REGIONS FINANCIAL CORP
Form 10-Q
November 03, 2011
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# Form 10-Q

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the quarterly period ended September 30, 2011**

**or**

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

**Commission File Number: 000-50831**

# Regions Financial Corporation

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware** | **63-0589368** |
| **(State or other jurisdiction of** | **(IRS Employer** |
| **incorporation or organization)** | **Identification No.)** |
| **1900 Fifth Avenue North** | |
| **Birmingham, Alabama** | **35203** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**(205) 944-1300**

**(Registrant s telephone number, including area code)**

**NOT APPLICABLE**

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

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

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

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

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

The number of shares outstanding of each of the issuer s classes of common stock was 1,258,877,000 shares of common stock, par value $.01, outstanding as of October 25, 2011.

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**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 on July 21, 2010, and a number of legislative, regulatory and tax proposals remain pending. Additionally, the U.S. Treasury and federal banking regulators continue to implement, but are also beginning to wind down, a number of programs to address capital and liquidity in the banking system. Proposed rules, including those that are part of the Basel III process, could 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.

Regions ability to mitigate the impact of the Dodd-Frank Act on debit interchange fees through revenue enhancements and other revenue measures, which will depend on various factors, including the acceptance by customers of modified fee structures for Regions products and services.

The impact of compensation and other restrictions imposed under the Troubled Asset Relief Program ( TARP ) until Regions repays the outstanding preferred stock and warrant issued under the TARP, including restrictions on Regions ability to attract and retain talented executives and associates.

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.

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

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

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

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

Regions ability to keep pace with technological changes.

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

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.

Potential dilution of holders of shares of Regions common stock resulting from the U.S. Treasury s investment in TARP.

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.

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 undu reliance on any forward-looking statements, which speak only as of the date made. We assume no obligation to update or revise any forward-looking statements that are made from time to time.

See also the Forward-Looking Statements and Risk Factors sections of Regions Annual Report on Form 10-K for the year ended December 31, 2010 and the Forward-Looking Statements section of Regions Quarterly Reports on Form 10-Q for the quarters ended March 31, 2011 and June 30, 2011, as filed with the Securities and Exchange Commission.

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## PART I

## FINANCIAL INFORMATION

## Item 1. Financial Statements (Unaudited)

## REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

| | September 30 2011 | December 31 2010 |
|---|---|---|
| | (In millions, except share and per share data) | |
| **Assets** | | |
| Cash and due from banks | $ 2,000 | $ 1,643 |
| Interest-bearing deposits in other banks | 6,009 | 4,880 |
| Federal funds sold and securities purchased under agreements to resell | 254 | 396 |
| Trading account assets | 1,462 | 1,116 |
| Securities available for sale | 24,635 | 23,289 |
| Securities held to maturity | 18 | 24 |
| Loans held for sale (includes $647 and $1,174 measured at fair value, at September 30, 2011 and December 31, 2010, respectively) | 1,012 | 1,485 |
| Loans, net of unearned income | 79,447 | 82,864 |
| Allowance for loan losses | (2,964) | (3,185) |
| Net loans | 76,483 | 79,679 |
| Other interest-earning assets | 1,081 | 1,219 |
| Premises and equipment, net | 2,399 | 2,569 |
| Interest receivable | 422 | 421 |
| Goodwill | 5,561 | 5,561 |
| Mortgage servicing rights | 182 | 267 |
| Other identifiable intangible assets | 478 | 385 |
| Other assets | 7,766 | 9,417 |
| Total assets | $ 129,762 | $ 132,351 |
| **Liabilities and Stockholders Equity** | | |
| Deposits: | | |
| Non-interest-bearing | $ 28,296 | $ 25,733 |
| Interest-bearing | 67,642 | 68,881 |
| Total deposits | 95,938 | 94,614 |
| Borrowed funds: | | |
| Short-term borrowings: | | |
| Federal funds purchased and securities sold under agreements to repurchase | 1,969 | 2,716 |
| Other short-term borrowings | 974 | 1,221 |
| Total short-term borrowings | 2,943 | 3,937 |
| Long-term borrowings | 10,140 | 13,190 |
| Total borrowed funds | 13,083 | 17,127 |
| Other liabilities | 3,478 | 3,876 |
| Total liabilities | 112,499 | 115,617 |
| Stockholders equity: | | |

| | | |
|---|---|---|
| Preferred stock, authorized 10 million shares | | |
| Series A, cumulative perpetual participating, par value $1.00 (liquidation preference $1,000.00) per share, net of discount; | | |
| Issued 3,500,000 shares | 3,409 | 3,380 |
| Common stock, par value $.01 per share: | | |
| Authorized 3 billion shares | | |
| Issued including treasury stock 1,301,329,413 and 1,299,000,755 shares, respectively | 13 | 13 |
| Additional paid-in capital | 19,059 | 19,050 |
| Retained earnings (deficit) | (3,913) | (4,047) |
| Treasury stock, at cost 42,451,925 and 42,764,258 shares, respectively | (1,397) | (1,402) |
| Accumulated other comprehensive income (loss), net | 92 | (260) |
| Total stockholders equity | 17,263 | 16,734 |
| Total liabilities and stockholders equity | $ 129,762 | $ 132,351 |

See notes to consolidated financial statements.

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**REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | (In millions, except per share data) | | | |
| Interest income on: | | | | |
| Loans, including fees | $ 867 | $ 919 | $ 2,590 | $ 2,794 |
| Securities: | | | | |
| Taxable | 177 | 214 | 592 | 680 |
| Tax-exempt | | | | 1 |
| Total securities | 177 | 214 | 592 | 681 |
| Loans held for sale | 7 | 10 | 29 | 27 |
| Trading account assets | 6 | 8 | 19 | 29 |
| Other interest-earning assets | 7 | 7 | 20 | 22 |
| Total interest income | 1,064 | 1,158 | 3,250 | 3,553 |
| Interest expense on: | | | | |
| Deposits | 112 | 167 | 377 | 603 |
| Short-term borrowings | 1 | 3 | 6 | 8 |
| Long-term borrowings | 93 | 120 | 282 | 387 |
| Total interest expense | 206 | 290 | 665 | 998 |
| Net interest income | 858 | 868 | 2,585 | 2,555 |
| Provision for loan losses | 355 | 760 | 1,235 | 2,181 |
| Net interest income after provision for loan losses | 503 | 108 | 1,350 | 374 |
| Non-interest income: | | | | |
| Service charges on deposit accounts | 310 | 294 | 905 | 884 |
| Brokerage, investment banking and capital markets | 217 | 257 | 732 | 747 |
| Mortgage income | 68 | 66 | 163 | 196 |
| Trust department income | 49 | 49 | 150 | 146 |
| Securities gains (losses), net | (1) | 2 | 105 | 61 |
| Leveraged lease termination gains (losses), net | (2) | | (2) | 19 |
| Other | 104 | 82 | 316 | 265 |
| Total non-interest income | 745 | 750 | 2,369 | 2,318 |
| Non-interest expense: | | | | |
| Salaries and employee benefits | 529 | 582 | 1,684 | 1,717 |
| Net occupancy expense | 104 | 110 | 320 | 340 |
| Furniture and equipment expense | 77 | 75 | 233 | 228 |
| Regulatory charge | | | | 200 |
| Other | 356 | 396 | 1,194 | 1,234 |
| Total non-interest expense | 1,066 | 1,163 | 3,431 | 3,719 |
| Income (loss) before income taxes | 182 | (305) | 288 | (1,027) |
| Income tax expense (benefit) | 27 | (150) | (45) | (399) |
| Net income (loss) | $ 155 | $ (155) | $ 333 | $ (628) |

| | | | | |
|---|---|---|---|---|
| Net income (loss) available to common shareholders | $ 101 | $ (209) | $ 173 | $ (799) |
| Weighted-average number of shares outstanding: | | | | |
| Basic | 1,259 | 1,257 | 1,258 | 1,217 |
| Diluted | 1,261 | 1,257 | 1,260 | 1,217 |
| Earnings (loss) per common share: | | | | |
| Basic | $ 0.08 | $ (0.17) | $ 0.14 | $ (0.66) |
| Diluted | 0.08 | (0.17) | 0.14 | (0.66) |
| Cash dividends declared per common share | 0.01 | 0.01 | 0.03 | 0.03 |

See notes to consolidated financial statements.

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**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 | | | | | |
| | | | | (In millions, except per share data) | | | | | |
| **BALANCE AT JANUARY 1, 2010** | 4 | $ 3,602 | 1,193 | $ 12 | $ 18,781 | $ (3,235) | $ (1,409) | $ 130 | $ 17,881 |
| Comprehensive income (loss): | | | | | | | | | |
| Net income (loss) | | | | | | (628) | | | (628) |
| Net change in unrealized gains and losses on securities available for sale, net of tax and reclassification adjustment* | | | | | | | | 144 | 144 |
| Net change in unrealized gains and losses on derivative instruments, net of tax and reclassification adjustment* | | | | | | | | (83) | (83) |
| Net change from defined benefit pension plans, net of tax* | | | | | | | | 17 | 17 |
| Comprehensive income (loss) | | | | | | | | | (550) |
| Cash dividends declared $0.03 per share | | | | | | (36) | | | (36) |
| Preferred dividends | | | | | 3 | (144) | | | (141) |
| Preferred stock transactions: | | | | | | | | | |
| Conversion of mandatorily convertible preferred stock into 63 million shares of common stock | | (259) | 63 | 1 | 258 | | | | |
| Discount accretion | | 27 | | | | (27) | | | |
| Common stock transactions: | | | | | | | | | |
| Impact of stock transactions under compensation plans, net | | | | | 5 | | 4 | | 9 |
| **BALANCE AT SEPTEMBER 30, 2010** | 4 | $ 3,370 | 1,256 | $ 13 | $ 19,047 | $ (4,070) | $ (1,405) | $ 208 | $ 17,163 |
| **BALANCE AT JANUARY 1, 2011** | 4 | $ 3,380 | 1,256 | $ 13 | $ 19,050 | $ (4,047) | $ (1,402) | $ (260) | $ 16,734 |
| Comprehensive income: | | | | | | | | | |
| 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 |
| Comprehensive income | | | | | | | | | 685 |
| 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 |

See notes to consolidated financial statements.

* See disclosure of reclassification adjustment amount and tax effect, as applicable, in Note 6 to the consolidated financial statements.

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**REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Nine Months Ended September 30 2011 | 2010 |
|---|---|---|
| | (In millions) | |
| Operating activities: | | |
| Net income (loss) | $ 333 | $ (628) |
| Adjustments to reconcile net cash provided by operating activities: | | |
| Provision for loan losses | 1,235 | 2,181 |
| Depreciation and amortization of premises and equipment | 205 | 216 |
| Provision for losses on other real estate, net | 97 | 121 |
| Net amortization of securities | 144 | 151 |
| Net amortization of loans and other assets | 152 | 167 |
| Net amortization (accretion) of deposits and borrowings | 3 | (4) |
| Net securities gains | (105) | (61) |
| Loss on early extinguishment of debt | | 53 |
| Deferred income tax benefit | (57) | (216) |
| Originations and purchases of loans held for sale | (3,314) | (3,744) |
| Proceeds from sales of loans held for sale | 4,602 | 4,167 |
| Gain on sale of loans, net | (69) | (59) |
| Valuation charges on loans held for sale | 8 | 24 |
| Branch consolidation and property and equipment charges | 77 | |
| (Increase) decrease in trading account assets | (346) | 1,459 |
| Decrease (increase) in other interest-earning assets | 138 | (309) |
| Increase in interest receivable | (1) | (44) |
| Decrease in other assets | 1,931 | 51 |
| Decrease in other liabilities | (379) | (244) |
| Other | (38) | 53 |
| Net cash from operating activities | 4,616 | 3,334 |
| Investing activities: | | |
| Proceeds from sales of securities available for sale | 6,531 | 1,610 |
| Proceeds from maturities of securities available for sale | 3,630 | 5,617 |
| Proceeds from maturities of securities held to maturity | 7 | 4 |
| Purchases of securities available for sale | (11,156) | (6,572) |
| Proceeds from sales of loans | 1,294 | 966 |
| Purchases of loans | (1,718) | |
| Net decrease in loans | 1,145 | 2,168 |
| Net purchases of premises and equipment | (163) | (118) |
| Net cash from investing activities | (430) | 3,675 |
| Financing activities: | | |
| Net increase (decrease) in deposits | 1,324 | (3,702) |
| Net decrease in short-term borrowings | (994) | (7) |
| Proceeds from long-term borrowings | 1,001 | 743 |
| Payments on long-term borrowings | (4,003) | (4,990) |
| Cash dividends on common stock | (39) | (36) |
| Cash dividends on preferred stock | (131) | (141) |
| Net cash from financing activities | (2,842) | (8,133) |

| | | |
|---|---|---|
| Increase (decrease) in cash and cash equivalents | 1,344 | (1,124) |
| Cash and cash equivalents at beginning of year | 6,919 | 8,011 |
| Cash and cash equivalents at end of period | $ 8,263 | $ 6,887 |

See notes to consolidated financial statements.

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**REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Three and Nine Months Ended September 30, 2011 and 2010**

**NOTE 1 Basis of Presentation**

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

The accounting and reporting policies of Regions and the methods of applying those policies that materially affect the consolidated financial statements conform with accounting principles generally accepted in the United States ( GAAP ) and with general financial services industry practices. The accompanying interim financial statements have been prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all information and notes to the consolidated financial statements necessary for a complete presentation of financial position, results of operations and cash flows in conformity with GAAP. In the opinion of management, all adjustments, consisting of 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, 2010.

Regions has evaluated all subsequent events for potential recognition and disclosure through the filing date of this Form 10-Q.

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

**NOTE 2 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:

| | September 30, 2011 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| | (In millions) | | | |
| **Securities available for sale:** | | | | |
| U.S. Treasury securities | $ 99 | $ 1 | $ | $ 100 |
| Federal agency securities | 616 | 2 | | 618 |
| Obligations of states and political subdivisions | 24 | 8 | | 32 |
| Mortgage-backed securities: | | | | |
| Residential agency | 21,527 | 503 | (3) | 22,027 |
| Residential non-agency | 15 | 1 | | 16 |
| Commercial agency | 230 | 7 | | 237 |
| Commercial non-agency | 290 | 2 | (2) | 290 |
| Other debt securities | 468 | 1 | (7) | 462 |
| Equity securities | 856 | 1 | (4) | 853 |
| | $ 24,125 | $ 526 | $ (16) | $ 24,635 |
| **Securities held to maturity:** | | | | |
| U.S. Treasury securities | $ 5 | $ | $ | $ 5 |
| Federal agency securities | 3 | | | 3 |
| Mortgage-backed securities: | | | | |
| Residential agency | 10 | 1 | | 11 |
| | $ 18 | $ 1 | $ | $ 19 |

| | December 31, 2010 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| | (In millions) | | | |
| **Securities available for sale:** | | | | |
| U.S. Treasury securities | $ 85 | $ 6 | $ | $ 91 |
| Federal agency securities | 16 | | | 16 |
| Obligations of states and political subdivisions | 23 | 7 | | 30 |
| Mortgage-backed securities: | | | | |
| Residential agency | 21,735 | 265 | (155) | 21,845 |
| Residential non-agency | 20 | 2 | | 22 |
| Commercial agency | 113 | 2 | (3) | 112 |
| Commercial non-agency | 103 | | (3) | 100 |
| Other debt securities | 27 | | (2) | 25 |
| Equity securities | 1,047 | 1 | | 1,048 |
| | $ 23,169 | $ 283 | $ (163) | $ 23,289 |
| **Securities held to maturity:** | | | | |
| U.S. Treasury securities | $ 5 | $ 1 | $ | $ 6 |

| | | | | |
|---|---|---|---|---|
| Federal agency securities | 5 | | | 5 |
| Mortgage-backed securities: | | | | |
| Residential agency | 12 | 1 | | 13 |
| Other debt securities | 2 | | | 2 |
| | $ 24 | $ 2 | $ | $ 26 |

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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 2011 | December 31 2010 |
|---|---|---|
| | (In millions) | |
| Federal Reserve Bank | $ 460 | $ 471 |
| Federal Home Loan Bank | 282 | 419 |

Securities with carrying values of $13.6 billion and $15.4 billion at September 30, 2011 and December 31, 2010, 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, 2011, 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.

| | September 30, 2011 | |
|---|---|---|
| | Amortized Cost | Estimated Fair Value |
| | (In millions) | |
| **Securities available for sale:** | | |
| Due in one year or less | $ 71 | $ 71 |
| Due after one year through five years | 760 | 761 |
| Due after five years through ten years | 305 | 302 |
| Due after ten years | 71 | 78 |
| Mortgage-backed securities: | | |
| Residential agency | 21,527 | 22,027 |
| Residential non-agency | 15 | 16 |
| Commercial agency | 230 | 237 |
| Commercial non-agency | 290 | 290 |
| Equity securities | 856 | 853 |
| | $ 24,125 | $ 24,635 |
| **Securities held to maturity:** | | |
| Due in one year or less | $ 3 | $ 3 |
| Due after one year through five years | 5 | 5 |
| Due after five years through ten years | | |
| Due after ten years | | |
| Mortgage-backed securities: | | |
| Residential agency | 10 | 11 |
| | $ 18 | $ 19 |

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The following tables present gross unrealized losses and estimated fair value of securities available for sale at September 30, 2011 and December 31, 2010. 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.

| September 30, 2011 | Less Than Twelve Months | | Twelve Months or More | | Total | |
|---|---|---|---|---|---|---|
| | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses |
| | | | (In millions) | | | |
| Mortgage-backed securities: | | | | | | |
| Residential agency | $ 1,256 | $ (3) | $ | $ | $ 1,256 | $ (3) |
| Commercial non-agency | 120 | (2) | | | 120 | (2) |
| All other securities | 353 | (8) | 5 | (3) | 358 | (11) |
| | $ 1,729 | $ (13) | $ 5 | $ (3) | $ 1,734 | $ (16) |

| December 31, 2010 | Less Than Twelve Months | | Twelve Months or More | | Total | |
|---|---|---|---|---|---|---|
| | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses |
| | | | (In millions) | | | |
| Mortgage-backed securities: | | | | | | |
| Residential agency | $ 11,023 | $ (155) | $ | $ | $ 11,023 | $ (155) |
| Commercial agency | 94 | (3) | | | 94 | (3) |
| Commercial non-agency | 100 | (3) | | | 100 | (3) |
| All other securities | | | 5 | (2) | 5 | (2) |
| | $ 11,217 | $ (161) | $ 5 | $ (2) | $ 11,222 | $ (163) |

There was no gross unrealized loss on debt securities held to maturity at either September 30, 2011 or December 31, 2010.

For the securities included in the tables above, management does not believe any individual unrealized loss, which was comprised of 229 securities and 292 securities at September 30, 2011 and December 31, 2010, 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.

Proceeds from sale, gross gains and gross losses 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 | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | | (In millions) | | |
| Proceeds | $ 52 | $ 149 | $ 6,531 | $ 1,610 |
| Gross securities gains | | 2 | 105 | 61 |
| Gross securities losses | (1) | | | |
| Net securities gains (losses) | $ (1) | $ 2 | $ 105 | $ 61 |

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

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | (In millions) | | | |
| Total net gains (losses) | $ (21) | $ 18 | $ 10 | $ 27 |
| Unrealized portion | (35) | 6 | (21) | 10 |

**NOTE 3 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 2011 | December 31 2010 | September 30 2010 |
|---|---|---|---|
| | (In millions, net of unearned income) | | |
| Commercial and industrial | $ 24,273 | $ 22,540 | $ 21,501 |
| Commercial real estate mortgage owner occupied | 11,537 | 12,046 | 11,850 |
| Commercial real estate construction owner occupied | 356 | 470 | 522 |
| Total commercial | 36,166 | 35,056 | 33,873 |
| Commercial investor real estate mortgage | 10,696 | 13,621 | 14,489 |
| Commercial investor real estate construction | 1,188 | 2,287 | 2,975 |
| Total investor real estate | 11,884 | 15,908 | 17,464 |
| Residential first mortgage | 14,083 | 14,898 | 15,723 |
| Home equity | 13,316 | 14,226 | 14,534 |
| Indirect | 1,774 | 1,592 | 1,657 |
| Consumer credit card | 1,024 | | |
| Other consumer | 1,200 | 1,184 | 1,169 |
| Total consumer | 31,397 | 31,900 | 33,083 |
| | $ 79,447 | $ 82,864 | $ 84,420 |

In June 2011, Regions completed the purchase of approximately $1.2 billion of Regions-branded credit card accounts from FIA Card Services. The purchase included approximately $1.1 billion in consumer credit card accounts and approximately $0.1 billion in small business credit card accounts, which are included in the commercial and industrial portfolio class. During the third quarter of 2011, the allocation to the purchased credit card relationship intangibles was adjusted to approximately $170 million. Approximately $84 million was allocated to the allowance for loan losses.

During the three and nine months ended September 30, 2011, Regions purchased approximately $173 million and $509 million, respectively, in indirect loans from a third party.

**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.

Prior to 2011, the allowance for accruing commercial and investor real estate loans, as well as non-accrual loans in those portfolio segments below $2.5 million, was determined using categories of pools of loans with similar risk characteristics (i.e., pass, special mention, substandard accrual, and non-accrual, as defined below). These categories were utilized to develop the associated allowance for loan losses using historical losses adjusted for current economic conditions. Beginning in 2011, these pools of loans were compiled at a more granular level. A probability of default and a loss given default were statistically calculated for each pool. These parameters, in combination with other account data and assumptions, were used to calculate the estimate of incurred loss. The Company made the change to provide enhanced segmentation, process controls, transparency, governance and information technology controls. Additionally, beginning in the third quarter of 2011, for accruing impaired commercial and investor real estate loans (i.e., troubled debt restructurings, or TDRs , which carry an accruing risk rating) and for non-accrual commercial and investor real estate loans less than $2.5 million, Regions based the allowance for loan losses on a discounted cash flow analysis performed at the note level, where projected cash flows reflect credit losses based on statistical information derived from loans with similar risk characteristics (e.g., risk rating and product type). The changes did not have a material impact on the overall allowance for credit losses. The credit quality indicators for commercial and investor real estate loans disclosed in the tables below provide additional information regarding the underlying credit quality of Regions portfolio segments and classes, and the corresponding impact on the allowance for credit losses.

The components of the calculation of the allowance for credit losses related to non-accrual commercial and investor real estate loans equal to or greater than $2.5 million, unfunded commitments, and all consumer loans were calculated in 2011 in the same manner as before. For non-accrual commercial and investor real estate loans equal to or greater than $2.5 million, the allowance for loan losses is based on a specific evaluation, considering the facts and circumstances specific to each obligation.

Except for the changes to the calculation of the allowance for loan losses for commercial and investor real estate loans as described above, there were no changes to Regions allowance process or accounting policies related to the allowance for credit losses from those described in the Annual Report on Form 10-K for the year ended December 31, 2010.

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, which is based on the factors and risk identification procedures previously discussed, requires the use of judgments and estimations that may change in the future. Changes in the factors used by management to determine the appropriateness of the allowance or the availability of new information could cause the allowance for credit losses to be adjusted in future periods.

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**ROLLFORWARD OF ALLOWANCE FOR CREDIT LOSSES**

The following tables present an analysis of the allowance for credit losses by portfolio segment for the three and nine months ended September 30, 2011. The total allowance for credit losses is then disaggregated to show 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 loan portfolio.

| | Three Months Ended September 30, 2011 | | | |
|---|---|---|---|---|
| | Commercial | Investor Real Estate | Consumer | Total |
| | (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 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 |

| | Nine Months Ended September 30, 2011 | | | |
|---|---|---|---|---|
| | Commercial | Investor Real Estate | Consumer | Total |
| | (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 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 allowance ending balance: | | | | |
| Individually evaluated for impairment | $ 124 | $ 227 | $ 3 | $ 354 |
| Collectively evaluated for impairment | 943 | 942 | 811 | 2,696 |
| Total allowance evaluated for impairment | $ 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 |

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**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 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. Other consumer loans include direct consumer installment loans, overdrafts and educational 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, 2011, December 31, 2010 and September 30, 2010. 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.

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Substandard accrual and non-accrual loans are often collectively referred to as classified. Special mention, substandard accrual, and non-accrual loans are often collectively referred to as criticized and classified.

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.

| | September 30, 2011 | | | | |
|---|---|---|---|---|---|
| | Pass | Special Mention | Substandard Accrual | Non-accrual | Total |
| | | | (In millions) | | |
| Commercial and industrial | $ 22,671 | $ 477 | $ 627 | $ 498 | $ 24,273 |
| Commercial real estate mortgage owner occupied | 10,053 | 259 | 557 | 668 | 11,537 |
| Commercial real estate construction owner occupied | 303 | 18 | 8 | 27 | 356 |
| Total commercial | $ 33,027 | $ 754 | $ 1,192 | $ 1,193 | $ 36,166 |
| Commercial investor real estate mortgage | 7,188 | 1,011 | 1,668 | 829 | 10,696 |
| Commercial investor real estate construction | 530 | 132 | 230 | 296 | 1,188 |
| Total investor real estate | $ 7,718 | $ 1,143 | $ 1,898 | $ 1,125 | $ 11,884 |

| | Accrual | Non-accrual | Total |
|---|---|---|---|
| | | (In millions) | |
| Residential first mortgage | $ 13,822 | $ 261 | $ 14,083 |
| Home equity | 13,185 | 131 | 13,316 |
| Indirect | 1,774 | | 1,774 |
| Consumer credit card | 1,024 | | 1,024 |
| Other consumer | 1,200 | | 1,200 |
| Total consumer | $ 31,005 | $ 392 | $ 31,397 |
| | | | $ 79,447 |

| | December 31, 2010 | | | | |
|---|---|---|---|---|---|
| | Pass | Special Mention | Substandard Accrual | Non-accrual | Total |
| | | | (In millions) | | |
| Commercial and industrial | $ 20,764 | $ 517 | $ 792 | $ 467 | $ 22,540 |
| Commercial real estate mortgage owner occupied | 10,344 | 283 | 813 | 606 | 12,046 |
| Commercial real estate construction owner occupied | 393 | 25 | 23 | 29 | 470 |
| Total commercial | $ 31,501 | $ 825 | $ 1,628 | $ 1,102 | $ 35,056 |
| Commerical investor real estate mortgage | 8,755 | 1,300 | 2,301 | 1,265 | 13,621 |
| Commercial investor real estate construction | 904 | 342 | 589 | 452 | 2,287 |
| Total investor real estate | $ 9,659 | $ 1,642 | $ 2,890 | $ 1,717 | $ 15,908 |

| | Accrual | Non-accrual | Total |
|---|---|---|---|

| | | | |
|---|---|---|---|
| | | **(In millions)** | |
| Residential first mortgage | $ 14,613 | $ 285 | $ 14,898 |
| Home equity | 14,170 | 56 | 14,226 |
| Indirect | 1,592 | | 1,592 |
| Other consumer | 1,184 | | 1,184 |
| Total consumer | $ 31,559 | $ 341 | $ 31,900 |
| | | | $ 82,864 |

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| | September 30, 2010 | | | | |
|---|---|---|---|---|---|
| | Pass | Special Mention | Substandard Accrual | Non-accrual | Total |
| | | | (In millions) | | |
| Commercial and industrial | $ 19,626 | $ 463 | $ 910 | $ 502 | $ 21,501 |
| Commercial real estate mortgage owner occupied | 10,152 | 327 | 755 | 616 | 11,850 |
| Commercial real estate construction owner occupied | 434 | 28 | 25 | 35 | 522 |
| Total commercial | $ 30,212 | $ 818 | $ 1,690 | $ 1,153 | $ 33,873 |
| Commercial investor real estate mortgage | 9,255 | 1,469 | 2,418 | 1,347 | 14,489 |
| Commercial investor real estate construction | 1,277 | 377 | 760 | 561 | 2,975 |
| Total investor real estate | $ 10,532 | $ 1,846 | $ 3,178 | $ 1,908 | $ 17,464 |

| | Accrual | Non-accrual | Total |
|---|---|---|---|
| | | (In millions) | |
| Residential first mortgage | $ 15,456 | $ 267 | $ 15,723 |
| Home equity | 14,490 | 44 | 14,534 |
| Indirect | 1,657 | | 1,657 |
| Other consumer | 1,169 | | 1,169 |
| Total consumer | $ 32,772 | $ 311 | $ 33,083 |
| | | | $ 84,420 |

**AGING ANALYSIS**

The following tables include an aging analysis of days past due (DPD) for each portfolio class as of September 30, 2011, December 31, 2010 and September 30, 2010:

| | September 30, 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Accrual Loans | | | | | | |
| | 30-59 DPD | 60-89 DPD | 90+ DPD | Total 30+ DPD | Total Accrual | Non-accrual | Total |
| | | | | (In millions) | | | |
| Commercial and industrial | $ 61 | $ 26 | $ 10 | $ 97 | $ 23,775 | $ 498 | $ 24,273 |
| Commercial real estate mortgage owner occupied | 56 | 31 | 6 | 93 | 10,869 | 668 | 11,537 |
| Commercial real estate construction owner occupied | | 1 | | 1 | 329 | 27 | 356 |
| Total commercial | 117 | 58 | 16 | 191 | 34,973 | 1,193 | 36,166 |
| Commercial investor real estate mortgage | 54 | 72 | 9 | 135 | 9,867 | 829 | 10,696 |
| Commercial investor real estate construction | 15 | 2 | | 17 | 892 | 296 | 1,188 |
| Total investor real estate | 69 | 74 | 9 | 152 | 10,759 | 1,125 | 11,884 |
| Residential first mortgage | 168 | 101 | 291 | 560 | 13,822 | 261 | 14,083 |
| Home equity | 110 | 70 | 81 | 261 | 13,185 | 131 | 13,316 |
| Indirect | 24 | 6 | 1 | 31 | 1,774 | | 1,774 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Consumer credit card | 9 | 4 | 11 | 24 | 1,024 | | 1,024 |
| Other consumer | 20 | 5 | 3 | 28 | 1,200 | | 1,200 |
| Total consumer | 331 | 186 | 387 | 904 | 31,005 | 392 | 31,397 |
| | $ 517 | $ 318 | $ 412 | $ 1,247 | $ 76,737 | $ 2,710 | $ 79,447 |

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| | December 31, 2010 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Accrual Loans | | | | | | |
| | 30-59 DPD | 60-89 DPD | 90+ DPD | Total 30+ DPD | Total Accrual | Non-accrual | Total |
| | (In millions) | | | | | | |
| Commercial and industrial | $ 60 | $ 43 | $ 9 | $ 112 | $ 22,073 | $ 467 | $ 22,540 |
| Commercial real estate mortgage owner occupied | 47 | 54 | 6 | 107 | 11,440 | 606 | 12,046 |
| Commercial real estate construction owner occupied | 3 | | 1 | 4 | 441 | 29 | 470 |
| Total commercial | 110 | 97 | 16 | 223 | 33,954 | 1,102 | 35,056 |
| Commercial investor real estate mortgage | 120 | 91 | 5 | 216 | 12,356 | 1,265 | 13,621 |
| Commercial investor real estate construction | 30 | 12 | 1 | 43 | 1,835 | 452 | 2,287 |
| Total investor real estate | 150 | 103 | 6 | 259 | 14,191 | 1,717 | 15,908 |
| Residential first mortgage | 185 | 118 | 359 | 662 | 14,613 | 285 | 14,898 |
| Home equity | 146 | 78 | 198 | 422 | 14,170 | 56 | 14,226 |
| Indirect | 29 | 8 | 2 | 39 | 1,592 | | 1,592 |
| Other consumer | 22 | 6 | 4 | 32 | 1,184 | | 1,184 |
| Total consumer | 382 | 210 | 563 | 1,155 | 31,559 | 341 | 31,900 |
| | $ 642 | $ 410 | $ 585 | $ 1,637 | $ 79,704 | $ 3,160 | $ 82,864 |

| | September 30, 2010 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Accrual Loans | | | | | | |
| | 30-59 DPD | 60-89 DPD | 90+ DPD | Total 30+ DPD | Total Accrual | Non-accrual | Total |
| | (In millions) | | | | | | |
| Commercial and industrial | $ 88 | $ 41 | $ 5 | $ 134 | $ 20,999 | $ 502 | $ 21,501 |
| Commercial real estate mortgage owner occupied | 67 | 39 | 6 | 112 | 11,234 | 616 | 11,850 |
| Commercial real estate construction owner occupied | 1 | 1 | | 2 | 487 | 35 | 522 |
| Total commercial | 156 | 81 | 11 | 248 | 32,720 | 1,153 | 33,873 |
| Commercial investor real estate mortgage | 178 | 94 | 6 | 278 | 13,142 | 1,347 | 14,489 |
| Commercial investor real estate construction | 35 | 12 | 2 | 49 | 2,414 | 561 | 2,975 |
| Total investor real estate | 213 | 106 | 8 | 327 | 15,556 | 1,908 | 17,464 |
| Residential first mortgage | 212 | 117 | 369 | 698 | 15,456 | 267 | 15,723 |
| Home equity | 136 | 86 | 198 | 420 | 14,490 | 44 | 14,534 |
| Indirect | 27 | 7 | 2 | 36 | 1,657 | | 1,657 |
| Other consumer | 22 | 5 | 5 | 32 | 1,169 | | 1,169 |
| Total consumer | 397 | 215 | 574 | 1,186 | 32,772 | 311 | 33,083 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | $ 766 | $ 402 | $ 593 | $ 1,761 | $ 81,048 | $ 3,372 | $ 84,420 |

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**IMPAIRED LOANS**

The following tables present details related to the Company s impaired loans as of September 30, 2011 and December 31, 2010. Loans deemed to be impaired include non-accrual commercial and investor real estate loans, excluding leasing, 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. The related allowance represents the following components which correspond to impaired loans:

Individually evaluated impaired loans (non-accrual commercial and investor real estate loans equal to or greater than $2.5 million): the allowance for loan losses is based on a specific evaluation, considering the facts and circumstances specific to each obligation,

Accruing impaired commercial and investor real estate loans (i.e., TDRs which carry an accrual risk rating) and non-accrual loans less than $2.5 million: the allowance for loan losses is based on a discounted cash flow analysis performed at the note level, where projected cash flows reflect credit losses based on statistical information derived from loans with similar risk characteristics (e.g., risk rating and product type),

Consumer TDRs: the allowance for loan losses for residential first mortgage TDRs is calculated based on a discounted cash flow analysis on pools of homogeneous loans. Cash flows are projected using the restructured terms and then discounted at the original note rate. The projected cash flows assume a default rate, which is based on historical performance of residential first mortgage TDRs. For home equity TDRs, a historical loss model is used to determine the allowance for loan losses. The default rate for all types of consumer TDRs is a measure of delinquency, which is considered in both the allowance for loan loss calculation related to consumer TDRs and in the accrual status decisions of TDRs after the modification, for which it is a key determinant along with collateral valuation.

| **IMPAIRED LOANS ON NON-ACCRUAL STATUS** | **Non-accrual Impaired Loans As of September 30, 2011** | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | **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)** |
| | **(Dollars in millions)** | | | | | | |
| Commercial and industrial | $ 519 | $ 86 | $ 433 | $ 73 | $ 360 | $ 139 | 43.4% |
| Commercial real estate mortgage owner occupied | 774 | 106 | 668 | 44 | 624 | 190 | 38.2 |
| Commercial real estate construction owner occupied | 41 | 14 | 27 | 2 | 25 | 8 | 53.0 |
| Total commercial | 1,334 | 206 | 1,128 | 119 | 1,009 | 337 | 40.7 |
| Commercial investor real estate mortgage | 999 | 170 | 829 | 105 | 724 | 271 | 44.1 |
| Commercial investor real estate construction | 407 | 111 | 296 | 43 | 253 | 87 | 48.7 |
| Total investor real estate | 1,406 | 281 | 1,125 | 148 | 977 | 358 | 45.5 |
| Residential first mortgage | 145 | 51 | 94 | | 94 | 14 | 44.8 |
| Home equity | 27 | 10 | 17 | | 17 | 2 | 46.5 |
| Indirect | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Other consumer | | | | | | | 1.2 |
| Total consumer | 172 | 61 | 111 | | 111 | 16 | 45.1 |
| Total | $ 2,912 | $ 548 | $ 2,364 | $ 267 | $ 2,097 | $ 711 | 43.2% |

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| IMPAIRED LOANS ON ACCRUAL STATUS | Unpaid Principal Balance (1) | Charge-offs and Payments Applied (2) | Book Value (3) | Related Allowance for Loan Losses | Coverage % (4) |
|---|---|---|---|---|---|
| | Accruing Impaired Loans As of September 30, 2011 (Dollars in millions) | | | | |
| Commercial and industrial | $ 293 | $ | $ 293 | $ 58 | 19.8% |
| Commercial real estate mortgage owner occupied | 186 | 2 | 184 | 26 | 14.9 |
| Commercial real estate construction owner occupied | 2 | 1 | 1 | | 100.5 |
| Total commercial | 481 | 3 | 478 | 84 | 18.1 |
| Commercial investor real estate mortgage | 848 | 2 | 846 | 168 | 20.0 |
| Commercial investor real estate construction | 145 | | 145 | 84 | 58.2 |
| Total investor real estate | 993 | 2 | 991 | 252 | 25.6 |
| Residential first mortgage | 1,023 | 15 | 1,008 | 144 | 15.5 |
| Home equity | 420 | 4 | 416 | 59 | 14.9 |
| Indirect | 2 | | 2 | | 0.9 |
| Other consumer | 59 | | 59 | 1 | 1.4 |
| Total consumer | 1,504 | 19 | 1,485 | 204 | 14.8 |
| Total | $ 2,978 | $ 24 | $ 2,954 | $ 540 | 18.9% |

A significant majority of the accruing loans in the table above are considered impaired due to their status as a TDR. Approximately 93 percent of consumer TDRs were accruing at September 30, 2011.

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| TOTAL IMPAIRED LOANS | Total Impaired Loans As of September 30, 2011 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Book Value (3) | | | | | Three Months Ended September 30, 2011 | | Nine Months Ended September 30, 2011 | |
| | 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) | Average Balance | Interest Income Recognized (5) | Average Balance | Interest Income Recognized (5) |
| | (Dollars in millions) | | | | | | | | | | |
| Commercial and industrial | $ 812 | $ 86 | $ 726 | $ 73 | $ 653 | $ 197 | 34.8% | $ 649 | $ 3 | $ 512 | $ 3 |
| Commercial real estate mortgage owner occupied | 960 | 108 | 852 | 44 | 808 | 216 | 33.7 | 813 | | 736 | 2 |
| Commercial real estate construction owner occupied | 43 | 15 | 28 | 2 | 26 | 8 | 54.2 | 30 | | 31 | |
| Total commercial | 1,815 | 209 | 1,606 | 119 | 1,487 | 421 | 34.7 | 1,492 | 3 | 1,279 | 5 |
| Commercial investor real estate mortgage | 1,847 | 172 | 1,675 | 105 | 1,570 | 439 | 33.1 | 1,498 | 7 | 1,366 | 12 |
| Commercial investor real estate construction | 552 | 111 | 441 | 43 | 398 | 171 | 51.2 | 460 | 2 | 466 | 2 |
| Total investor real estate | 2,399 | 283 | 2,116 | 148 | 1,968 | 610 | 37.3 | 1,958 | 9 | 1,832 | 14 |
| Residential first mortgage | 1,168 | 66 | 1,102 | | 1,102 | 158 | 19.1 | 1,097 | 11 | 1,080 | 31 |
| Home equity | 447 | 14 | 433 | | 433 | 61 | 16.8 | 423 | 5 | 401 | 15 |
| Indirect | 2 | | 2 | | 2 | | 0.9 | 2 | | 2 | |
| Other consumer | 59 | | 59 | | 59 | 1 | 1.4 | 60 | 1 | 62 | 3 |
| Total consumer | 1,676 | 80 | 1,596 | | 1,596 | 220 | 17.9 | 1,582 | 17 | 1,545 | 49 |
| Total impaired loans | $ 5,890 | $ 572 | $ 5,318 | $ 267 | $ 5,051 | $ 1,251 | 30.9% | $ 5,032 | $ 29 | $ 4,656 | $ 68 |

(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.
(5) Interest income recognized represents interest income on loans modified in a TDR, and are therefore considered impaired, which are on accruing status.

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| | Impaired Loans As of December 31, 2010 | | | | |
|---|---|---|---|---|---|
| | Unpaid Principal Balance (1) | Charge-offs and Payments Applied (2) | Book Value (3) | Related Allowance for Loan Losses | Coverage % (4) |
| | (Dollars in millions) | | | | |
| Commercial and industrial | $ 545 | $ 124 | $ 421 | $ 102 | 41.5% |
| Commercial real estate mortgage owner occupied | 746 | 96 | 650 | 167 | 35.3 |
| Commercial real estate construction owner occupied | 47 | 16 | 31 | 10 | 55.3 |
| Total commercial | 1,338 | 236 | 1,102 | 279 | 38.5 |
| Commercial investor real estate mortgage | 1,693 | 273 | 1,420 | 319 | 35.0 |
| Commercial investor real estate construction | 638 | 150 | 488 | 154 | 47.6 |
| Total investor real estate | 2,331 | 423 | 1,908 | 473 | 38.4 |
| Residential first mortgage | 1,113 | 60 | 1,053 | 126 | 16.7 |
| Home equity | 378 | 13 | 365 | 46 | 15.6 |
| Indirect | 2 | | 2 | | |
| Other consumer | 65 | | 65 | 1 | 1.5 |
| Total consumer | 1,558 | 73 | 1,485 | 173 | 15.8 |
| Total impaired loans | $ 5,227 | $ 732 | $ 4,495 | $ 925 | 31.7% |

(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.

In addition to the impaired loans detailed in the tables above, there were approximately $344 million in non-performing loans classified as held for sale at September 30, 2011, compared to $304 million at December 31, 2010. 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, 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, 2011 and December 31, 2010, non-accrual loans including loans held for sale totaled $3.1 billion and $3.5 billion, respectively.

**TROUBLED DEBT RESTRUCTURINGS (TDRs)**

Clarified Accounting Literature

In January 2011, the FASB issued accounting guidance temporarily deferring the effective date for public-entity creditors to provide new disclosures, which were addressed in previously issued guidance regarding receivables, for TDRs. The deferred effective date coincided with the effective date for clarified guidance about what constitutes a TDR for creditors, which was issued in April 2011 by the FASB. Regions applied the clarified definition beginning with third quarter financial reporting to all loans modified after January 1, 2011 (see Note 14 to the consolidated financial statements).

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For consumer loans, as described below, Regions already considered loans modified under the Customer Assistance Program ( CAP ) to be TDRs. 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. Because such modifications clearly are concessionary in nature, and because the customer documents a hardship in order to participate in the program, Regions concluded that these loans met the TDR definition before the clarified guidance was issued. Accordingly, the guidance did not have a material impact on TDR balances for the consumer portfolio segment.

For Regions, the focus of the evaluation of the clarified TDR definition was on workout accommodations, such as renewals and forbearances, for criticized and classified commercial and investor real estate loans. 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). Therefore, under pre-existing accounting guidance, such modifications were not considered by Regions to be concessionary, and were not considered TDRs. However, the new clarification places more emphasis on whether the terms of the modified loan are at a market rate in order to determine if a concession has been made. Under the clarified guidance, a modification is refutably considered by Regions to be a concession 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. Therefore, the amount of accruing TDRs increased as a result of the new clarification. As noted above, the original maturities of the notes being modified are relatively short (for example 2-3 years), and the renewed term is typically comparable to the original maturity. Accordingly, Regions considers these modifications to be significant delays in payment. Therefore, extensions must be considered for the TDR determination because the renewed term is significant to the term of the original note.

As a result of the TDR designation, all loans modified in a TDR are considered to be impaired, even if they carry an accruing risk rating. Beginning in the third quarter of 2011, for accruing commercial and investor real estate TDRs (as well as for non-accrual commercial and investor real estate loans less than $2.5 million), Regions based the allowance for loan losses on a discounted cash flow analysis performed at the note level, where projected cash flows reflect credit losses based on statistical information derived from loans with similar risk characteristics (e.g., risk rating and product type). For all commercial and investor real estate non-accrual loans equal to or greater than $2.5 million, consistent with historical practice, the allowance for loan losses is based on a specific evaluation, considering the facts and circumstances specific to each obligation. Because Regions past practice was to base the allowance for losses for commercial and investor real estate loans on loss content based on risk rating and product type, either through specific evaluation of larger loans, or groups of smaller loans with similar risk characteristics, the adoption of the clarification and the corresponding increase in commercial and investor real estate TDRs did not materially impact the overall level of the allowance for loan losses. As noted above, the clarification did not materially impact the level of TDRs in the consumer portfolio segment, or the related allowance for loan losses.

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The following table presents modified commercial and investor real estate loans which are now considered TDRs as a result of the clarified definition as of September 30, 2011, as well as the associated allowance for loan losses. These loans were modified during 2011, largely due to the renewal process discussed above. Comparative June 30, 2011 data is included for reference, and further indicates the categories where the new guidance impacted TDR identification. The allowance for loan losses associated with the TDRs newly identified under the clarification represents the end of period allowance for these loans. Because the majority of these loans already carried a criticized or classified risk rating, the inherent losses were incorporated in the calculation of the allowance for loan losses in prior periods.

| | September 30, 2011 | | | | |
|---|---|---|---|---|---|
| | **Pass** | **Special Mention** | **Substandard Accrual** | **Non-accrual** | **Total** |
| | | | **(In millions)** | | |
| Commercial | | | | | |
| TDRs newly identified under policy change | $ 5 | $ 52 | $ 333 | $ 220 | $ 610 |
| TDRs under previously existing policy | 11 | 6 | 71 | 151 | 239 |
| All other (not TDRs) | 33,011 | 696 | 788 | 822 | |