12.4 billion and \$14.3 billion at September 30, 2012 and December 31, 2011, respectively, were pledged to secure public funds, trust deposits and certain borrowing arrangements.

The amortized cost and estimated fair value of securities available for sale and securities held to maturity at September 30, 2012, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | Amortized Cost | Estimated Fair Value |
|--|-------------------|-------------------------|
| | (In millions) | |
| Securities available for sale: | | |
| Due in one year or less | \$ 30 | \$ 30 |
| Due after one year through five years | 655 | 671 |
| Due after five years through ten years | 1,255 | 1,296 |
| Due after ten years | 264 | 281 |
| Mortgage-backed securities: | | |
| Residential agency | 22,213 | 22,936 |
| Residential non-agency | 12 | 13 |
| Commercial agency | 703 | 724 |
| Commercial non-agency | 916 | 958 |
| Equity securities | 692 | 694 |
| | \$ 26,740 | \$ 27,603 |
| Securities held to maturity: | | |
| Due in one year or less | \$ 2 | \$ 3 |
| Due after one year through five years | 2 | 2 |
| Due after five years through ten years | | |
| Due after ten years | | |
| Mortgage-backed securities: | | |
| Residential agency | 8 | 8 |
| | \$ 12 | \$ 13 |

Table of Contents

The following tables present gross unrealized losses and the related estimated fair value of securities available for sale at September 30, 2012 and December 31, 2011. These securities are segregated between investments that have been in a continuous unrealized loss position for less than twelve months and twelve months or more.

| | Less Than Twelve Months | | September 30, 2012 Twelve Months or More | | Total | |
|-----------------------------|-------------------------|-------------------------|---|-------------------------|----------------------|-------------------------|
| | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses |
| Mortgage-backed securities: | | | | | | |
| Residential agency | \$ 1,368 | \$ (10) | \$ 70 | \$ (1) | \$ 1,438 | \$ (11) |
| All other securities | 60 | (3) | | | 60 | (3) |
| | \$ 1,428 | \$ (13) | \$ 70 | \$ (1) | \$ 1,498 | \$ (14) |

| | Less Than Twelve Months | | December 31, 2011 Twelve Months or More | | Total | |
|-----------------------------|-------------------------|-------------------------|--|-------------------------|----------------------|-------------------------|
| | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses |
| Mortgage-backed securities: | | | | | | |
| Residential agency | \$ 1,778 | \$ (7) | \$ | \$ | \$ 1,778 | \$ (7) |
| All other securities | 291 | (9) | 5 | (2) | 296 | (11) |
| | \$ 2,069 | \$ (16) | \$ 5 | \$ (2) | \$ 2,074 | \$ (18) |

There was no gross unrealized loss on debt securities held to maturity at either September 30, 2012 or December 31, 2011.

For the securities included in the tables above, management does not believe any individual unrealized loss, which was comprised of 179 securities and 524 securities at September 30, 2012 and December 31, 2011, respectively, represented an other-than-temporary impairment as of those dates. The Company does not intend to sell, and it is not likely that the Company will be required to sell, the securities before the recovery of their amortized cost basis, which may be at maturity.

For the three and nine months ended September 30, 2012, Regions recorded a credit-related impairment charge of approximately zero and \$2 million, respectively. Regions did not record any credit-related impairment charges during the three or nine months ended September 30, 2011.

Cash proceeds from sale, gross realized gains and gross realized losses from continuing operations on sales of securities available for sale are shown in the table below. The cost of securities sold is based on the specific identification method.

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|-----------------------|------------------------------------|-------|-----------------------------------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| | (In millions) | | | |
| Proceeds | \$ 75 | \$ 52 | \$ 1,745 | \$ 6,531 |
| Gross realized gains | 13 | | 37 | 105 |
| Gross realized losses | (1) | (1) | (1) | |

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

| | | | | |
|-------------------------------|-------|--------|-------|--------|
| Net securities gains (losses) | \$ 12 | \$ (1) | \$ 36 | \$ 105 |
|-------------------------------|-------|--------|-------|--------|

Table of Contents

The following table details net gains (losses) for trading account securities:

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|--------------------------|------------------------------------|---------|-----------------------------------|-------|
| | 2012 | 2011 | 2012 | 2011 |
| | (In millions) | | | |
| Total net gains (losses) | \$ 3 | \$ (21) | \$ 32 | \$ 10 |
| Unrealized portion | 3 | (35) | 27 | (21) |

Included in the table above are amounts related to activities of Morgan Keegan. The totals include no impact related to Morgan Keegan for the three months ended September 30, 2012 and net losses of approximately \$9 million for the three months ended September 30, 2011. There were approximately \$25 million and \$16 million of total net gains for the nine months ended September 30, 2012 and 2011, respectively, related to Morgan Keegan activities. These amounts are included within results from discontinued operations.

NOTE 4 Loans and the Allowance for Credit Losses**LOANS**

The following table presents the distribution by loan segment and class of Regions' loan portfolio, net of unearned income:

| | September 30 2012 | December 31 2011 |
|--|---------------------------------------|---------------------|
| | (In millions, net of unearned income) | |
| Commercial and industrial | \$ 26,375 | \$ 24,522 |
| Commercial real estate mortgage owner-occupied | 10,325 | 11,166 |
| Commercial real estate construction owner-occupied | 292 | 337 |
| Total commercial | 36,992 | 36,025 |
| Commercial investor real estate mortgage | 7,866 | 9,702 |
| Commercial investor real estate construction | 847 | 1,025 |
| Total investor real estate | 8,713 | 10,727 |
| Residential first mortgage | 13,225 | 13,784 |
| Home equity | 12,025 | 13,021 |
| Indirect | 2,220 | 1,848 |
| Consumer credit card | 901 | 987 |
| Other consumer | 1,183 | 1,202 |
| Total consumer | 29,554 | 30,842 |
| | \$ 75,259 | \$ 77,594 |

During the three months ended September 30, 2012 and 2011, Regions purchased approximately \$254 million and \$173 million, respectively, in indirect loans from a third party. During the nine months ended September 30, 2012 and 2011, the comparable loan purchase amounts were approximately \$661 million and \$509 million, respectively. Additionally, during the second quarter of 2011, Regions purchased approximately \$1.1 billion of Regions-branded credit card amounts from FIA Card Services. The purchase included approximately \$1.0 billion in consumer credit card accounts with the remainder in small business credit card accounts, which are included in the commercial and industrial portfolio class. During the three months ended September 30, 2012, Regions sold approximately \$184 million of securities-based commercial and industrial loans to Raymond James pursuant to the Morgan Keegan sale (see Note 2). These loans were made by Regions, but were originally referred through Morgan Keegan and were secured by customer assets held in custody at Morgan Keegan.

Table of Contents

ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses represents management's estimate of credit losses inherent in the loan and credit commitment portfolios as of period-end. The allowance for credit losses consists of two components: the allowance for loan and lease losses and the reserve for unfunded credit commitments. Management's assessment of the appropriateness of the allowance for credit losses is based on a combination of both of these components. Regions determines its allowance for credit losses in accordance with applicable accounting literature as well as regulatory guidance related to receivables and contingencies. Binding unfunded credit commitments include items such as letters of credit, financial guarantees and binding unfunded loan commitments.

CALCULATION OF ALLOWANCE FOR CREDIT LOSSES

As part of the Company's ongoing efforts to enhance the allowance calculation, and in response to regulatory guidance, the home equity portfolio was segmented at a more granular level during the first quarter of 2012. Loss rates for home equity products are now developed based on lien position, status as a troubled debt restructuring (TDR), geography, past due status, and refreshed FICO scores for non-past due loans. The enhancement had the impact of reducing the component of the allowance for loan losses related to home equity loans by an estimate of approximately \$30 million.

In addition to the home equity enhancement, in the second quarter of 2012, the Company refined the methodology for estimation of the reserve for unfunded credit commitments. Before the change, the Company based the reserve for unfunded credit commitments on an analysis of the overall probability of funding and historical losses. Beginning with the second quarter of 2012, the reserve is based on an exposure at default (EAD) multiplied by a probability of default (PD) multiplied by a loss-given default (LGD). The EAD is estimated based on an analysis of historical funding patterns for defaulted loans in various categories. The PD and LGD align with the statistically-calculated parameters used to calculate the allowance for loan losses for various pools, which are based on credit quality indicators and product type. The methodology applies to commercial and investor real estate credit commitments and standby letters of credit. The Company made this change to enhance portfolio segmentation within the calculation of the reserve for unfunded credit commitments and to improve overall consistency within the calculation of the allowance for credit losses. The change did not have a material impact on the allowance for credit losses or the reserve for unfunded credit commitments.

Except for the enhancements to home equity segmentation and to the reserve for unfunded credit commitments described above, during the first nine months of 2012 there were no changes in methodology for the calculation of the allowance for credit losses or policies for identification of non-accrual loans or for charge-offs. A detailed description of the Company's methodology is included in the consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2011.

ROLLFORWARD OF ALLOWANCE FOR CREDIT LOSSES

The following tables present analyses of the allowance for credit losses by portfolio segment for the three and nine months ended September 30, 2012 and 2011. The total allowance for credit losses as of September 30, 2012 and 2011 is then disaggregated to detail the amounts derived through individual evaluation and the amounts calculated through collective evaluation. The allowance for credit losses related to individually evaluated loans includes reserves for non-accrual loans and leases equal to or greater than \$2.5 million. The allowance for credit losses related to collectively evaluated loans includes the remainder of the portfolio.

Table of Contents

| | Commercial | Three Months Ended September 30, 2012 | | | Total |
|---|------------|---------------------------------------|----------|---------------|-------|
| | | Investor Real Estate | Consumer | (In millions) | |
| Allowance for loan losses, July 1, 2012 | \$ 884 | \$ 766 | \$ 641 | \$ 2,291 | |
| Provision (credit) for loan losses | 37 | (112) | 108 | 33 | |
| Loan losses: | | | | | |
| Charge-offs | (91) | (74) | (133) | (298) | |
| Recoveries | 17 | 4 | 15 | 36 | |
| Net loan losses | (74) | (70) | (118) | (262) | |
| Allowance for loan losses, September 30, 2012 | 847 | 584 | 631 | 2,062 | |
| Reserve for unfunded credit commitments, July 1, 2012 | \$ 61 | \$ 26 | \$ 4 | \$ 91 | |
| Provision (credit) for unfunded credit commitments | (3) | (12) | | (15) | |
| Reserve for unfunded credit commitments, September 30, 2012 | 58 | 14 | 4 | 76 | |
| Allowance for credit losses, September 30, 2012 | \$ 905 | \$ 598 | \$ 635 | \$ 2,138 | |

| | Commercial | Three Months Ended September 30, 2011 | | | Total |
|---|------------|---------------------------------------|----------|---------------|-------|
| | | Investor Real Estate | Consumer | (In millions) | |
| Allowance for loan losses, July 1, 2011 | \$ 1,127 | \$ 1,153 | \$ 840 | \$ 3,120 | |
| Provision for loan losses | 41 | 206 | 108 | 355 | |
| Loan losses: | | | | | |
| Charge-offs | (149) | (229) | (169) | (547) | |
| Recoveries | 13 | 10 | 13 | 36 | |
| Net loan losses | (136) | (219) | (156) | (511) | |
| Allowance for loan losses, September 30, 2011 | 1,032 | 1,140 | 792 | 2,964 | |
| Reserve for unfunded credit commitments, July 1, 2011 | \$ 32 | \$ 28 | \$ 24 | \$ 84 | |
| Provision (credit) for unfunded credit commitments | 3 | 1 | (2) | 2 | |
| Reserve for unfunded credit commitments, September 30, 2011 | 35 | 29 | 22 | 86 | |
| Allowance for credit losses, September 30, 2011 | \$ 1,067 | \$ 1,169 | \$ 814 | \$ 3,050 | |

| | Commercial | Nine Months Ended September 30, 2012 | | | Total |
|--|------------|--------------------------------------|----------|---------------|-------|
| | | Investor Real Estate | Consumer | (In millions) | |
| Allowance for loan losses, January 1, 2012 | \$ 1,030 | \$ 991 | \$ 724 | \$ 2,745 | |
| Provision (credit) for loan losses | 82 | (202) | 296 | 176 | |
| Loan losses: | | | | | |
| Charge-offs | (323) | (231) | (435) | (989) | |
| Recoveries | 58 | 26 | 46 | 130 | |
| Net loan losses | (265) | (205) | (389) | (859) | |

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

| | | | | |
|---|-----------|----------|-----------|-----------|
| Allowance for loan losses, September 30, 2012 | 847 | 584 | 631 | 2,062 |
| Reserve for unfunded credit commitments, January 1, 2012 | \$ 30 | \$ 26 | \$ 22 | \$ 78 |
| Provision (credit) for unfunded credit commitments | 28 | (12) | (18) | (2) |
| Reserve for unfunded credit commitments, September 30, 2012 | 58 | 14 | 4 | 76 |
| Allowance for credit losses, September 30, 2012 | \$ 905 | \$ 598 | \$ 635 | \$ 2,138 |
| Portion of ending allowance for credit losses: | | | | |
| Individually evaluated for impairment | \$ 93 | \$ 94 | \$ 635 | \$ 187 |
| Collectively evaluated for impairment | 812 | 504 | 635 | 1,951 |
| Total allowance for credit losses | \$ 905 | \$ 598 | \$ 635 | \$ 2,138 |
| Portion of loan portfolio ending balance: | | | | |
| Individually evaluated for impairment | \$ 475 | \$ 440 | \$ 29,554 | \$ 915 |
| Collectively evaluated for impairment | 36,517 | 8,273 | 29,554 | 74,344 |
| Total loans evaluated for impairment | \$ 36,992 | \$ 8,713 | \$ 29,554 | \$ 75,259 |

Table of Contents

| | Nine Months Ended September 30, 2011 | | | | Total |
|---|--------------------------------------|----------------------|-----------|-----------|-------|
| | Commercial | Investor Real Estate | Consumer | Consumer | |
| | (In millions) | | | | |
| Allowance for loan losses, January 1, 2011 | \$ 1,055 | \$ 1,370 | \$ 760 | \$ 3,185 | |
| Allowance allocated to purchased loans | 10 | | 74 | 84 | |
| Provision for loan losses | 338 | 466 | 431 | 1,235 | |
| Loan losses: | | | | | |
| Charge-offs | (407) | (716) | (515) | (1,638) | |
| Recoveries | 36 | 20 | 42 | 98 | |
| Net loan losses | (371) | (696) | (473) | (1,540) | |
| Allowance for loan losses, September 30, 2011 | 1,032 | 1,140 | 792 | 2,964 | |
| Reserve for unfunded credit commitments, January 1, 2011 | \$ 32 | \$ 16 | \$ 23 | \$ 71 | |
| Provision (credit) for unfunded credit commitments | 3 | 13 | (1) | 15 | |
| Reserve for unfunded credit commitments, September 30, 2011 | 35 | 29 | 22 | 86 | |
| Allowance for credit losses, September 30, 2011 | \$ 1,067 | \$ 1,169 | \$ 814 | \$ 3,050 | |
| Portion of ending allowance for credit losses: | | | | | |
| Individually evaluated for impairment | \$ 124 | \$ 227 | \$ 3 | \$ 354 | |
| Collectively evaluated for impairment | 943 | 942 | 811 | 2,696 | |
| Total allowance for credit losses | \$ 1,067 | \$ 1,169 | \$ 814 | \$ 3,050 | |
| Portion of loan portfolio ending balance: | | | | | |
| Individually evaluated for impairment | \$ 562 | \$ 772 | \$ 13 | \$ 1,347 | |
| Collectively evaluated for impairment | 35,604 | 11,112 | 31,384 | 78,100 | |
| Total loans evaluated for impairment | \$ 36,166 | \$ 11,884 | \$ 31,397 | \$ 79,447 | |

During the second quarter of 2011, Regions purchased a credit card portfolio for approximately \$1.1 billion and recorded an allowance for loan losses and related premium of approximately \$84 million. Upon finalization of the purchase price in the fourth quarter of 2011, Regions reclassified the \$84 million allowance and premium. The impact of these reclassification entries was not material to the financial results of any of the quarters of 2011.

PORTFOLIO SEGMENT RISK FACTORS

The following describe the risk characteristics relevant to each of the portfolio segments.

Commercial The commercial loan portfolio segment includes commercial and industrial loans to commercial customers for use in normal business operations to finance working capital needs, equipment purchases or other expansion projects. Commercial also includes owner-occupied commercial real estate loans to operating businesses, which are loans for long-term financing of land and buildings, and are repaid by cash flow generated by business operations. Owner-occupied construction loans are made to commercial businesses for the development of land or construction of a building where the repayment is derived from revenues generated from the business of the borrower. Collection risk in this portfolio is driven by the creditworthiness of underlying borrowers, particularly cash flow from customers' business operations.

Investor Real Estate Loans for real estate development are repaid through cash flow related to the operation, sale or refinance of the property. This portfolio segment includes extensions of credit to real estate developers or investors where repayment is dependent on the sale of real estate or income generated from the real estate collateral. A portion of Regions' investor real estate portfolio segment is comprised of loans secured by

Table of Contents

residential product types (land, single-family and condominium loans) within Regions' markets. Additionally, these loans are made to finance income-producing properties such as apartment buildings, office and industrial buildings, and retail shopping centers. Loans in this portfolio segment are particularly sensitive to valuation of real estate.

Consumer The consumer loan portfolio segment includes residential first mortgage, home equity, indirect, consumer credit card, and other consumer loans. Residential first mortgage loans represent loans to consumers to finance a residence. These loans are typically financed over a 15 to 30 year term and, in most cases, are extended to borrowers to finance their primary residence. Home equity lending includes both home equity loans and lines of credit. This type of lending, which is secured by a first or second mortgage on the borrower's residence, allows customers to borrow against the equity in their home. Real estate market values as of the time the loan or line is secured directly affect the amount of credit extended and, in addition, changes in these values impact the depth of potential losses. Indirect lending, which is lending initiated through third-party business partners, is largely comprised of loans made through automotive dealerships. Consumer credit card includes approximately 500,000 Regions branded consumer credit card accounts purchased late in the second quarter of 2011 from FIA Card Services, for which servicing was brought in-house in the third quarter of 2012. Other consumer loans include direct consumer installment loans, overdrafts and other revolving loans. Loans in this portfolio segment are sensitive to unemployment and other key consumer economic measures.

CREDIT QUALITY INDICATORS

The following tables present credit quality indicators for the loan portfolio segments and classes, excluding loans held for sale, as of September 30, 2012 and December 31, 2011. Commercial and investor real estate loan classes are detailed by categories related to underlying credit quality and probability of default. These categories are utilized to develop the associated allowance for credit losses.

Pass includes obligations where the probability of default is considered low;

Special Mention includes obligations that have potential weakness which may, if not reversed or corrected, weaken the credit or inadequately protect the Company's position at some future date. Obligations in this category may also be subject to economic or market conditions which may, in the future, have an adverse effect on debt service ability;

Substandard Accrual includes obligations that exhibit a well-defined weakness which presently jeopardizes debt repayment, even though they are currently performing. These obligations are characterized by the distinct possibility that the Company may incur a loss in the future if these weaknesses are not corrected;

Non-accrual includes obligations where management has determined that full payment of principal and interest is in doubt. Substandard accrual and non-accrual loans are often collectively referred to as criticized. Special mention, substandard accrual, and non-accrual loans are often collectively referred to as criticized and classified.

Table of Contents

Classes in the consumer portfolio segment are disaggregated by accrual status. The associated allowance for credit losses is generally based on historical losses of the various classes adjusted for current economic conditions. For home equity products, loss rates are based on lien position, TDR status, geography, past due status, and refreshed FICO scores for current loans.

| | September 30, 2012 | | | | |
|--|--------------------|-----------------|---|------------------------------|------------------|
| | Pass | Special Mention | Substandard Accrual (In millions) | Non-accrual | Total |
| Commercial and industrial | \$ 24,739 | \$ 745 | \$ 498 | \$ 393 | \$ 26,375 |
| Commercial real estate mortgage owner-occupied | 9,104 | 231 | 486 | 504 | 10,325 |
| Commercial real estate construction owner-occupied | 263 | 3 | 11 | 15 | 292 |
| Total commercial | \$ 34,106 | \$ 979 | \$ 995 | \$ 912 | \$ 36,992 |
| Commercial investor real estate mortgage | 5,859 | 602 | 845 | 560 | 7,866 |
| Commercial investor real estate construction | 609 | 126 | 60 | 52 | 847 |
| Total investor real estate | \$ 6,468 | \$ 728 | \$ 905 | \$ 612 | \$ 8,713 |
| | | | Accrual | Non-accrual (In millions) | Total |
| Residential first mortgage | | | \$ 13,001 | \$ 224 | \$ 13,225 |
| Home equity | | | 11,889 | 136 | 12,025 |
| Indirect | | | 2,220 | | 2,220 |
| Consumer credit card | | | 901 | | 901 |
| Other consumer | | | 1,183 | | 1,183 |
| Total consumer | | | \$ 29,194 | \$ 360 | \$ 29,554 |
| | | | | | \$ 75,259 |

| | December 31, 2011 | | | | |
|--|-------------------|-----------------|---|------------------------------|------------------|
| | Pass | Special Mention | Substandard Accrual (In millions) | Non-accrual | Total |
| Commercial and industrial | \$ 22,952 | \$ 479 | \$ 634 | \$ 457 | \$ 24,522 |
| Commercial real estate mortgage owner-occupied | 9,773 | 262 | 541 | 590 | 11,166 |
| Commercial real estate construction owner-occupied | 275 | 27 | 10 | 25 | 337 |
| Total commercial | \$ 33,000 | \$ 768 | \$ 1,185 | \$ 1,072 | \$ 36,025 |
| Commercial investor real estate mortgage | 6,851 | 756 | 1,361 | 734 | 9,702 |
| Commercial investor real estate construction | 531 | 113 | 201 | 180 | 1,025 |
| Total investor real estate | \$ 7,382 | \$ 869 | \$ 1,562 | \$ 914 | \$ 10,727 |
| | | | Accrual | Non-accrual (In millions) | Total |
| Residential first mortgage | | | \$ 13,534 | \$ 250 | \$ 13,784 |

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

| | | | |
|----------------------|-----------|--------|-----------|
| Home equity | 12,885 | 136 | 13,021 |
| Indirect | 1,848 | | 1,848 |
| Consumer credit card | 987 | | 987 |
| Other consumer | 1,202 | | 1,202 |
| Total consumer | \$ 30,456 | \$ 386 | \$ 30,842 |
| | | | \$ 77,594 |

Table of Contents**AGING ANALYSIS**

The following tables include an aging analysis of days past due (DPD) for each portfolio class as of September 30, 2012 and December 31, 2011:

| | September 30, 2012 | | | | | | |
|--|--------------------|-----------|---------|-----------------------------------|------------------|-------------|-----------|
| | Accrual Loans | | | Total 30+ DPD (In millions) | Total Accrual | Non-accrual | Total |
| | 30-59 DPD | 60-89 DPD | 90+ DPD | | | | |
| Commercial and industrial | \$ 69 | \$ 19 | \$ 6 | \$ 94 | \$ 25,982 | \$ 393 | \$ 26,375 |
| Commercial real estate mortgage owner-occupied | 56 | 13 | 8 | 77 | 9,821 | 504 | 10,325 |
| Commercial real estate construction owner-occupied | 2 | | | 2 | 277 | 15 | 292 |
| Total commercial | 127 | 32 | 14 | 173 | 36,080 | 912 | 36,992 |
| Commercial investor real estate mortgage | 51 | 29 | 7 | 87 | 7,306 | 560 | 7,866 |
| Commercial investor real estate construction | 16 | 24 | 1 | 41 | 795 | 52 | 847 |
| Total investor real estate | 67 | 53 | 8 | 128 | 8,101 | 612 | 8,713 |
| Residential first mortgage | 168 | 86 | 297 | 551 | 13,001 | 224 | 13,225 |
| Home equity | 102 | 53 | 69 | 224 | 11,889 | 136 | 12,025 |
| Indirect | 29 | 7 | 2 | 38 | 2,220 | | 2,220 |
| Consumer credit card | 9 | 5 | 12 | 26 | 901 | | 901 |
| Other consumer | 20 | 5 | 3 | 28 | 1,183 | | 1,183 |
| Total consumer | 328 | 156 | 383 | 867 | 29,194 | 360 | 29,554 |
| | \$ 522 | \$ 241 | \$ 405 | \$ 1,168 | \$ 73,375 | \$ 1,884 | \$ 75,259 |

| | December 31, 2011 | | | | | | |
|--|-------------------|-----------|---------|-----------------------------------|------------------|-------------|-----------|
| | Accrual Loans | | | Total 30+ DPD (In millions) | Total Accrual | Non-accrual | Total |
| | 30-59 DPD | 60-89 DPD | 90+ DPD | | | | |
| Commercial and industrial | \$ 38 | \$ 23 | \$ 28 | \$ 89 | \$ 24,065 | \$ 457 | \$ 24,522 |
| Commercial real estate mortgage owner-occupied | 47 | 23 | 9 | 79 | 10,576 | 590 | 11,166 |
| Commercial real estate construction owner-occupied | 3 | 1 | | 4 | 312 | 25 | 337 |
| Total commercial | 88 | 47 | 37 | 172 | 34,953 | 1,072 | 36,025 |
| Commercial investor real estate mortgage | 34 | 42 | 13 | 89 | 8,968 | 734 | 9,702 |
| Commercial investor real estate construction | 23 | 5 | | 28 | 845 | 180 | 1,025 |
| Total investor real estate | 57 | 47 | 13 | 117 | 9,813 | 914 | 10,727 |
| Residential first mortgage | 187 | 100 | 284 | 571 | 13,534 | 250 | 13,784 |
| Home equity | 121 | 77 | 93 | 291 | 12,885 | 136 | 13,021 |

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

| | | | | | | | |
|-----------------------|------------|------------|------------|------------|---------------|------------|---------------|
| Indirect | 26 | 7 | 2 | 35 | 1,848 | | 1,848 |
| Consumer credit card | 8 | 5 | 14 | 27 | 987 | | 987 |
| Other consumer | 20 | 6 | 4 | 30 | 1,202 | | 1,202 |
| Total consumer | 362 | 195 | 397 | 954 | 30,456 | 386 | 30,842 |
| | \$ 507 | \$ 289 | \$ 447 | \$ 1,243 | \$ 75,222 | \$ 2,372 | \$ 77,594 |

Table of Contents**IMPAIRED LOANS**

The following tables present details related to the Company's impaired loans as of September 30, 2012 and December 31, 2011. Loans deemed to be impaired include non-accrual commercial and investor real estate loans, excluding leases, and all TDRs (including accruing commercial, investor real estate, and consumer TDRs). Loans which have been fully charged-off do not appear in the tables below.

Non-accrual Impaired Loans As of September 30, 2012

| | | | | Book Value (3) | | | |
|--|------------------------------------|---|---|---|---|---|----------------|
| | Unpaid Principal Balance (1) | Charge-offs and Payments Applied (2) | Total Impaired Loans on Non-accrual Status | Impaired Loans on Non-accrual Status with No Related Allowance | Impaired Loans on Non-accrual Status with Related Allowance | Related Allowance for Loan Losses | Coverage % (4) |
| | | | | | | | |
| Commercial and industrial | \$ 462 | \$ 74 | \$ 388 | \$ 123 | \$ 265 | \$ 106 | 39.0% |
| Commercial real estate mortgage owner-occupied | 571 | 67 | 504 | 46 | 458 | 163 | 40.3 |
| Commercial real estate construction owner-occupied | 20 | 5 | 15 | 4 | 11 | 4 | 45.0 |
| Total commercial | 1,053 | 146 | 907 | 173 | 734 | 273 | 39.8 |
| Commercial investor real estate mortgage | 701 | 140 | 561 | 65 | 496 | 152 | 41.7 |
| Commercial investor real estate construction | 62 | 10 | 52 | 9 | 43 | 12 | 35.5 |
| Total investor real estate | 763 | 150 | 613 | 74 | 539 | 164 | 41.2 |
| Residential first mortgage | 148 | 54 | 94 | | 94 | 13 | 45.3 |
| Home equity | 28 | 9 | 19 | | 19 | 2 | 39.3 |
| Total consumer | 176 | 63 | 113 | | 113 | 15 | 44.3 |
| Total | \$ 1,992 | \$ 359 | \$ 1,633 | \$ 247 | \$ 1,386 | \$ 452 | 40.7% |

Accruing Impaired Loans As of September 30, 2012

| | Unpaid Principal Balance (1) | Charge-offs and Payments Applied (2) | Book Value (3) | Related Allowance for Loan Losses | Coverage % (4) |
|--|------------------------------------|---|-------------------|--|----------------|
| | | | | | |
| Commercial and industrial | \$ 347 | \$ 6 | \$ 341 | \$ 53 | 17.0% |
| Commercial real estate mortgage owner-occupied | 208 | 4 | 204 | 25 | 13.9 |
| Commercial real estate construction owner-occupied | 3 | | 3 | 1 | 33.3 |
| Total commercial | 558 | 10 | 548 | 79 | 15.9 |
| Commercial investor real estate mortgage | 855 | 9 | 846 | 118 | 14.9 |
| Commercial investor real estate construction | 111 | 1 | 110 | 38 | 35.1 |

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

| | | | | | |
|----------------------------|----------|-------|----------|--------|-------|
| Total investor real estate | 966 | 10 | 956 | 156 | 17.2 |
| Residential first mortgage | 1,093 | 13 | 1,080 | 150 | 14.9 |
| Home equity | 423 | 5 | 418 | 37 | 9.9 |
| Indirect | 2 | | 2 | | |
| Other consumer | 44 | | 44 | 1 | 2.3 |
| Total consumer | 1,562 | 18 | 1,544 | 188 | 13.2 |
| Total | \$ 3,086 | \$ 38 | \$ 3,048 | \$ 423 | 14.9% |

Table of Contents

| | Total Impaired Loans As of September 30, 2012 | | | | | | |
|--|---|---|----------------------------|---|--|---|----------------|
| | Book Value (3) | | | | | | |
| | Unpaid Principal Balance (1) | Charge-offs and Payments Applied (2) | Total Impaired Loans | Impaired Loans with No Related Allowance | Impaired Loans with Related Allowance | Related Allowance for Loan Losses | Coverage % (4) |
| | (Dollars in millions) | | | | | | |
| Commercial and industrial | \$ 809 | \$ 80 | \$ 729 | \$ 123 | \$ 606 | \$ 159 | 29.5% |
| Commercial real estate mortgage owner-occupied | 779 | 71 | 708 | 46 | 662 | 188 | 33.2 |
| Commercial real estate construction owner-occupied | 23 | 5 | 18 | 4 | 14 | 5 | 43.5 |
| Total commercial | 1,611 | 156 | 1,455 | 173 | 1,282 | 352 | 31.5 |
| Commercial investor real estate mortgage | 1,556 | 149 | 1,407 | 65 | 1,342 | 270 | 26.9 |
| Commercial investor real estate construction | 173 | 11 | 162 | 9 | 153 | 50 | 35.3 |
| Total investor real estate | 1,729 | 160 | 1,569 | 74 | 1,495 | 320 | 27.8 |
| Residential first mortgage | 1,241 | 67 | 1,174 | | 1,174 | 163 | 18.5 |
| Home equity | 451 | 14 | 437 | | 437 | 39 | 11.8 |
| Indirect | 2 | | 2 | | 2 | | |
| Other consumer | 44 | | 44 | | 44 | 1 | 2.3 |
| Total consumer | 1,738 | 81 | 1,657 | | 1,657 | 203 | 16.3 |
| Total impaired loans | \$ 5,078 | \$ 397 | \$ 4,681 | \$ 247 | \$ 4,434 | \$ 875 | 25.0% |

- (1) Unpaid principal balance represents the contractual obligation due from the customer and includes the net book value plus charge-offs and payments applied.
- (2) Charge-offs and payments applied represents cumulative partial charge-offs taken, as well as interest payments received that have been applied against the outstanding principal balance.
- (3) Book value represents the unpaid principal balance less charge-offs and payments applied; it is shown before any allowance for loan losses.
- (4) Coverage % represents charge-offs and payments applied plus the related allowance as a percent of the unpaid principal balance.

Table of Contents

| | Non-accrual Impaired Loans As of December 31, 2011 | | | | | | |
|--|--|--------------------------------------|--|---|---|-----------------------------------|----------------|
| | Unpaid Principal Balance (1) | Charge-offs and Payments Applied (2) | Total Impaired Loans on Non-accrual Status | Book Value (3) Impaired Loans on Non-accrual Status with No Related Allowance (Dollars in millions) | Impaired Loans on Non-accrual Status with Related Allowance | Related Allowance for Loan Losses | Coverage % (4) |
| Commercial and industrial | \$ 468 | \$ 88 | \$ 380 | \$ 61 | \$ 319 | \$ 129 | 46.4% |
| Commercial real estate mortgage owner-occupied | 679 | 88 | 591 | 34 | 557 | 192 | 41.2 |
| Commercial real estate construction owner-occupied | 37 | 12 | 25 | 1 | 24 | 10 | 59.5 |
| Total commercial | 1,184 | 188 | 996 | 96 | 900 | 331 | 43.8 |
| Commercial investor real estate mortgage | 870 | 136 | 734 | 63 | 671 | 223 | 41.3 |
| Commercial investor real estate construction | 236 | 56 | 180 | 23 | 157 | 62 | 50.0 |
| Total investor real estate | 1,106 | 192 | 914 | 86 | 828 | 285 | 43.1 |
| Residential first mortgage | 146 | 49 | 97 | | 97 | 15 | 43.8 |
| Home equity | 26 | 10 | 16 | | 16 | 2 | 46.2 |
| Total consumer | 172 | 59 | 113 | | 113 | 17 | 44.2 |
| Total | \$ 2,462 | \$ 439 | \$ 2,023 | \$ 182 | \$ 1,841 | \$ 633 | 43.5% |

| | Accruing Impaired Loans As of December 31, 2011 | | | | | |
|--|---|--------------------------------------|---|-----------------------------------|----------------|--|
| | Unpaid Principal Balance (1) | Charge-offs and Payments Applied (2) | Book Value (3) (Dollars in millions) | Related Allowance for Loan Losses | Coverage % (4) | |
| Commercial and industrial | \$ 290 | \$ 1 | \$ 289 | \$ 60 | 21.0% | |
| Commercial real estate mortgage owner-occupied | 205 | 3 | 202 | 30 | 16.1 | |
| Commercial real estate construction owner-occupied | 2 | | 2 | | | |
| Total commercial | 497 | 4 | 493 | 90 | 18.9 | |
| Commercial investor real estate mortgage | 862 | 7 | 855 | 174 | 21.0 | |
| Commercial investor real estate construction | 140 | | 140 | 81 | 57.9 | |
| Total investor real estate | 1,002 | 7 | 995 | 255 | 26.1 | |
| Residential first mortgage | 1,025 | 12 | 1,013 | 148 | 15.6 | |
| Home equity | 428 | 4 | 424 | 60 | 15.0 | |
| Indirect | 1 | | 1 | | | |
| Other consumer | 55 | | 55 | 1 | 1.8 | |

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

| | | | | | |
|----------------|----------|-------|----------|--------|-------|
| Total consumer | 1,509 | 16 | 1,493 | 209 | 14.9 |
| Total | \$ 3,008 | \$ 27 | \$ 2,981 | \$ 554 | 19.3% |

Table of Contents

| | Total Impaired Loans As of December 31, 2011 | | | | | | |
|--|--|--------------------------------------|----------------------|---|---------------------------------------|-----------------------------------|----------------|
| | Unpaid Principal Balance (1) | Charge-offs and Payments Applied (2) | Total Impaired Loans | Book Value (3) Impaired Loans with No Related Allowance (Dollars in millions) | Impaired Loans with Related Allowance | Related Allowance for Loan Losses | Coverage % (4) |
| Commercial and industrial | \$ 758 | \$ 89 | \$ 669 | \$ 61 | \$ 608 | \$ 189 | 36.7% |
| Commercial real estate mortgage owner-occupied | 884 | 91 | 793 | 34 | 759 | 222 | 35.4 |
| Commercial real estate construction owner-occupied | 39 | 12 | 27 | 1 | 26 | 10 | 56.4 |
| Total commercial | 1,681 | 192 | 1,489 | 96 | 1,393 | 421 | 36.5 |
| Commercial investor real estate mortgage | 1,732 | 143 | 1,589 | 63 | 1,526 | 397 | 31.2 |
| Commercial investor real estate construction | 376 | 56 | 320 | 23 | 297 | 143 | 52.9 |
| Total investor real estate | 2,108 | 199 | 1,909 | 86 | 1,823 | 540 | 35.1 |
| Residential first mortgage | 1,171 | 61 | 1,110 | | 1,110 | 163 | 19.1 |
| Home equity | 454 | 14 | 440 | | 440 | 62 | 16.7 |
| Indirect | 1 | | 1 | | 1 | | |
| Other consumer | 55 | | 55 | | 55 | 1 | 1.8 |
| Total consumer | 1,681 | 75 | 1,606 | | 1,606 | 226 | 17.9 |
| Total impaired loans | \$ 5,470 | \$ 466 | \$ 5,004 | \$ 182 | \$ 4,822 | \$ 1,187 | 30.2% |

- (1) Unpaid principal balance represents the contractual obligation due from the customer and includes the net book value plus charge-offs and payments applied.
- (2) Charge-offs and payments applied represents cumulative partial charge-offs taken, as well as interest payments received that have been applied against the outstanding principal balance.
- (3) Book value represents the unpaid principal balance less charge-offs and payments applied; it is shown before any allowance for loan losses.
- (4) Coverage % represents charge-offs and payments applied plus the related allowance as a percent of the unpaid principal balance.

Table of Contents

The following table presents the average balances of total impaired loans and interest income for the three and nine months ended September 30, 2012 and 2011. Interest income recognized represents interest recognized on loans modified in a TDR, and are therefore considered impaired, which are on accruing status.

| | Three Months Ended September 30 | | | | Nine Months Ended September 30 | | | |
|---|------------------------------------|----------------------------------|--------------------|----------------------------------|-----------------------------------|----------------------------------|--------------------|----------------------------------|
| | 2012 | | 2011 | | 2012 | | 2011 | |
| | Average Balance | Interest Income Recognized | Average Balance | Interest Income Recognized | Average Balance | Interest Income Recognized | Average Balance | Interest Income Recognized |
| | (In millions) | | | | | | | |
| Commercial and industrial | \$ 721 | \$ 4 | \$ 649 | \$ 3 | \$ 707 | \$ 12 | \$ 512 | \$ 3 |
| Commercial real estate mortgage owner-occupied | 714 | 3 | 813 | | 752 | 8 | 736 | 2 |
| Commercial real estate construction owner-occupied | 22 | | 30 | | 26 | | 31 | |
| Total commercial | 1,457 | 7 | 1,492 | 3 | 1,485 | 20 | 1,279 | 5 |
| Commercial investor real estate mortgage | 1,520 | 10 | 1,498 | 7 | 1,572 | 31 | 1,366 | 12 |
| Commercial investor real estate construction | 178 | 2 | 460 | 2 | 230 | 5 | 466 | 2 |
| Total investor real estate | 1,698 | 12 | 1,958 | 9 | 1,802 | 36 | 1,832 | 14 |
| Residential first mortgage | 1,169 | 10 | 1,097 | 11 | 1,148 | 29 | 1,080 | 31 |
| Home equity | 435 | 5 | 423 | 5 | 441 | 17 | 401 | 15 |
| Indirect | 2 | | 2 | | 2 | | 2 | |
| Other consumer | 45 | 1 | 60 | 1 | 49 | 2 | 62 | 3 |
| Total consumer | 1,651 | 16 | 1,582 | 17 | 1,640 | 48 | 1,545 | 49 |
| Total impaired loans | \$ 4,806 | \$ 35 | \$ 5,032 | \$ 29 | \$ 4,927 | \$ 104 | \$ 4,656 | \$ 68 |

In addition to the impaired loans detailed in the tables above, there were approximately \$134 million in non-performing loans classified as held for sale at September 30, 2012, compared to \$328 million at December 31, 2011. These loans are larger balance credits, primarily investor real estate, where management does not have the intent to hold the loans for the foreseeable future. The loans are carried at an amount approximating a price which will be recoverable through the loan sale market. During the three months ended September 30, 2012, approximately \$81 million in non-performing loans were transferred to held for sale; this amount is net of charge-offs of \$43 million recorded upon transfer. During the nine months ended September 30, 2012, approximately \$251 million in non-performing loans were transferred to held for sale; this amount is net of charge-offs of \$135 million recorded upon transfer. During the three months ended September 30, 2011, approximately \$206 million in non-performing loans were transferred to held for sale; this amount is net of charge-offs of \$156 million recorded upon transfer. During the nine months ended September 30, 2011, approximately \$570 million in non-performing loans were transferred to held for sale; this amount is net of charge-offs of \$375 million recorded upon transfer. At September 30, 2012 and December 31, 2011, non-accrual loans including loans held for sale totaled \$2.0 billion and \$2.7 billion, respectively.

Table of Contents

TROUBLED DEBT RESTRUCTURINGS (TDRs)

Modification Activity: Commercial and Investor Real Estate Portfolio Segments

Regions regularly modifies commercial and investor real estate loans in order to facilitate a workout strategy. Typical modifications include workout accommodations, such as renewals and forbearances. Regions' business strategy to keep loan maturities short, particularly in the investor real estate portfolio segment, in order to maintain leverage in negotiating with customers drove the renewal activity. Regions often increases or at least maintains the same interest rate, and often receives consideration in exchange for such modifications (e.g., principal paydowns, additional collateral, or additional guarantor support). However, these modifications are refutably considered by Regions to be concessions if the borrower could not access similar financing at market terms, even if Regions concludes that the borrower will ultimately pay all contractual amounts owed. Additionally, as another workout alternative, Regions periodically uses A/B note restructurings when the underlying assets (primarily investor real estate) have a stabilized level of cash flow. An appropriately underwritten A-note will allow for upgraded risk rating, with ultimate return to accrual status upon charge-off of the B-note, and a satisfactory period of performance of the A-note (generally, six months). Regions continues to report A-notes as TDRs, even if upgraded to accrual status. Also, for smaller-dollar commercial customers, Regions may periodically grant interest rate and other term concessions, similar to those under the Customer Assistance Program (CAP) program as described below.

Modification Activity: Consumer Portfolio Segment

Regions continues to work to meet the individual needs of consumer borrowers to stem foreclosure through the CAP. Regions designed the program to allow for customer-tailored modifications with the goal of keeping customers in their homes and avoiding foreclosure where possible. Modification may be offered to any borrower experiencing financial hardship regardless of the borrower's payment status. Under the CAP, Regions may offer a short-term deferral, a term extension, an interest rate reduction, a new loan product, or a combination of these options. For loans restructured under the CAP, Regions expects to collect the original contractually due principal. The gross original contractual interest may be collectible, depending on the terms modified. The length of the CAP modifications ranges from temporary payment deferrals of three months to term extensions for the life of the loan. All such modifications are considered TDRs regardless of the term if there is a concession to a borrower experiencing financial difficulty. Modified loans are subject to policies governing accrual/non-accrual evaluation consistent with all other loans of the same product type. Consumer loans are subject to objective accrual/non-accrual decisions. Under these policies, loans subject to the CAP are charged down to estimated value on or before the month in which the loan becomes 180 days past due. Beginning in the third quarter of 2011, home equity second liens are charged down to estimated value by the end of the month in which the loan becomes 120 days past due. If a partial charge-off is necessary as a result of this evaluation, the loan is placed on non-accrual at that time. Because the program was designed to evaluate potential CAP participants as early as possible in the life cycle of the troubled loan, many of the modifications are finalized without the borrower ever reaching the applicable number of days past due, and with the loans having never been placed on non-accrual. Accordingly, given the positive impact of the restructuring on the likelihood of recovery of cash flows due under the modified terms, accrual status continues to be appropriate for these loans. None of the modified consumer loans listed in the following TDR disclosures were collateral-dependent at the time of modification. At September 30, 2012, approximately \$131 million in residential first mortgage TDRs were in excess of 180 days past due and are considered collateral-dependent. At September 30, 2012, approximately \$9.8 million in home equity first lien TDRs were in excess of 180 days past due and \$8.0 million in home equity second lien TDRs were in excess of 120 days past due and are considered collateral-dependent.

Further discussion related to TDRs, including the impact of recently issued accounting literature, impact on allowance for loan losses, and designation of TDRs in periods subsequent to the modification is included in the Annual Report on Form 10-K for the year ended December 31, 2011.

Table of Contents**Modifications Considered TDRs and Financial Impact**

The majority of Regions' 2012 commercial and investor real estate TDRs are the result of renewals where the only concession is that the interest rate at renewal is not considered to be a market rate. Consumer TDRs generally involve an interest rate concession. Accordingly, the financial impact of the modifications is best illustrated by the impact to the allowance calculation at the loan or pool level as a result of the loans being considered impaired due to their status as a TDR.

The following table presents loans by class modified in a TDR, and the financial impact of those modifications, for the periods presented.

| | Three Months Ended September 30, 2012 | | |
|--|--|--------------------------------|--|
| | Number of Obligors | Recorded Investment | Financial Impact of Modifications Considered TDRs Increase in Allowance at Modification (Dollars in millions) |
| Commercial and industrial | 148 | \$ 223 | \$ 1 |
| Commercial real estate mortgage owner-occupied | 95 | 91 | 1 |
| Commercial real estate construction owner-occupied | | | |
| Total commercial | 243 | 314 | 2 |
| Commercial investor real estate mortgage | 138 | 312 | 2 |
| Commercial investor real estate construction | 47 | 26 | |
| Total investor real estate | 185 | 338 | 2 |
| Residential first mortgage | 355 | 75 | 10 |
| Home equity | 222 | 14 | 1 |
| Indirect and other consumer | 94 | 1 | |
| Total consumer | 671 | 90 | 11 |
| | 1,099 | \$ 742 | \$ 15 |

| | Three Months Ended September 30, 2011 | | |
|--|--|--------------------------------|--|
| | Number of Obligors | Recorded Investment | Financial Impact of Modifications Considered TDRs Increase in Allowance at Modification (Dollars in millions) |
| Commercial and industrial | 369 | \$ 461 | \$ 2 |
| Commercial real estate mortgage owner-occupied | 201 | 220 | 4 |
| Commercial real estate construction owner-occupied | 7 | 7 | |
| Total commercial | 577 | 688 | 6 |
| Commercial investor real estate mortgage | 368 | 943 | 7 |
| Commercial investor real estate construction | 177 | 231 | 1 |
| Total investor real estate | 545 | 1,174 | 8 |

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

| | | | |
|-----------------------------|-------|----------|-------|
| Residential first mortgage | 352 | 82 | 10 |
| Home equity | 534 | 43 | 5 |
| Indirect and other consumer | 232 | 4 | |
| Total consumer | 1,118 | 129 | 15 |
| | 2,240 | \$ 1,991 | \$ 29 |

Table of Contents

| | Nine Months Ended September 30, 2012 | | |
|--|--------------------------------------|---|--|
| | Number of Obligors | Recorded Investment (Dollars in millions) | Financial Impact of Modifications Considered TDRs Increase in Allowance at Modification (Dollars in millions) |
| Commercial and industrial | 507 | \$ 559 | \$ 3 |
| Commercial real estate mortgage owner-occupied | 331 | 301 | 3 |
| Commercial real estate construction owner-occupied | 7 | 6 | |
| Total commercial | 845 | 866 | 6 |
| Commercial investor real estate mortgage | 485 | 1,049 | 8 |
| Commercial investor real estate construction | 176 | 102 | 1 |
| Total investor real estate | 661 | 1,151 | 9 |
| Residential first mortgage | 1,123 | 234 | 30 |
| Home equity | 808 | 58 | 4 |
| Indirect and other consumer | 396 | 7 | |
| Total consumer | 2,327 | 299 | 34 |
| | 3,833 | \$ 2,316 | \$ 49 |

| | Nine Months Ended September 30, 2011 | | |
|--|--------------------------------------|---|--|
| | Number of Obligors | Recorded Investment (Dollars in millions) | Financial Impact of Modifications Considered TDRs Increase in Allowance at Modification (Dollars in millions) |
| Commercial and industrial | 423 | \$ 501 | \$ 2 |
| Commercial real estate mortgage owner-occupied | 266 | 263 | 6 |
| Commercial real estate construction owner-occupied | 12 | 9 | |
| Total commercial | 701 | 773 | 8 |
| Commercial investor real estate mortgage | 444 | 1,046 | 8 |
| Commercial investor real estate construction | 202 | 262 | 2 |
| Total investor real estate | 646 | 1,308 | 10 |
| Residential first mortgage | 1,186 | 264 | 33 |
| Home equity | 1,698 | 121 | 13 |
| Indirect and other consumer | 778 | 11 | |
| Total consumer | 3,662 | 396 | 46 |
| | 5,009 | \$ 2,477 | \$ 64 |

As described previously, the consumer modifications granted by Regions are rate concessions, and not forgiveness of principal. The majority of the commercial and investor real estate modifications are renewals where there is no reduction in interest rate or forgiveness of principal. Accordingly, Regions most often does not record a charge-off at the modification date. A limited number of modifications included above are A/B note restructurings, where the B-note is charged off. The total charge-offs recorded for all modifications for the nine months ended

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

September 30, 2012 were approximately \$5 million, all of which were recorded during the first quarter of 2012.

Table of Contents**Defaulted TDRs**

The following table presents TDRs which defaulted during the three months and nine months ended September 30, 2012 and 2011, and which were modified in the previous twelve months (i.e., the twelve months prior to the default). For purposes of this disclosure, default is defined as 90 days past due and still accruing for the consumer portfolio segment, and placement on non-accrual status for the commercial and investor real estate portfolio segments. Consideration of defaults in the calculation of the allowance for loan losses is described in detail in the consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2011.

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|--|------------------------------------|-----------|-----------------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| (In millions) | | | | |
| Defaulted During the Period, Where Modified in a TDR Twelve Months Prior to Default | | | | |
| Commercial and industrial | \$ 23 | \$ 20 | \$ 82 | \$ 21 |
| Commercial real estate mortgage owner-occupied | 13 | 11 | 47 | 22 |
| Commercial real estate construction owner-occupied | | | 1 | 1 |
| Total commercial | 36 | 31 | 130 | 44 |
| Commercial investor real estate mortgage | 50 | 44 | 161 | 46 |
| Commercial investor real estate construction | 2 | 4 | 21 | 5 |
| Total investor real estate | 52 | 48 | 182 | 51 |
| Residential first mortgage | 15 | 27 | 48 | 38 |
| Home equity | 4 | 7 | 16 | 10 |
| Total consumer | 19 | 34 | 64 | 48 |
| | \$ 107 | \$ 113 | \$ 376 | \$ 143 |

Commercial and investor real estate loans which were on non-accrual status at the time of the latest modification are not included in the default table above, as they are already considered to be in default at the time of the restructuring. At September 30, 2012, approximately \$126 million of commercial and investor real estate loans modified in a TDR during the three months ended September 30, 2012 were on non-accrual status. Approximately 1.4 percent of this amount was 90 days past due.

At September 30, 2012, Regions had restructured binding unfunded commitments totaling \$243 million where a concession was granted and the borrower was in financial difficulty.

NOTE 5 Loan Servicing

The fair value of mortgage servicing rights is calculated using various assumptions including future cash flows, market discount rates, expected prepayment rates, servicing costs and other factors. A significant change in prepayments of mortgages in the servicing portfolio could result in significant changes in the valuation adjustments, thus creating potential volatility in the carrying amount of mortgage servicing rights.

Table of Contents

The tables below present an analysis of mortgage servicing rights under the fair value measurement method:

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|--|------------------------------------|--------|-----------------------------------|--------|
| | 2012 | 2011 | 2012 | 2011 |
| | (In millions) | | | |
| Carrying value, beginning of period | \$ 179 | \$ 268 | \$ 182 | \$ 267 |
| Additions | 16 | 13 | 44 | 48 |
| Decrease in fair value: | | | | |
| Due to change in valuation inputs or assumptions | (11) | (93) | (28) | (116) |
| Other changes (1) | (8) | (6) | (22) | (17) |
| Carrying value, end of period | \$ 176 | \$ 182 | \$ 176 | \$ 182 |

(1) Represents economic amortization associated with borrower repayments.

Data and assumptions used in the fair value calculation, as well as the valuation's sensitivity to rate fluctuations, related to mortgage servicing rights (excluding related derivative instruments) are as follows:

| | September 30 | |
|---|-----------------------|-----------|
| | 2012 | 2011 |
| | (Dollars in millions) | |
| Unpaid principal balance | \$ 26,005 | \$ 26,426 |
| Weighted-average prepayment speed (CPR; percentage) | 20.1% | 26.6% |
| Estimated impact on fair value of a 10% increase | \$ (13) | \$ (16) |
| Estimated impact on fair value of a 20% increase | \$ (23) | \$ (30) |
| Option-adjusted spread (basis points) | 1,035 | 448 |
| Estimated impact on fair value of a 10% increase | \$ (5) | \$ (2) |
| Estimated impact on fair value of a 20% increase | \$ (10) | \$ (5) |
| Weighted-average coupon interest rate | 5.0% | 5.3% |
| Weighted-average remaining maturity (months) | 277 | 282 |
| Weighted-average servicing fee (basis points) | 28.3 | 28.7 |

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

The following table presents servicing related fees, which includes contractually specified servicing fees, late fees and other ancillary income resulting from the servicing of mortgage loans:

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|------------------------------------|-------|-----------------------------------|-------|
| | 2012 | 2011 | 2012 | 2011 |
| | (In millions) | | | |
| Servicing related fees and other ancillary income | \$ 21 | \$ 21 | \$ 63 | \$ 63 |

Loans are sold in the secondary market with standard representations and warranties regarding certain characteristics such as the quality of the loan, the absence of fraud, the eligibility of the loan for sale and the future servicing associated with the loan. Regions may be required to repurchase these loans at par, or make-whole or indemnify the purchasers for losses incurred when representations and warranties are breached.

Table of Contents

Regions maintains a repurchase liability related to mortgage loans sold with representations and warranty provisions. This repurchase liability is reported as other liabilities on the consolidated balance sheets and reflects management's estimate of losses based on historical repurchase and loss trends, as well as other factors that may result in anticipated losses different from historical loss trends. Adjustments to this reserve are recorded in other non-interest expense on the consolidated statements of income. The table below presents an analysis of Regions' repurchase liability related to mortgage loans sold with representations and warranty provisions:

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|-------------------|------------------------------------|-------|-----------------------------------|-------|
| | 2012 | 2011 | 2012 | 2011 |
| | (In millions) | | | |
| Beginning balance | \$ 37 | \$ 32 | \$ 32 | \$ 32 |
| Additions | 7 | 4 | 30 | 17 |
| Losses | (6) | (4) | (24) | (17) |
| Ending balance | \$ 38 | \$ 32 | \$ 38 | \$ 32 |

During the third quarter of 2012 and 2011, settled repurchase claims were related to one or more of the following alleged breaches: 1) underwriting guideline violations; 2) misrepresentation of income, assets or employment; or 3) property valuation not supported. These claims stem primarily from the 2006-2008 vintages.

NOTE 6 Goodwill

As further discussed in Note 14, Regions reorganized its management reporting structure during the third quarter 2012 and, accordingly, its segment reporting structure and goodwill reporting units. In connection with the reorganization, management reallocated goodwill to the new reporting units using a relative fair value approach, resulting in amounts detailed as follows:

| | September 30 2012 (In millions) |
|-------------------|---------------------------------------|
| Business Services | \$ 2,552 |
| Consumer Services | 1,797 |
| Wealth Management | 467 |
| | \$ 4,816 |

As of year-end and the second quarter of 2012, goodwill was allocated to the former reporting unit of Banking/Treasury at \$4.7 billion and the former unit of Insurance at \$125 million.

Regions evaluates each reporting unit's goodwill for impairment on an annual basis in the fourth quarter, or more often if events or circumstances indicate that there may be impairment. Adverse changes in the economic environment, declining operations, or other factors could result in a decline in the implied fair value of goodwill. A goodwill impairment test includes two steps. Step One, used to identify potential impairment, compares the estimated fair value of a reporting unit with its carrying amount, including goodwill. If the estimated fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. If the carrying amount of a reporting unit exceeds its estimated fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. Step Two of the goodwill impairment test compares the implied estimated fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of goodwill for that reporting unit exceeds the implied fair value of that unit's goodwill, an impairment loss is recognized in an amount equal to that excess.

Table of Contents

During the third quarter of 2012, Regions assessed the indicators of goodwill impairment as of July 31, 2012, and through the date of the filing of the Quarterly Report on Form 10-Q for the quarter ended September 30, 2012. The indicators assessed included:

Recent operating performance,

Changes in market capitalization,

Regulatory actions and assessments,

Changes in the business climate (including legislation, legal factors and competition),

Company-specific factors (including changes in key personnel, asset impairments, and business dispositions), and

Trends in the banking industry.

While the assessment of these indicators did not indicate impairment, Regions determined that quantitative testing of goodwill was required for all of Regions' reporting units for the September 30, 2012 interim period due to the shortfall between Regions' market capitalization and book value, as well as the goodwill reallocation discussed above. The results of the interim test indicated that goodwill was not impaired as of the test date.

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

Regions utilizes the capital asset pricing model (CAPM) in order to derive the base discount rate. The inputs to the CAPM include the 20-year risk-free rate, 5-year beta for a select peer set, and the market risk premium based on published data. Once the output of the CAPM is determined, a size premium is added (also based on a published source) as well as a company-specific risk premium (based on business model and market perception of risk) for each reporting unit.

Regions uses the guideline public company method and the guideline transaction method as the two market approaches. The public company method applies a value multiplier derived from each reporting unit's peer group to tangible book value or price to earnings ratios (for Wealth Management) and an implied control premium to the respective reporting unit. The control premium is evaluated and compared to similar financial services transactions considering the absolute and relative potential revenue synergies and cost savings. The transaction method applies a value multiplier to a financial metric of the reporting unit based on comparable observed purchase transactions in the financial services industry for the reporting unit (where available).

Regions uses the output from these approaches to determine the estimated fair value of each reporting unit. Listed in the table below are assumptions used in estimating the fair value of all reporting units for the September 30, 2012 interim period. The table includes the discount rates used in the income approach, the market multipliers used in the market approaches, and the public company method control premium applied to all reporting units.

| As of Third Quarter 2012 | Business Services | Consumer Services | Wealth Management |
|---|-------------------|-------------------|-------------------|
| Discount rate used in income approach | 14% | 13% | 12% |
| Public company method market multiplier (1) | 1.09x | 1.03x | 13.5x |

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

| | | | |
|--|------|------|-------|
| Transaction method market multiplier (2) | 1.4x | 1.4x | 22.6x |
|--|------|------|-------|

- (1) For the Business Services and Consumer Services reporting units, these multipliers are applied to tangible book value. For the Wealth Management reporting unit, this multiplier is applied to three year average earnings. In addition to the multipliers, a 30 percent control premium is assumed for the Business Services and Wealth Management reporting units. A 40 percent control premium is assumed for the Consumer Services reporting unit.
- (2) For the Business Services and Consumer Services reporting units, these multipliers are applied to tangible book value. For the Wealth Management reporting unit, this multiplier is applied to three year average earnings.

Table of Contents

NOTE 7 Stockholders' Equity and Accumulated Other Comprehensive Income (Loss)

On March 19, 2012, the Company issued 153 million shares of common stock at \$5.90 per share, generating proceeds of approximately \$875 million, net of issuance costs.

On November 14, 2008, Regions completed the sale of 3.5 million shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series A, to the U.S. Treasury as part of the Capital Purchase Program (CPP). Under this agreement, Regions was required to pay the U.S. Treasury on a quarterly basis a 5 percent dividend, or \$175 million annually, for each of the first five years of the investment, and 9 percent thereafter or until redemption. As part of its purchase of the preferred securities, the U.S. Treasury also received a warrant to purchase 48.3 million shares of Regions' common stock at an exercise price of \$10.88 per share, subject to anti-dilution and other adjustments. Regions received \$3.5 billion from issuance of the Series A preferred shares and the warrant. The fair value allocation of the \$3.5 billion between the preferred shares and the warrant resulted in \$3.304 billion allocated to the preferred shares and \$196 million allocated to the warrant. On April 4, 2012, Regions repurchased all 3.5 million shares of the Series A preferred stock issued to the U.S. Treasury Department under the CPP. Therefore, during the second quarter of 2012, Regions derecognized the carrying value of the Series A shares in the amount of approximately \$3.4 billion and recorded approximately \$71 million of amortization related to the remaining unaccreted discount, which reduced net income available to common shareholders. The total reduction to shareholders' equity was \$3.5 billion. In early May of 2012, Regions repurchased the warrant from the U.S. Treasury Department for \$45 million. The transaction reduced additional paid-in capital within stockholders' equity by \$45 million. The warrant repurchase did not impact results of operations.

At September 30, 2012, Regions had 23 million common shares available for repurchase through open market transactions under an existing share repurchase authorization. There were no treasury stock purchases through open market transactions during the first nine months of 2012 or 2011.

The Board of Directors declared a \$0.01 per share cash dividend for the first, second and third quarters of both 2012 and 2011.

Activity within the balances in accumulated other comprehensive income (loss) is shown in the following tables for the three and nine months ended September 30, 2012 and 2011.

| | September 30, 2012 | | | Three Months Ended | | | September 30, 2011 | | |
|---------------------|---|---|--|---|---|---|--|---|--|
| | Unrealized gains on securities available for sale | Unrealized gains on derivative instruments designated as cash flow hedges | Defined benefit pension plans and other post employment benefits | Accumulated other comprehensive income (loss), net of tax | Unrealized gains on securities available for sale | Unrealized gains on derivative instruments designated as cash flow hedges | Defined benefit pension plans and other post employment benefits | Accumulated other comprehensive income (loss), net of tax | |
| Beginning of period | \$ 394 | \$ 110 | \$ (450) | \$ 54 | \$ 152 | \$ (13) | \$ (316) | \$ (177) | |
| Net change | 143 | (6) | 11 | 148 | 167 | 95 | 7 | 269 | |
| End of period | \$ 537 | \$ 104 | \$ (439) | \$ 202 | \$ 319 | \$ 82 | \$ (309) | \$ 92 | |

| | September 30, 2012 | | | Nine Months Ended | | | September 30, 2011 | | |
|---------------------|---|---|--|---|---|---|--|---|--|
| | Unrealized gains on securities available for sale | Unrealized gains on derivative instruments designated as cash flow hedges | Defined benefit pension plans and other post employment benefits | Accumulated other comprehensive income (loss), net of tax | Unrealized gains on securities available for sale | Unrealized gains on derivative instruments designated as cash flow hedges | Defined benefit pension plans and other post employment benefits | Accumulated other comprehensive income (loss), net of tax | |
| Beginning of period | \$ 394 | \$ 110 | \$ (450) | \$ 54 | \$ 152 | \$ (13) | \$ (316) | \$ (177) | |
| Net change | 143 | (6) | 11 | 148 | 167 | 95 | 7 | 269 | |
| End of period | \$ 537 | \$ 104 | \$ (439) | \$ 202 | \$ 319 | \$ 82 | \$ (309) | \$ 92 | |

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

(In millions)

| | | | | | | | | |
|---------------------|--------|--------|----------|---------|--------|--------|----------|----------|
| Beginning of period | \$ 322 | \$ 84 | \$ (475) | \$ (69) | \$ 77 | \$ (9) | \$ (328) | \$ (260) |
| Net change | 215 | 20 | 36 | 271 | 242 | 91 | 19 | 352 |
| End of period | \$ 537 | \$ 104 | \$ (439) | \$ 202 | \$ 319 | \$ 82 | \$ (309) | \$ 92 |

Table of Contents**NOTE 8 Earnings (Loss) per Common Share**

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

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|------------------------------------|---------|-----------------------------------|---------|
| | 2012 | 2011 | 2012 | 2011 |
| (In millions, except per share amounts) | | | | |
| Numerator: | | | | |
| Income from continuing operations | \$ 312 | \$ 141 | \$ 902 | \$ 270 |
| Preferred stock dividends and accretion | | (54) | (125) | (160) |
| Income from continuing operations available to common shareholders | 312 | 87 | 777 | 110 |
| Income (loss) from discontinued operations, net of tax | (11) | 14 | (47) | 63 |
| Net income available to common shareholders | \$ 301 | \$ 101 | \$ 730 | \$ 173 |
| Denominator: | | | | |
| Weighted-average common shares outstanding basic | 1,414 | 1,259 | 1,370 | 1,258 |
| Potential common shares | 9 | 2 | 5 | 2 |
| Weighted-average common shares outstanding diluted | 1,423 | 1,261 | 1,375 | 1,260 |
| Earnings per common share from continuing operations (1): | | | | |
| Basic | \$ 0.22 | \$ 0.07 | \$ 0.57 | \$ 0.09 |
| Diluted | 0.22 | 0.07 | 0.57 | 0.09 |
| Earnings (loss) per common share from discontinued operations (1): | | | | |
| Basic | (0.01) | 0.01 | (0.04) | 0.05 |
| Diluted | (0.01) | 0.01 | (0.04) | 0.05 |
| Earnings per common share (1) : | | | | |
| Basic | 0.21 | 0.08 | 0.53 | 0.14 |
| Diluted | 0.21 | 0.08 | 0.53 | 0.14 |

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

The effect from the assumed exercise of 32 million and 37 million stock options for the three months and nine months ended September 30, 2012, 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. The effect from the assumed exercise of 46 million and 43 million stock options for the three months and nine months ended September 30, 2011, respectively, was not included in the above computations of diluted earnings per share because such amounts would have had an antidilutive effect on earnings per share.

NOTE 9 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, restricted stock awards and units, performance awards, and/or stock appreciation rights. While Regions has the ability to issue stock appreciation rights, none have been issued to date. The terms of all awards issued under these plans are determined by the Compensation Committee of the Board of Directors; however, no awards may be granted after the tenth anniversary from the date the plans were initially approved by shareholders. Incentive awards usually vest based on employee service, generally within three years from the date of the grant. The contractual lives of options granted under these plans range from seven to ten years from the date of grant.

Table of Contents

On May 13, 2010, the shareholders of the Company approved the Regions Financial Corporation 2010 Long-Term Incentive Plan (2010 LTIP), which permits the Company to grant to employees and directors various forms of incentive compensation. These forms of incentive compensation are similar to the types of compensation approved in prior plans. The 2010 LTIP authorizes 100 million common share equivalents available for grant, where grants of options count as one share equivalent and grants of full value awards (e.g., shares of restricted stock and restricted stock units) count as 2.25 share equivalents. Unless otherwise determined by the Compensation Committee of the Board of Directors, grants of restricted stock and restricted stock units accrue dividends as they are declared by the Board of Directors, and the dividends are paid upon vesting of the award. The 2010 LTIP closed all prior long-term incentive plans to new grants, and, accordingly, prospective grants must be made under the 2010 LTIP or a successor plan. All existing grants under prior long-term incentive plans were unaffected by this amendment. The number of remaining share equivalents available for future issuance under the 2010 LTIP was approximately 66 million at September 30, 2012.

STOCK OPTIONS

No stock option grants were made during the first nine months of 2012. The following table details the activity related to stock options during the first nine months of 2012 and 2011:

| | 2012 | | 2011 | |
|------------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
| | Number of Options | Weighted-Average Exercise Price | Number of Options | Weighted-Average Exercise Price |
| Outstanding at beginning of period | 46,351,349 | \$ 23.62 | 54,999,626 | \$ 24.41 |
| Granted | | | 1,451,200 | 6.59 |
| Exercised | (338,182) | 4.07 | (18,442) | 3.29 |
| Canceled/Forfeited | (5,911,118) | 25.60 | (7,368,266) | 23.59 |
| Outstanding at end of period | 40,102,049 | \$ 23.49 | 49,064,118 | \$ 23.97 |
| Exercisable at end of period | 37,108,726 | \$ 24.83 | 42,654,135 | \$ 26.59 |

RESTRICTED STOCK AWARDS AND PERFORMANCE STOCK AWARDS

During the first nine months of 2012 and 2011, Regions made restricted stock grants that vest based upon a service condition. During the second and third quarters of 2012, the Company also made restricted stock unit and performance stock unit grants; restricted stock units vest based upon a service condition and performance stock units vest based upon service and performance conditions. Dividend payments during the vesting period are deferred to the end of the vesting term. The fair value of these restricted shares, restricted stock units and performance stock units was estimated based upon the fair value of the underlying shares on the date of the grant. The valuation was not adjusted for the deferral of dividends.

The following table details the activity related to restricted and performance stock awards and units:

| | 2012 | | 2011 | |
|-----------------------------------|------------------|--|------------------|--|
| | Number of Shares | Weighted-Average Grant Date Fair Value | Number of Shares | Weighted-Average Grant Date Fair Value |
| Non-vested at beginning of period | 6,280,360 | \$ 7.60 | 4,930,444 | \$ 12.13 |
| Granted | 8,426,987 | 5.86 | 2,696,349 | 6.67 |
| Vested | (1,521,360) | 4.58 | (1,179,250) | 23.65 |
| Forfeited | (671,288) | 4.15 | (144,744) | 13.13 |

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

| | | | | | | |
|-----------------------------|------------|----|------|-----------|----|------|
| Non-vested at end of period | 12,514,699 | \$ | 6.98 | 6,302,799 | \$ | 7.62 |
|-----------------------------|------------|----|------|-----------|----|------|

Table of Contents**NOTE 10 Pension and Other Postretirement Benefits**

Net periodic pension cost included the following components:

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|------------------------------------|------------------------------------|-------|-----------------------------------|-------|
| | 2012 | 2011 | 2012 | 2011 |
| | (In millions) | | | |
| Service cost | \$ 8 | \$ 8 | \$ 30 | \$ 27 |
| Interest cost | 24 | 23 | 68 | 69 |
| Expected return on plan assets | (28) | (30) | (85) | (91) |
| Amortization of actuarial loss | 18 | | 53 | 1 |
| Amortization of prior service cost | | 11 | 1 | 34 |
| | \$ 22 | \$ 12 | \$ 67 | \$ 40 |

During the third quarter of 2012, Regions made a \$41 million contribution to its pension plan for the 2011 plan year. There was no material impact from other postretirement benefits on the consolidated financial statements for the three and nine month periods ended September 30, 2012 or 2011.

NOTE 11 Income Taxes

At September 30, 2012 and December 31, 2011, the Company's net deferred tax asset balance was \$0.8 billion and \$1.3 billion, respectively. The decrease in the net deferred tax asset was due to the reduction in the allowance for loan losses, an increase in unrealized gains on securities available for sale and positive consolidated pre-tax earnings.

During 2010, the Internal Revenue Service (IRS) completed the field examination for the tax years 2007, 2008 and 2009. Included within the Revenue Agent's Reports was a proposed adjustment to the timing of deductions related to certain expenses. In 2011, the Company filed a protest with the IRS Appeals Division. During 2012, the Company reached an agreement with the IRS that effectively settled this examination. At this time, the Company has no expectation that the settlement related to any of the protested positions will be reexamined. All years subsequent to the above years are open to examination.

The Company has established a valuation allowance against certain state net operating loss and credit carryforwards in the amount of \$65 million and \$32 million at September 30, 2012 and December 31, 2011, respectively. The valuation allowance increase of \$33 million is primarily due to uncertainties in the timing of certain tax planning strategies that impacted the ability to utilize state net operating losses before the prescribed expiration dates.

At September 30, 2012 and December 31, 2011, the balance of the Company's unrecognized tax benefits (UTBs) was \$54 million and \$39 million, respectively. The increase is primarily related to tax positions taken in the current year related to a realignment within the corporate organization structure. As of September 30, 2012 and December 31, 2011, the balance of the UTBs that would reduce the effective tax rate, if recognized, was \$39 million and \$25 million, respectively.

Table of Contents**NOTE 12 Derivative Financial Instruments and Hedging Activities**

The following tables present the notional and fair value of derivative instruments on a gross basis as of September 30, 2012 and December 31, 2011:

| | September 30, 2012 | | | | |
|--|--------------------|------------------------|--------------------------------|------------------------|-----------------|
| | Notional Value | Asset Derivatives | | Liability Derivatives | |
| | | Balance Sheet Location | Fair Value (In millions) | Balance Sheet Location | Fair Value |
| Derivatives in fair value hedging relationships: | | | | | |
| Interest rate swaps | \$ 5,107 | Other assets | \$ 124 | Other liabilities | \$ |
| Derivatives in cash flow hedging relationships: | | | | | |
| Interest rate swaps | 1,000 | Other assets | 4 | Other liabilities | |
| Total derivatives designated as hedging instruments | \$ 6,107 | | \$ 128 | | \$ |
| Derivatives not designated as hedging instruments: | | | | | |
| Interest rate swaps | \$ 46,461 | Other assets | \$ 1,841 | Other liabilities | \$ 1,854 |
| Interest rate options | 3,637 | Other assets | 44 | Other liabilities | 5 |
| Interest rate futures and forward commitments | 49,931 | Other assets | 18 | Other liabilities | 45 |
| Other contracts | 1,895 | Other assets | 35 | Other liabilities | 34 |
| Total derivatives not designated as hedging instruments | \$ 101,924 | | \$ 1,938 | | \$ 1,938 |
| Total derivatives | \$ 108,031 | | \$ 2,066 | | \$ 1,938 |

Table of Contents

| | December 31, 2011 | | | | |
|---|-------------------|------------------------|-----------------------------|------------------------|------------|
| | Notional Value | Asset Derivatives | | Liability Derivatives | |
| | | Balance Sheet Location | Fair Value (In millions) | Balance Sheet Location | Fair Value |
| Derivatives in fair value hedging relationships: | | | | | |
| Interest rate swaps | \$ 5,535 | Other assets | \$ 153 | Other liabilities | \$ 1 |
| Forward commitments | 640 | Other assets | | Other liabilities | 11 |
| Derivatives in cash flow hedging relationships: | | | | | |
| Interest rate swaps | 11,500 | Other assets | 209 | Other liabilities | 1 |
| Total derivatives designated as hedging instruments | \$ 17,675 | | \$ 362 | | \$ 13 |
| Derivatives not designated as hedging instruments: | | | | | |
| Interest rate swaps (1) | \$ 59,293 | Other assets | \$ 2,396 | Other liabilities | \$ 2,414 |
| Interest rate options (2) | 4,018 | Other assets | 41 | Other liabilities | 28 |
| Interest rate futures and forward commitments (3) | 70,607 | Other assets | 11 | Other liabilities | 23 |
| Other contracts | 1,276 | Other assets | 43 | Other liabilities | 36 |
| Total derivatives not designated as hedging instruments (3) | \$ 135,194 | | \$ 2,491 | | \$ 2,501 |
| Total derivatives (3) | \$ 152,869 | | \$ 2,853 | | \$ 2,514 |

- (1) Includes Morgan Keegan amounts of \$4.2 billion in Notional Value and \$454 million in Other Assets/Other Liabilities
- (2) Includes Morgan Keegan amounts of \$364 million in Notional Value and \$23 million in Other Assets/Other Liabilities
- (3) During the third quarter of 2012, the Company discovered an error in the preparation of its derivative footnote as of December 31, 2011. The error resulted in an overstatement in the disclosed notional value of derivatives not designated as hedging instruments, specifically interest rate futures and forward commitments. Management has determined that the effect of this item is immaterial to prior periods and adjusted the applicable 2011 notional amounts in the derivative footnote.

HEDGING DERIVATIVES

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

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

Table of Contents

FAIR VALUE HEDGES

Fair value hedge relationships mitigate exposure to the change in fair value of an asset, liability or firm commitment. Under the fair value hedging model, gains or losses attributable to the change in fair value of the derivative instrument, as well as the gains and losses attributable to the change in fair value of the hedged item, are recognized in earnings in the period in which the change in fair value occurs. The corresponding adjustment to the hedged asset or liability is included in the basis of the hedged item, while the corresponding change in the fair value of the derivative instrument is recorded as an adjustment to other assets or other liabilities, as applicable. Hedge ineffectiveness exists to the extent that the changes in fair value of the derivative do not offset the changes in fair value of the hedged item and is recorded as other non-interest expense.

Regions enters into interest rate swap agreements to manage interest rate exposure on the Company's fixed-rate borrowings, which includes long-term debt and certificates of deposit. These agreements involve the receipt of fixed-rate amounts in exchange for floating-rate interest payments over the life of the agreements. Regions also enters into forward sale commitments to hedge changes in the fair value of available-for-sale securities.

CASH FLOW HEDGES

Cash flow hedge relationships mitigate exposure to the variability of future cash flows or other forecasted transactions. For cash flow hedge relationships, the effective portion of the gain or loss related to the derivative instrument is recognized as a component of other comprehensive income. Ineffectiveness is measured by comparing the change in fair value of the respective derivative instrument and the change in fair value of a perfectly effective hypothetical derivative instrument. Ineffectiveness will be recognized in earnings only if it results from an overhedge. The ineffective portion of the gain or loss related to the derivative instrument, if any, is recognized in earnings as other non-interest expense during the period of change. Amounts recorded in other comprehensive income are recognized in earnings in the periods during which the hedged item impacts earnings.

Regions enters into interest rate swap agreements to manage overall cash flow changes related to interest rate risk exposure on LIBOR-based loans. During the quarter ended September 30, 2012, Regions entered into interest rate swaps with notional amounts of \$1 billion. The agreements effectively modify the Company's exposure to interest rate risk by utilizing receive fixed/pay LIBOR interest rate swaps.

Regions issues long-term fixed-rate debt for various funding needs. Regions enters into receive LIBOR/pay fixed forward starting swaps to hedge risks of changes in the projected quarterly interest payments attributable to changes in the benchmark interest rate (LIBOR) during the time leading up to the probable issuance date of the new long term fixed-rate debt.

Regions purchases Eurodollar futures to hedge the variability in future cash flows based on forecasted resets of one-month LIBOR-based floating rate loans due to changes in the benchmark interest rate.

Regions enters into interest rate option contracts to protect cash flows through the maturity date of the hedging instrument on designated one-month LIBOR floating-rate loans from adverse extreme market interest rate changes.

Regions recognized an unrealized after-tax gain of \$101 million and an unrealized after-tax loss of \$41 million in accumulated other comprehensive income at September 30, 2012 and 2011, respectively, related to terminated cash flow hedges of loan and debt instruments which will be amortized into earnings in conjunction with the recognition of interest payments through 2017. Regions recognized pre-tax income of \$15 million and \$16 million during the three months ended September 30, 2012 and 2011, respectively, and Regions recognized pre-tax income of \$14 million and \$41 million during the nine months ended September 30, 2012 and 2011, respectively, related to the amortization of cash flow hedges of loan and debt instruments.

Table of Contents

The following tables present the effect of derivative instruments on the statements of income:

Three Months Ended September 30, 2012

| Derivatives in Fair Value Hedging Relationships | Location of Gain(Loss) Recognized in Income on Derivatives | Amount of Gain(Loss) Recognized in Income on Derivatives (In millions) | | Hedged Items in Fair Value Hedge Relationships | Location of Gain(Loss) Recognized in Income on Related Hedged Item | Amount of Gain(Loss) Recognized in Income on Related Hedged Item |
|--|--|--|-----|--|--|---|
| | | | | | | |
| Interest rate swaps | Other non-interest expense | \$ | (5) | Debt/CDs | Other non-interest expense | \$ 1 |
| Interest rate swaps | Interest expense | | 23 | Debt/CDs | Interest expense | 3 |
| Forward commitments | Other non-interest expense | | | Securities available for sale | Other non-interest expense | |
| Total | | \$ | 18 | | | \$ 4 |

| Derivatives in Cash Flow Hedging Relationships | Amount of Gain(Loss) Recognized in Accumulated OCI on Derivatives (Effective Portion) (1) | Location of Gain(Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (In millions) | Amount of Gain(Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (2) | Location of Gain(Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) | Amount of Gain(Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (2) |
|---|---|---|---|--|---|
| | | | | | |
| Interest rate swaps | \$ (9) | Interest income on loans | \$ 20 | Other non-interest expense | \$ |
| Forward starting swaps | 3 | Interest expense on debt | (4) | Other non-interest expense | |
| Interest rate options | | Interest income on loans | | Interest income on loans | |
| Eurodollar futures | | Interest income on loans | | Other non-interest expense | |
| Total | \$ (6) | | \$ 16 | | \$ |

(1) After-tax

(2) Pre-tax

Three Months Ended September 30, 2011

| Derivatives in Fair Value Hedging Relationships | Location of Gain(Loss) Recognized in Income on Derivatives | Amount of Gain(Loss) Recognized in Income on Derivatives (In millions) | | Hedged Items in Fair Value Hedge Relationships | Location of Gain(Loss) Recognized in Income on Related Hedged Item | Amount of Gain(Loss) Recognized in Income on Related Hedged Item |
|--|--|--|-----|--|--|---|
| | | | | | | |
| Interest rate swaps | Other non-interest expense | \$ | (2) | Debt/CDs | Other non-interest expense | \$ 11 |
| Interest rate swaps | Interest expense | | 42 | Debt/CDs | Interest expense | 4 |
| Forward commitments | | | | | | |

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

| | Other non-interest expense | Securities available for sale | Other non-interest expense |
|-------|----------------------------|-------------------------------|----------------------------|
| Total | \$ 40 | | \$ 15 |

| Derivatives in Cash Flow Hedging Relationships | Amount of Gain(Loss) Recognized in Accumulated OCI on Derivatives (Effective Portion) (1) | Location of Gain(Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Amount of Gain(Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (2) | Location of Gain(Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) | Amount of Gain(Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (2) |
|--|---|--|--|---|---|
| | | (In millions) | | | |
| Interest rate swaps | \$ 92 | Interest income on loans | \$ 49 | Other non-interest expense | \$ (1) |
| Forward starting swaps | 3 | Interest expense on debt | (4) | Other non-interest expense | |
| Interest rate options | | Interest income on loans | | Interest income on loans | |
| Eurodollar futures | | Interest income on loans | | Other non-interest expense | |
| Total | \$ 95 | | \$ 45 | | \$ (1) |

(1) After-tax

(2) Pre-tax

Table of Contents

Nine Months Ended September 30, 2012

| Derivatives in Fair Value Hedging Relationships | Location of Gain(Loss) Recognized in Income on Derivatives | Amount of Gain(Loss) Recognized in Income on Derivatives (In millions) | | Hedged Items in Fair Value Hedge Relationships | Location of Gain(Loss) Recognized in Income on Related Hedged Item | Amount of Gain(Loss) Recognized in Income on Related Hedged Item | |
|---|--|--|------|--|--|--|----|
| | | | | | | | |
| Interest rate swaps | Other non-interest expense | \$ | (25) | Debt/CDs | Other non-interest expense | \$ | 19 |
| Interest rate swaps | Interest expense | | 81 | Debt/CDs | Interest expense | | 9 |
| Forward commitments | Other non-interest expense | | | Securities available for sale | Other non-interest expense | | |
| Total | | \$ | 56 | | | \$ | 28 |

| Derivatives in Cash Flow Hedging Relationships | Amount of Gain(Loss) Recognized in Accumulated OCI on Derivatives (Effective Portion) (1) | Location of Gain(Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Amount of Gain(Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (2) | | Location of Gain(Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) | Amount of Gain(Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (2) | |
|--|---|--|--|--|---|---|--|
| | | | | | | | |
| | | Interest income | | | | | |
| Interest rate swaps | \$ 13 | on loans | \$ 61 | | Other non-interest expense | \$ 6 | |
| Forward starting swaps | 7 | Interest expense on debt | (11) | | Other non-interest expense | | |
| Interest rate options | | Interest income on loans | | | Interest income on loans | | |
| Eurodollar futures | | Interest income on loans | | | Other non-interest expense | | |
| Total | \$ 20 | | \$ 50 | | | \$ 6 | |

- (1) After-tax
- (2) Pre-tax

Nine Months Ended September 30, 2011

| Derivatives in Fair Value Hedging Relationships | Location of Gain(Loss) Recognized in Income on Derivatives | Amount of Gain(Loss) Recognized in Income on Derivatives (In millions) | | Hedged Items in Fair Value Hedge Relationships | Location of Gain(Loss) Recognized in Income on Related Hedged Item | Amount of Gain(Loss) Recognized in Income on Related Hedged Item | |
|---|--|--|------|--|--|--|----|
| | | | | | | | |
| Interest rate swaps | Other non-interest expense | \$ | (42) | Debt/CDs | Other non-interest expense | \$ | 55 |
| Interest rate swaps | Interest expense | | 136 | Debt/CDs | Interest expense | | 12 |
| Forward commitments | Other non-interest expense | | (35) | | | | |

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

| | | | | | |
|-------|----|----|-------------------------------|----------------------------|-----|
| | | | Securities available for sale | Other non-interest expense | 35 |
| Total | \$ | 59 | | \$ | 102 |

| Derivatives in Cash Flow Hedging Relationships | Amount of Gain(Loss) | | Location of Gain(Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Amount of Gain(Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (2) | Location of Gain(Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) | Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (2) |
|--|--|---|--|--|---|--|
| | Recognized in Accumulated OCI on Derivatives (Effective Portion) (1) | Reclassified from Accumulated OCI into Income (Effective Portion) | | | | |
| | | | (In millions) | | | |
| Interest rate swaps | \$ | 92 | Interest income on loans | \$ | 147 | Other non-interest expense |
| Forward starting swaps | | | Interest expense on debt | | (7) | Other non-interest expense |
| Interest rate options | | (2) | Interest income on loans | | 4 | Interest income on loans |
| Eurodollar futures | | 1 | Interest income on loans | | (2) | Other non-interest expense |
| Total | \$ | 91 | | \$ | 142 | |

(1) After-tax

(2) Pre-tax

Table of Contents**DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS**

The Company 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 to help clients manage market risk. The Company is subject to the credit risk that a counterparty will fail to perform. The Company is also subject to market risk, which is evaluated by the Company and monitored by the asset/liability management process. Separate derivative contracts are entered into to reduce overall market exposure to pre-defined limits. The contracts in this portfolio do not qualify for hedge accounting and are marked-to-market through earnings and included in other assets and other liabilities.

Regions enters into interest rate lock commitments, which are commitments to originate mortgage loans whereby the interest rate on the loan is determined prior to funding and the customers have locked into that interest rate. At September 30, 2012 and 2011, Regions had \$1.2 billion and \$887 million, respectively, in total notional amount of interest rate lock commitments. Regions manages market risk on interest rate lock commitments and mortgage loans held for sale with corresponding forward sale commitments, which are recorded at fair value with changes in fair value recorded in mortgage income. For September 30, 2012 and 2011, Regions had \$2.0 billion and \$1.3 billion, respectively, in total notional amount related to these forward rate commitments.

Regions has elected to account for mortgage servicing rights at fair market value with any changes to fair value being recorded within mortgage income. Concurrent with the election to use the fair value measurement method, Regions began using various derivative instruments, in the form of forward rate commitments, futures contracts, swaps and swaptions to mitigate the statement of income effect of changes in the fair value of its mortgage servicing rights. As of September 30, 2012 and 2011, the total notional amount related to these contracts was \$4.8 billion and \$6.6 billion, respectively.

The following tables present the location and amount of gain or (loss) recognized in income on derivatives not designated as hedging instruments in the statements of income for the three and nine months ended September 30, 2012 and 2011, respectively:

| Derivatives Not Designated as Hedging Instruments | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|--|------------------------------------|------------|-----------------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| | (In millions) | | | |
| Capital markets and investment income | | | | |
| Interest rate swaps | \$ 10 | \$ (1) | \$ 21 | \$ 4 |
| Interest rate options | | (4) | (1) | (3) |
| Interest rate futures and forward commitments | | | (1) | |
| Other contracts | 2 | 2 | 7 | 7 |
| Total capital markets and investment income | 12 | (3) | 26 | 8 |
| Mortgage income | | | | |
| Interest rate swaps | 10 | 63 | 29 | 75 |
| Interest rate options | 10 | (14) | 27 | (43) |
| Interest rate futures and forward commitments | (7) | 47 | 6 | 65 |
| Total mortgage income | 13 | 96 | 62 | 97 |
| | \$ 25 | \$ 93 | \$ 88 | \$ 105 |

Credit risk, defined as all positive exposures not collateralized with cash or other financial instruments, at September 30, 2012 and 2011, totaled approximately \$807 million and \$962 million, respectively. This amount represents the net credit risk on all trading and other derivative positions held by Regions.

Table of Contents

CREDIT DERIVATIVES

Regions has both bought and sold credit protection in the form of participations on interest rate swaps (swap participations). These swap participations, which meet the definition of credit derivatives, were entered into in the ordinary course of business to serve the credit needs of customers. Credit derivatives, whereby Regions has purchased credit protection, entitle Regions to receive a payment from the counterparty when the customer fails to make payment on any amounts due to Regions upon early termination of the swap transaction and have maturities between 2013 and 2017. Credit derivatives whereby Regions has sold credit protection have maturities between 2013 and 2018. For contracts where Regions sold credit protection, Regions would be required to make payment to the counterparty when the customer fails to make payment on any amounts due to the counterparty upon early termination of the swap transaction. Regions bases the current status of the prepayment/performance risk on bought and sold credit derivatives on recently issued internal risk ratings consistent with the risk management practices of unfunded commitments.

Regions' maximum potential amount of future payments under these contracts as of September 30, 2012 was approximately \$34 million. This scenario would only occur if variable interest rates were at zero percent and all counterparties defaulted with zero recovery. The fair value of sold protection at September 30, 2012 and 2011 was immaterial. In transactions where Regions has sold credit protection, recourse to collateral associated with the original swap transaction is available to offset some or all of Regions' obligation.

CONTINGENT FEATURES

Certain of Regions' derivative instrument contracts with broker-dealers contain provisions allowing those broker-dealers to terminate the contracts in the event that Regions' and/or Regions Bank's credit ratings falls below specified ratings from certain major credit rating agencies. At September 30, 2012, Moody's credit ratings for Regions Financial Corporation and Regions Bank were below investment grade. As a result of these ratings, certain Regions Bank broker-dealer counterparties could have terminated these contracts at their discretion. In lieu of terminating the contracts, Regions Bank and certain of its broker-dealer counterparties amended the contracts such that Regions Bank was required to post additional collateral in the cumulative amount of \$186 million to these counterparties as of September 30, 2012.

Some of these contracts with broker-dealers still contain credit-related termination provisions and/or credit-related provisions regarding the posting of collateral. At September 30, 2012, the net fair value of such contracts containing credit-related termination provisions that were in a liability position was \$437 million, for which Regions had posted collateral of \$573 million. At September 30, 2012, the net fair value of contracts that do not contain credit-related termination provisions that were in a liability position was \$290 million, for which Regions had posted collateral of \$291 million. Other derivative contracts with broker-dealers do not contain any credit-related provisions. These counterparties require complete overnight collateralization.

The aggregate fair value of all derivative instruments with any credit-risk-related contingent features that were in a liability position on September 30, 2012 and December 31, 2011, was \$526 million and \$425 million, respectively, for which Regions had posted collateral of \$661 million and \$531 million, respectively, in the normal course of business.

Table of Contents

NOTE 13 Fair Value Measurements

Fair value guidance establishes a framework for using fair value to measure assets and liabilities and defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) as opposed to the price that would be paid to acquire the asset or received to assume the liability (an entry price). A fair value measure should reflect the assumptions that market participants would use in pricing the asset or liability, including the assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset and the risk of nonperformance. Required disclosures include stratification of balance sheet amounts measured at fair value based on inputs the Company uses to derive fair value measurements. These strata include:

Level 1 valuations, where the valuation is based on quoted market prices for identical assets or liabilities traded in active markets (which include exchanges and over-the-counter markets with sufficient volume),

Level 2 valuations, where the valuation is based on quoted market prices for similar instruments traded in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market, and

Level 3 valuations, where the valuation is generated from model-based techniques that use significant assumptions not observable in the market, but observable based on Company-specific data. These unobservable assumptions reflect the Company's own estimates for assumptions that market participants would use in pricing the asset or liability. Valuation techniques typically include option pricing models, discounted cash flow models and similar techniques, but may also include the use of market prices of assets or liabilities that are not directly comparable to the subject asset or liability.

See Note 1 Summary of Significant Accounting Policies to the consolidated financial statements of the 2011 Annual Report on Form 10-K for a description of valuation methodologies for assets and liabilities measured at fair value on a recurring and non-recurring basis. Regions rarely transfers assets and liabilities measured at fair value between Level 1 and Level 2 measurements. There were no such transfers during the nine month periods ended September 30, 2012 and 2011. Trading account assets are periodically transferred into or out of Level 3 valuation based on management's conclusion regarding the best method of pricing for an individual security. Such transfers are accounted for as if they occur at the beginning of a reporting period.

Table of Contents

The following tables present assets and liabilities measured at fair value on a recurring basis and non-recurring basis as of September 30, 2012 and December 31, 2011:

| | September 30, 2012 | | | | December 31, 2011 | | | |
|--|--------------------|-----------|---------|-----------------------------------|-------------------|-----------|---------|------------------|
| | Level 1 | Level 2 | Level 3 | Total Fair Value (In millions) | Level 1 | Level 2 | Level 3 | Total Fair Value |
| Recurring fair value measurements | | | | | | | | |
| Trading account assets | | | | | | | | |
| U.S. Treasury securities | \$ | \$ | \$ | \$ | \$ 212 | \$ 3 | \$ | \$ 215 |
| Obligations of states and political subdivisions | | | | | | 101 | 139 | 240 |
| Mortgage-backed securities: | | | | | | | | |
| Residential agency | | | | | | 359 | | 359 |
| Commercial agency | | | | | | | 51 | 51 |
| Other securities | | | | | | 35 | 1 | 36 |
| Equity securities | 114 | | | 114 | 365 | | | 365 |
| Total trading account assets (1) | \$ 114 | \$ | \$ | \$ 114 | \$ 577 | \$ 498 | \$ 191 | \$ 1,266 |
| Securities available for sale | | | | | | | | |
| U.S. Treasury securities | \$ 51 | \$ | \$ | \$ 51 | \$ 98 | \$ | \$ | \$ 98 |
| Federal agency securities | | 620 | | 620 | | 147 | | 147 |
| Obligations of states and political subdivisions | | 12 | | 12 | | 16 | 20 | 36 |
| Mortgage-backed securities: | | | | | | | | |
| Residential agency | | 22,936 | | 22,936 | | 22,175 | | 22,175 |
| Residential non-agency | | | 13 | 13 | | | 16 | 16 |
| Commercial agency | | 724 | | 724 | | 326 | | 326 |
| Commercial non-agency | | 854 | 104 | 958 | | 321 | | 321 |
| Other debt securities | | 1,593 | 2 | 1,595 | | 537 | | 537 |
| Equity securities (2) | 114 | | | 114 | 115 | | | 115 |
| Total securities available for sale | \$ 165 | \$ 26,739 | \$ 119 | \$ 27,023 | \$ 213 | \$ 23,522 | \$ 36 | \$ 23,771 |
| Mortgage loans held for sale | \$ | \$ 1,130 | \$ | \$ 1,130 | \$ | \$ 844 | \$ | \$ 844 |
| Mortgage servicing rights | \$ | \$ | \$ 176 | \$ 176 | \$ | \$ | \$ 182 | \$ 182 |
| Derivative assets | | | | | | | | |
| Interest rate swaps | \$ | \$ 1,969 | \$ | \$ 1,969 | \$ | \$ 2,758 | \$ | \$ 2,758 |
| Interest rate options | | 3 | 41 | 44 | | 28 | 13 | 41 |
| Interest rate futures and forward commitments | | 18 | | 18 | | 11 | | 11 |
| Other contracts | | 35 | | 35 | | 43 | | 43 |
| Total derivative assets (3) (4) | \$ | \$ 2,025 | \$ 41 | \$ 2,066 | \$ | \$ 2,840 | \$ 13 | \$ 2,853 |
| Trading account liabilities | | | | | | | | |
| U.S. Treasury securities | \$ | \$ | \$ | \$ | \$ | \$ 97 | \$ | \$ 97 |
| Obligations of states and political subdivisions | | | | | | 2 | | 2 |
| Mortgage-backed securities: | | | | | | | | |
| Residential agency | | | | | | 133 | | 133 |
| Commercial agency | | | | | | | 5 | 5 |
| Other securities | | | | | | 16 | 2 | 18 |
| Equity securities | | | | | 1 | | | 1 |
| Total trading account liabilities (5) | \$ | \$ | \$ | \$ | \$ 1 | \$ 248 | \$ 7 | \$ 256 |

Derivative liabilities

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

| | | | | | | | | |
|---|----|----------|----|----------|----|----------|----|----------|
| Interest rate swaps | \$ | \$ 1,854 | \$ | \$ 1,854 | \$ | \$ 2,416 | \$ | \$ 2,416 |
| Interest rate options | | 5 | | 5 | | 28 | | 28 |
| Interest rate futures and forward commitments | | 45 | | 45 | | 34 | | 34 |
| Other contracts | | 34 | | 34 | | 36 | | 36 |

| | | | | | | | | |
|--------------------------------------|----|----------|----|----------|----|----------|----|----------|
| Total derivative liabilities (3) (4) | \$ | \$ 1,938 | \$ | \$ 1,938 | \$ | \$ 2,514 | \$ | \$ 2,514 |
|--------------------------------------|----|----------|----|----------|----|----------|----|----------|

Nonrecurring fair value measurements

| | | | | | | | | |
|--|----|----|-------|-------|----|-------|--------|--------|
| Loans held for sale | \$ | \$ | \$ 90 | \$ 90 | \$ | \$ 36 | \$ 195 | \$ 231 |
| Foreclosed property, other real estate and equipment | | 61 | 57 | 118 | | 91 | 162 | 253 |

- (1) All trading account assets at December 31, 2011 were related to Morgan Keegan (see Note 2 for further discussion regarding the sale of Morgan Keegan) with the exception of \$178 million of which all were classified as Level 1 in the table. The Morgan Keegan items do not appear in the September 30, 2012 amounts, as the sale was closed during the second quarter of 2012.
- (2) Excludes Federal Reserve Bank and Federal Home Loan Bank Stock totaling \$480 million and \$100 million at September 30, 2012 and \$481 million and \$219 million December 31, 2011, respectively.

Table of Contents

- (3) At September 30, 2012, derivatives include approximately \$1.1 billion related to legally enforceable master netting agreements that allow the Company to settle positive and negative positions. Derivatives are also presented excluding cash collateral received of \$67 million and cash collateral posted of \$870 million with counterparties. At December 31, 2011, derivatives include approximately \$1.4 billion related to legally enforceable master netting agreements that allow the Company to settle positive and negative positions. Derivatives are also presented excluding cash collateral received of \$55 million and cash collateral posted of \$732 million with counterparties.
- (4) Derivative assets and liabilities both include \$454 million of interest rate swaps and \$23 million of interest rate options at December 31, 2011 related to Morgan Keegan, all of which are classified as Level 2 in the table. These items do not appear in the September 30, 2012 amounts, as they were included with the sale of Morgan Keegan.
- (5) All trading account liabilities are related to Morgan Keegan at December 31, 2011. These items do not appear in the September 30, 2012 amounts as they were included with the sale of Morgan Keegan.

Assets and liabilities in all levels could result in volatile and material price fluctuations. Realized and unrealized gains and losses on Level 3 assets represent only a portion of the risk to market fluctuations in Regions' consolidated balance sheets. Further, trading account assets, trading account liabilities and derivatives included in Levels 1, 2 and 3 are used by the Asset and Liability Management Committee of the Company in a holistic approach to managing price fluctuation risks.

Table of Contents

The following tables illustrate a rollforward for all assets and (liabilities) measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months and nine months ended September 30, 2012 and 2011, respectively. The tables do not reflect the change in fair value attributable to any related economic hedges the Company used to mitigate the interest rate risk associated with these assets and (liabilities).

| Three Months Ended September 30, 2012 | | | | | | | | | | | |
|--|--------|---|---|---------------|-------|-----------|-------------|---------------------------------|--------------------------------------|---|------------|
| | | Total Realized / Unrealized Gains or Losses | | | | | | | | Net change in unrealized gains (losses) included in earnings related to assets and liabilities held at September 30, 2012 | |
| | | Opening Balance July 1, 2012 | Included in Other Compre- hensive Income (Loss) | Purchases | Sales | Issuances | Settlements | Transfers into Level 3 | Transfers out of Level 3 | Closing Balance September 30, 2012 | |
| | | Earnings | (Loss) | (In millions) | | | | | | September 30, 2012 | |
| Level 3 Instruments Only | | | | | | | | | | | |
| Trading account assets: | | | | | | | | | | | |
| Obligations of states and political subdivisions | \$ | | | | | | | | | \$ | \$ |
| Commercial agency MBS | | | | | | | | | | | |
| Other securities | | | | | | | | | | | |
| Total trading account assets | \$ | | | | | | | | | \$ | \$ |
| Securities available for sale: | | | | | | | | | | | |
| Obligations of states and political subdivisions | \$ | | | | | | | | | \$ | \$ |
| Residential non-agency MBS | 14 | | | | | | (1) | | | 13 | |
| Commercial non-agency MBS | | | 1 | 103 | | | | | | 104 | |
| Other debt securities | 2 | | | | | | | | | 2 | |
| Total securities available for sale | \$ 16 | | 1 | 103 | | | (1) | | | \$ 119 | \$ |
| Mortgage servicing rights | \$ 179 | (19)(a) | | 16 | | | | | | \$ 176 | \$ (11)(a) |
| Trading account liabilities: | | | | | | | | | | | |
| Mortgage-backed securities: | | | | | | | | | | | |
| Commercial agency | \$ | | | | | | | | | \$ | \$ |
| Other securities | | | | | | | | | | | |
| Total trading account liabilities | \$ | | | | | | | | | \$ | \$ |
| Derivatives, net: | | | | | | | | | | | |
| Interest rate options | \$ 30 | 82(a) | | | | | (71) | | | \$ 41 | \$ 41(a) |
| Total derivatives, net | \$ 30 | 82 | | | | | (71) | | | \$ 41 | \$ 41 |

(a) Included in mortgage income.

Table of Contents

Three Months Ended September 30, 2011

| | Total Realized / Unrealized Gains or Losses | | | | | | Transfers | | Closing Balance | | Net change in unrealized gains (losses) included in earnings related to assets and liabilities held at |
|--|---|---|-----------|-------|-----------|-------------|--------------------|-------------------------|-----------------------|-----------------------|--|
| | Opening Balance | Included in Other Compre- hensive Income (Loss) | Purchases | Sales | Issuances | Settlements | into Level 3 | out of Level 3 | September 30, 2011 | September 30, 2011 | September 30, 2011 |
| | 2011 | Earnings | | | | | | | 2011 | 2011 | 2011 |
| Level 3 Instruments Only | | | | | | | | | | | |
| Trading account assets (c): | | | | | | | | | | | |
| Obligations of states and political subdivisions | \$ 148 | (15) | 44 | | | (34) | | | \$ 143 | \$ | |
| Commercial agency MBS | 61 | 3 | 463 | | | (475) | | | 52 | | |
| Other securities | 5 | 4 | 2,037 | | | (2,041) | | | 5 | | |
| Total trading account assets (d) | \$ 214 | (8)(a) | 2,544 | | | (2,550) | | | \$ 200 | \$ | |
| Securities available for sale: | | | | | | | | | | | |
| Obligations of states and political subdivisions | \$ 17 | | 2 | | | (2) | | | \$ 17 | \$ | |
| Residential non-agency MBS | 17 | | | | | (1) | | | 16 | | |
| Total securities available for sale | \$ 34 | | 2 | | | (3) | | | \$ 33 | \$ | |
| Mortgage servicing rights | \$ 268 | (99)(b) | 13 | | | | | | \$ 182 | \$ | (93)(b) |
| Trading account liabilities: | | | | | | | | | | | |
| Mortgage-backed securities: | | | | | | | | | | | |
| Commercial agency | \$ 16 | | | | | (16) | | | \$ | \$ | |
| Other securities | 5 | | (8) | | | 14 | | | 11 | | |
| Total trading account liabilities (d) | \$ 21 | | (8) | | | (2) | | | \$ 11 | \$ | |
| Derivatives, net: | | | | | | | | | | | |
| Interest rate options | \$ 5 | 53(b) | | | | (39) | | | \$ 19 | \$ | 19(b) |
| Interest rate futures and forward commitments | 4 | | | | | (4) | | | | | |
| Total derivatives, net | \$ 9 | 53 | | | | (43) | | | \$ 19 | \$ | 19 |

(a) Included in discontinued operations, on a net basis.

(b) Included in mortgage income.

(c) Income from trading account assets primarily represents gains/(losses) on disposition, which inherently includes commissions on security transactions during the period.

(d) All amounts related to trading account assets and trading account liabilities are related to Morgan Keegan (see Note 2 for discussion of sale of Morgan Keegan).

Table of Contents

Nine Months Ended September 30, 2012

| | Total Realized / Unrealized Gains or Losses | | Included in Other Compre- hensive Income | | Transfers into Level 3 | | out of Level 3 | | Disposition of Morgan Keegan | | Closing Balance September 30, 2012 | | Net change in unrealized gains (losses) included in earnings related to assets and liabilities held at September 30, 2012 | |
|--|---|----------------------|---|-----------|---------------------------------|-----------|-------------------------|---|---------------------------------------|---|--|--------|--|------------|
| | Opening Balance January 1, 2012 | Included Earnings | (Loss) | Purchases | Sales | Issuances | Settlements | 3 | 3 | 3 | 3 | 2012 | 2012 | 2012 |
| (In millions) | | | | | | | | | | | | | | |
| Level 3 Instruments Only | | | | | | | | | | | | | | |
| Trading account assets: (c) | | | | | | | | | | | | | | |
| Obligations of states and political subdivisions | | | | | | | | | | | | | | |
| | \$ 139 | (3) | | 4 | | | (16) | | | | (124) | \$ | | \$ |
| Commercial agency MBS | 51 | 2 | | 368 | | | (317) | | | | (104) | | | |
| Other securities | 1 | 4 | | 2,248 | | | (2,240) | | | | (13) | | | |
| Total trading account assets (d) | \$ 191 | 3(a) | | 2,620 | | | (2,573) | | | | (241) | \$ | | \$ |
| Securities available for sale: | | | | | | | | | | | | | | |
| Obligations of states and political subdivisions | | | | | | | | | | | | | | |
| | \$ 20 | | (2) | | (16) | | (2) | | | | | \$ | | \$ |
| Residential non-agency MBS | 16 | | | | | | (3) | | | | | | 13 | |
| Commercial non-agency MBS | | | 1 | 103 | | | | | | | | | 104 | |
| Other debt securities | | | | | | | | 3 | (1) | | | | 2 | |
| Total securities available for sale | \$ 36 | | (1) | 103 | (16) | | (5) | 3 | (1) | | | \$ 119 | | \$ |
| Mortgage servicing rights | \$ 182 | (50)(b) | | 44 | | | | | | | | \$ 176 | | \$ (28)(b) |
| Trading account liabilities: | | | | | | | | | | | | | | |
| Mortgage-backed securities: | | | | | | | | | | | | | | |
| Commercial agency | \$ 5 | | | 37 | | | | | | | (42) | \$ | | \$ |
| Other securities | 2 | | | 12 | | | (4) | | | | (10) | | | |
| Total trading account liabilities (d) | \$ 7 | | | 49 | | | (4) | | | | (52) | \$ | | \$ |
| Derivatives, net: | | | | | | | | | | | | | | |
| Interest rate options | \$ 13 | 193(b) | | | | | (165) | | | | | \$ 41 | | \$ 89(b) |
| Total derivatives, net | \$ 13 | 193 | | | | | (165) | | | | | \$ 41 | | \$ 89 |

(a) Included in discontinued operations, on a net basis.

(b) Included in mortgage income.

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

- (c) Income from trading account assets primarily represents gains/(losses) on disposition, which inherently includes commissions on security transactions during the period.
- (d) All amounts related to trading account assets and trading account liabilities are related to Morgan Keegan (see Note 2 for discussion of sale of Morgan Keegan).

Table of Contents

Nine Months Ended September 30, 2011

| | Total Realized / Unrealized Gains or Losses | | Included in Other Compre- hensive Income (Loss) | | Purchases | Sales | Issuances | Settlements | Transfers into Level 3 | Transfers out of Level 3 | Closing Balance September 30, 2011 | Net change in unrealized gains (losses) included in earnings related to assets and liabilities held at September 30, 2011 |
|--|---|----------------------------|---|---|-----------|-------|-----------|-------------|---------------------------------|--------------------------------------|---|--|
| | Opening Balance January 1, 2011 | Included in Earnings | | | | | | | | | | |
| Level 3 Instruments Only | | | | | | | | | | | | |
| Trading account assets: (c) | | | | | | | | | | | | |
| Obligations of states and political subdivisions | | | | | | | | | | | | |
| | \$ 165 | (13) | | | 52 | | | (61) | | | \$ 143 | \$ |
| Commercial agency MBS | 54 | 6 | | | 940 | | | (949) | 1 | | 52 | |
| Other securities | 10 | 15 | | | 6,315 | | | (6,335) | | | 5 | |
| Total trading account assets (d) | \$ 229 | 8(a) | | | 7,307 | | | (7,345) | 1 | | \$ 200 | \$ |
| Securities available for sale: | | | | | | | | | | | | |
| Obligations of states and political subdivisions | | | | | | | | | | | | |
| | \$ 17 | | | 2 | | | | (2) | | | \$ 17 | \$ |
| Residential non-agency MBS | 22 | 1 | (1) | | (2) | | | (4) | | | 16 | |
| Total securities available for sale | \$ 39 | 1 | 1 | | (2) | | | (6) | | | \$ 33 | \$ |
| Mortgage servicing rights | \$ 267 | (133)(b) | | | 48 | | | | | | \$ 182 | \$ (116)(b) |
| Trading account liabilities: | | | | | | | | | | | | |
| Mortgage-backed securities: | | | | | | | | | | | | |
| Commercial agency | \$ 6 | | | | | | | (6) | | | \$ | \$ |
| Other securities | 4 | | | | (35) | | | 42 | | | 11 | |
| Total trading account liabilities (d) | \$ 10 | | | | (35) | | | 36 | | | \$ 11 | \$ |
| Derivatives, net: | | | | | | | | | | | | |
| Interest rate options | \$ 3 | 93(b) | | | | | | (77) | | | \$ 19 | \$ 19(b) |
| Interest rate futures and forward commitments | 5 | | | | | | | (5) | | | | |
| Total derivatives, net | \$ 8 | 93 | | | | | | (82) | | | \$ 19 | \$ 19 |

(a) Included in discontinued operations, on a net basis.

(b) Included in mortgage income.

(c) Income from trading account assets primarily represents gains/(losses) on disposition, which inherently includes commissions on security transactions during the period.

(d) All amounts related to trading account assets and trading account liabilities are related to Morgan Keegan (see Note 2 for discussion of sale of Morgan Keegan).

Table of Contents

The following table presents the fair value adjustments related to non-recurring fair value measurements:

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|--|------------------------------------|----------|-----------------------------------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| | (In millions) | | | |
| Loans held for sale | \$ (54) | \$ (161) | \$ (155) | \$ (466) |
| Foreclosed property, other real estate and equipment | (18) | (46) | (56) | (183) |

The following table presents detailed information regarding assets and liabilities measured at fair value using significant unobservable inputs (Level 3) as of September 30, 2012. The table includes the valuation techniques and the significant unobservable inputs utilized. The range of each significant unobservable input as well as the weighted average within the range utilized at September 30, 2012 is included. Following the table is a description of the valuation technique and the sensitivity of the technique to changes in the significant unobservable input.

| | Level 3 Fair Value at September 30, 2012 | Valuation Technique | September 30, 2012 | |
|--|---|--|--|--|
| | | | Unobservable Input(s) (Dollars in millions) | Quantitative Range of Unobservable Inputs and (Weighted-Average) |
| Recurring fair value measurements: | | | | |
| <u>Securities available for sale:</u> | | | | |
| <u>Mortgage-backed securities:</u> | | | | |
| Residential non-agency | \$ 13 | Discounted cash flow | Spread to LIBOR | 5.4% -69.9% (17.0%) |
| | | | Weighted-average prepayment speed (CPR; percentage) | 7.3% -29.4% (11.3%) |
| | | | Probability of default | 0.2% -1.2% (1.1%) |
| | | | Loss severity | 40.7% -100.0% (49.4%) |
| Commercial non-agency | \$ 104 | Consensus pricing | Bid quotes - spreads | 50 -88 (74.6 bps) |
| Other debt securities | \$ 2 | Market Comparable | Evaluated quote on same issuer/comparable bond | 98.7% -100.0% (99.5%) |
| | | | Comparability adjustments | 1.3% (1.3%) |
| <u>Mortgage servicing rights (a)</u> | \$ 176 | Discounted cash flow | Weighted-average prepayment speed (CPR; percentage) | 6.5% -32.1% (20.1%) |
| | | | Option-adjusted spread (basis points) | 1.9% -20.9% (1,035) |
| <u>Derivative assets:</u> | | | | |
| Interest rate options | \$ 41 | Discounted cash flow | Weighted-average prepayment speed (CPR; percentage) | 6.5% -32.1% (20.1%) |
| | | | Option-adjusted spread (basis points) | 1.9% -20.9% (1,035) |
| | | | Pull-through | 55.5% -98.8% (75.4%) |
| Nonrecurring fair value measurements: | | | | |
| Loans held for sale | \$ 90 | Multiple data points, including discount to appraised value of collateral based on recent market activity for sales of similar loans | Appraisal compatability adjustment (discount) | 7.0% -99.0% (46.9%) |
| Foreclosed property and other real estate | \$ 57 | Discount to appraised value of property based | Appraisal compatability adjustment (discount) | |

on recent market
activity for sales of
similar properties

25.0% -100.0% (38.7%)

- (a) See Note 5 for additional disclosures related to assumptions used in the fair value calculation for mortgage servicing rights.

Table of Contents

RECURRING FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS

Securities available for sale

Mortgage-backed securities: residential non-agency The fair value reported in this category relates to retained interests in legacy securitizations. Significant unobservable inputs include the spread to LIBOR, constant prepayment rate, probability of default, and loss severity in the event of default. Significant increases in any of these inputs in isolation would result in significantly lower fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for loss severity and a directionally opposite change in the assumption used for prepayment rates.

Mortgage-backed securities: commercial non-agency The significant unobservable input is the nominal spread to swaps based on indicative bid quotes for the same security. Changes in the bid quote would result in a directionally inverse change in the fair value of the commercial non-agency securities.

Other debt securities Significant unobservable inputs include evaluated quotes on comparable bonds for the same issuer and management-determined comparability adjustments. Changes in the evaluated quote on comparable bonds would result in a directionally similar change in the fair value of the other debt securities.

Mortgage Servicing Rights

The significant unobservable inputs used in the fair value measurement of mortgage servicing rights are option adjusted spreads (OAS) and prepayment speed. This method requires generating cash flow projections over multiple interest rate scenarios and discounting those cash flows at a risk adjusted rate. Additionally, the impact of prepayments and changes in the OAS are based on a variety of underlying inputs such as servicing costs. Increases or decreases to the underlying cash flow inputs will have a corresponding impact on the value of the mortgage servicing right asset. See Note 5 for additional disclosures related to assumptions used in the fair value calculation for mortgage servicing rights.

Derivative assets

Interest rate options These instruments are interest rate lock agreements made in the normal course of originating residential mortgage loans. Significant unobservable inputs in the fair value measurement are OAS, prepayment speeds, and pull-through. The impact of OAS and prepayment speed inputs in the valuation of these derivative instruments are consistent with the MSR discussion above. Pull-through is an estimate of the number of interest rate lock commitments that will ultimately become funded loans. Increases or decreases in the pull-through assumption will have a corresponding impact on the value of these derivative assets.

NON-RECURRING FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS

Loans held for sale

Loans held for sale are valued based on multiple data points indicating the fair value for each loan. The primary data point for non-performing investor real estate loans is a discount to the appraised value of the underlying collateral, which considers the return required by potential buyers of the loans. Management establishes this discount or comparability adjustment based on recent sales of loans secured by similar property types. As liquidity in the market increases or decreases, the comparability adjustment and the resulting asset valuation are impacted.

Foreclosed property and other real estate

Foreclosed property and other real estate are valued based on offered quotes as available. If no sales contract is pending for a specific property, management establishes a comparability adjustment to the appraised value based on historical activity considering proceeds for properties sold versus the corresponding appraised value. Increases or decreases in realization for properties sold impact the comparability adjustment for similar assets remaining on the balance sheet.

Table of Contents**FAIR VALUE OPTION**

Regions elected the fair value option for FNMA and FHLMC eligible thirty-year residential mortgage loans held for sale originated on or after January 1, 2008. Additionally, Regions elected the fair value option for FNMA and FHLMC eligible fifteen-year residential mortgage loans originated on or after November 22, 2010. These elections allow for a more effective offset of the changes in fair values of the loans and the derivative instruments used to economically hedge them without the burden of complying with the requirements for hedge accounting. Regions has not elected the fair value option for other loans held for sale primarily because they are not economically hedged using derivative instruments. Fair values of mortgage loans held for sale are based on traded market prices of similar assets where available and/or discounted cash flows at market interest rates, adjusted for securitization activities that include servicing values and market conditions, and are recorded in loans held for sale in the consolidated balance sheets.

The following table summarizes the difference between the aggregate fair value and the aggregate unpaid principal balance for mortgage loans held for sale measured at fair value:

| | September 30, 2012 | | | December 31, 2011 | | |
|---|----------------------|----------------------------|---|----------------------|----------------------------|--|
| | Aggregate Fair Value | Aggregate Unpaid Principal | Aggregate Fair Value Less Aggregate Unpaid Principal (In millions) | Aggregate Fair Value | Aggregate Unpaid Principal | Aggregate Fair Value Less Aggregate Unpaid Principal |
| Mortgage loans held for sale, at fair value | \$ 1,130 | \$ 1,070 | \$ 60 | \$ 844 | \$ 815 | \$ 29 |

Interest income on mortgage loans held for sale is recognized based on contractual rates and is reflected in interest income on loans held for sale in the consolidated statements of income. The following table details net gains resulting from changes in fair value of these loans which were recorded in mortgage income in the consolidated statements of income during the three months and nine months ended September 30, 2012 and 2011, respectively. These changes in fair value are mostly offset by economic hedging activities. An immaterial portion of these amounts was attributable to changes in instrument-specific credit risk.

| | Mortgage loans held for sale, at fair value | | | |
|--|---|-------|-----------------------------------|-------|
| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
| | 2012 | 2011 | 2012 | 2011 |
| Net gains resulting from changes in fair value | \$ 19 | \$ 13 | \$ 31 | \$ 36 |

FAIR VALUE OF FINANCIAL INSTRUMENTS

For items measured at fair value on either a recurring or non-recurring basis, a description of the valuation methodology as well as within which strata of the fair value hierarchy the measurement falls is detailed in the consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2011. For financial instruments whose fair values are estimated for disclosure purposes only, the following methods and assumptions were used:

Cash and cash equivalents: The carrying amounts reported in the consolidated balance sheets and cash flows approximate the estimated fair values. Because these amounts generally relate to either currency or highly liquid assets, these are considered Level 1 valuations.

Securities held to maturity: The fair values of securities held to maturity are estimated in the same manner as the corresponding securities available for sale, which are measured at fair value on a recurring basis.

Table of Contents

Loans (excluding leases), net of unearned income and allowance for loan losses: The fair values of loans, excluding leases, are estimated based on groupings of similar loans by type, interest rate, and borrower creditworthiness. Discounted future cash flow analyses are performed for the groupings incorporating assumptions of current and projected prepayment speeds and expected loss. Discount rates are determined using the Company's current origination rates on similar loans, adjusted for changes in current liquidity and credit spreads (if necessary). Because the current liquidity spreads are generally not observable in the market and the expected loss assumptions are based on the Company's experience, these are Level 3 valuations.

Other interest-earning assets: The carrying amounts reported in the consolidated balance sheets approximate the estimated fair values. While these instruments are not actively traded in the market, the majority of the inputs required to value them are actively quoted and can be validated through external sources. Accordingly, these are Level 2 valuations.

Deposits: The fair value of non-interest-bearing demand accounts, interest-bearing transaction accounts, savings accounts, money market accounts and certain other time deposit accounts is the amount payable on demand at the reporting date (i.e., the carrying amount). Fair values for certificates of deposit are estimated by using discounted cash flow analyses, based on market spreads to benchmark rates. These are Level 2 valuations.

Short-term and long-term borrowings: The carrying amounts of short-term borrowings reported in the consolidated balance sheets approximate the estimated fair values, and are considered Level 2 measurements as similar instruments are traded in active markets. The fair values of certain long-term borrowings are estimated using quoted market prices of identical instruments and are considered Level 1 measurements. If identical instruments are not available, fair values are estimated using quoted market prices for similar instruments and are considered Level 2 valuations. Otherwise, valuations are based on a combination of non-binding broker quotes and quoted prices for identical instruments in non-active markets and are considered Level 3 valuations.

Loan commitments and letters of credit: The estimated fair values for these off-balance sheet instruments are based on probabilities of funding to project future loan fundings, which are discounted using the loan methodology described above. The premiums/discounts are adjusted for the time value of money over the average remaining life of the commitments and the opportunity cost associated with regulatory requirements. Because the probabilities of funding and loan valuations are not observable in the market and are considered company specific inputs, these are Level 3 valuations.

Indemnification obligation: The estimated fair value of the indemnification obligation was determined through the use of a present value calculation that takes into account the future cash flows that a market participant would expect to receive from holding the indemnification liability as an asset. Regions performed a probability-weighted cash flow analysis and discounted the result at a credit-adjusted risk free rate. Because the future cash flows and probability weights are company-specific inputs, this is a Level 3 valuation.

Table of Contents

The carrying amounts and estimated fair values, as well as the level within the fair value hierarchy, of the Company's financial instruments as of September 30, 2012 are as follows:

| | Carrying Amount | September 30, 2012 | | | |
|---|--------------------|--------------------------------|--------------------------|---------|---------|
| | | Estimated Fair Value (1) | Level 1 (In millions) | Level 2 | Level 3 |
| Financial assets: | | | | | |
| Cash and cash equivalents | \$ 3,930 | \$ 3,930 | \$ 3,930 | \$ | \$ |
| Trading account assets | 114 | 114 | 114 | | |
| Securities available for sale | 27,603 | 27,603 | 165 | 27,319 | 119 |
| Securities held to maturity | 12 | 13 | 3 | 10 | |
| Loans held for sale | 1,265 | 1,265 | | 1,130 | 135 |
| Loans (excluding leases), net of unearned income and allowance for loan losses (2), (3) | 71,685 | 64,846 | | | 64,846 |
| Other interest-earning assets | 881 | 881 | | 881 | |
| Derivatives, net | 128 | 128 | | 87 | 41 |
| Financial liabilities: | | | | | |
| Deposits | 94,881 | 94,957 | | 94,957 | |
| Short-term borrowings | 1,936 | 1,936 | | 1,936 | |
| Long-term borrowings | 6,224 | 6,422 | 905 | | 5,517 |
| Loan commitments and letters of credit | 113 | 663 | | | 663 |
| Indemnification obligation | 377 | 360 | | | 360 |

- (1) Estimated fair values are consistent with an exit price concept. The assumptions used to estimate the fair values are intended to approximate those that a market participant would use in a hypothetical orderly transaction. In estimating fair value, the Company makes adjustments for interest rates, market liquidity and credit spreads as appropriate.
- (2) The estimated fair value of portfolio loans assumes sale of the loans to a third-party financial investor. Accordingly, the value to the Company if the loans were held to maturity is not reflected in the fair value estimate. In the current whole loan market, financial investors are generally requiring a higher rate of return than the return inherent in loans if held to maturity. The fair value discount at September 30, 2012 was \$6.8 billion or 9.5 percent.
- (3) Excluded from this table is the lease carrying amount of \$1.5 billion at September 30, 2012.

Table of Contents

The carrying amounts and estimated fair values of the Company's financial instruments as of December 31, 2011 are as follows:

| | December 31, 2011 | |
|---|--------------------|--------------------------------|
| | Carrying Amount | Estimated Fair Value (1) |
| | (In millions) | |
| Financial assets: | | |
| Cash and cash equivalents | \$ 7,245 | \$ 7,245 |
| Trading account assets | 1,266 | 1,266 |
| Securities available for sale | 24,471 | 24,471 |
| Securities held to maturity | 16 | 17 |
| Loans held for sale | 1,193 | 1,193 |
| Loans (excluding leases), net of unearned income and allowance for loan losses (2), (3) | 73,284 | 65,224 |
| Other interest-earning assets | 1,085 | 1,085 |
| Derivatives, net | 339 | 339 |
| Financial liabilities: | | |
| Deposits | 95,627 | 95,757 |
| Short-term borrowings | 3,067 | 3,067 |
| Long-term borrowings | 8,110 | 7,439 |
| Loan commitments and letters of credit | 117 | 756 |

- (1) Estimated fair values are consistent with an exit price concept. The assumptions used to estimate the fair values are intended to approximate those that a market participant would use in a hypothetical orderly transaction. In estimating fair value, the Company makes adjustments for interest rates, market liquidity and credit spreads as appropriate.
- (2) The estimated fair value of portfolio loans assumes sale of the loans to a third-party financial investor. Accordingly, the value to the Company if the loans were held to maturity is not reflected in the fair value estimate. In the current whole loan market, financial investors are generally requiring a higher rate of return than the return inherent in loans if held to maturity. The fair value discount at December 31, 2011 was \$8.1 billion or 11.0 percent.
- (3) Excluded from this table is the lease carrying amount of \$1.6 billion at December 31, 2011.

NOTE 14 Business Segment Information

Each of Regions' reportable segments is a strategic business unit that serves specific needs of Regions' customers based on the products and services provided. The segments are based on the manner in which management views the financial performance of the business. The Company has three reportable segments: Business Services, Consumer Services and Wealth Management, with the remainder split between Discontinued Operations and Other. During the third quarter of 2012, Regions reorganized its internal management structure and, accordingly, its segment reporting structure. Historically, Regions' primary business segment was Banking/Treasury, representing the Company's banking network (including the Consumer and Commercial Banking function along with the Treasury function). Other segments included Investment Banking/Brokerage/Trust and Insurance. During the second quarter of 2012, Regions consummated the sale of Morgan Keegan (the primary component of Investment Banking/Brokerage/Trust). Shortly thereafter, Regions announced organizational changes to better integrate and execute the Company's strategic priorities across all lines of business and geographies. As a result, Regions revised its reportable segments as described below. Prior periods' information has been restated to conform to the current periods' presentation.

The Business Services segment represents the Company's commercial banking functions including commercial and industrial, commercial real estate and investor real estate lending. This segment also includes equipment lease financing. Business Services customers include corporate, middle market, small business and commercial real estate developers and investors. Corresponding deposit products related to these types of customers are included in this segment.

Table of Contents

The Consumer Services segment represents the Company's branch network, including consumer banking products and services related to residential first mortgages, home equity lines and loans, indirect loans, consumer credit cards and other consumer loans, as well as the corresponding deposit relationships. These services are also provided through alternative channels such as the internet and telephone banking.

The Wealth Management segment includes wealth management products and services such as trust activities, commercial insurance and credit life products sold to consumer customers, and investment management. Wealth Management customers include individuals and institutional clients who desire services that include investment advice, assistance in managing assets, and estate planning.

Discontinued Operations includes all brokerage and investment activities associated with Morgan Keegan. As discussed in Note 2, Regions closed the sale of Morgan Keegan and related entities on April 2, 2012.

Other includes the Company's treasury function, the securities portfolio, wholesale funding activities, interest rate risk management activities and other corporate functions that are not related to a strategic business unit. Also within Other are certain reconciling items in order to translate the segment results that are based on management accounting practices into consolidated results. Management accounting practices utilized by Regions as the basis of presentation for segment results include the following:

Net interest income is presented based upon a funds transfer pricing (FTP) approach, for which market-based funding charges/credits are assigned within the segments. By allocating a cost or a credit to each product based on the FTP framework, management is able to more effectively measure the net interest margin contribution of its assets/liabilities by segment. The summation of the interest income/expense and FTP charges/credits for each segment is its designated net interest income. The variance between the Company's cumulative FTP charges and cumulative FTP credits is offset in Other.

Provision for loan losses is allocated to each segment based on actual net charge-offs that have been recognized by the segment. The difference between the consolidated provision for loan losses and the segments' net charge-offs is reflected in Other.

Income tax expense (benefit) is calculated for Business Services, Consumer Services, and Wealth Management based on a consistent federal and state statutory rate. Discontinued Operations reflects the actual income tax expense (benefit) of its results. Any difference between the Company's consolidated income tax expense (benefit) and the segments' calculated amounts is reflected in Other.

Management reporting allocations of certain expenses are made in order to analyze the financial performance of the segments. These allocations consist of operational and overhead cost pools and are intended to represent the total costs to support a segment.

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

| | Three Months Ended September 30, 2012 | | | | | | |
|------------------------------|---------------------------------------|-------------------|-------------------|------------------------|-----------------------|-------------------------|--------------|
| | Business Services | Consumer Services | Wealth Management | Other (In millions) | Continuing Operations | Discontinued Operations | Consolidated |
| Net interest income | \$ 507 | \$ 487 | \$ 45 | \$ (222) | \$ 817 | \$ | \$ 817 |
| Provision for loan losses | 145 | 107 | 10 | (229) | 33 | | 33 |
| Non-interest income | 107 | 311 | 93 | 22 | 533 | 1 | 534 |
| Non-interest expense | 225 | 507 | 105 | 32 | 869 | 20 | 889 |
| Pretax income (loss) | 244 | 184 | 23 | (3) | 448 | (19) | 429 |
| Income tax expense (benefit) | 93 | 70 | 8 | (35) | 136 | (8) | 128 |
| Net income (loss) | \$ 151 | \$ 114 | \$ 15 | \$ 32 | \$ 312 | \$ (11) | \$ 301 |
| Average assets | \$ 48,664 | \$ 29,652 | \$ 7,470 | \$ 35,745 | \$ 121,531 | \$ 30 | \$ 121,561 |

Table of Contents

| | Three Months Ended September 30, 2011 | | | | | | |
|------------------------------|---------------------------------------|-------------------|-------------------|------------------------|-----------------------|-------------------------|--------------|
| | Business Services | Consumer Services | Wealth Management | Other (In millions) | Continuing Operations | Discontinued Operations | Consolidated |
| Net interest income | \$ 502 | \$ 471 | \$ 49 | \$ (172) | \$ 850 | \$ 8 | \$ 858 |
| Provision for loan losses | 347 | 144 | 20 | (156) | 355 | | 355 |
| Non-interest income | 123 | 338 | 90 | (38) | 513 | 232 | 745 |
| Non-interest expense | 257 | 478 | 94 | 21 | 850 | 216 | 1,066 |
| Pretax income (loss) | 21 | 187 | 25 | (75) | 158 | 24 | 182 |
| Income tax expense (benefit) | 8 | 71 | 9 | (71) | 17 | 10 | 27 |
| Net income (loss) | \$ 13 | \$ 116 | \$ 16 | \$ (4) | \$ 141 | \$ 14 | \$ 155 |
| Average assets | \$ 50,284 | \$ 30,403 | \$ 7,850 | \$ 38,049 | \$ 126,586 | \$ 3,173 | \$ 129,759 |

| | Nine Months Ended September 30, 2012 | | | | | | |
|------------------------------|--------------------------------------|-------------------|-------------------|------------------------|-----------------------|-------------------------|--------------|
| | Business Services | Consumer Services | Wealth Management | Other (In millions) | Continuing Operations | Discontinued Operations | Consolidated |
| Net interest income | \$ 1,532 | \$ 1,447 | \$ 137 | \$ (634) | \$ 2,482 | \$ 7 | \$ 2,489 |
| Provision for loan losses | 469 | 365 | 25 | (683) | 176 | | 176 |
| Non-interest income | 331 | 897 | 283 | 53 | 1,564 | 256 | 1,820 |
| Non-interest expense | 695 | 1,513 | 319 | 97 | 2,624 | 343 | 2,967 |
| Pretax income (loss) | 699 | 466 | 76 | 5 | 1,246 | (80) | 1,166 |
| Income tax expense (benefit) | 266 | 177 | 29 | (128) | 344 | (33) | 311 |
| Net income (loss) | \$ 433 | \$ 289 | \$ 47 | \$ 133 | \$ 902 | \$ (47) | \$ 855 |
| Average assets | \$ 48,971 | \$ 29,784 | \$ 7,633 | \$ 36,179 | \$ 122,567 | \$ 948 | \$ 123,515 |

| | Nine Months Ended September 30, 2011 | | | | | | |
|------------------------------|--------------------------------------|-------------------|-------------------|------------------------|-----------------------|-------------------------|--------------|
| | Business Services | Consumer Services | Wealth Management | Other (In millions) | Continuing Operations | Discontinued Operations | Consolidated |
| Net interest income | \$ 1,497 | \$ 1,363 | \$ 144 | \$ (443) | \$ 2,561 | \$ 24 | \$ 2,585 |
| Provision for loan losses | 1,053 | 432 | 56 | (306) | 1,235 | | 1,235 |
| Non-interest income | 379 | 914 | 280 | 63 | 1,636 | 733 | 2,369 |
| Non-interest expense | 849 | 1,487 | 312 | 90 | 2,738 | 693 | 3,431 |
| Pretax income (loss) | (26) | 358 | 56 | (164) | 224 | 64 | 288 |
| Income tax expense (benefit) | (10) | 136 | 21 | (193) | (46) | 1 | (45) |
| Net income (loss) | \$ (16) | \$ 222 | \$ 35 | \$ 29 | \$ 270 | \$ 63 | \$ 333 |
| Average assets | \$ 51,496 | \$ 30,253 | \$ 7,860 | \$ 37,723 | \$ 127,332 | \$ 3,213 | \$ 130,545 |

Table of Contents**NOTE 15 Commitments and Contingencies****COMMERCIAL COMMITMENTS**

Regions issues off-balance sheet financial instruments in connection with lending activities. The credit risk associated with these instruments is essentially the same as that involved in extending loans to customers and is subject to Regions' normal credit approval policies and procedures. Regions measures inherent risk associated with these instruments by recording a reserve for unfunded commitments based on an assessment of the likelihood that the guarantee will be funded and the creditworthiness of the customer or counterparty. Collateral is obtained based on management's assessment of the creditworthiness of the customer.

Credit risk associated with these instruments is represented by the contractual amounts indicated in the following table:

| | September 30 2012 | December 31 2011 |
|---|----------------------|---------------------|
| | (In millions) | |
| Unused commitments to extend credit | \$ 37,382 | \$ 37,872 |
| Standby letters of credit | 2,033 | 2,084 |
| Commercial letters of credit | 25 | 33 |
| Liabilities associated with standby letters of credit | 36 | 37 |
| Assets associated with standby letters of credit | 35 | 36 |
| Reserve for unfunded credit commitments | 75 | 78 |

Unused commitments to extend credit 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) credit card and other 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 Standby letters of credit are also issued to customers which commit Regions to make payments on behalf of customers if certain specified future events occur. Regions has recourse against the customer for any amount required to be paid to a third party under a standby letter of credit. Historically, a large percentage of standby letters of credit expired without being funded. The contractual amount of standby letters of credit represents the maximum potential amount of future payments Regions could be required to make and represents Regions' maximum credit risk.

Commercial letters of credit Commercial letters of credit are issued to facilitate foreign or domestic trade transactions for customers. As a general rule, drafts will be drawn when the goods underlying the transaction are in transit.

INDEMNIFICATION OBLIGATION

As discussed in Note 2, on April 2, 2012 (Closing Date), Regions closed the sale of Morgan Keegan and related affiliates to Raymond James. In connection with the sale, Regions agreed to indemnify Raymond James for all legal matters related to pre-closing activities, including matters filed subsequent to the Closing Date that relate to actions that occurred prior to closing. Losses under the indemnification include legal and other expenses, such as costs for judgments, settlements and awards associated with the defense and resolution of the indemnified matters. The maximum potential amount of future payments that Regions could be required to make under the indemnification is indeterminable due to the indefinite term of some of the obligations. However, Regions expects the majority of ongoing legal matters to be resolved within approximately three years.

Table of Contents

As of the Closing Date, the fair value of the indemnification obligation, which includes defense costs and unasserted claims, was approximately \$385 million, of which approximately \$256 million was recognized as a reduction to the gain on sale of Morgan Keegan. In accordance with the Stock Purchase Agreement, indemnified losses will be reimbursed once they exceed the dollar value of the reserves related to pending or threatened claims or contingent liabilities that were on the books of Morgan Keegan as of the Closing Date. The fair value was determined through the use of a present value calculation that takes into account the future cash flows that a market participant would expect to receive from holding the indemnification liability as an asset. Regions performed a probability-weighted cash flow analysis and discounted the result at a credit-adjusted risk free rate. The fair value of the indemnification liability includes amounts that Regions had previously determined meet the definition of probable and reasonably estimable. Adjustments to the indemnification obligation are recorded within professional and legal expenses within discontinued operations (see Note 2). No amounts have been reimbursed to Raymond James. As of September 30, 2012, the carrying value of the indemnification obligation was approximately \$377 million.

LEGAL CONTINGENCIES

Regions and its affiliates are subject to loss contingencies related to litigation and claims arising in the ordinary course of business. Regions evaluates these contingencies based on information currently available, including advice of counsel and assessment of available insurance coverage. Regions establishes accruals for litigation and claims when a loss contingency is considered probable and the related amount is reasonably estimable. Any accruals are periodically reviewed and may be adjusted as circumstances change. In addition, as previously discussed, Regions has agreed to indemnify Raymond James for all legal matters resulting from pre-closing activities in conjunction with the sale of Morgan Keegan and recorded an indemnification obligation at fair value in the second quarter of 2012. The indemnification obligation had a carrying amount of \$377 million and an estimated fair value of \$360 million as of September 30, 2012 (see Note 13). When able to do so, Regions also estimates loss contingencies for possible litigation and claims, whether or not there is an accrued probable loss. Where Regions is able to estimate such possible losses, Regions estimates that it is reasonably possible it could incur losses, in excess of amounts accrued, in an aggregate amount up to approximately \$100 million as of September 30, 2012, with it also being reasonably possible that Regions could incur no losses in excess of amounts accrued. The legal contingencies included in the reasonably possible estimate include those that are subject to the indemnification agreement with Raymond James.

Assessments of litigation and claims exposures are difficult due to many factors that involve inherent unpredictability. Those factors include the following: the varying stages of the proceedings, particularly in the early stages; unspecified damages; damages other than compensatory such as punitive damages; multiple defendants and jurisdictions; whether discovery has begun or not; and whether the claim involves a class-action. There are numerous factors that result in a greater degree of complexity in class-action lawsuits as compared to other types of litigation. Due to the many intricacies involved in class-action lawsuits at the early stages of these matters, obtaining clarity on a reasonable estimate is difficult which may call into question its reliability. As a result of some of these factors, Regions may be unable to estimate reasonably possible losses with respect to some of the matters disclosed below. The aggregated estimated amount provided above therefore may not include an estimate for every matter disclosed below.

Beginning in December 2007, Regions and certain of its affiliates have been named in class-action lawsuits filed in federal and state courts on behalf of investors who purchased shares of certain Regions Morgan Keegan Select Funds (the Funds) and shareholders of Regions. These cases have been consolidated into class-actions and shareholder derivative actions for the open-end and closed-end Funds. The Funds were formerly managed by Regions Investment Management, Inc. (Regions Investment Management). Regions Investment Management no longer manages these Funds, which were transferred to Hyperion Brookfield Asset Management (Hyperion) in 2008. Certain of the Funds have since been terminated by Hyperion. The complaints contain various allegations, including claims that the Funds and the defendants misrepresented or failed to disclose material facts relating to the activities of the Funds. Plaintiffs have requested equitable relief and unspecified monetary

Table of Contents

damages. These cases are in various stages and no classes have been certified. Settlement discussions are ongoing in certain cases, and the parties have reached a preliminary settlement in the closed-end Funds class-action and the shareholder derivative case. Certain of the shareholders in these Funds and other interested parties have entered into arbitration proceedings and individual civil claims, in lieu of participating in the class actions. The lawsuits and proceedings related to the Funds are subject to the indemnification agreement with Raymond James discussed above.

In July 2009, the Securities and Exchange Commission (SEC) filed a complaint in U.S. District Court for the Northern District of Georgia against Morgan Keegan alleging violations of the federal securities laws in connection with auction rate securities (ARS) that Morgan Keegan underwrote, marketed and sold. The SEC sought an injunction against Morgan Keegan for violations of the antifraud provisions of the federal securities laws, as well as disgorgement, financial penalties and other equitable relief for customers, including repurchase by Morgan Keegan of all ARS that it sold prior to March 20, 2008. Beginning in February 2009, Morgan Keegan commenced a voluntary program to repurchase ARS that it underwrote and sold to the firm s customers, and extended that repurchase program on October 1, 2009 to include ARS that were sold by Morgan Keegan to its customers but were underwritten by other firms. On June 29, 2011, Morgan Keegan announced the final phase of the repurchase program to include ARS issued by Jefferson County, Alabama that were sold by Morgan Keegan to its customers. On June 28, 2011, the Court issued a summary judgment in favor of Morgan Keegan in this case, and the SEC appealed that judgment. On May 2, 2012, the Eleventh Circuit Court of Appeals granted the SEC s appeal and remanded the case to the District Court. Previously on July 21, 2009, the Alabama Securities Commission issued a Show Cause order to Morgan Keegan arising out of the ARS matter that is the subject of the SEC complaint described above. The order requires Morgan Keegan to show cause why its registration as a broker-dealer should not be suspended or revoked in the State of Alabama and also why it should not be subject to disgorgement, repurchasing all ARS sold to Alabama residents and payment of costs and penalties. These matters are subject to the indemnification agreement with Raymond James.

In October 2010, a purported class-action lawsuit was filed by Regions stockholders in the U.S. District Court for the Northern District of Alabama against Regions and certain former officers of Regions. The lawsuit alleges violations of the federal securities laws, including allegations that statements that were materially false and misleading were included in filings made with the SEC. The plaintiffs have requested equitable relief and unspecified monetary damages. On June 7, 2011, the trial court denied Regions motion to dismiss this lawsuit. On June 14, 2012, the trial court granted class certification. The Eleventh Circuit Court of Appeals is reviewing the trial court s grant of class action certification. The case is now stayed pending that review.

Regions has received inquiries and subpoenas from government authorities primarily concerning accounting matters from 2009 and earlier periods that also have been the subject of the civil litigation mentioned above. Regions is cooperating in providing responses to these inquiries and subpoenas. In addition, the Board of Directors is conducting investigations regarding certain of the matters raised in these inquiries and subpoenas.

In December 2009, Regions and certain current and former directors and officers were named in a consolidated shareholder derivative action filed in Jefferson County, Alabama. The complaint alleges mismanagement, waste of corporate assets, breach of fiduciary duty and unjust enrichment relating to bonuses and other benefits received by executive management. Plaintiffs have requested equitable relief and unspecified monetary damages. A motion to dismiss all claims is pending.

In September 2009, Regions was named as a defendant in a purported class-action lawsuit filed by customers of Regions Bank in the U.S. District Court for the Northern District of Georgia challenging the manner in which non-sufficient funds and overdraft fees were charged and the policies related to posting order. The case was transferred to multidistrict litigation in the U.S. District Court for the Southern District of Florida, and in May 2010 an order to compel arbitration was denied. Regions appealed the denial and on April 29, 2011, the Eleventh Circuit Court of Appeals vacated the denial and remanded the case to the district court for reconsideration of Regions motion to compel arbitration. On September 1, 2011, the trial court again denied Regions motion to compel arbitration. Regions again appealed the denial to the Eleventh Circuit, which on

Table of Contents

March 5, 2012 granted the motion and ordered that the case be dismissed. Plaintiffs filed a motion for rehearing by the full court of appeals, which was denied on April 30, 2012. Plaintiffs petitioned for certiorari with the U.S. Supreme Court, but their petition was denied on October 9, 2012. Another purported class-action alleging these claims was filed in the U.S. District Court for the Northern District of Georgia in January 2012. The case is still early in its development and no class has been certified. Plaintiffs in these cases have requested equitable relief and unspecified monetary damages.

In July 2006, Morgan Keegan and a former Morgan Keegan analyst were named as defendants in a lawsuit filed by a Canadian insurance and financial services company and its American subsidiary in the Circuit Court of Morris County, New Jersey. Plaintiffs made claims under a civil Racketeer Influenced and Corrupt Organizations (RICO) statute, for commercial disparagement, tortious interference with contractual relationships, tortious interference with prospective economic advantage and common law conspiracy. Plaintiffs allege that defendants engaged in a multi-year conspiracy to publish and disseminate false and defamatory information about plaintiffs to improperly drive down plaintiffs' stock price, so that others could profit from short positions. Plaintiffs allege that defendants' actions damaged their reputations and harmed their business relationships. Plaintiffs allege a number of categories of damages they sustained, including lost insurance business, lost financings and increased financing costs, increased audit fees and directors and officers insurance premiums and lost acquisitions, and have requested monetary damages. On September 12, 2012, the trial court dismissed the case with prejudice. Plaintiffs have filed an appeal. This matter is subject to the indemnification agreement with Raymond James.

While the final outcome of litigation and claims exposures is inherently unpredictable, management is currently of the opinion that the outcome of pending and threatened litigation would not have a material effect on Regions' business, consolidated financial position, results of operations or cash flows as a whole. However, in the event of unexpected future developments, it is reasonably possible that an adverse outcome in any of the matters discussed above could be material to Regions' business, consolidated financial position, results of operations or cash flows for any particular reporting period of occurrence.

NOTE 16 Recent Accounting Pronouncements

In October 2010, the Financial Accounting Standards Board (FASB) issued guidance addressing the diversity in practice regarding which costs related to the acquisition or renewal of insurance contracts qualify as deferred acquisition costs for insurance entities. This update amends guidance related to financial services by requiring that costs incurred with the acquisition and renewal of insurance contracts be capitalized as deferred acquisition costs. Incremental direct costs, portions of employees' compensation associated with time spent acquiring contracts, and other costs directly relating to the advertising, underwriting, issuing and processing of insurance policies are costs that should be capitalized to the extent that they would not have otherwise been incurred had the contracts not been successfully acquired. The amended guidance is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2011. Regions adopted this guidance beginning with first quarter 2012 financial reporting. The guidance did not have a material impact upon adoption.

In April 2011, the FASB issued accounting guidance to reconsider effective control for repurchase agreements. The guidance will simplify the accounting for financial assets transferred under repurchase agreements and similar arrangements, and will increase the number of transfers to be accounted for as secured borrowings, as opposed to sales. The amended guidance is effective prospectively for new transfers and existing transactions modified as of the first interim or annual period beginning on or after December 15, 2011. Regions periodically accesses funding markets through sales of securities with agreements to repurchase. Repurchase agreements are also offered through a commercial banking sweep product as a short-term investment opportunity for customers. All such arrangements are considered typical of the banking and brokerage industries and are accounted for as borrowings. Regions adopted this guidance beginning with first quarter 2012 financial reporting; there was no material impact upon adoption.

In May 2011, the FASB issued new guidance to create a uniform framework for applying fair value measurement principles for companies around the world. The new guidance eliminates differences between GAAP and International Financial Reporting Standards (IFRS) issued by the International Accounting

Table of Contents

Standards Board. New disclosures required by the guidance include: quantitative information about the significant unobservable inputs used for Level 3 measurements; a qualitative discussion about the sensitivity of recurring Level 3 measurements to changes in the unobservable inputs disclosed, including the interrelationship between inputs; and a description of the company's valuation processes. This guidance is effective for interim and annual periods beginning after December 15, 2011. Regions adopted this guidance beginning with first quarter 2012 financial reporting. See Note 13 for the newly-required disclosures.

In June 2011, the FASB issued new guidance amending disclosure requirements for the presentation of comprehensive income. The guidance eliminates the option to present components of other comprehensive income (OCI) as part of the statement of changes in shareholders' equity. All changes in OCI will be presented either in a single continuous statement of comprehensive income or in two separate but consecutive financial statements. The guidance does not change the items that must be reported in OCI. This guidance is effective for fiscal years and interim reporting periods within those years beginning after December 15, 2011. Regions adopted this new guidance with first quarter 2012 financial reporting. In December 2011, the FASB issued accounting guidance that indefinitely defers the effective date of certain provisions concerning the presentation of comprehensive income. The guidance indefinitely defers the requirement to present reclassification adjustments by component in both the statement where net income is presented and the statement where other comprehensive income is presented. See the consolidated statements of comprehensive income for further details.

In September 2011, the FASB issued accounting guidance related to goodwill impairment testing. The guidance allows entities to elect to first perform qualitative tests to determine the likelihood that the entity's fair value is less than its carrying value. If it is determined that it is more likely than not that the fair value of a reporting entity is less than its carrying amount, the entity would then perform the first step of the goodwill impairment test. The guidance refers to several factors to consider when performing the qualitative analysis, including: macroeconomic factors, industry factors, and entity-specific factors. The guidance is effective prospectively for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The amended guidance did not have a material impact upon adoption.

In December 2011, the FASB issued new accounting guidance that eliminates offsetting of financial instruments disclosure differences between GAAP and IFRS. New disclosures will be required for recognized financial instruments, such as derivatives, repurchase agreements, and reverse repurchase agreements, that are either (1) offset on the balance sheet in accordance with the FASB's offsetting guidance or (2) subject to an enforceable master netting arrangement or similar agreement, regardless of whether they are offset in accordance with the FASB's offsetting guidance. The objective of the new disclosure requirements is to enable users of the financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments. This amended guidance will be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. The adoption of this guidance, which involves disclosure only, will not impact Regions' consolidated financial position, results of operations, or cash flows.

NOTE 17 Subsequent Events

On November 1, 2012, Regions issued \$500 million in depositary shares each representing a fractional ownership interest in a share of the Company's 6.375% Non-Cumulative Perpetual Preferred Stock, Series A, par value \$1 per share (Series A Preferred Stock), with a liquidation preference of \$1,000 per share of Series A Preferred Stock (equivalent to \$25 per depositary share).

On November 1, 2012, Regions provided notice that it will redeem its 8.875% Junior Subordinated Notes due 2078 (JSNs). The JSNs are currently all held by Regions Financing Trust III (the Trust). This will cause the Trust to redeem all issued and outstanding 8.875% Trust Preferred Securities issued by Regions Financing Trust III (Trust Preferred Securities). The aggregate principal amount of JSNs and Trust Preferred Securities outstanding as of November 1, 2012 is approximately \$345 million. The redemptions are scheduled to occur on December 3, 2012.

Table of Contents

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

INTRODUCTION

The following discussion and analysis is part of Regions Financial Corporation's (Regions or the Company) Quarterly Report on Form 10-Q to the Securities and Exchange Commission (SEC) and updates Regions' Form 10-K for the year ended December 31, 2011, which was previously filed with the SEC. This financial information is presented to aid in understanding Regions' financial position and results of operations and should be read together with the financial information contained in the Form 10-K. Certain prior period amounts presented in this discussion and analysis have been reclassified to conform to current period classifications, except as otherwise noted. The emphasis of this discussion will be on the three and nine months ended September 30, 2012 compared to the three and nine months ended September 30, 2011 for the statement of income. For the balance sheet, the emphasis of this discussion will be the balances as of September 30, 2012 compared to December 31, 2011.

This discussion and analysis contains statements that may be considered forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. See pages 3 and 4 for additional information regarding forward-looking statements.

CORPORATE PROFILE

Regions is a financial holding company headquartered in Birmingham, Alabama, which operates throughout the South, Midwest and Texas. Regions provides traditional commercial, retail and mortgage banking services, as well as other financial services in the fields of asset management, trust, insurance and other specialty financing.

Regions conducts its banking operations through Regions Bank, an Alabama chartered commercial bank that is a member of the Federal Reserve System. At September 30, 2012, Regions operated 1,716 total branch outlets in Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, South Carolina, Tennessee, Texas and Virginia. Regions operates under three business segments: Business Services, Consumer Services, and Wealth Management with the remainder in Discontinued Operations and Other. See Note 14 Business Segment Information for a discussion of the change in Regions' segment reporting structure since June 30, 2012. Regions provides full-line insurance brokerage services primarily through Regions Insurance, Inc. which is included in the Wealth Management segment.

On January 11, 2012, Regions entered into a stock purchase agreement to sell Morgan Keegan & Company, Inc. (Morgan Keegan) and related affiliates to Raymond James Financial, Inc. (Raymond James). The sale closed on April 2, 2012. Regions Investment Management, Inc. and Regions Trust were not included in the sale; they are included in the Wealth Management segment. See Note 2 Discontinued Operations to the consolidated financial statements for further discussion.

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 interest-earning assets, such as loans and securities, and the interest expense Regions pays on interest-bearing liabilities, principally deposits and borrowings. Regions' net interest income is impacted by the size and mix of its balance sheet components and the interest rate spread between interest earned on its assets and interest paid on its liabilities. Non-interest income includes fees from service charges on deposit accounts, capital markets and trust activities, mortgage servicing and secondary marketing, insurance activities, 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, professional fees, deposit administrative fees, other real estate owned and other operating expenses, as well as income taxes.

Table of Contents

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

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

THIRD QUARTER HIGHLIGHTS

Regions reported net income available to common shareholders of \$301 million, or \$0.21 per diluted share, in the third quarter of 2012 compared to net income available to common shareholders of \$101 million, or \$0.08 per diluted share, in the third quarter of 2011. A significant decline in the third quarter 2012 provision for loan losses was the driver of the improvement in results from the prior year period.

The provision for loan losses totaled \$33 million in the third quarter of 2012 compared to \$355 million during the third quarter of 2011. Credit metrics, including net charge-offs, non-accrual, criticized and classified loan balances, and inflows of non-performing loans showed continued improving trends during 2012 compared to 2011.

Net charge-offs totaled \$262 million, or an annualized 1.38 percent of average loans, in the third quarter of 2012, compared to \$511 million, or an annualized 2.52 percent for the third quarter of 2011. Net charge-offs were lower across most major loan categories when comparing the 2012 period to the prior year period, except for the consumer credit card portfolio which was purchased in the second quarter of 2011.

The allowance for loan losses at September 30, 2012 was 2.74 percent of total loans, net of unearned income, compared to 3.54 percent at December 31, 2011. Total non-performing assets were \$2.2 billion at September 30, 2012, compared to \$3.0 billion at December 31, 2011.

For the third quarter of 2012, net interest income (taxable-equivalent basis) from continuing operations totaled \$830 million compared to \$859 million in the third quarter of 2011. The net interest margin (taxable-equivalent basis) was 3.08 percent in the third quarter of 2012 compared to 3.04 percent in the third quarter of 2011. A smaller balance sheet, marked by a decline in loan volumes and average earning assets, has contributed to the decline in net interest income. The net interest margin reflects the impact of a sustained low market interest rate environment impacting yields on assets being more than offset by continued improvement in deposit costs. Deposit costs were 28 basis points for the third quarter of 2012, as compared to 46 basis points for the third quarter of 2011.

Non-interest income from continuing operations for the third quarter of 2012 was \$533 million, compared to \$513 million for the third quarter of 2011. Investment fee income increased \$39 million in the third quarter of 2012 compared to the corresponding 2011 period as a result of market fluctuations related to trading account assets held for employee benefit purposes, as well as lower fair market value adjustments to the customer derivative portfolio.

Mortgage income increased \$38 million in the third quarter of 2012 compared to the corresponding 2011 period as customers took advantage of the opportunity to refinance under the extended Home Affordable Refinance Program, or HARP II. The third quarter of 2012 was a record high for mortgage income. Additionally, securities gains (losses) increased from a \$1 million loss in the third quarter of 2011 to a \$12 million gain in the third quarter of 2012. These increases were offset by a decrease in service charges income. Service charges on

Table of Contents

deposit accounts decreased \$66 million in the third quarter of 2012 compared to the corresponding 2011 period, reflecting the impact of recently-enacted debit card legislation and the impact of Regulation E. During the third quarter of 2012, service charges on deposit accounts were also negatively impacted by approximately \$11 million due to an addition to the reserve for customer refunds established in the second quarter resulting from a change in the Company's non-sufficient funds policy.

Total non-interest expense from continuing operations was \$869 million in the third quarter of 2012, a \$19 million increase from the third quarter of 2011. Salaries and benefits expense was \$66 million higher in the third quarter of 2012 compared to the third quarter of 2011 due to higher incentives, including those related to the strong mortgage production, as well as higher benefits. Marketing expense was \$13 million higher in the third quarter of 2012 compared to the corresponding 2011 period as a result of the credit card servicing conversion (which was brought in-house) and related expenses. These increases were offset by several items. Deposit administrative fees decreased \$10 million in the third quarter of 2012 compared to the corresponding 2011 period. Other real estate owned expense decreased \$35 million in the third quarter of 2012 compared to the third quarter of 2011. Gains on loans held for sale increased \$17 million in the third quarter of 2012 compared to the corresponding 2011 period.

A discussion of activity within discontinued operations is included at the end of the Management's Discussion and Analysis section of this report.

On November 1, 2012, Regions issued \$500 million in depository shares each representing a fractional ownership interest in a share of the Company's 6.375% Non-Cumulative Perpetual Preferred Stock, Series A, par value \$1 per share. Also on November 1, 2012, Regions provided notice that it will redeem its 8.875% Junior Subordinated Notes due 2078. The aggregate principal amount of the notes outstanding as of November 1, 2012 is approximately \$345 million. The redemptions are scheduled to occur on December 3, 2012. See Note 17 Subsequent Events.

TOTAL ASSETS

Regions' total assets at September 30, 2012 were \$121.8 billion, compared to \$127.1 billion at December 31, 2011. The decrease in total assets from year-end 2011 resulted mainly from a decrease in loans, as well as a decrease in other assets. The reduction in other assets was driven by decreases in derivative assets and deferred income tax assets, as well as settlements of securities sales. Also, a decrease in interest-bearing deposits in other banks was largely offset by an increase in securities available for sale. The decrease in total assets was also driven by a reduction in trading assets, which resulted from the closing of the sale of Morgan Keegan (see Note 2 Discontinued Operations to the consolidated financial statements).

Table of Contents**SECURITIES**

The following table details the carrying values of securities, including both available for sale and held to maturity:

Table 1 Securities

| | September 30 2012 | December 31 2011 |
|--|----------------------|---------------------|
| | (In millions) | |
| U.S. Treasury securities | \$ 53 | \$ 102 |
| Federal agency securities | 622 | 150 |
| Obligations of states and political subdivisions | 12 | 36 |
| Mortgage-backed securities | | |
| Residential agency | 22,944 | 22,184 |
| Residential non-agency | 13 | 16 |
| Commercial agency | 724 | 326 |
| Commercial non-agency | 958 | 321 |
| Corporate and other debt securities | 1,595 | 537 |
| Equity securities | 694 | 815 |
| | \$ 27,615 | \$ 24,487 |

Securities totaled \$27.6 billion at September 30, 2012, an increase of \$3.1 billion from year-end 2011 levels. During the first nine months of 2012, Regions purchased approximately \$600 million in available for sale federal agency securities, \$7.5 billion in available for sale mortgage-backed securities, and \$1.2 billion in available for sale high quality investment grade corporate bonds. These purchases were partially offset by sales of approximately \$1.8 billion in available for sale mortgage-backed securities, sales of approximately \$162 million in available for sale high quality investment grade corporate bonds, paydowns and maturities. The net purchases of agency mortgage-backed securities are an offset to the Company's strategy to sell the majority of agency eligible residential first mortgages at origination, and the corporate bonds increase diversification in the portfolio with an attractive risk and return profile.

Securities available for sale, which comprise nearly all of the securities portfolio, are an important tool used to manage interest rate sensitivity and provide a primary source of liquidity for the Company (see MARKET RISK INTEREST RATE RISK and LIQUIDITY).

Table of Contents**LOANS**

At both September 30, 2012 and December 31, 2011, loans represented approximately 70 percent of Regions' interest-earning assets. The following table presents the distribution of Regions' loan portfolio by portfolio segment and class, net of unearned income:

Table 2 Loan Portfolio

| | September 30 2012 | December 31 2011 |
|--|---------------------------------------|---------------------|
| | (In millions, net of unearned income) | |
| Commercial and industrial | \$ 26,375 | \$ 24,522 |
| Commercial real estate mortgage owner-occupied | 10,325 | 11,166 |
| Commercial real estate construction owner-occupied | 292 | 337 |
| Total commercial | 36,992 | 36,025 |
| Commercial investor real estate mortgage | 7,866 | 9,702 |
| Commercial investor real estate construction | 847 | 1,025 |
| Total investor real estate | 8,713 | 10,727 |
| Residential first mortgage | 13,225 | 13,784 |
| Home equity | 12,025 | 13,021 |
| Indirect | 2,220 | 1,848 |
| Consumer credit card | 901 | 987 |
| Other consumer | 1,183 | 1,202 |
| Total consumer | 29,554 | 30,842 |
| | \$ 75,259 | \$ 77,594 |

Loans, net of unearned income, totaled \$75.3 billion at September 30, 2012, a decrease of \$2.3 billion from year-end 2011 levels. Continued runoff of balances related to investor real estate, commercial real estate mortgage, residential first mortgage and home equity products was the primary contributor to the decrease. The decrease was partially offset by an increase in commercial and industrial loans and indirect loans.

Commercial The commercial portfolio segment includes commercial and industrial loans to commercial customers for use in normal business operations to finance working capital needs, equipment purchases and other expansion projects. Commercial and industrial loans have increased since year-end due to Regions' integrated approach to specialized lending. Commercial also includes owner-occupied commercial real estate loans to operating businesses, which are loans for long-term financing of land and buildings, and are repaid by cash flow generated by business operations. These loans declined from year-end 2011 as a result of customer deleveraging. Owner-occupied construction loans are made to commercial businesses for the development of land or construction of a building where the repayment is derived from revenues generated from the business of the borrower.

Investor Real Estate Loans for real estate development are repaid through cash flow related to the operation, sale or refinance of the property. This portfolio segment includes extensions of credit to real estate developers or investors where repayment is dependent on the sale of real estate or income generated from the real estate collateral. A portion of Regions' investor real estate portfolio segment is comprised of loans secured by residential product types (land, single-family and condominium loans) within Regions' markets. Additionally, this category includes loans made to finance income-producing properties such as apartment buildings, office and industrial buildings, and retail shopping centers. Investor real estate loans have been declining due to strategic decisions to reduce the concentration in this portfolio.

Residential First Mortgage Residential first mortgage loans represent loans to consumers to finance a residence. These loans are typically financed over a 15 to 30 year term and, in most cases, are extended to borrowers to finance their primary residence.

Table of Contents

Home Equity Home equity lending includes both home equity loans and lines of credit. This type of lending, which is secured by a first or second mortgage on the borrower's residence, allows customers to borrow against the equity in their home. Substantially all of this portfolio was originated through Regions' branch network. Consumers have been deleveraging and refinancing in 2012, resulting in the decrease in home equity loans since year-end 2011.

Indirect Indirect lending, which is lending initiated through third-party business partners, is largely comprised of loans made through automotive dealerships. Beginning in late 2010, the Company re-entered the indirect auto lending business. Regions currently has over 1,700 dealers in its network.

Consumer Credit Card During the second quarter of 2011, Regions completed the purchase of approximately 500,000 existing Regions branded consumer credit card accounts from FIA Card Services. The products are primarily open-ended variable interest rate consumer credit card loans. In the third quarter of 2012, Regions assumed the servicing of these loans from FIA Card Services.

Other Consumer Other consumer loans include direct consumer installment loans, overdrafts and other revolving loans.

CREDIT QUALITY

Certain of Regions' loans have been particularly vulnerable to weak economic conditions over the past several years, mainly investor real estate loans and home equity products (particularly Florida second lien). These loan types have a higher risk of non-collection than other loans. The following sections provide further detail on these portfolios.

INVESTOR REAL ESTATE

The following table presents the portions of the investor real estate portfolio segment as of September 30, 2012:

Table 3 Investor Real Estate Analysis

| | Mortgage | Construction (Dollars in billions) | Total | Percent of Total on Non-accrual Status |
|---------------|----------|---------------------------------------|--------|--|
| Multi-family | \$ 1.8 | \$ 0.2 | \$ 2.0 | 1.2% |
| Retail | 1.8 | 0.1 | 1.9 | 1.6 |
| Office | 1.6 | 0.1 | 1.7 | 0.6 |
| Industrial | 0.8 | | 0.8 | 0.5 |
| Land | 0.5 | 0.1 | 0.6 | 1.4 |
| Single family | 0.3 | 0.3 | 0.6 | 0.9 |
| Hotel | 0.5 | | 0.5 | |
| Other | 0.5 | | 0.5 | 0.7 |
| Condominium | 0.1 | | 0.1 | 0.1 |
| | \$ 7.9 | \$ 0.8 | \$ 8.7 | 7.0% |

Table of Contents

The following table presents the geographic distribution of the investor real estate portfolio segment as of September 30, 2012:

Table 4 Investor Real Estate By Geography

| | Core State (1) | | | | | | | | % of Total IRE |
|---------------|----------------|----------|---------|---------|-----------|-------------|-----------|-------|----------------|
| | Alabama | Arkansas | Florida | Georgia | Louisiana | Mississippi | Tennessee | Other | |
| Multi-family | 2.0% | 0.6% | 3.4% | 1.6% | 1.1% | 0.4% | 2.1% | 11.2% | 22.4% |
| Retail | 2.1 | 0.7 | 5.2 | 2.4 | 0.5 | 0.2 | 1.6 | 8.6 | 21.3 |
| Office | 2.1 | 0.2 | 3.9 | 2.6 | 1.3 | 0.4 | 1.1 | 8.0 | 19.6 |
| Industrial | 1.1 | 0.1 | 1.6 | 1.4 | 0.3 | 0.3 | 1.0 | 3.1 | 8.9 |
| Single family | 1.5 | 0.4 | 1.3 | 0.8 | 0.4 | 0.2 | 0.9 | 2.2 | 7.7 |
| Land | 0.8 | 0.2 | 2.9 | 0.5 | 0.3 | 0.1 | 0.8 | 1.5 | 7.1 |
| Hotel | 0.7 | 0.5 | 1.9 | 0.2 | 0.7 | 0.4 | 0.4 | 1.5 | 6.3 |
| Other | 0.8 | 0.2 | 1.6 | 0.5 | 0.4 | 0.3 | 0.6 | 1.3 | 5.7 |
| Condominium | 0.1 | | 0.6 | 0.1 | | | 0.1 | 0.1 | 1.0 |
| | 11.2% | 2.9% | 22.4% | 10.1% | 5.0% | 2.3% | 8.6% | 37.5% | 100.0% |

(1) Core State represents the state in which the underlying collateral is located.

HOME EQUITY

The home equity portfolio totaled \$12.0 billion at September 30, 2012 as compared to \$13.0 billion at December 31, 2011. Substantially all of this portfolio was originated through Regions' branch network. Losses in this portfolio generally track overall economic conditions. The main source of economic stress has been in Florida, where residential property values have declined significantly while unemployment rates remain high. Losses in Florida where Regions is in a second lien position are higher than first lien losses.

The following tables provide details related to the home equity portfolio as follows:

Table 5 Selected Home Equity Portfolio Information

| | As of and for the Nine Months Ended September 30, 2012 | | | | | | | | |
|----------------------|--|----------|----------|------------------|----------|----------|----------|----------|-----------|
| | Florida | | | All Other States | | | Total | | |
| | 1st Lien | 2nd Lien | Total | 1st Lien | 2nd Lien | Total | 1st Lien | 2nd Lien | Total |
| | (Dollars in millions) | | | | | | | | |
| Balance | \$ 1,882 | \$ 2,512 | \$ 4,394 | \$ 3,723 | \$ 3,908 | \$ 7,631 | \$ 5,605 | \$ 6,420 | \$ 12,025 |
| Net charge-offs | 27 | 94 | 121 | 22 | 48 | 70 | 49 | 142 | 191 |
| Net charge-off % (1) | 1.87% | 4.76% | 3.54% | 0.77% | 1.55% | 1.18% | 1.14% | 2.80% | 2.04% |

| | As of and for the Nine Months Ended September 30, 2011 | | | | | | | | |
|----------------------|--|----------|----------|------------------|----------|----------|----------|----------|-----------|
| | Florida | | | All Other States | | | Total | | |
| | 1st Lien | 2nd Lien | Total | 1st Lien | 2nd Lien | Total | 1st Lien | 2nd Lien | Total |
| | (Dollars in millions) | | | | | | | | |
| Balance | \$ 1,987 | \$ 2,878 | \$ 4,865 | \$ 3,966 | \$ 4,485 | \$ 8,451 | \$ 5,953 | \$ 7,363 | \$ 13,316 |
| Net charge-offs | 37 | 139 | 176 | 21 | 59 | 80 | 58 | 198 | 256 |
| Net charge-off % (1) | 2.43% | 6.15% | 4.65% | 0.71% | 1.70% | 1.24% | 1.28% | 3.45% | 2.49% |

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

(1) Net charge-off percentages are calculated on an annualized basis as a percent of average balance.

Net charge-offs were an annualized 2.04 percent of home equity loans for the first nine months of 2012 compared to an annualized 2.49 percent through the first nine months of 2011. Losses in Florida-based credits remained at elevated levels, but the related net charge-off percentage decreased to 3.54 percent for the nine

Table of Contents

months ended September 30, 2012 from 4.65 percent for the nine months ended September 30, 2011. Home equity losses have decreased due to improvement in unemployment rates which, although high, are lower than prior levels. Tighter underwriting standards in place since 2008 and stabilizing home values in Florida also are contributing to this improvement.

Of the \$12.0 billion home equity portfolio at September 30, 2012, approximately \$10.7 billion were home equity lines of credit and \$1.3 billion were closed-end home equity loans (primarily originated as amortizing loans). Beginning in May 2009, new home equity lines of credit have a 10-year draw period and a 10-year repayment period. Previously, the home equity lines of credit had a 20 year term with a balloon payment upon maturity or a 5-year draw period with a balloon payment upon maturity. The term "balloon payment" means there are no principal payments required until the balloon payment is due for interest-only lines of credit. As of September 30, 2012, none of Regions' home equity lines of credit have converted to mandatory amortization under the contractual terms. The majority of home equity lines of credit will either mature with a balloon payment or convert to amortizing status after fiscal year 2020.

Of the \$10.7 billion of home equity lines of credit as of September 30, 2012, approximately 90 percent require monthly interest-only payments while the remaining approximately 10 percent require a payment equal to 1.5 percent of the outstanding balance, which would include some principal repayment. As of September 30, 2012, approximately 29 percent of borrowers were only paying the minimum amount due on the home equity line. In addition, approximately 55 percent of the home equity lines of credit balances have the option to amortize either all or a portion of their balance. As of September 30, 2012, approximately \$432 million of the home equity line of credit balances have elected this option.

Regions' home equity loans have higher default and delinquency rates than home equity lines of credit, which is expected at origination of the loans, due to more stringent underwriting guidelines for a line of credit versus a loan reflecting the nature of the credit being extended. Therefore, home equity loans secured with a second lien are expected to and do have higher delinquency and loss rates than home equity lines of credit with a second lien. In the current environment, second liens in areas experiencing declines in home prices since origination, such as Florida, perform similar to an unsecured portfolio.

Regions is unable to track payment status on first liens held by another institution, including payment status related to loan modifications. When Regions' second lien position becomes delinquent, an attempt is made to contact the first lien holder and inquire as to the payment status of the first lien. However, Regions does not continuously monitor the payment status of the first lien position. Short sale offers and settlement agreements are often received by the home equity junior lien holders well before the loan balance reaches the delinquency threshold for charge-off consideration, potentially resulting in a full balance payoff/charge-off. Regions is presently monitoring the status of all first lien position loans that the Company owns or services and has a second lien, and is taking appropriate action when delinquent. Regions is presently testing a means to monitor non-Regions-serviced first liens, and expects to enhance monitoring ability by the end of 2012.

OTHER CONSUMER CREDIT QUALITY DATA

The Company calculates an estimate of the current value of property secured as collateral for both home equity and residential first mortgage lending products (current LTV). The estimate is based on home price indices compiled by the Federal Housing Finance Agency (FHFA). The FHFA data indicates trends for Metropolitan Statistical Areas (MSAs). Regions uses the FHFA valuation trends from the MSAs in the Company's footprint in its estimate. The trend data is applied to the loan portfolios taking into account the age of the most recent valuation and geographic area.

The following table presents current LTV data for components of the residential first mortgage and home equity classes of the consumer portfolio segment. Current LTV data for the remaining loans in the portfolio is not available, primarily because some of the loans are serviced by others. Data may also not be available due to

Table of Contents

mergers and systems integrations. The amounts in the table represent the entire loan balance. For purposes of the table below, if the loan balance exceeds the current estimated collateral, the entire balance is included in the Above 100% category, regardless of the amount of collateral available to partially offset the shortfall.

Table 6 Estimated Current Loan to Value Ranges

| | September 30, 2012 | | December 31, 2011 | |
|----------------------------------|-------------------------------|----------------|-------------------------------|----------------|
| | Residential First Mortgage | Home Equity | Residential First Mortgage | Home Equity |
| Estimated current loan to value: | | | | |
| Above 100% | \$ 1,920 | \$ 2,171 | \$ 1,854 | \$ 2,157 |
| 80% - 100% | 2,820 | 2,345 | 2,951 | 2,568 |
| Below 80% | 7,991 | 6,542 | 8,483 | 7,180 |
| Data not available | 494 | 967 | 496 | 1,116 |
| | \$ 13,225 | \$ 12,025 | \$ 13,784 | \$ 13,021 |

Regions qualitatively considers factors such as periodic updates of FICO scores, unemployment, home prices, and geography as credit quality indicators for consumer loans. FICO scores are obtained at origination as part of Regions' formal underwriting process. Refreshed FICO scores are obtained by the Company quarterly for all revolving accounts and home equity lines of credit and semi-annually for all other consumer loans. Regions considers FICO scores less than 620 to be indicative of higher credit risk and obtains additional collateral in most of these instances. The following table presents estimated current FICO score data for components of classes of the consumer portfolio segment. Current FICO data is not available for the remaining loans in the portfolio for various reasons; for example, if customers do not use sufficient credit, an updated score may not be available.

Table 7 Estimated Current FICO Score Ranges

| | September 30, 2012 | | | | |
|--------------------|-------------------------------|----------------|---------------------------|-------------------------|-------------------|
| | Residential First Mortgage | Home Equity | Indirect (In millions) | Consumer Credit Card | Other Consumer |
| Below 620 | \$ 1,290 | \$ 801 | \$ 201 | \$ 47 | \$ 103 |
| 620 - 680 | 1,270 | 1,127 | 330 | 125 | 137 |
| 681-720 | 1,534 | 1,506 | 344 | 220 | 160 |
| Above 720 | 8,455 | 7,822 | 1,050 | 504 | 385 |
| Data not available | 676 | 769 | 295 | 5 | 398 |
| | \$ 13,225 | \$ 12,025 | \$ 2,220 | \$ 901 | \$ 1,183 |

| | December 31, 2011 | | | | |
|--------------------|-------------------------------|----------------|---------------------------|-------------------------|-------------------|
| | Residential First Mortgage | Home Equity | Indirect (In millions) | Consumer Credit Card | Other Consumer |
| Below 620 | \$ 1,449 | \$ 873 | \$ 191 | \$ 56 | \$ 106 |
| 620 - 680 | 1,286 | 1,157 | 281 | 129 | 142 |
| 681-720 | 1,557 | 1,559 | 274 | 236 | 162 |
| Above 720 | 8,441 | 8,576 | 858 | 561 | 383 |
| Data not available | 1,051 | 856 | 244 | 5 | 409 |

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

\$ 13,784 \$ 13,021 \$ 1,848 \$ 987 \$ 1,202

73

Table of Contents**ALLOWANCE FOR CREDIT LOSSES**

The allowance for credit losses represents management's estimate of credit losses inherent in the loan and credit commitment portfolios as of period-end. The allowance for credit losses consists of two components: the allowance for loan and lease losses and the reserve for unfunded credit commitments. Management's assessment of the appropriateness of the allowance for credit losses is based on a combination of both of these components. Regions determines its allowance for credit losses in accordance with applicable accounting literature as well as regulatory guidance related to receivables and contingencies. Binding unfunded credit commitments include items such as letters of credit, financial guarantees and binding unfunded loan commitments. Additional discussion of the methodology used to calculate the allowance for credit losses is included in Note 6 "Allowance for Credit Losses" to the consolidated financial statements in the 2011 Annual Report on Form 10-K, as well as related discussion in Management's Discussion and Analysis.

The allowance for loan losses totaled \$2.1 billion at September 30, 2012 and \$2.7 billion at December 31, 2011. The allowance for loan losses as a percentage of net loans was 2.74 percent at September 30, 2012 and 3.54 percent on December 31, 2011. The reserve for unfunded credit commitments was \$76 million at September 30, 2012 compared to \$78 million at December 31, 2011. Net charge-offs as a percentage of average loans (annualized) were 1.50 percent and 2.53 percent in the first nine months of 2012 and 2011, respectively. Net charge-offs were lower across most categories, period over period, except for the consumer credit card portfolio, which was purchased during the second quarter of 2011. In addition to lower levels of charge-offs, credit quality metrics have improved during 2012 compared to 2011, including lower levels of non-accrual, criticized and classified loans, and lower inflows of non-accrual loans. The provision for loan losses totaled \$33 million in the third quarter of 2012 compared to \$355 million during the third quarter of 2011. The provision for loan losses totaled \$176 million for the nine months ended September 30, 2012 compared to \$1.2 billion for the first nine months of 2011. Net charge-offs exceeded the provision for loan losses for the third quarter and first nine months of 2012, primarily resulting from the continued improving credit metrics referred to above, as well as, an overall reduction in loan balances, problem loan resolutions and a continuing mix shift in loans out of higher risk investor real estate and into less risky commercial and industrial loans.

Management considers the current level of allowance for credit losses appropriate to absorb losses inherent in the loan portfolio and unfunded commitments. Management's determination of the appropriateness of the allowance for credit losses requires the use of judgments and estimations that may change in the future. Changes in the factors used by management to determine the appropriateness of the allowance or the availability of new information could cause the allowance for credit losses to be increased or decreased in future periods. In addition, bank regulatory agencies, as part of their examination process, may require changes in the level of the allowance based on their judgments and estimates.

Given continued economic pressures and anticipated slow recovery, management expects that net loan charge-offs in 2012 will be less than 2011 but remain elevated. Economic trends such as real estate valuations, interest rates and unemployment will impact the future levels of net charge-offs and provision. Details regarding the allowance and net charge-offs, including an analysis of activity from the previous year's totals, are included in Table 8 "Allowance for Credit Losses."

Table of Contents

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

Table 8 Allowance for Credit Losses

| | Nine Months Ended September 30 | |
|--|-----------------------------------|----------|
| | 2012 | 2011 |
| | (Dollars in millions) | |
| Allowance for loan losses at beginning of year | \$ 2,745 | \$ 3,185 |
| Loans charged-off: | | |
| Commercial and industrial | 171 | 219 |
| Commercial real estate mortgage owner-occupied | 145 | 181 |
| Commercial real estate construction owner-occupied | 7 | 7 |
| Commercial investor real estate mortgage | 188 | 563 |
| Commercial investor real estate construction | 43 | 153 |
| Residential first mortgage | 121 | 172 |
| Home equity | 214 | 275 |
| Indirect | 16 | 17 |
| Consumer credit card | 36 | 1 |
| Other consumer | 48 | 50 |
| | 989 | 1,638 |
| Recoveries of loans previously charged-off: | | |
| Commercial and industrial | 46 | 26 |
| Commercial real estate mortgage owner-occupied | 12 | 10 |
| Commercial real estate construction owner-occupied | | |
| Commercial investor real estate mortgage | 19 | 17 |
| Commercial investor real estate construction | 7 | 3 |
| Residential first mortgage | 3 | 2 |
| Home equity | 24 | 19 |
| Indirect | 7 | 8 |
| Consumer credit card | 1 | |
| Other consumer | 11 | 13 |
| | 130 | 98 |
| Net charge-offs: | | |
| Commercial and industrial | 125 | 193 |
| Commercial real estate mortgage owner-occupied | 133 | 171 |
| Commercial real estate construction owner-occupied | 7 | 7 |
| Commercial investor real estate mortgage | 169 | 546 |
| Commercial investor real estate construction | 36 | 150 |
| Residential first mortgage | 118 | 170 |
| Home equity | 190 | 256 |
| Indirect | 9 | 9 |
| Consumer credit card | 35 | 1 |
| Other consumer | 37 | 37 |
| | 859 | 1,540 |
| Allowance allocated to purchased loans (1) | | 84 |
| Provision for loan losses | 176 | 1,235 |
| Allowance for loan losses at September 30 | \$ 2,062 | \$ 2,964 |
| Reserve for unfunded credit commitments at beginning of year | 78 | 71 |
| Provision for unfunded credit commitments | (2) | 15 |
| Reserve for unfunded credit commitments at September 30 | 76 | 86 |
| Allowance for credit losses at September 30 | \$ 2,138 | \$ 3,050 |

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

| | | |
|---|-----------|-----------|
| Loans, net of unearned income, outstanding at end of period | \$ 75,259 | \$ 79,447 |
| Average loans, net of unearned income, outstanding for the period | \$ 76,509 | \$ 81,336 |
| Ratios: | | |
| Allowance for loan losses at end of period to loans, net of unearned income | 2.74% | 3.73% |
| Allowance for loan losses at end of period to non-performing loans, excluding loans held for sale | 1.09x | 1.09x |
| Net charge-offs as percentage of: | | |
| Average loans, net of unearned income (annualized) | 1.50% | 2.53% |
| Provision for loan losses | 488.07% | 124.70% |

- (1) During the second quarter of 2011, Regions purchased a credit card portfolio for approximately \$1.1 billion and recorded an allowance for loan losses and related premium of approximately \$84 million. Upon finalization of the purchase price in the fourth quarter of 2011, Regions reclassified the \$84 million allowance and premium. The impact of these reclassification entries was not material to the financial results in any of the quarters of 2011.

Table of Contents**TROUBLED DEBT RESTRUCTURINGS**

Residential first mortgage, home equity and other consumer TDRs are consumer loans modified under the Customer Assistance Program. Commercial and investor real estate loan modifications are not the result of a formal program, but represent situations where modification was offered as a workout alternative. As a result of clarified accounting literature that was effective for third quarter 2011, renewals of classified commercial and investor real estate loans are refutably considered to be TDRs, even if no reduction in interest rate is offered, because the existing terms are considered to be below market. More detailed information is included in Note 4 Loans and the Allowance for Credit Losses to the consolidated financial statements. The following table summarizes TDRs for the periods ending September 30, 2012 and December 31, 2011:

Table 9 Troubled Debt Restructurings

| | September 30, 2012 | | December 31, 2011 | |
|---|--------------------|-----------------------------|-------------------|-----------------------------|
| | Loan Balance | Allowance for Credit Losses | Loan Balance | Allowance for Credit Losses |
| (In millions) | | | | |
| Accruing: | | | | |
| Commercial | \$ 547 | \$ 79 | \$ 492 | \$ 89 |
| Investor real estate | 955 | 155 | 995 | 254 |
| Residential first mortgage | 965 | 134 | 900 | 132 |
| Home equity | 404 | 36 | 407 | 57 |
| Other consumer | 45 | 1 | 56 | 1 |
| | \$ 2,916 | \$ 405 | \$ 2,850 | \$ 533 |
| Non-accrual status or 90 days past due: | | | | |
| Commercial | \$ 308 | \$ 76 | \$ 353 | \$ 100 |
| Investor real estate | 368 | 86 | 473 | 146 |
| Residential first mortgage | 209 | 29 | 210 | 31 |
| Home equity | 33 | 3 | 33 | 5 |
| Other consumer | | | | |
| | 918 | 194 | 1,069 | 282 |
| | \$ 3,834 | \$ 599 | \$ 3,919 | \$ 815 |

Note: All loans listed in the table above are considered impaired under applicable accounting literature.

Refer to Note 6 of the 2011 Annual Report on Form 10-K for detailed information related to identification of TDRs, including the impact of new accounting literature adopted during 2011. Refer to Note 4 to the consolidated financial statements in this Form 10-Q for information on loans modified in a TDR during the third quarter and first nine months of 2012 and the financial impact of those modifications, as well as loans which defaulted during the third quarter and first nine months of 2012 which were modified in a TDR during the previous twelve months.

Table of Contents**NON-PERFORMING ASSETS**

Non-performing assets are summarized as follows:

Table 10 Non-Performing Assets

| | September 30 2012 | December 31 2011 |
|--|-----------------------|---------------------|
| | (Dollars in millions) | |
| Non-performing loans: | | |
| Commercial and industrial | \$ 393 | \$ 457 |
| Commercial real estate mortgage owner-occupied | 504 | 590 |
| Commercial real estate construction owner-occupied | 15 | 25 |
| Total commercial | 912 | 1,072 |
| Commercial investor real estate mortgage | 560 | 734 |
| Commercial investor real estate construction | 52 | 180 |
| Total investor real estate | 612 | 914 |
| Residential first mortgage | 224 | 250 |
| Home equity | 136 | 136 |
| Total non-performing loans, excluding loans held for sale | 1,884 | 2,372 |
| Non-performing loans held for sale | 134 | 328 |
| Total non-performing loans (1) | 2,018 | 2,700 |
| Foreclosed properties | 197 | 296 |
| Total non-performing assets (1) | \$ 2,215 | \$ 2,996 |
| Accruing loans 90 days past due: | | |
| Commercial and industrial | \$ 6 | \$ 28 |
| Commercial real estate mortgage owner-occupied | 8 | 9 |
| Commercial real estate construction owner-occupied | | |
| Total commercial | 14 | 37 |
| Commercial investor real estate mortgage | 7 | 13 |
| Commercial investor real estate construction | 1 | |
| Total investor real estate | 8 | 13 |
| Residential first mortgage | 297 | 284 |
| Home equity | 69 | 93 |
| Indirect | 2 | 2 |
| Consumer credit card | 12 | 14 |
| Other consumer | 3 | 4 |
| | \$ 405 | \$ 447 |
| Restructured loans not included in the categories above | \$ 2,916 | \$ 2,850 |
| Non-performing loans (1) to loans and non-performing loans held for sale | 2.68% | 3.47% |
| Non-performing assets (1) to loans, foreclosed properties and non-performing loans held for sale | 2.93% | 3.83% |

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

(1) Exclusive of accruing loans 90 days past due

Non-performing assets totaled \$2.2 billion at September 30, 2012, compared to \$3.0 billion at December 31, 2011. Foreclosed properties, a subset of non-performing assets, totaled \$197 million and \$296 million at September 30, 2012 and December 31, 2011, respectively. The decrease in non-performing assets and foreclosed properties during 2012 reflects the Company's efforts to work through problem assets and reduce the riskiest exposures.

Table of Contents

Based on current expectations for the economy, management anticipates non-performing assets to decrease during the remainder of 2012, but remain elevated. Economic trends such as real estate valuations, interest rates and unemployment, as well as the level of disposition activity, will impact the future level of non-performing assets.

Loans past due 90 days or more and still accruing were \$405 million at September 30, 2012, a decrease from \$447 million at December 31, 2011.

At September 30, 2012, Regions had approximately \$300-\$400 million of potential problem commercial and investor real estate loans that were not included in non-accrual loans, but for which management had concerns as to the ability of such borrowers to comply with their present loan repayment terms. This is a likely estimate of the amount of commercial and investor real estate loans that may migrate to non-accrual status in the next quarter.

In order to arrive at the estimate of potential problem loans, personnel from geographic regions forecast certain larger dollar loans that may potentially be downgraded to non-accrual at a future time, depending on the occurrence of future events. These personnel consider a variety of factors, including the borrower's capacity and willingness to meet the contractual repayment terms, make principal curtailments or provide additional collateral when necessary, and provide current and complete financial information including global cash flows, contingent liabilities and sources of liquidity. A probability weighting is assigned to the listing of loans due to the inherent level of uncertainty related to potential actions that a borrower or guarantor may take to prevent the loan from reaching problem status. Regions assigns the probability weighting based on an assessment of the likelihood that the necessary actions required to prevent problem loan status will occur. Additionally, for other loans (for example, smaller dollar loans), a factor based on trends and experience is applied to determine the estimate of potential future downgrades. Because of the inherent uncertainty in forecasting future events, the estimate of potential problem loans ultimately represents the estimated aggregate dollar amounts of loans as opposed to an individual listing of loans.

The majority of the loans on which the potential problem loan estimate is based are considered substandard accrual. Detailed disclosures for substandard accrual loans (as well as other credit quality metrics) are included in Note 4 Loans and the Allowance for Credit Losses to the consolidated financial statements.

Table of Contents

The following table provides an analysis of non-accrual loans (excluding loans held for sale) by portfolio segment for the nine months ended September 30, 2012:

Table 11 Analysis of Non-Accrual Loans

| | Non-Accrual Loans, Excluding Loans Held for Sale | | | |
|--------------------------------------|---|---------------------------------|---------------------|-----------------|
| | Nine Months Ended September 30, 2012 | | | |
| | Commercial | Investor Real Estate | Consumer (1) | Total |
| | (In millions) | | | |
| Balance at beginning of year | \$ 1,072 | \$ 914 | \$ 386 | \$ 2,372 |
| Additions | 621 | 550 | (12) | 1,159 |
| Net payments/other activity | (235) | (289) | | (524) |
| Return to accrual | (84) | (141) | | (225) |
| Charge-offs on non-accrual loans (2) | (309) | (220) | (6) | (535) |
| Transfers to held for sale (3) | (91) | (156) | (4) | (251) |
| Transfers to foreclosed properties | (54) | (21) | | (75) |
| Sales | (8) | (25) | (4) | (37) |
| Balance at end of period | \$ 912 | \$ 612 | \$ 360 | \$ 1,884 |

- (1) All net activity within the consumer portfolio segment other than charge-offs, sales and transfers to held for sale is included as a single net number within the additions line, due to the relative immateriality of consumer non-accrual loans.
- (2) Includes charge-offs on loans on non-accrual status and charge-offs taken upon sale and transfer of non-accrual loans to held for sale.
- (3) Transfers to held for sale are shown net of charge-offs of \$135 million recorded upon transfer.

LOANS HELD FOR SALE

Loans held for sale totaled \$1.3 billion at September 30, 2012, consisting primarily of \$1.1 billion of residential real estate mortgage loans and \$134 million of non-performing investor real estate loans. At December 31, 2011, loans held for sale totaled \$1.2 billion, consisting primarily of \$844 million of residential real estate mortgage loans and \$328 million of non-performing investor real estate loans. The level of residential real estate mortgage loans held for sale fluctuates depending on the timing of origination and sale to third parties.

Table of Contents

The following table provides an analysis of non-performing loans held for sale for the nine months ended September 30, 2012 and 2011:

Table 12 Non-performing Loans Held For Sale

| | Nine Months Ended September 30 | |
|---|-----------------------------------|--------|
| | 2012 | 2011 |
| | (In millions) | |
| Balance at beginning of period | \$ 328 | \$ 304 |
| Transfers in (1) | 251 | 582 |
| Sales | (386) | (491) |
| Writedowns | (9) | (9) |
| Loans moved from held for sale/other activity | (19) | (19) |
| Transfers to foreclosed properties | (31) | (23) |
| Balance at end of period | \$ 134 | \$ 344 |

(1) During the third quarter of 2011, there were \$12 million in transfers from accruing loans held for sale to non-performing loans held for sale.

ALL OTHER INTEREST-EARNING ASSETS

All other interest-earning assets, which are primarily comprised of interest-bearing deposits in other banks, trading account assets, and other interest-earning assets, decreased approximately \$4.3 billion from year-end 2011 to September 30, 2012, primarily due to decreases in interest-bearing deposits in other banks being utilized for debt service and repurchase of the Series A preferred shares, as well as decreases in trading account assets as a result of the sale of Morgan Keegan.

GOODWILL

Goodwill totaled \$4.8 billion at both September 30, 2012 and December 31, 2011 and is allocated to each of Regions' reportable segments (each a reporting unit), at which level goodwill is tested for impairment on an annual basis or more often if events and circumstances indicate impairment may exist (refer to Note 1 Significant Accounting Policies to the 2011 consolidated financial statements filed on Form 10-K for the year ended December 31, 2011 for further discussion of when Regions tests goodwill for impairment). As further discussed in Note 14 Business Segment Information, Regions reorganized its management reporting structure during the third quarter of 2012 and, accordingly, its segment reporting structure and goodwill reporting units. In connection with the reorganization, management reallocated goodwill to the new reporting units using a relative fair value approach.

A test of goodwill for impairment consists of two steps. In Step One, the fair value of the reporting unit is compared to its carrying amount, including goodwill. To the extent that the estimated fair value of the reporting unit exceeds the carrying value, impairment is not indicated and no further testing is required. Conversely, if the estimated fair value of the reporting unit is below its carrying amount, Step Two must be performed. Step Two consists of determining the implied estimated fair value of goodwill, which is the net difference between the valuation adjustments of assets and liabilities and the valuation adjustment to equity (from Step One) of the reporting unit. The carrying value of equity for each reporting unit is determined from an allocation based upon risk weighted assets. Adverse changes in the economic environment, declining operations of the reporting unit, or other factors could result in a decline in the estimated implied fair value of goodwill. If the estimated implied fair value of goodwill is less than the carrying amount, a loss would be recognized to reduce the carrying amount to the estimated implied fair value.

Table of Contents

The estimated fair value of the reporting unit is determined using both income and market approaches. Within the income approach, which is the primary valuation approach, Regions utilizes the capital asset pricing model (CAPM) in order to derive the base discount rate. The inputs to the CAPM include the 20-year risk-free rate, 5-year beta for a select peer set, and a market risk premium based on published data. Once the output of the CAPM is determined, a size premium is added (also based on a published source) as well as a company-specific risk premium for each reporting unit, which is an estimate determined by the Company and meant to compensate for the risk inherent in the future cash flow projections and inherent differences (such as business model and market perception of risk) between Regions and the peer set.

In estimating future cash flows, a balance sheet as of the test date and a statement of income for the last twelve months of activity for each reporting unit is compiled. From that point, future balance sheets and statements of income are projected based on the inputs. Cash flows are based on expected future capitalization requirements due to balance sheet growth and anticipated changes in regulatory capital requirements. The baseline cash flows utilized in all models correspond to the most recent internal forecasts and/or budgets that range from 1 to 3 years. These internal forecasts are based on inputs developed in the Company's internal strategic and capital planning processes.

Regions uses the guideline public company method and the guideline transaction method as the two market approaches. The public company method applies a value multiplier derived from each reporting unit's peer group to tangible book value or earnings (for Wealth Management) and an implied control premium to the respective reporting unit. The control premium is evaluated and compared to similar financial services transactions considering the absolute and relative potential revenue synergies and cost savings. The transaction method applies a value multiplier to a financial metric of the reporting unit based on comparable observed purchase transactions in the financial services industry for the reporting unit (where available).

Refer to Note 6 Goodwill for further discussion of these approaches and related assumptions. The fair values of assets and liabilities in Step Two are determined using an exit price concept. Refer to the discussion of fair value in Note 1 Summary of Significant Accounting Policies to the 2011 annual report on form 10-K for discussions of the exit price concept and the determination of fair values of financial assets and liabilities.

Throughout 2009 and 2010 in the former Banking/Treasury reporting unit, the credit quality of Regions' loan portfolio declined, which contributed to increased losses as well as elevated non-performing loan levels. Accordingly, Regions performed tests of goodwill for impairment during each quarter of 2010 and during the second, third and fourth quarters of 2009 in a manner consistent with the annual test conducted in the fourth quarter of 2008. While credit quality has improved, Regions continued to perform its goodwill impairment tests during the four quarters of 2011 and the first two quarters of 2012, in a manner consistent with the tests conducted in prior periods, primarily due to the Company's market capitalization remaining below book value. As a result of the management reporting changes described above, Regions revised its reportable segments and, consequently, its reporting units from previously reported and reallocated goodwill to the new reporting units based on the relative fair values of the revised reporting units. The long-term fair value of equity was determined using both income and market approaches (referenced above and discussed further in Note 6 Goodwill). The results of these calculations for the third quarter of 2012 indicated that the estimated fair value of the Wealth Management reporting unit was greater than its carrying amount and the estimated fair values of the Business Services and Consumer Services reporting units were less than their respective carrying amounts. At July 31, 2012, the carrying amount and estimated fair value of the Business Services reporting unit were \$8.4 billion and \$7.1 billion, respectively. At July 31, 2012, the carrying amount and estimated fair value of the Consumer Services reporting unit were \$5.1 billion and \$5.0 billion, respectively. Therefore, Step Two of the goodwill impairment test was performed for both the Business Services and Consumer Services reporting units. The carrying amounts of goodwill for the Business Services and Consumer Services reporting units were \$2.6 billion and \$1.8 billion, respectively. In Step Two, the fair values of each reporting unit's assets, both tangible and intangible, and liabilities were determined using estimates of the amounts at which the assets (or liabilities) could be bought (or incurred) or sold (settled) in a taxable transaction between willing participants. For the Business

Table of Contents

Services and Consumer Services reporting units, the effects of the Step Two adjustments, which were primarily write-downs of assets to fair value, exceeded any reductions in the value of common equity determined in Step One; accordingly the calculation of implied goodwill exceeded its carrying amount. Therefore, the results were no impairment for the Business Services and Consumer Services reporting units, whose implied fair value of goodwill exceeded their carrying amounts by approximately 71 percent and 175 percent, respectively, as of July 31, 2012.

The table below summarizes the discount rate used in the goodwill impairment test of each reporting unit for the third quarter of 2012:

| | Business Services | Consumer Services | Wealth Management |
|---------------|------------------------------|------------------------------|------------------------------|
| Discount Rate | 14% | 13% | 12% |

The table below summarizes the discount rate used in the goodwill impairment tests of the former Banking/Treasury reporting unit for the reporting periods indicated:

| | 2nd Quarter 2012 | 1st Quarter 2012 | 4th Quarter 2011 | 3rd Quarter 2011 |
|---------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Discount Rate | 14% | 14% | 15% | 15% |

Specific factors as of the date of filing the financial statements that could negatively impact the assumptions used in assessing goodwill for impairment include: a protracted decline in the Company's market capitalization; disparities in the level of fair value changes in net assets (especially loans) compared to equity; increases in book values of equity of a reporting unit in excess of the increase in fair value of equity; adverse business trends resulting from litigation and/or regulatory actions; higher loan losses; lengthened forecasts of higher unemployment relative to pre-crisis levels beyond 2013; future increased minimum regulatory capital requirements above current thresholds (refer to Note 13

Regulatory Capital Requirements and Restrictions of the consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2011 for a discussion of current minimum regulatory requirements); future federal rules and regulations resulting from the Dodd-Frank Act; and/or a protraction in the current low level of interest rates significantly beyond 2014.

The following table presents an analysis of independent changes in market factors and significant assumptions that could adversely impact the carrying balance of goodwill in the Business Services reporting unit. Due to the magnitude of the excess of the Consumer Services reporting unit's implied fair value of goodwill over its carrying amount, no such table has been included for this reporting unit.

Table 13 Goodwill Sensitivity**Impact to the Carrying Value of Goodwill****Business Services Reporting Unit**

| | Estimated Amount of Impairment (In millions) |
|---|---|
| Change in Discount Rate | |
| + 5.6% (from 14% to 19.6%) | \$ (a) |
| + 6.0% | (70) |
| + 7.0% | (251) |
| Improvement in Loan Fair Values (b) | |
| + 4.0 Percentage Points (from a discount of 7.8% to 3.8%) | \$ (a) |
| + 5.0 Percentage Points | (461) |
| + 6.0 Percentage Points | (915) |

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

- (a) Represents the point at which the implied fair value of goodwill would approximate its carrying value.
- (b) Business Services loan discount to fair value is 7.8%.

Table of Contents

The sensitivity calculations above are hypothetical and should not be considered to be predictive of future performance. Changes in implied fair value based on adverse changes in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, the effect of an adverse variation in a particular assumption on the implied fair value of goodwill is calculated without changing any other assumption, while in reality changes in one factor may result in changes in another which may either magnify or counteract the effect of the change.

FORECLOSED PROPERTIES

Other real estate and certain other assets acquired in foreclosure are reported at the lower of the investment in the loan or fair value of the property less estimated costs to sell. The following table summarizes foreclosed property activity for the nine months ended September 30, 2012 and 2011:

Table 14 Foreclosed Properties

| | Nine Months Ended September 30 | |
|--------------------------------|---|-------------|
| | 2012 | 2011 |
| | (In millions) | |
| Balance at beginning of period | \$ 296 | \$ 454 |
| Transfer from loans | 244 | 414 |
| Valuation adjustments | (59) | (126) |
| Foreclosed property sold | (284) | (398) |
| Payments and other | | (7) |
| | (99) | (117) |
| Balance at end of period | \$ 197 | \$ 337 |

Note: Approximately 73 percent and 60 percent of the ending balances at September 30, 2012 and September 30, 2011, respectively, relate to properties transferred into foreclosed properties during the previous twelve months.

Valuation adjustments are primarily recorded in other non-interest expense; adjustments are also recorded as a charge to the allowance for loan losses if incurred within 60 days after the date of transfer from loans. Valuation adjustments are primarily post-foreclosure write-downs that are a result of continued declining property values based on updated appraisals or other indications of value, such as offers to purchase. Foreclosed property sold represents the net book value of the properties sold.

OTHER ASSETS

Other assets decreased \$1.9 billion from December 31, 2011 to \$6.8 billion as of September 30, 2012, primarily due to the net settlements of securities sales, lower derivative balances and lower deferred tax asset balances.

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 the pricing of its deposits and how effectively the Company meets customers' needs. Regions employs various means to meet those needs and enhance competitiveness, such as providing a high level of customer service, competitive pricing and providing convenient branch locations for its customers. Regions also serves customers through providing centralized, high-quality banking services and alternative product delivery channels such as internet banking.

Table of Contents

The following table summarizes deposits by category:

Table 15 Deposits

| | September 30 2012 | December 31 2011 |
|---------------------------------------|----------------------|---------------------|
| | (In millions) | |
| Non-interest-bearing demand * | \$ 30,345 | \$ 28,209 |
| Savings accounts | 5,652 | 5,159 |
| Interest-bearing transaction accounts | 19,240 | 19,388 |
| Money market accounts domestic * | 24,404 | 23,028 |
| Money market accounts foreign * | 327 | 460 |
| Low-cost deposits | 79,968 | 76,244 |
| Time deposits | 14,911 | 19,378 |
| Customer deposits | 94,879 | 95,622 |
| Corporate treasury time deposits | 2 | 5 |
| | \$ 94,881 | \$ 95,627 |

* Prior period amounts have been reclassified to conform to the current period classification.

Total deposits at September 30, 2012 decreased approximately \$746 million compared to year-end 2011 levels. The overall decrease in deposits was driven by a significant decrease in time deposits. This decrease was partially offset by increases in almost all categories of low-cost deposits, particularly non-interest-bearing demand accounts. Regions continued to focus on shifting the overall deposit mix toward low-cost deposits, focusing on non-interest-bearing demand, in an effort to reduce funding costs.

SHORT-TERM BORROWINGS

The following is a summary of short-term borrowings:

Table 16 Short-Term Borrowings

| | September 30 2012 | December 31 2011 |
|--|----------------------|---------------------|
| | (In millions) | |
| Company funding sources: | | |
| Federal funds purchased | \$ 16 | \$ 18 |
| Securities sold under agreements to repurchase | 683 | 969 |
| Other short-term borrowings | | 29 |
| | 699 | 1,016 |
| Customer-related borrowings: | | |
| Securities sold under agreements to repurchase | 1,167 | 1,346 |
| Brokerage customer liabilities | | 394 |
| Short-sale liability | | 256 |
| Customer collateral | 70 | 55 |

| | |
|-------|-------|
| 1,237 | 2,051 |
|-------|-------|

| | |
|----------|----------|
| \$ 1,936 | \$ 3,067 |
|----------|----------|

COMPANY FUNDING SOURCES

Federal funds purchased and securities sold under agreements to repurchase used for funding purposes totaled \$699 million at September 30, 2012 compared to \$987 million at December 31, 2011. The level of these

Table of Contents

borrowings can fluctuate significantly on a day-to-day basis, depending on funding needs and which sources of funds are used to satisfy those needs. All such arrangements are considered typical of the banking and brokerage industries and are accounted for as borrowings.

Other short-term borrowings were related to Morgan Keegan and included borrowings under lines of credit that Morgan Keegan maintained with unaffiliated banks. As of September 30, 2012, there were no other short-term borrowings related to Morgan Keegan outstanding as a result of the sale of Morgan Keegan on April 2, 2012, compared to \$29 million December 31, 2011.

Selected data for short-term borrowings used for funding purposes is presented below:

| | Three Months Ended September 30 | |
|--|--|-------------|
| | 2012 | 2011 |
| (Dollars in millions) | | |
| Federal funds purchased: | | |
| Balance at quarter-end | \$ 16 | \$ 14 |
| Average outstanding (based on average daily balances) | 22 | 17 |
| Maximum amount outstanding at any month-end during the quarter | 21 | 17 |
| Weighted-average interest rate at quarter-end | 0.2% | 0.2% |
| Weighted-average interest rate on amounts outstanding during the quarter (based on average daily balances) | 0.1% | 0.1% |
| Securities sold under agreements to repurchase: | | |
| Balance at quarter-end | \$ 683 | \$ 504 |
| Average outstanding (based on average daily balances) | 1,106 | 253 |
| Maximum amount outstanding at any month-end during the quarter | 1,940 | 504 |
| Weighted-average interest rate at quarter-end | 0.2% | 0.1% |
| Weighted-average interest rate on amounts outstanding during the quarter (based on average daily balances) | 0.1% | 0.2% |

CUSTOMER-RELATED BORROWINGS

Short-term borrowings that are the result of customer activity related to investment opportunities or brokerage interests totaled \$1.2 billion at September 30, 2012, compared to \$2.1 billion at December 31, 2011. The decrease between periods was due to decreases in brokerage customer liabilities and short-sale liabilities as a result of the sale of Morgan Keegan on April 2, 2012.

Repurchase agreements are also offered as commercial banking products as short-term investment opportunities for customers. At the end of each business day, customer balances are swept into the agreement account. In exchange for cash, Regions sells the customer securities with a commitment to repurchase them on the following business day. The repurchase agreements are collateralized to allow for market fluctuations. Securities from Regions Bank's investment portfolio are used as collateral. From the customer's perspective, the investment earns more than a traditional money market instrument. From Regions' standpoint, the repurchase agreements are similar to deposit accounts, although they are not insured by the FDIC or guaranteed by the United States or governmental agencies. Regions Bank does not manage the level of these investments on a daily basis as the transactions are initiated by the customers. The level of these borrowings can fluctuate significantly on a day-to-day basis.

Regions, through Morgan Keegan, maintained two types of liabilities for its brokerage customers that were classified as short-term borrowings since Morgan Keegan paid its customers interest related to these liabilities. The brokerage customer position liability represented liquid funds in customers' brokerage accounts. The short-sale liability represented traditional obligations to deliver to customers securities at a predetermined date and price. At September 30, 2012 these balances were both zero due to the April 2, 2012 sale of Morgan Keegan.

Table of Contents

Customer collateral increased to \$70 million at September 30, 2012 from \$55 million at December 31, 2011. The September 30, 2012 balance is related to collateral posted by customers related to derivative transactions.

LONG-TERM BORROWINGS

Long-term borrowings are summarized as follows:

Table 17 Long-Term Borrowings

| | September 30 2012 | December 31 2011 |
|---|----------------------|---------------------|
| | (In millions) | |
| Regions Financial Corporation (Parent): | | |
| 6.375% subordinated notes due May 2012 | \$ | \$ 600 |
| LIBOR floating rate senior notes due June 2012 | | 350 |
| 4.875% senior notes due April 2013 | 250 | 249 |
| 7.75% senior notes due November 2014 | 695 | 694 |
| 5.75% senior notes due June 2015 | 497 | 496 |
| 7.75% subordinated notes due September 2024 | 100 | 100 |
| 6.75% subordinated debentures due November 2025 | 161 | 162 |
| 7.375% subordinated notes due December 2037 | 300 | 300 |
| 6.625% junior subordinated notes due May 2047 | 498 | 498 |
| 8.875% junior subordinated notes due June 2048 | 345 | 345 |
| Other long-term debt | 3 | 6 |
| Valuation adjustments on hedged long-term debt | 70 | 87 |
| | 2,919 | 3,887 |
| Regions Bank: | | |
| Other Federal Home Loan Bank advances | 1,013 | 1,914 |
| 4.85% subordinated notes due April 2013 | 499 | 497 |
| 5.20% subordinated notes due April 2015 | 348 | 347 |
| 7.50% subordinated notes due May 2018 | 750 | 750 |
| 6.45% subordinated notes due June 2037 | 497 | 497 |
| Other long-term debt | 174 | 175 |
| Valuation adjustments on hedged long-term debt | 24 | 43 |
| | 3,305 | 4,223 |
| | \$ 6,224 | \$ 8,110 |

Long-term borrowings decreased approximately \$1.9 billion since year-end 2011. During the first quarter of 2012, Regions Bank prepaid approximately \$900 million of FHLB advances, realizing an immaterial pre-tax loss on early extinguishment. These extinguishments were part of the Company's asset/liability management process. Additionally, during the second quarter of 2012, approximately \$950 million of parent company notes matured. Other FHLB advances have a weighted-average interest rate of 1.4 percent and 1.0 percent at September 30, 2012 and December 31, 2011, respectively, with a weighted average maturity of 1.64 years.

On November 1, 2012, Regions provided notice that it will redeem its 8.875% Junior Subordinated Notes due 2078. The aggregate principal amount of the notes outstanding as of November 1, 2012 is approximately \$345 million. The redemptions are scheduled to occur on December 3, 2012. See Note 17 Subsequent Events.

STOCKHOLDERS EQUITY

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

Stockholders' equity was \$14.9 billion at September 30, 2012 compared to \$16.5 billion at December 31, 2011. On April 4, 2012 Regions repurchased all 3.5 million shares of the Series A preferred stock. Therefore,

Table of Contents

during the second quarter of 2012 Regions derecognized the carrying value of the Series A shares in the amount of approximately \$3.4 billion, and recorded approximately \$71 million of amortization related to the remaining unaccreted discount, which reduced net income available to common shareholders. The total reduction to shareholders' equity was \$3.5 billion. In early May of 2012, Regions repurchased the warrant from the U.S. Treasury Department for \$45 million. The transaction reduced additional paid-in capital within stockholders' equity by \$45 million. The decreases related to the Series A and warrant repurchases were offset by the March 19, 2012 issuance of 153 million shares of common stock at \$5.90 per share. The proceeds from the sale, net of issuance costs, increased equity by approximately \$875 million. Additionally, during the first nine months of 2012, net income increased stockholders' equity by \$855 million, while cash dividends reduced equity by \$41 million for common stock and \$44 million for preferred stock. Changes in accumulated other comprehensive income increased equity by \$271 million.

Regions' Board of Directors declared a \$0.01 per share cash dividend for the first, second and third quarters of both 2012 and 2011. Regions understands the importance of returning capital to shareholders. Management will continue to execute the capital planning process, including evaluation of the amount of the common dividend, with the Board of Directors and in conjunction with regulatory supervisors, subject to the Company's results of operations.

Regions' ratio of stockholders' equity to total assets was 12.23 percent at September 30, 2012, compared to 12.99 percent at December 31, 2011. Regions' ratio of tangible common stockholders' equity to tangible assets was 8.49 percent at September 30, 2012, compared to 6.57 percent at December 31, 2011 (see Table 20 GAAP to Non-GAAP Reconciliation for further discussion).

See Note 7 Stockholders' Equity and Accumulated Other Comprehensive Income (Loss) for further information related to common shares available for repurchase and dividends.

On November 1, 2012, Regions issued \$500 million in depositary shares each representing a fractional ownership interest in a share of the Company's 6.375% Non-Cumulative Perpetual Preferred Stock, Series A, par value \$1 per share. See Note 17 Subsequent Events.

REGULATORY CAPITAL REQUIREMENTS

Regions and Regions Bank are required to comply with regulatory capital requirements established by Federal banking agencies. These regulatory capital requirements involve quantitative measures of the Company's assets, liabilities and certain off-balance sheet items, and also qualitative judgments by the regulators. Failure to meet minimum capital requirements can subject the Company to a series of increasingly restrictive regulatory actions. Currently, there are two basic measures of capital adequacy: a risk-based measure and a leverage measure.

The risk-based capital requirements are designed to make regulatory capital requirements more sensitive to differences in credit and market 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.

The minimum standard for the ratio of total capital to risk-weighted assets is 8 percent. At least 50 percent of that capital level must consist of common equity, undivided profits and non-cumulative perpetual preferred stock, senior perpetual preferred stock issued to the U.S. Treasury under the Capital Purchase Program, minority interests relating to qualifying common or noncumulative perpetual preferred stock issued by a consolidated U.S. depository institution or foreign bank subsidiary, less goodwill, deferred tax assets and certain other intangibles.

Table of Contents

(Tier 1 capital). The remainder (Tier 2 capital) may consist of a limited amount of other preferred stock, mandatorily 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 or total capital. However, under the Collins Amendment, which was passed as a section of the Dodd-Frank Act, trust preferred securities will be eliminated as an element of Tier 1 capital. This disallowance of trust preferred securities will be phased in from January 1, 2013 to January 1, 2016. Debt or equity instruments issued to the Federal government as part of the CPP are exempt from the Collins Amendment. As of September 30, 2012, Regions had \$846 million of trust preferred securities that are subject to the Collins Amendment. On November 1, 2012, Regions provided notice that it will redeem its 8.875% Junior Subordinated Notes due 2078, which will cause redemption of the related trust preferred securities. The aggregate principal amount of the notes outstanding as of November 1, 2012 is approximately \$345 million. The redemptions are scheduled to occur on December 3, 2012. See Note 17 Subsequent Events . As discussed in Note 7 Stockholders Equity and Accumulated Other Comprehensive Income (Loss) to the consolidated financial statements, on April 4, 2012, the Series A preferred shares were repurchased from the U.S. Treasury.

The minimum guidelines to be considered well capitalized for Total capital and Tier 1 capital are 10 percent and 6 percent, respectively. As of September 30, 2012 and December 31, 2011, the most recent notification from Federal banking agencies categorized Regions and its significant subsidiaries as well capitalized under the regulatory framework.

The Company believes that no changes in conditions or events have occurred since September 30, 2012, which would result in changes that would cause Regions or Regions Bank to fall below the well capitalized level.

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

In recent years, banking regulators began supplementing their assessment of the capital adequacy of a bank based on a variation of Tier 1 capital, known as Tier 1 common equity. While not prescribed in amount by federal banking regulations, analysts and banking regulators have assessed Regions capital adequacy using the tangible common stockholders equity and/or the Tier 1 common equity measure. Because tangible common stockholders equity and Tier 1 common equity are not formally defined by GAAP or prescribed in amount by federal banking regulations, these measures are considered to be non-GAAP financial measures and other entities may calculate them differently than Regions disclosed calculations (see Table 20 GAAP to Non-GAAP Reconciliation for further details).

Regions is evaluating the anticipated impact of Basel III, which will be phased in beginning in 2013 and is expected to be fully phased-in by January 1, 2019. The Company s estimated Tier 1 common ratio as of September 30, 2012, based on Regions current understanding of the Basel III requirements, as proposed by the U.S. Notices of Proposed Rulemaking (NPR) released in June 2012, was approximately 8.7 percent and therefore exceeded the Basel III minimum of 7 percent for Tier 1 common. Based on Regions understanding and interpretation of the rules for the calculation for the liquidity coverage ratio (LCR) under Basel III, due to the repurchase of the Series A preferred stock and related warrant during the second quarter of 2012, Regions is currently under the 100 percent target. The Company anticipates being fully compliant with the LCR requirements upon finalization and implementation. However, should Regions cash position or investment mix change in the future, Regions ability to meet the liquidity coverage ratio may be impacted. Additionally, there is still need for clarification of the Basel III rules as well as interpretation and implementation by U.S. banking regulators, so the ultimate impact of Basel III on Regions is not completely known at this point. The NPR comment period ended in October 2012; changes to the calculation resulting from the comment process could result in materially different capital ratios from the amounts estimated. Because the Basel III capital calculations are not formally defined by GAAP and are not currently codified in the federal banking regulations, these measures are considered to be non-GAAP financial measures, and other entities may calculate them differently than Regions disclosed calculations (see Table 20 GAAP to Non-GAAP Reconciliation for further details).

Table of Contents

See the Supervision and Regulation Capital Requirements subsection of the Business section and the Risk Factors section of Regions Annual Report on Form 10-K for the year ended December 31, 2011 for more information.

The following chart summarizes the applicable holding company and bank regulatory capital requirements. Regions capital ratios at September 30, 2012 and December 31, 2011 exceeded all regulatory requirements.

Table 18 Regulatory Capital Requirements

| | September 30, 2012 Ratio | December 31, 2011 Ratio | To Be Well Capitalized |
|-------------------------------|-----------------------------|----------------------------|------------------------------|
| Tier 1 common (non-GAAP): | | | |
| Regions Financial Corporation | 10.46% | 8.51% | NA(1) |
| Tier 1 capital: | | | |
| Regions Financial Corporation | 11.48% | 13.28% | 6.00% |
| Regions Bank | 13.35 | 12.86 | 6.00 |
| Total capital: | | | |
| Regions Financial Corporation | 14.95% | 16.99% | 10.00% |
| Regions Bank | 16.22 | 15.98 | 10.00 |
| Leverage: | | | |
| Regions Financial Corporation | 9.10% | 9.91% | 5.00% |
| Regions Bank | 10.57 | 9.76 | 5.00 |

(1) The Board of Governors of the Federal Reserve System has proposed 5% as the level of Tier 1 common capital sufficient to withstand periods of economic stress.

As discussed in Note 7 Stockholders Equity and Accumulated Other Comprehensive Income (Loss) to the consolidated financial statements, on April 4, 2012 Regions repurchased \$3.5 billion Series A preferred shares, reducing the parent company's Tier 1 and Total capital by that same amount.

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. Regions intends to fund obligations primarily through cash generated from normal operations. In addition to these obligations, Regions has obligations related to potential litigation contingencies. See Note 15 Commitments and Contingencies to the consolidated financial statements for additional discussion of the Company's funding requirements.

Assets, consisting principally of loans and securities, are funded by customer deposits, purchased funds, borrowed funds and stockholders equity. Regions goal in liquidity management is to satisfy the cash flow requirements of depositors and borrowers, while at the same time meeting the Company's cash flow needs. The challenges of the current market environment demonstrate the importance of having and using various sources of liquidity to satisfy the Company's funding requirements.

Regions minimum cash requirement, by policy, utilizes a three step measurement process that requires the parent to hold the greater of (1) two years of corporate dividends, debt service, and maturities by utilizing cash on hand, and the next four quarters expected dividend capacity from Regions Bank, (2) enough cash on hand with no upstream dividend capacity from Regions Bank to meet corporate dividends, debt service payments, and maturities for the next 12 months or (3) a minimum balance of \$500 million.

Table of Contents

Similar rigorous scenario analysis and stress testing are conducted at the Regions Bank and subsidiary level to ensure minimum cash levels are maintained.

The securities portfolio is one of Regions' primary sources of liquidity. Maturities of securities provide a constant flow of funds available for cash needs (see Note 3 - Securities to the consolidated financial statements). The agency guaranteed mortgage portfolio is another source of liquidity in various secured borrowing capacities. Additionally, the Company has \$14.2 billion of unencumbered liquid securities available for pledging or repurchase agreements.

While all banks are analyzing their positions under the Basel III LCR, it is expected that most will not make major changes until after the observation period concludes in 2014. A few banks have elected to make changes in their balance sheet to bring them closer to the 100% ratio. These banks include the firms with the largest gaps to overcome. Regions is not currently managing to the Basel III Liquidity metrics, but is well positioned to be fully compliant by the required date.

While maintaining higher levels of cash and high quality government/government agency securities will be beneficial to the LCR calculation, it is not without additional expense. Historically less expensive funding options have relied on short-term wholesale funding markets that will be penalized in the Basel III liquidity ratios. The Basel Committee has recently indicated that it will review both the LCR and Net Stable Funding Ratio (NSFR) methodology and will provide further guidance as modifications are finalized.

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 first mortgage loans. In addition, liquidity needs can also be met by borrowing funds in state and national money markets, although Regions does not currently rely on unsecured wholesale market funding. Historically, Regions' liquidity has been enhanced by its relatively stable customer deposit base. During 2011 and 2012, Regions' customer base grew substantially in response to competitive offers and customers' desire to lock-in rates in the falling rate environment, as well as the introduction of new consumer and business checking products.

Regulation Q prohibited banks from paying interest on business checking accounts in accordance with the Glass-Steagall Act of 1933. However, the Dodd-Frank Act repealed Regulation Q. In July 2011, financial institutions, such as Regions, were allowed to offer interest on corporate checking accounts. Regions responded to these changes by enhancing its existing core interest-bearing products. However, due to the low interest rate environment and unlimited FDIC insurance available on non-interest bearing balances until January 1, 2013, the Company has not experienced, nor does it anticipate experiencing, significant migration of business customer balances from non-interest bearing accounts to interest-bearing accounts.

Due to the potential for uncertainty and inconsistency in the unsecured funding markets, Regions has been maintaining higher levels of cash liquidity by depositing excess cash with the Federal Reserve Bank, which is the primary component of the balance sheet line item, interest-bearing deposits in other banks. At September 30, 2012, Regions had approximately \$2.2 billion in excess cash on deposit with the Federal Reserve. Regions' borrowing availability with the Federal Reserve Bank as of September 30, 2012, based on assets available for collateral at that date, was \$19.7 billion.

Regions periodically accesses funding markets through sales of securities with agreements to repurchase. Repurchase agreements are also offered through a commercial banking sweep product as a short-term investment opportunity for customers. All such arrangements are considered typical of the banking and brokerage industries and are accounted for as borrowings.

Regions' financing arrangement with the FHLB adds additional flexibility in managing its liquidity position. As of September 30, 2012, Regions' borrowing availability from the FHLB totaled \$6.7 billion. FHLB borrowing capacity is contingent on the amount of collateral pledged to the FHLB. Regions Bank and its subsidiaries have

Table of Contents

pledged certain residential first mortgage loans on one-to-four family dwellings and home equity lines of credit as collateral for the FHLB advances outstanding. Additionally, investment in FHLB stock is required in relation to the level of outstanding borrowings. Regions held \$100 million in FHLB stock at September 30, 2012. The FHLB has been and is expected to continue to be a reliable and economical source of funding.

In February 2010, Regions filed a shelf registration statement with the U.S. Securities and Exchange Commission. This shelf registration does not have a capacity limit and can be utilized by Regions to issue various debt and/or equity securities. The registration statement will expire in February 2013. In March 2012, Regions issued from the shelf 153 million shares of common stock with a par value \$0.01 per share at \$5.90 a share.

Regions Bank Note program allows Regions Bank to issue up to \$20 billion aggregate principal amount of bank notes outstanding at any one time. No issuances have been made under this program as of September 30, 2012. Notes issued under the program may be senior notes with maturities from 30 days to 15 years and subordinated notes with maturities from 5 years to 30 years. These notes are not deposits and they are not insured or guaranteed by the FDIC.

Regions may, from time to time, consider opportunistically retiring outstanding issued securities, including subordinated debt, trust preferred securities and preferred shares in privately negotiated or open market transactions for cash or common shares. Regulatory approval would be required for retirement of some instruments.

RATINGS

In March of 2012, Standard & Poor's (S&P) upgraded the credit ratings for each of the obligations of both Regions Financial Corporation and Regions Bank. The upgrades were attributable to the March 2012 common stock offering of approximately \$875 million, net of issuance costs, as well as the redemption of 3.5 million shares of Series A preferred stock. In February of 2012, Moody's revised its outlook for Regions Financial Corporation from negative to stable.

On March 8, 2012, Fitch Ratings (Fitch) downgraded the junior subordinated notes of Regions Financial Corporation. This ratings action was part of a global review of securities impacted in part by capital requirements set forth in Basel III as well as Fitch's view regarding the likelihood of sovereign support.

On June 13, 2012, Dominion Bond Rating Service (DBRS) revised its outlook for Regions Financial Corporation from negative to stable.

At September 30, 2012, Moody's credit ratings for Regions Financial Corporation and Regions Bank were below investment grade; however, on October 3, 2012, Moody's placed the long-term ratings of Regions Financial Corporation and its subsidiaries on review for upgrade.

On October 30, 2012, Fitch revised its outlook for Regions Financial Corporation from stable to positive.

Table 19 Credit Ratings reflects the current debt ratings information of Regions Financial Corporation and Regions Bank by S&P, Moody's, Fitch and DBRS.

Table of Contents**Table 19 Credit Ratings**

| | As of September 30, 2012 | | | |
|--------------------------------------|--------------------------|---------|--------|--------|
| | Standard & Poor's | Moody's | Fitch | DBRS |
| Regions Financial Corporation | | | | |
| Senior notes | BBB- | Ba3 | BBB- | BBB |
| Subordinated notes | BB+ | B1 | BB+ | BBBL |
| Junior subordinated notes | BB | B2 | B+ | BBBL |
| Regions Bank | | | | |
| Short-term debt | A-2 | NP(1) | F3 | R-2H |
| Long-term bank deposits | BBB | Ba1 | BBB | BBBH |
| Long-term debt | BBB | Ba2 | BBB- | BBBH |
| Subordinated debt | BBB- | Ba3 | BB+ | BBB |
| Outlook | Stable | Stable | Stable | Stable |

(1) Not Prime

| | As of December 31, 2011 | | | |
|--------------------------------------|-------------------------|----------|--------|----------|
| | Standard & Poor's | Moody's | Fitch | DBRS |
| Regions Financial Corporation | | | | |
| Senior notes | BB+ | Ba3 | BBB- | BBB |
| Subordinated notes | BB | B1 | BB+ | BBBL |
| Junior subordinated notes | B+ | B2 | BB | BBBL |
| Regions Bank | | | | |
| Short-term debt | A-3 | NP(1) | F3 | R-2H |
| Long-term bank deposits | BBB- | Ba1 | BBB | BBBH |
| Long-term debt | BBB- | Ba2 | BBB- | BBBH |
| Subordinated debt | BB+ | Ba3 | BB+ | BBB |
| Outlook | Stable | Negative | Stable | Negative |

(1) Not Prime

In general, ratings agencies base their ratings on many quantitative and qualitative factors, including capital adequacy, liquidity, asset quality, business mix, probability of government support, and level and quality of earnings. Any downgrade in credit ratings by one or more ratings agencies may impact Regions in several ways, including, but not limited to, Regions' access to the capital markets or short-term funding, borrowing cost and capacity, collateral requirements, and acceptability of its letters of credit, thereby potentially adversely impacting Regions' financial condition and liquidity. See the "Risk Factors" section in the Annual Report on Form 10-K for the year ended December 31, 2011 for more information.

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

OPERATING RESULTS

The table below presents computations of earnings (loss) and certain other financial measures including fee income ratio, efficiency ratio, return on average assets, return on average tangible common stockholders' equity, average and end of period tangible common stockholders' equity and related ratios, Tier 1 common equity and related ratios, and the Basel III Tier 1 common ratio, all of which are non-GAAP measures. Regions believes these financial measures provide a meaningful base for period-to-period comparisons which

Table of Contents

management believes will assist investors in analyzing the operating results of the Company and predicting future performance. These non-GAAP financial measures are also used by management to assess the performance of Regions' business. Management and the Board of Directors utilize these non-GAAP financial measures as follows:

Preparation of Regions' operating budgets

Monthly financial performance reporting

Monthly close-out reporting of consolidated results (management only)

Presentations to investors of Company performance.

Regions believes that presenting these non-GAAP financial measures will permit investors to assess the performance of the Company on the same basis as that applied by management and the Board of Directors.

The efficiency ratio (non-GAAP), which is a measure of productivity, is generally calculated as non-interest expense divided by total revenue on a taxable equivalent basis. The fee income ratio (non-GAAP) is generally calculated as non-interest income divided by total revenue. Management uses these ratios to monitor performance and believes these measures provide meaningful information to investors. Non-interest expense (GAAP) may be presented excluding adjustments to arrive at adjusted non-interest expense (non-GAAP), which is the numerator for the efficiency ratio. Non-interest income (GAAP) may be presented excluding adjustments to arrive at adjusted non-interest income (non-GAAP), which is the numerator for the fee income ratio. Net interest income on a taxable equivalent basis (GAAP) and non-interest income (GAAP) are added together to arrive at total revenue (GAAP). Adjustments are made to arrive at adjusted total revenue (non-GAAP), which is the denominator for the fee income and efficiency ratios. Regions believes that the non-GAAP measures reflecting these adjustments provide a meaningful base for period-to-period comparisons, which management believes will assist investors in analyzing the operating results of the Company and predicting future performance. These non-GAAP financial measures are also used by management to assess the performance of Regions' business. It is possible that the activities related to the adjustments may recur; however, management does not consider the activities related to the adjustments to be indications of ongoing operations. Regions believes that presentation of these non-GAAP financial measures will permit investors to assess the performance of the Company on the same basis as that applied by management.

Tangible common stockholders' equity ratios have become a focus of some investors in analyzing the capital position of the Company absent the effects of intangible assets and preferred stock. Traditionally, the Federal Reserve and other banking regulatory bodies have assessed a bank's capital adequacy based on Tier 1 capital, the calculation of which is codified in federal banking regulations. In connection with the Federal Reserve's Comprehensive Capital Analysis and Review process, these regulators are supplementing their assessment of the capital adequacy of a bank based on a variation of Tier 1 capital, known as Tier 1 common equity. While not prescribed in amount by federal banking regulations, analysts and banking regulators have assessed Regions' capital adequacy using the tangible common stockholders' equity and/or the Tier 1 common equity measure. Because tangible common stockholders' equity and Tier 1 common equity are not formally defined by GAAP or prescribed in amount by federal banking regulations, these measures are considered to be non-GAAP financial measures and other entities may calculate them differently than Regions' disclosed calculations. Since analysts and banking regulators may assess Regions' capital adequacy using tangible common stockholders' equity and Tier 1 common equity, Regions believes that it is useful to provide investors the ability to assess Regions' capital adequacy on these same bases.

Tier 1 common equity is often expressed as a percentage of risk-weighted assets. Under the risk-based capital framework, a bank's balance sheet assets and credit equivalent amounts of off-balance sheet items are assigned to one of four broad risk categories. The aggregated dollar amount in each category is then multiplied by the risk weighting assigned to that category. The resulting weighted values from each of the four categories are added together and this sum is the risk-weighted assets total that, as adjusted, comprises the denominator of

Table of Contents

certain risk-based capital ratios. Tier 1 capital is then divided by this denominator (risk-weighted assets) to determine the Tier 1 capital ratio. Adjustments are made to Tier 1 capital to arrive at Tier 1 common equity (non-GAAP). Tier 1 common equity is also divided by the risk-weighted assets to determine the Tier 1 common equity ratio (non-GAAP). The amounts disclosed as risk-weighted assets are calculated consistent with banking regulatory requirements.

Regions currently calculates its risk-based capital ratios under guidelines adopted by the Federal Reserve based on the 1988 Capital Accord (Basel I) of the Basel Committee on Banking Supervision (the Basel Committee). In December 2010, the Basel Committee released its final framework for Basel III, which will strengthen international capital and liquidity regulation. When implemented by U.S. bank regulatory agencies and fully phased-in, Basel III will change capital requirements and place greater emphasis on common equity. Implementation of Basel III will begin on January 1, 2013, and will be phased in over a multi-year period. The U.S. bank regulatory agencies have not yet finalized regulations governing the implementation of Basel III. Accordingly, the calculations provided below are estimates, based on Regions' current understanding of the framework, including the Company's reading of the original requirements, as well as the U. S. Notices of Proposed Rulemaking (NPR) released in June 2012, and informal feedback received through the regulatory process. Regions' understanding of the framework is evolving and will likely change as the regulations are finalized. The NPR comment period ended in October 2012; changes to the calculation resulting from the comment process could result in materially different capital ratios from the amounts estimated. Because the Basel III implementation regulations are not formally defined by GAAP and have not yet been finalized and codified, these measures are considered to be non-GAAP financial measures, and other entities may calculate them differently from Regions' disclosed calculations. Since analysts and banking regulators may assess Regions' capital adequacy using the Basel III framework, Regions believes that it is useful to provide investors the ability to assess Regions' capital adequacy on the same basis. Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied and are not audited. Although these non-GAAP financial measures are frequently used by stakeholders in the evaluation of a company, they have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analyses of results as reported under GAAP.

The following tables provide: 1) a reconciliation of net income available to common shareholders (GAAP) to income from continuing operations available to common shareholders, 2) a reconciliation of non-interest income and non-interest expense from continuing operations (GAAP) to adjusted non-interest income and non-interest expense (non-GAAP), 3) a computation of adjusted total revenue (non-GAAP), 4) a computation of the fee income ratio (non-GAAP), 5) a computation of the efficiency ratio (non-GAAP), 6) a reconciliation of average and ending stockholders' equity (GAAP) to average and ending tangible common stockholders' equity (non-GAAP) and calculations of related ratios, 7) a reconciliation of stockholders' equity (GAAP) to Tier 1 capital (regulatory) and to Tier 1 common equity (non-GAAP) and calculations of related ratios, and 8) a reconciliation of stockholders' equity (GAAP) to Basel III Tier 1 common equity (non-GAAP) and calculation of the related ratio based on Regions' current understanding of Basel III requirements as proposed by the U.S. Notices of Proposed Rulemaking released in June 2012.

Table of Contents**Table 20 GAAP to Non-GAAP Reconciliation**

| | | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|-----|------------------------------------|------------|-----------------------------------|------------|
| | | 2012 | 2011 | 2012 | 2011 |
| (Dollars in millions, except per share data) | | | | | |
| INCOME (LOSS) | | | | | |
| Net income (GAAP) | | \$ 301 | \$ 155 | \$ 855 | \$ 333 |
| Preferred dividends and accretion (GAAP) | | | (54) | (125) | (160) |
| Net income available to common shareholders (GAAP) | A | \$ 301 | \$ 101 | \$ 730 | \$ 173 |
| Income (loss) from discontinued operations, net of tax (GAAP) | | (11) | 14 | (47) | 63 |
| Income from continuing operations available to common shareholders (GAAP) | B | \$ 312 | \$ 87 | \$ 777 | \$ 110 |
| FEE INCOME AND EFFICIENCY RATIOS | | | | | |
| Non-interest expense from continuing operations (GAAP) | | \$ 869 | \$ 850 | \$ 2,624 | \$ 2,738 |
| Significant items: | | | | | |
| Securities impairment, net | | | | (2) | |
| Branch consolidation and property and equipment charges | | | | | (77) |
| Adjusted non-interest expense (non-GAAP) | E | \$ 869 | \$ 850 | \$ 2,622 | \$ 2,661 |
| Net interest income from continuing operations, taxable equivalent basis (GAAP) | | \$ 830 | \$ 859 | \$ 2,519 | \$ 2,587 |
| Non-interest income from continuing operations (GAAP) | | \$ 533 | \$ 513 | \$ 1,564 | \$ 1,636 |
| Significant items: | | | | | |
| Securities (gains) losses, net | | (12) | 1 | (36) | (105) |
| Leveraged lease termination (gains) losses, net | | | 2 | (14) | 2 |
| Loss on sale of mortgage loans | | | | | 3 |
| Adjusted non-interest income (non-GAAP) | F | 521 | 516 | 1,514 | 1,536 |
| Adjusted total revenue (non-GAAP) | G | \$ 1,351 | \$ 1,375 | \$ 4,033 | \$ 4,123 |
| Fee income ratio (non-GAAP) | F/G | 38.56% | 37.53% | 37.54% | 37.25% |
| Efficiency ratio (non-GAAP) | E/G | 64.32% | 61.82% | 65.01% | 64.54% |
| RETURN ON AVERAGE ASSETS (1) | | | | | |
| Average assets (GAAP) continuing operations | H | \$ 121,531 | \$ 126,586 | \$ 122,567 | \$ 127,332 |
| Return on average assets (GAAP) (2) | A/H | 0.99% | 0.32% | 0.80% | 0.18% |
| Return on average assets from continuing operations (GAAP)(2) | B/H | 1.02% | 0.27% | 0.85% | 0.12% |
| RETURN ON AVERAGE TANGIBLE COMMON STOCKHOLDERS EQUITY | | | | | |
| Average stockholders equity (GAAP) | | \$ 14,663 | \$ 17,069 | \$ 15,240 | \$ 16,851 |
| Less: Average intangible assets (GAAP) | | 5,195 | 5,998 | 5,223 | 5,947 |
| Average deferred tax liability related to intangibles (GAAP) | | (198) | (224) | (198) | (230) |
| Average preferred equity (GAAP) | | | 3,402 | 1,174 | 3,393 |

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

| | | | | | |
|--|-----|----------|----------|----------|----------|
| Average tangible common stockholders equity (non-GAAP) | I | \$ 9,666 | \$ 7,893 | \$ 9,041 | \$ 7,741 |
| Return on average tangible common stockholders equity (non-GAAP) (2) | A/I | 12.39% | 5.08% | 10.79% | 2.99% |

95

Table of Contents

| | | September 30 2012 | December 31 2011 |
|--|-----|----------------------|---------------------|
| (Dollars in millions, except per share data) | | | |
| TANGIBLE COMMON RATIOS | | | |
| Ending stockholders' equity (GAAP) | | \$ 14,901 | \$ 16,499 |
| Less: Ending intangible assets (GAAP) | | 5,181 | 5,265 |
| Ending deferred tax liability related to intangibles (GAAP) | | (195) | (200) |
| Ending preferred equity (GAAP) | | | 3,419 |
| Ending tangible common stockholders' equity (non-GAAP) | J | \$ 9,915 | \$ 8,015 |
| Ending total assets (GAAP) | | \$ 121,798 | \$ 127,050 |
| Less: Ending intangible assets (GAAP) | | 5,181 | 5,265 |
| Ending deferred tax liability related to intangibles (GAAP) | | (195) | (200) |
| Ending tangible assets (non-GAAP) | K | \$ 116,812 | \$ 121,985 |
| End of period shares outstanding | L | 1,413 | 1,259 |
| Tangible common stockholders' equity to tangible assets (non-GAAP) | J/K | 8.49% | 6.57% |
| Tangible common book value per share (non-GAAP) | J/L | \$ 7.02 | \$ 6.37 |

| | | September 30 2012 | December 31 2011 |
|---|-----|----------------------|---------------------|
| (Dollars in millions) | | | |
| TIER 1 COMMON RISK-BASED RATIO | | | |
| Stockholders' equity (GAAP) | | \$ 14,901 | \$ 16,499 |
| Accumulated other comprehensive (income) loss | | (202) | 69 |
| Non-qualifying goodwill and intangibles | | (4,836) | (4,900) |
| Disallowed deferred tax assets | | (238) | (432) |
| Disallowed servicing assets | | (33) | (35) |
| Qualifying non-controlling interests | | 93 | 92 |
| Qualifying trust preferred securities | | 846 | 846 |
| Tier 1 capital (regulatory) | | 10,531 | 12,139 |
| Qualifying non-controlling interests | | (93) | (92) |
| Qualifying trust preferred securities | | (846) | (846) |
| Preferred stock | | | (3,419) |
| Tier 1 common equity (non-GAAP) | M | \$ 9,592 | \$ 7,782 |
| Risk-weighted assets (regulatory) | N | \$ 91,723 | \$ 91,449 |
| Tier 1 common risk-based ratio (non-GAAP) | M/N | 10.46% | 8.51% |

BASEL III TIER 1 COMMON RATIO (3)

| | | |
|---|---|-----------|
| Stockholders' equity (GAAP) | | \$ 14,901 |
| Non-qualifying goodwill and intangibles (4) | | (4,987) |
| Adjustments, including other comprehensive income related to cash flow hedges, disallowed deferred tax assets, threshold deductions and other adjustments | | (312) |
| Basel III tier 1 common equity (non-GAAP) | O | \$ 9,602 |
| Basel I risk-weighted assets (regulatory) | | \$ 91,723 |

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

| | | |
|---|-----|------------|
| Basel III risk-weighted assets (non-GAAP) (5) | P | \$ 110,449 |
| Basel III tier 1 common ratio (non-GAAP) | O/P | 8.69% |

- (1) Return on assets from continuing operations does not include average assets related to discontinued operations of \$30 million and \$3,173 million for the three months ended September 30, 2012 and 2011 and \$948 million and \$3,213 million for the nine months ended September 30, 2012 and 2011, respectively.
- (2) Income statement amounts have been annualized in calculation.
- (3) Estimate based on June 2012 U.S. Notices of Proposed Rulemaking
- (4) Under Basel III, regulatory capital must be reduced by purchased credit card relationship intangible assets. These assets are partially allowed in Basel I capital.
- (5) Regions continues to develop systems and internal controls to calculate risk-weighted assets as required by Basel III. The amount included above is a reasonable approximation, based on our understanding of the requirements.

Table of Contents**INTEREST INCOME**

The following tables present an analysis of net interest income/margin from continuing operations for the three and nine months ended September 30, 2012 and 2011:

Table 21 Consolidated Average Daily Balances and Yield/Rate Analysis for Continuing Operations

| | Three Months Ended September 30 | | | | | |
|--|---------------------------------|----------------------------|----------------|--------------------|----------------------------|----------------|
| | Average Balance | 2012 Income/ Expense | Yield/ Rate | Average Balance | 2011 Income/ Expense | Yield/ Rate |
| (Dollars in millions; yields on taxable-equivalent basis) | | | | | | |
| Assets | | | | | | |
| Interest-earning assets: | | | | | | |
| Federal funds sold and securities purchased under agreements to resell | \$ | \$ | % | \$ | \$ | % |
| Trading account assets | 112 | | | 182 | 1 | 2.18 |
| Securities: | | | | | | |
| Taxable | 27,028 | 170 | 2.50 | 24,098 | 177 | 2.91 |
| Tax-exempt | 10 | | | 31 | | |
| Loans held for sale | 1,213 | 9 | 2.95 | 847 | 7 | 3.28 |
| Loans, net of unearned income (1)(2) | 75,697 | 796 | 4.18 | 80,513 | 875 | 4.31 |
| Other interest-earning assets | 3,187 | 2 | 0.25 | 6,544 | 4 | 0.24 |
| Total interest-earning assets | 107,247 | 977 | 3.62 | 112,215 | 1,064 | 3.76 |
| Allowance for loan losses | (2,232) | | | (3,150) | | |
| Cash and due from banks | 1,732 | | | 1,972 | | |
| Other non-earning assets | 14,784 | | | 15,549 | | |
| | \$ 121,531 | | | \$ 126,586 | | |
| Liabilities and Stockholders Equity | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Savings accounts | \$ 5,650 | 1 | 0.07 | \$ 5,148 | 1 | 0.08 |
| Interest-bearing transaction accounts | 18,880 | 5 | 0.11 | 16,651 | 7 | 0.17 |
| Money market accounts (6) | 24,891 | 11 | 0.18 | 24,623 | 18 | 0.29 |
| Time deposits | 15,536 | 50 | 1.28 | 21,369 | 86 | 1.60 |
| Total interest-bearing deposits (3) | 64,957 | 67 | 0.41 | 67,791 | 112 | 0.66 |
| Federal funds purchased and securities sold under agreements to repurchase | 2,375 | 1 | 0.17 | 1,604 | | |
| Other short-term borrowings | 363 | | | 148 | | |
| Long-term borrowings | 6,230 | 79 | 5.04 | 10,786 | 93 | 3.42 |
| Total interest-bearing liabilities | 73,925 | 147 | 0.79 | 80,329 | 205 | 1.01 |
| Net interest spread | | | 2.83 | | | 2.75 |
| Non-interest-bearing deposits (3)(6) | 29,652 | | | 28,356 | | |
| Other liabilities | 3,243 | | | 2,496 | | |
| Stockholders equity | 14,711 | | | 15,405 | | |
| | \$ 121,531 | | | \$ 126,586 | | |
| | | \$ 830 | 3.08% | | \$ 859 | 3.04% |

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

Net interest income/margin on a taxable-equivalent basis from continuing operations (4)(5)

Notes:

- (1) Loans, net of unearned income include non-accrual loans for all periods presented.
- (2) Interest income includes net loan fees of \$15 million and \$7 million for the three months ended September 30, 2012 and 2011, respectively.
- (3) Total deposit costs may be calculated by dividing total interest expense on deposits by the sum of interest-bearing deposits and non-interest bearing deposits. The rates for total deposit costs equal 0.28% and 0.46% for the three months ended September 30, 2012 and 2011, respectively.
- (4) The computation of taxable-equivalent net interest income is based on the statutory federal income tax rate of 35%, adjusted for applicable state income taxes net of the related federal tax benefit.
- (5) The table above does not include average assets, average liabilities, interest income, or interest expense for discontinued operations (see Note 2 to the consolidated financial statements). If these assets, liabilities, and net interest income were included in the calculation, the consolidated net interest income and margin on a taxable equivalent basis would be \$830 million and 3.08% and \$866 million and 3.02% for the three months ended September 30, 2012 and 2011, respectively.
- (6) Prior period amounts have been reclassified to conform to the current period classification.

Table of Contents**Table 22 Consolidated Average Daily Balances and Yield/Rate Analysis for Continuing Operations**

| | Nine Months Ended September 30 | | | | | |
|--|--------------------------------|----------------------------|----------------|--------------------|----------------------------|----------------|
| | Average Balance | 2012 Income/ Expense | Yield/ Rate | Average Balance | 2011 Income/ Expense | Yield/ Rate |
| (Dollars in millions; yields on taxable-equivalent basis) | | | | | | |
| Assets | | | | | | |
| Interest-earning assets: | | | | | | |
| Federal funds sold and securities purchased under agreements to resell | \$ | \$ | % | \$ | \$ | % |
| Trading account assets | 136 | 2 | 1.96 | 163 | 3 | 2.46 |
| Securities: | | | | | | |
| Taxable | 26,513 | 523 | 2.63 | 24,537 | 592 | 3.23 |
| Tax-exempt | 20 | | | 31 | | |
| Loans held for sale | 1,122 | 23 | 2.74 | 1,156 | 29 | 3.35 |
| Loans, net of unearned income (1)(2) | 76,509 | 2,437 | 4.25 | 81,336 | 2,613 | 4.30 |
| Other interest-earning assets | 3,877 | 7 | 0.24 | 5,600 | 10 | 0.24 |
| Total interest-earning assets | 108,177 | 2,992 | 3.69 | 112,829 | 3,247 | 3.85 |
| Allowance for loan losses | (2,493) | | | (3,186) | | |
| Cash and due from banks | 1,844 | | | 1,993 | | |
| Other non-earning assets | 15,039 | | | 15,696 | | |
| | \$ 122,567 | | | \$ 127,332 | | |
| Liabilities and Stock holders Equity | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Savings accounts | \$ 5,556 | 3 | 0.07 | \$ 5,032 | 3 | 0.08 |
| Interest-bearing transaction accounts | 19,327 | 17 | 0.12 | 14,605 | 21 | 0.19 |
| Money market accounts (6) | 24,323 | 34 | 0.19 | 26,435 | 59 | 0.30 |
| Time deposits | 17,248 | 177 | 1.37 | 22,276 | 294 | 1.76 |
| Total interest-bearing deposits (3) | 66,454 | 231 | 0.46 | 68,348 | 377 | 0.74 |
| Federal funds purchased and securities sold under agreements to repurchase | 1,936 | 1 | 0.07 | 1,763 | 1 | 0.08 |
| Other short-term borrowings | 299 | | | 223 | | |
| Long-term borrowings | 6,889 | 241 | 4.67 | 11,782 | 282 | 3.20 |
| Total interest-bearing liabilities | 75,578 | 473 | 0.84 | 82,116 | 660 | 1.07 |
| Net interest spread | | | 2.85 | | | 2.78 |
| Non-interest-bearing deposits (3)(6) | 29,053 | | | 27,497 | | |
| Other liabilities | 2,996 | | | 2,438 | | |
| Stockholders equity | 14,940 | | | 15,281 | | |
| | \$ 122,567 | | | \$ 127,332 | | |
| Net interest income/margin on a taxable-equivalent basis from continuing operations (4)(5) | | \$ 2,519 | 3.11% | | \$ 2,587 | 3.07% |

Notes:

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

- (1) Loans, net of unearned income include non-accrual loans for all periods presented.
- (2) Interest income includes net loan fees of \$47 million and \$36 million for the nine months ended September 30, 2012 and 2011, respectively.
- (3) Total deposit costs may be calculated by dividing total interest expense on deposits by the sum of interest-bearing deposits and non-interest bearing deposits. The rates for total deposit costs equal 0.32% and 0.53% for the nine months ended September 30, 2012 and 2011, respectively.
- (4) The computation of taxable-equivalent net interest income is based on the statutory federal income tax rate of 35%, adjusted for applicable state income taxes net of the related federal tax benefit.
- (5) The table above does not include average assets, average liabilities, interest income, or interest expense for discontinued operations (see Note 2 to the consolidated financial statements). If these assets, liabilities, and net interest income were included in the calculation, the consolidated net interest income and margin on a taxable equivalent basis would be \$2,526 million and 3.10% and \$2,610 million and 3.05% for the nine months ended September 30, 2012 and 2011, respectively.
- (6) Prior period amounts have been reclassified to conform to the current period classification.

Table of Contents

For the third quarter of 2012, continuing operations net interest income (taxable-equivalent basis) totaled \$830 million compared to \$859 million in the third quarter of 2011. The net interest margin (taxable-equivalent basis) was 3.08 percent for the third quarter of 2012, compared to 3.04 percent for the third quarter of 2011. For the first nine months of 2012 and 2011, continuing operations net interest income (taxable-equivalent basis) totaled \$2.5 billion and \$2.6 billion, respectively. The net interest margin (taxable-equivalent basis) was 3.11 percent for the nine months ended September 30, 2012, compared to 3.07 percent for the nine months ended September 30, 2011. Net interest margin increased for both periods primarily as a result of declines in overall deposit costs, lower levels of non-accrual loans and a decline in low-yielding other interest earning assets, primarily cash held at the Federal Reserve.

MARKET RISK INTEREST RATE RISK

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

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

The primary objective of asset/liability management at Regions is to coordinate balance sheet composition with interest rate risk management to sustain a reasonable and stable net interest income throughout various interest rate cycles. In computing interest rate sensitivity for measurement, Regions compares a set of alternative interest rate scenarios to the results of a base case scenario based on market forward rates. The standard set of interest rate scenarios includes the traditional instantaneous parallel rate shifts of plus 100 and 200 basis points. Regions also prepares a minus 50 basis points scenario, as minus 100 and 200 basis scenarios are of limited use in the current rate environment. Up-rate scenarios of greater magnitude are also analyzed, and are of increased importance as the current and historic low levels of interest rates increase the relative likelihood of a rapid and substantial increase in interest rates. Regions also includes simulations of gradual interest rate movements that may more realistically mimic potential interest rate movements. These gradual scenarios include curve steepening, flattening, and parallel movements of various magnitudes phased in over a six-month period, and include rate shifts of minus 50 basis points and plus 100 and 200 basis points.

Exposure to Interest Rate Movements As of September 30, 2012, Regions was moderately asset sensitive to both gradual and instantaneous rate shifts as compared to the base case for the measurement horizon ending September 2013. The exposure reflected in the minus 50 basis points scenario reflects the risk of accelerating prepayment activity as spurred by exceptionally low levels of long-term interest rates, as well as the risk that short-term interest rates (such as the Fed Funds rate and the rate of Interest On Excess Reserves) decline to zero. The table below summarizes Regions' position, and the scenarios are inclusive of all interest-rate risk hedging activities. Note that wherever scenarios would indicate negative interest rates, a minimum of zero is applied.

Table of Contents**Table 23 Interest Rate Sensitivity**

| | Estimated Annual Change in Net Interest Income September 30, 2012 (In millions) |
|--|--|
| <u>Gradual Change in Interest Rates</u> | |
| +200 basis points | \$ 382 |
| +100 basis points | 207 |
| -50 basis points | (105) |
| <u>Instantaneous Change in Interest Rates</u> | |
| +200 basis points | \$ 469 |
| +100 basis points | 255 |
| -50 basis points | (128) |

Interest rate movements may also have an impact on the value of Regions' securities portfolio, which can directly impact the carrying value of stockholders' equity. Regions from time to time may hedge these price movements with derivatives (as discussed below). However, at September 30, 2012, Regions had no designations of hedges to mitigate price movements of securities.

Derivatives Regions uses financial derivative instruments for management of interest rate sensitivity. The Asset and Liability Committee (ALCO), which consists of members of Regions' senior management team, in its oversight role for the management of interest rate sensitivity, approves the use of derivatives in balance sheet hedging strategies. The most common derivatives Regions employs are forward rate contracts, Eurodollar futures contracts, interest rate swaps, options on interest rate swaps, interest rate caps and floors, and forward sale commitments. Derivatives are also used to offset the risks associated with customer derivatives, which include interest rate, credit and foreign exchange risks.

Forward rate contracts are commitments to buy or sell financial instruments at a future date at a specified price or yield. A Eurodollar futures contract is a future on a Eurodollar deposit. Eurodollar futures contracts 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. Interest rate swaps are contractual agreements typically entered into to exchange fixed for variable (or vice versa) streams of interest payments. The notional principal is not exchanged but is used as a reference for the size of interest settlements. Interest rate options are contracts that allow the buyer to purchase or sell a financial instrument at a predetermined price and time. Forward sale commitments are contractual obligations to sell market instruments at a future date for an already agreed-upon price. Foreign currency contracts involve the exchange of one currency for another on a specified date and at a specified rate. The Company is subject to the credit risk that another party will fail to perform.

Regions has made use of interest rate swaps to effectively convert a portion of its fixed-rate funding position to a variable-rate position and, in some cases, to effectively convert a portion of its variable-rate loan portfolio to fixed-rate. Regions also uses derivatives to manage interest rate and pricing risk associated with its mortgage origination business. 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 contracts and forward sale commitments are used to protect the value of the loan pipeline and loans held for sale from changes in interest rates and pricing.

Regions manages the credit risk of these instruments in much the same way as it manages credit risk of the loan portfolios by establishing credit limits for each counterparty and through collateral agreements for dealer transactions. For non-dealer transactions, the need for collateral is evaluated on an individual transaction basis and is primarily dependent on the financial strength of the counterparty. Credit risk is also reduced significantly

Table of Contents

by entering into legally enforceable master netting agreements. When there is more than one transaction with a counterparty and there is a legally enforceable master netting agreement in place, the exposure represents the net of the gain and loss positions with and collateral received from and/or posted to that counterparty. The Credit Risk section in Regions Annual Report on Form 10-K for the year ended December 31, 2011 contains more information on the management of credit risk.

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

The primary objective of Regions hedging strategies is to mitigate the impact of interest rate changes, from an economic perspective, on net interest income and the net present value of its balance sheet. The overall effectiveness of these hedging strategies is subject to market conditions, the quality of Regions execution, the accuracy of its valuation assumptions, counterparty credit risk and changes in interest rates. See Note 12 Derivative Financial Instruments and Hedging Activities to the consolidated financial statements for a tabular summary of Regions quarter-end and year-end derivatives positions and further discussion.

Regions accounts for mortgage servicing rights at fair market value with any changes to fair value being recorded within mortgage income. Regions enters into derivative and balance sheet transactions to mitigate the impact of market value fluctuations related to mortgage servicing rights. Derivative instruments entered into in the future could be materially different from the current risk profile of Regions current portfolio.

MARKET RISK PREPAYMENT RISK

Regions, like most financial institutions, is subject to changing prepayment speeds on mortgage-related assets under different interest rate environments. Prepayment risk is a significant risk to earnings and specifically to net interest income. For example, mortgage loans and other financial assets may be prepaid by a debtor, so that the debtor may refinance its obligations at lower rates. As loans and other financial assets prepay in a falling rate environment, Regions must reinvest these funds in lower-yielding assets. Prepayments of assets carrying higher rates reduce Regions interest income and overall asset yields. Conversely, in a rising rate environment, these assets will prepay at a slower rate, resulting in opportunity cost by not having the cash flow to reinvest at higher rates. Prepayment risk can also impact the value of securities and the carrying value of equity. Regions greatest exposures to prepayment risks primarily rest in its mortgage-backed securities portfolio, the mortgage fixed-rate loan portfolio and the mortgage servicing asset, all of which tend to be sensitive to interest rate movements. Regions also has prepayment risk that would be reflected in non-interest income in the form of servicing income on loans sold. Regions actively monitors prepayment exposure as part of its overall net interest income forecasting and interest rate risk management. For instance, at this time of historically low interest rates, Regions carefully evaluates and manages the exposure to declining prepayments that are expected to coincide with increasing interest rates in both the loan and securities portfolio.

MARKET RISK BROKERAGE AND OTHER MARKET ACTIVITY RISK

On January 11, 2012, Regions entered into a stock purchase agreement to sell Morgan Keegan & Company, Inc. and related affiliates to Raymond James Financial, Inc. The transaction closed on April 2, 2012. Refer to Note 2 Discontinued Operations, to the consolidated financial statements for further details.

Regions capital markets business, which includes derivatives, loan syndication and foreign exchange trading activities, expose it to market risk. Further, the Company is exposed to market risk from mortgage hedging activities which include secondary marketing of loans to government-sponsored entities and mortgage servicing rights valuation.

Table of Contents

To manage trading risks arising from interest rate and equity price risks, the Company uses a Value at Risk (VAR) model along with other risk management methods 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. The results of VAR were immaterial for both September 30, 2012 and December 31, 2011.

PROVISION FOR LOAN LOSSES

The provision for loan losses is used to maintain the allowance for loan losses at a level that in management's judgment is appropriate to absorb probable losses inherent in the portfolio at the balance sheet date. The provision for loan losses totaled \$33 million in the third quarter of 2012 compared to \$355 million during the third quarter of 2011. The provision for loan losses totaled \$176 million in the first nine months of 2012 compared to \$1.2 billion in the first nine months of 2011. Net charge-offs as a percentage of average loans (annualized) were 1.50 percent and 2.53 percent in the first nine months of 2012 and 2011, respectively. Net charge-offs were lower across most major loan categories when comparing the 2012 period to the prior year period, except for the consumer credit card portfolio which was purchased in the second quarter of 2011. In addition to lower levels of charge-offs, credit quality metrics continued to improve. Charge-offs exceeded provision for loan losses for the third quarter of 2012 and the first nine months of 2012, primarily due to improving credit metrics, including non-accrual loans and criticized and classified loans (see Table 8 Allowance for Credit Losses), as well as, an overall reduction in loan balances, problem loan resolutions, and a continuing mix shift in loans out of higher risk investor real estate and into less risky commercial and industrial loans.

CREDIT RISK

Regions' objective regarding credit risk is to maintain a high-quality credit portfolio that provides for stable credit costs with acceptable volatility through an economic cycle. Regions has a diversified loan portfolio in terms of product type, collateral and geography. See Table 2 for further details of each loan portfolio segment. See the Credit Risk section of the Form 10-K for the year ended December 31, 2011 for a discussion of risk characteristics of each loan type.

INTERNATIONAL RISK

Regions has minimal sovereign credit exposure. Regions does own an immaterial amount in government securities issued by a single non-European sovereign, as well as a guarantee on a leveraged lease from a Western European government agency. However, Regions does have country exposure, which is defined as the aggregation of exposure Regions has with financial institutions, companies, or individuals in a given country outside of the United States. The majority of these exposures are in the form of corporate bonds, derivative hedges (interest rate and foreign exchange) and leveraged lease guarantees. This exposure is concentrated in highly-rated, Western European countries but not in those most severely affected by the recent Eurozone turmoil.

In addition to Western Europe and Australia, Regions' corporate securities include investments in corporations domiciled in other countries in Eastern Europe and North America. Regions has other smaller exposures in the form of trade confirmations, due from clearing accounts and loan participations with counterparties domiciled in countries in other regions, such as Latin America, Asia and the Middle East / North Africa region.

At September 30, 2012, Regions' international exposure was approximately \$1.0 billion in total. Approximately 61 percent of the total exposure relates to corporate bonds. Approximately 56 percent of the total exposure relates to highly-rated Western European entities.

Regions' Counterparty Risk department is responsible for the setting of country limits and managing of the outstanding country exposure for all departments of the bank as well as monitoring compliance of the outstanding exposure to the set limits. Reports are sent to Counterparty Risk by the lines of business on a

Table of Contents

monthly basis to demonstrate their compliance with their set limits. Counterparty Risk conducts a formal, quarterly assessment of the exposure, on both an outstanding and limit basis, which is then distributed to upper management for review.

NON-INTEREST INCOME

The following tables present a summary of non-interest income. For expanded discussion of certain significant non-interest income items, refer to the discussion of each component following the tables presented.

Table 24 Non-Interest Income from Continuing Operations

| | Three Months Ended September 30 | |
|--|--|---------------|
| | 2012 | 2011 |
| | (In millions) | |
| Service charges on deposit accounts | \$ 244 | \$ 310 |
| Investment fee income (loss) | 34 | (5) |
| Mortgage income | 106 | 68 |
| Trust department income | 48 | 49 |
| Securities gains (losses), net | 12 | (1) |
| Insurance commissions and fees | 28 | 27 |
| Bank owned life insurance | 19 | 18 |
| Commercial credit fee income | 17 | 20 |
| Leveraged lease termination losses | | (2) |
| Net revenue (loss) from affordable housing | (17) | (18) |
| Credit card / bank card income | 18 | 24 |
| Other miscellaneous income | 24 | 23 |
| | \$ 533 | \$ 513 |

| | Nine Months Ended September 30 | |
|--|---|-----------------|
| | 2012 | 2011 |
| | (In millions) | |
| Service charges on deposit accounts | \$ 731 | \$ 905 |
| Investment fee income | 79 | 45 |
| Mortgage income | 273 | 163 |
| Trust department income | 147 | 150 |
| Securities gains, net | 36 | 105 |
| Insurance commissions and fees | 82 | 80 |
| Bank owned life insurance | 61 | 59 |
| Commercial credit fee income | 52 | 60 |
| Leveraged lease termination gains (losses) | 14 | (2) |
| Net revenue (loss) from affordable housing | (44) | (49) |
| Credit card / bank card income | 64 | 42 |
| Other miscellaneous income | 69 | 78 |
| | \$ 1,564 | \$ 1,636 |

Service charges on deposit accounts Service charges on deposit accounts decreased \$66 million for the quarter ended September 30, 2012, as compared to the third quarter of 2011. For the nine months ended September 30, 2012, service charges on deposit accounts decreased \$174 million from the corresponding 2011 period. The decreases in both periods are primarily driven by policy changes related to Regulation E, as well as a

Table of Contents

decline in interchange income as a result of debit interchange price controls implemented in the fourth quarter of 2011. During the second and third quarters of 2012, service charges on deposit accounts were also negatively impacted by a total of approximately \$35 million (\$11 million in the third quarter) due to the establishment of a reserve for customer refunds resulting from a change in the Company's non-sufficient funds policy.

Interchange income, which is included in service charges on deposit accounts, was impacted by the Federal Reserve's rulemaking required by section 1075 of the Dodd-Frank Act. The Federal Reserve Board of Governors announced its final rule on debit card interchange fees mandated by the Durbin Amendment to the Dodd-Frank Act effective October 1, 2011. Based on the final ruling, the Company estimates that the impact on annual debit interchange revenue will be approximately \$180 million before any mitigation efforts. However, the Company believes it will be able to mitigate this impact over time through fee changes, introduction of new products and services, and expense management.

Investment fee income (loss) Investment fee income (loss) primarily relates to capital markets activities such as loan syndications, foreign exchange and derivatives. Investment fee income (loss) for the third quarter of 2012 increased to \$34 million from a loss of \$5 million for the third quarter of 2011. For the first nine months of 2012, investment fee income increased to \$79 million from \$45 million for the corresponding 2011 period. The increase in the quarterly comparison is due to market fluctuations related to trading account assets held for employee benefit purposes. The increase in the year-to-date comparison is due primarily to lower fair market value adjustments on the customer derivative portfolio.

Mortgage income Mortgage income increased \$38 million for the third quarter of 2012 as compared to the third quarter of 2011. Mortgage income increased \$110 million for the nine months ended September 30, 2012 as compared to the corresponding 2011 period. The increases were driven by wider margins as a result of favorable market conditions, as well as customers taking advantage of the opportunity to refinance under the extended Home Affordable Refinance Program, or HARP II. Mortgage originations totaled \$2.2 billion for the third quarter of 2012, as compared to \$1.5 billion for the third quarter of 2011. Mortgage originations totaled \$5.9 billion for the first nine months of 2012, as compared to \$4.5 billion for the first nine months of 2011.

Securities gains (losses), net Securities gains for the third quarter of 2012 increased to \$12 million from a loss of \$1 million for the third quarter of 2011. For the first nine months of 2012, securities gains declined to \$36 million from \$105 million for the corresponding 2011 period. Lower securities gains during the year-to-date 2012 period were due to lower volumes of securities sales resulting from the Company's asset/liability management process.

Leveraged lease termination gains (losses) Regions terminated certain leveraged leases during the first six months of 2012 resulting in a \$14 million gain for the nine months ended September 30, 2012. The termination gains were largely offset by increases in related income tax expense. There were minimal leveraged lease termination losses in both the third quarter and the year-to-date 2011 periods.

Credit card / bank card income Credit card / bank card income decreased \$6 million for third quarter of 2012 as compared to the third quarter of 2011. Credit card / bank card income increased \$22 million for the nine months ended September 30, 2012 as compared to the corresponding 2011 period. Credit card income is derived from activity related to the Regions-branded credit card amounts purchased from FIA Card Services in the second quarter of 2011 and any subsequent originations. Bank card income relates to commercial purchasing cards. The increase in the year-to-date amount is due to the effect of the entire nine months' worth of impact from the credit card portfolio purchase at the end of the second quarter of 2011.

NON-INTEREST EXPENSE

The following tables present a summary of non-interest expense. For expanded discussion of certain significant non-interest expense items, refer to the discussion of each component following the tables presented.

Table of Contents**Table 25 Non-Interest Expense from Continuing Operations**

| | Three Months Ended September 30 | |
|--|--|---------------|
| | 2012 | 2011 |
| (In millions) | | |
| Salaries and employee benefits | \$ 449 | \$ 383 |
| Net occupancy expense | 99 | 95 |
| Furniture and equipment expense | 65 | 70 |
| Professional and legal expenses | 36 | 42 |
| Amortization of core deposit intangible | 20 | 23 |
| Other real estate owned expense | 13 | 48 |
| Credit/checkcard expenses | 15 | 18 |
| Deposit administrative fee | 37 | 47 |
| Marketing | 27 | 14 |
| Gain on loans held for sale | (17) | |
| Provision (credit) for unfunded credit commitments | (15) | 2 |
| Outside services | 23 | 15 |
| Other miscellaneous expenses | 117 | 93 |
| | \$ 869 | \$ 850 |

| | Nine Months Ended September 30 | |
|---|---|-----------------|
| | 2012 | 2011 |
| (In millions) | | |
| Salaries and employee benefits | \$ 1,325 | \$ 1,212 |
| Net occupancy expense | 285 | 293 |
| Furniture and equipment expense | 196 | 212 |
| Professional and legal expenses | 99 | 135 |
| Amortization of core deposit intangible | 63 | 72 |
| Other real estate owned expense | 46 | 124 |
| Credit/checkcard expenses | 54 | 33 |
| Deposit administrative fee | 128 | 172 |
| Marketing | 64 | 44 |
| Branch consolidation and property and equipment charges | | 77 |
| (Gain)/loss on loans held for sale | (51) | 6 |
| Provision (credit) for unfunded credit commitments | (2) | 14 |
| Outside services | 59 | 44 |
| Other miscellaneous expenses | 358 | 300 |
| | \$ 2,624 | \$ 2,738 |

Salaries and employee benefits Salaries and employee benefits increased \$66 million for the third quarter of 2012 when compared to the third quarter of 2011. Salaries and employee benefits increased \$113 million for the first nine months of 2012 when compared to the corresponding 2011 period. The increase in both periods is due to higher pension costs, annual merit increases and incentive increases, including mortgage-related incentives.

Professional and legal expenses Professional and legal expenses decreased \$6 million for the third quarter of 2012 when compared to the third quarter of 2011. Professional and legal expenses decreased \$36 million for the first nine months of 2012 when compared to corresponding 2011 period. The decrease between the year-to-date periods was driven by a lower volume of legal costs.

Table of Contents

Other real estate owned expense Other real estate owned (OREO) expense includes the cost of adjusting foreclosed properties to estimated fair value after these assets have been classified as OREO, net gains and losses on sales of properties, and other costs to maintain the property such as property taxes, security, and grounds maintenance. OREO expense decreased \$35 million for the third quarter of 2012 when compared to the third quarter of 2011. OREO expense decreased \$78 million for the first nine months of 2012 when compared to the corresponding 2011 period. The decline in expense was due to lower OREO balances and stabilizing real estate values.

Credit/checkcard expenses Credit/checkcard expenses were relatively flat for the third quarter of 2012 when compared to the third quarter of 2011, but increased \$21 million for the first nine months of 2012 when compared to the corresponding 2011 period. The increase in the year-to-date amount is due to the effect of the entire nine months' worth of impact from the credit card portfolio purchase at the end of the second quarter of 2011.

Deposit administrative fee Deposit administrative fees decreased \$10 million for the third quarter of 2012 when compared to the third quarter of 2011 and decreased \$44 million for the first nine months of 2012 when compared to the corresponding 2011 period. The decreases are related to lower asset balances, improved performance metrics and a reduction in higher risk loans, all of which impact the fee calculation.

Marketing Marketing increased \$13 million for the third quarter of 2012 when compared to the third quarter of 2011 and increased \$20 million for the first nine months of 2012 when compared to the corresponding 2011 period. Marketing expenses were elevated both in the third quarter of 2012 as well as the 2012 year-to-date period due to Regions assuming during the third quarter of 2012 the servicing of the credit card portfolio which had been purchased in the second quarter of 2011.

Branch consolidation and property and equipment charges The Company recorded \$77 million in valuation charges during the nine months ended September 30, 2011 related to lower of cost or market adjustments on owned branch property, terminated ground leases, and impairment of other equipment. The charges were driven primarily by the Company's second quarter 2011 decision to consolidate approximately 40 branches.

(Gain)/loss on loans held for sale The Company recorded a \$17 million reduction in non-interest expense for the third quarter of 2012 and a \$51 million reduction of non-interest expense for the first nine months of 2012 related to gains on loans held for sale. The Company realized no net impact on loans held for sale activity during the third quarter of 2011 and recorded losses on loans held for sale of \$6 million for the nine months ended September 30, 2011. The improvement during 2012 relates to completed sales and paydowns of individual loans at amounts in excess of carrying value.

Outside services Outside services increased \$8 million for the third quarter of 2012 as compared to the same period of 2011, and \$15 million for the first nine months of 2012 as compared to the corresponding 2011 period. The increases for both years were due primarily to expenses incurred related to assuming the servicing of the credit card portfolio during the third quarter of 2012 that was purchased at the end of the second quarter of 2011, as well as fees related to the routine purchases of indirect loans from a third party.

Other miscellaneous expenses Other miscellaneous expenses increased \$24 million for the third quarter of 2012 as compared to the same period of 2011, and \$58 million for the first nine months of 2012 as compared to the corresponding 2011 period. The primary drivers of the increases were mortgage repurchase reserve expenses (see Note 5 - Loan Servicing), amortization of intangible assets related to the credit card portfolio purchase and bank operational losses. This item also includes expenses for communications, postage, supplies, certain credit-related costs and business development services.

Table of Contents**INCOME TAXES**

The Company's income tax expense from continuing operations for the three months ended September 30, 2012 was \$136 million compared to an income tax expense of \$17 million for the same period in 2011, resulting in effective tax rates of 30.4 percent and 10.8 percent, respectively. Income tax expense from continuing operations for the nine months ended September 30, 2012 was \$344 million compared to an income tax benefit of \$46 million for the same period in 2011, resulting in effective tax rates of 27.6 percent and (20.5) percent, respectively. The increase in income tax expense for the three and nine months ended September 30, 2012 is due to positive consolidated pre-tax earnings. However, the increase in income tax expense for the nine month period ended September 30, 2012 was partially offset by a net benefit of \$17 million associated with the following items: the effective settlement of the 2007, 2008 and 2009 tax years with the Internal Revenue Service (IRS), which was offset by an increase in the deferred tax asset valuation allowance and an increase in unrecognized tax benefits.

The Company has established a valuation allowance in the amount of \$65 million at September 30, 2012 and \$32 million at December 31, 2011. The Company continually assesses the realizability of its net deferred tax assets based on an evaluative process that considers all available positive and negative evidence, including the impact of prudent and feasible tax planning strategies. The impact of such tax planning strategies is dependent on, among other things, the timing of implementation and the resulting taxable income. The increase in the valuation allowance for the nine month period ended September 30, 2012 is primarily due to a reassessment of the impact of certain tax planning strategies and the ability to generate sufficient taxable income to utilize certain state net operating losses within the prescribed carryforward periods. As a result of this reassessment, the valuation allowance was increased by \$33 million during 2012. The valuation allowance is affected by multiple factors that impact the forecast of taxable income, including the timing of various temporary differences and the implementation of any planning strategies. Accordingly, an additional valuation allowance against state net operating losses is reasonably possible in future periods.

During 2012, the Company reached an agreement with the IRS that effectively settled the examination of tax years 2007, 2008 and 2009. At this time, the Company has no expectation that any tax positions related to the settlement will be reexamined. The years subsequent to these years are open to examination.

The Company completed the sale of Morgan Keegan and related affiliates to Raymond James on April 2, 2012. Raymond James and the Company have until 2013 to finalize income tax elections that will determine the tax characterization of the sale. The Company has reflected the transaction as if Raymond James purchased the assets of the entities for tax purposes. In future periods, if it is ultimately decided that the transaction is not an asset sale, the Company could reflect additional income tax expense within discontinued operations, which would not materially impact the Company's financial position or regulatory capital.

The Company's effective tax rate is affected by recurring items such as affordable housing tax credits, bank-owned life insurance and tax-exempt income, which are expected to be consistent in the near term. The effective tax rate is also affected by items that may occur in any given period but are not consistent from period to period, such as the termination of certain leveraged leases. Accordingly, future period effective tax rates may not be comparable to the current period.

See Note 11 Income Taxes to the consolidated financial statements for additional information about taxes.

DISCONTINUED OPERATIONS

Regions reported a loss from discontinued operations of \$11 million, or \$(0.01) per diluted common share, for the third quarter of 2012, compared to income of \$14 million, or \$0.01 per diluted common share, for the third quarter of 2011. Morgan Keegan was sold on April 2, 2012. During the third quarter of 2012, discontinued operations was mainly comprised of professional and legal expenses. For the nine months ended September 30,

Table of Contents

2012, Regions reported a loss from discontinued operations of \$47 million, or \$(0.04) per diluted common share, compared to income of \$63 million, or \$0.05 per diluted common share, for the nine months ended September 30, 2011. Higher professional and legal costs drove the year-to-date 2012 loss from discontinued operations.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Reference is made to pages 99 through 101 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. During the quarter ended September 30, 2012, there have been no changes in Regions' internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, Regions' internal control over financial reporting.

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

Information required by this item is set forth in Note 15, Commitments and Contingencies in the Notes to the Consolidated Financial Statements (Unaudited) in Part I. Item 1. of this report, which is incorporated herein by reference.

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

Information concerning Regions' repurchases of its outstanding common stock during the three month period ended September 30, 2012, is set forth in the following table:

Issuer Purchases of Equity Securities

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|------------------------|----------------------------------|------------------------------|--|--|
| July 1 - 31, 2012 | | | | 23,072,300 |
| August 1 - 31, 2012 | | | | 23,072,300 |
| September 1 - 30, 2012 | | | | 23,072,300 |
| Total | | | | 23,072,300 |

On January 18, 2007, Regions' Board of Directors authorized the repurchase of 50 million shares of Regions' common stock through open market or privately negotiated transactions and announced the authorization of this repurchase. As indicated in the table above, approximately 23.1 million shares remain available for repurchase under the existing plan.

Restrictions on Dividends and Repurchase of Stock

Holders of Regions common stock are only entitled to receive such dividends as Regions' board of directors may declare out of funds legally available for such payments. Furthermore, holders of Regions common stock are subject to the prior dividend rights of any holders of Regions preferred stock then outstanding. As of September 30, 2012, there were no shares of preferred stock outstanding.

Regions understands the importance of returning capital to shareholders. Management will continue to execute the capital planning process, including evaluation of the amount of the common dividend, with the Board of Directors and in conjunction with the regulatory supervisors, subject to the Company's results of operations. Also, Regions is a bank holding company, and its ability to declare and pay dividends is dependent on certain federal regulatory considerations, including the guidelines of the Federal Reserve regarding capital adequacy and dividends.

The terms of Regions' outstanding junior subordinated debt securities prohibit it from declaring or paying any dividends or distributions on Regions' capital stock, including its common stock, or purchasing, acquiring, or making a liquidation payment on such stock, if Regions has given notice of its election to defer interest payments but the related deferral period has not yet commenced or a deferral period is continuing.

On November 1, 2012, Regions completed the sale of 20,000,000 depositary shares each representing a 1/40th ownership interest in a share of its 6.375% Non-Cumulative Perpetual Preferred Stock, Series A, par value \$1 per share (Series A Preferred Stock), with a liquidation preference of \$1,000 per share of Series A Preferred Stock (equivalent to \$25 per depositary share). The terms of the Series A Preferred Stock prohibit Regions from declaring or paying any dividends on any junior series of its capital stock, including its common stock, or from repurchasing, redeeming or acquiring such junior stock, unless Regions has declared and paid full dividends on the Series A Preferred Stock for the most recently completed dividend period. The Series A Preferred Stock is redeemable at Regions' option in whole or in part, from time to time, on any

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

dividend payment date on or after December 15, 2017 or in whole, but not in part, at any time within 90 days following a regulatory capital treatment event (as defined in the certificate of designations establishing the Series A Preferred Stock).

Table of Contents

Item 6. Exhibits

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

- 3.1 Amended and Restated Certificate of Incorporation, incorporated by reference to Exhibit 3.1 to Form 10-Q Quarterly Report filed by registrant on August 6, 2012
- 3.2 Certificate of Designations, incorporated by reference to Exhibit 3.3 to Form 8-A filed by registrant on November 1, 2012
- 3.3 By-laws as amended and restated, incorporated by reference to Exhibit 3.2 to Form 8-K Current Report filed by registrant on May 14, 2010
- 4.1 Form of Deposit Agreement describing the rights of the holders of depository receipts described therein, incorporated by reference to Exhibit 4.1 to Form 8-A filed by registrant on November 1, 2012
- 4.2 Form of Depository Receipt, incorporated by reference to Exhibit A of Exhibit 4.1 to Form 8-A filed by registrant on November 1, 2012
- 4.3 Form of Stock Certificate representing the Preferred Stock, incorporated by reference to Exhibit 4.3 to Form 8-A filed by registrant on November 1, 2012
- 12 Computation of Ratio of Earnings to Fixed Charges
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 Interactive Data File

Table of Contents

SIGNATURES

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

DATE: November 5, 2012

Regions Financial Corporation

/s/ **HARDIE B. KIMBROUGH, JR.**
Hardie B. Kimbrough, Jr.

Executive Vice President and Controller

(Chief Accounting Officer and Authorized Officer)