

REGIONS FINANCIAL CORP  
Form 10-Q  
August 05, 2009  
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**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 June 30, 2009

or

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

Commission File Number: 000-50831

**Regions Financial Corporation**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of

**63-0589368**  
(IRS Employer

incorporation or organization)

Identification Number)

**1900 Fifth Avenue North**

**Birmingham, Alabama**  
(Address of principal executive offices)

**35203**  
(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.  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 1,188,191,000 shares of common stock, par value \$.01, outstanding as of July 31, 2009.

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

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

The impact of compensation and other restrictions imposed under the Troubled Asset Relief Program ( TARP ) until Regions is able to repay the outstanding preferred stock issued under the TARP.

Possible additional loan losses and impairment of goodwill and other intangibles and the impact on earnings and capital.

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

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

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

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

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

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

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

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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.

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

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

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

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

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

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

The words believe, expect, anticipate, project, and similar expressions often signify forward-looking statements. You should not place 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 Item 1A. Risk Factors of this Quarterly Report on Form 10-Q.

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

<i>(In millions, except share data)</i>	<b>June 30 2009</b>	<b>December 31 2008</b>	<b>June 30 2008</b>
<b>Assets</b>			
Cash and due from banks	\$ 2,363	\$ 2,643	\$ 3,161
Interest-bearing deposits in other banks	2,846	7,540	46
Federal funds sold and securities purchased under agreements to resell	3,221	790	949
Trading account assets	1,109	1,050	1,483
Securities available for sale	19,681	18,850	17,725
Securities held to maturity	43	47	48
Loans held for sale (includes \$1,373, \$506 and \$622 measured at fair value at June 30, 2009, December 31, 2008 and June 30, 2008, respectively)	1,932	1,282	677
Loans, net of unearned income	96,149	97,419	98,267
Allowance for loan losses	(2,282)	(1,826)	(1,472)
Net loans	93,867	95,593	96,795
Other interest-earning assets	829	897	534
Premises and equipment, net	2,789	2,786	2,726
Interest receivable	501	458	510
Goodwill	5,556	5,548	11,515
Mortgage servicing rights	202	161	271
Other identifiable intangible assets	568	638	709
Other assets	7,304	7,965	7,287
<b>Total assets</b>	<b>\$ 142,811</b>	<b>\$ 146,248</b>	<b>\$ 144,436</b>
<b>Liabilities and Stockholders Equity</b>			
<b>Deposits:</b>			
Non-interest-bearing	\$ 20,995	\$ 18,457	\$ 18,334
Interest-bearing	73,731	72,447	71,570
<b>Total deposits</b>	<b>94,726</b>	<b>90,904</b>	<b>89,904</b>
<b>Borrowed funds:</b>			
<b>Short-term borrowings:</b>			
Federal funds purchased and securities sold under agreements to repurchase	2,265	3,143	8,664
Other short-term borrowings	4,927	12,679	8,926
<b>Total short-term borrowings</b>	<b>7,192</b>	<b>15,822</b>	<b>17,590</b>
Long-term borrowings	18,238	19,231	13,319
<b>Total borrowed funds</b>	<b>25,430</b>	<b>35,053</b>	<b>30,909</b>
Other liabilities	3,918	3,478	3,915
<b>Total liabilities</b>	<b>124,074</b>	<b>129,435</b>	<b>124,728</b>
<b>Stockholders equity:</b>			
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	3,325	3,307	

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Series B, mandatorily convertible, cumulative perpetual participating, par value \$1,000.00 (liquidation preference \$1,000.00) per share;			
Issued 287,500 shares	278		
Common stock, par value \$.01 per share:			
Authorized 1.5 billion shares			
Issued including treasury stock 1,231,643,211; 735,667,650 and 735,783,594 shares, respectively	12	7	7
Additional paid-in capital	18,740	16,815	16,588
Retained earnings (deficit)	(2,169)	(1,869)	4,437
Treasury stock, at cost 43,439,788; 44,301,693 and 41,054,113 shares, respectively	(1,413)	(1,425)	(1,371)
Accumulated other comprehensive income (loss), net	(36)	(22)	47
<b>Total stockholders' equity</b>	<b>18,737</b>	<b>16,813</b>	<b>19,708</b>
 Total liabilities and stockholders' equity	 \$ 142,811	 \$ 146,248	 \$ 144,436

See notes to consolidated financial statements.



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

<i>(In millions, except per share data)</i>	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Interest income on:				
Loans, including fees	\$ 1,073	\$ 1,375	\$ 2,171	\$ 2,904
Securities:				
Taxable	239	208	478	408
Tax-exempt	5	10	12	20
Total securities	244	218	490	428
Loans held for sale	15	9	31	18
Federal funds sold and securities purchased under agreements to resell	1	4	2	11
Trading account assets	10	18	22	39
Other interest-earning assets	8	6	14	13
Total interest income	1,351	1,630	2,730	3,413
Interest expense on:				
Deposits	330	422	696	925
Short-term borrowings	16	85	36	198
Long-term borrowings	174	144	358	293
Total interest expense	520	651	1,090	1,416
Net interest income	831	979	1,640	1,997
Provision for loan losses	912	309	1,337	490
Net interest income (loss) after provision for loan losses	(81)	670	303	1,507
Non-interest income:				
Service charges on deposit accounts	288	294	557	566
Brokerage, investment banking and capital markets	263	272	480	545
Mortgage income	64	25	137	71
Trust department income	48	59	94	116
Securities gains, net	108	1	161	92
Other	428	93	836	262
Total non-interest income	1,199	744	2,265	1,652
Non-interest expense:				
Salaries and employee benefits	586	599	1,125	1,242
Net occupancy expense	112	111	219	218
Furniture and equipment expense	78	87	154	167
Recapture of mortgage servicing rights		(67)		(25)
Other-than-temporary impairments(1)	69	1	72	1
Other	386	410	719	788
Total non-interest expense	1,231	1,141	2,289	2,391
Income (loss) before income taxes	(113)	273	279	768
Income taxes	75	67	390	225

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Net income (loss)	\$ (188)	\$ 206	\$ (111)	\$ 543
Net income (loss) available to common shareholders	\$ (244)	\$ 206	\$ (218)	\$ 543
Weighted-average number of shares outstanding:				
Basic	876	696	785	696
Diluted	876	696	785	696
Earnings (loss) per common share:				
Basic	(0.28)	0.30	(0.28)	0.78
Diluted	(0.28)	0.30	(0.28)	0.78
Cash dividends declared per common share	0.01	0.38	0.11	0.76

(1) Includes \$260 million for the three months ended and \$263 million for the six months ended June 30, 2009, respectively, of gross charges, net of \$191 million non-credit portion reported in other comprehensive income (loss).

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					
<i>(In millions, except share and per share data)</i>									
<b>BALANCE AT JANUARY 1, 2008</b>		\$	694	\$ 7	\$ 16,545	\$ 4,439	\$ (1,371)	\$ 203	\$ 19,823
Cumulative effect of changes in accounting principles due to adoption of EITF 06-4, EITF 06-10 and FAS 158						(17)			(17)
Comprehensive income:									
Net income						543			543
Net change in unrealized gains and losses on securities available for sale, net of tax and reclassification adjustment*								(130)	(130)
Net change in unrealized gains and losses on derivative instruments, net of tax and reclassification adjustment*								(27)	(27)
Net change from defined benefit pension plans, net of tax*								1	1
Comprehensive income									387
Cash dividends declared \$0.76 per share						(528)			(528)
Common stock transactions:									
Stock transactions with employees under compensation plans, net			1		(2)				(2)
Stock options exercised and related activity, net					19				19
Amortization of unearned restricted stock					26				26
<b>BALANCE AT JUNE 30, 2008</b>		\$	695	\$ 7	\$ 16,588	\$ 4,437	\$ (1,371)	\$ 47	\$ 19,708
<b>BALANCE AT JANUARY 1, 2009</b>	4	\$ 3,307	691	\$ 7	\$ 16,815	\$ (1,869)	\$ (1,425)	\$ (22)	\$ 16,813
Comprehensive income:									
Net income (loss)						(111)			(111)
Net change in unrealized gains and losses on securities available for sale, net of tax and reclassification adjustment, excluding non-credit portion of other-than-temporary impairments*								170	170
Non-credit portion of other-than-temporary impairments recognized in other comprehensive income, net of tax*								(124)	(124)
Net change in unrealized gains and losses on derivative instruments, net of tax and reclassification adjustment*								(78)	(78)
Net change from defined benefit pension plans, net of tax*								18	18
Comprehensive income (loss)									(125)
Cash dividends declared \$0.11 per share						(82)			(82)
Preferred dividends						(89)			(89)
Preferred stock transactions:									
Net proceeds from issuance of 287,500 shares of mandatorily convertible preferred stock		278							278
Discount accretion		18				(18)			
Common stock transactions:									
Net proceeds from issuance of 460 million shares of common stock			460	5	1,764				1,769
Issuance of 33 million shares of common stock issued in connection with early extinguishment of debt			33		135				135
Stock transactions with employees under compensation plans, net			4				12		12
Stock options exercised and related activity, net					9				9
Amortization of unearned restricted stock					17				17

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**BALANCE AT JUNE 30, 2009** 4 \$ 3,603 1,188 \$ 12 \$ 18,740 \$ (2,169) \$ (1,413) \$ (36) \$ 18,737

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

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

<i>(In millions)</i>	<b>Six Months Ended June 30</b>	
	<b>2009</b>	<b>2008</b>
Operating activities:		
Net income (loss)	\$ (111)	\$ 543
Adjustments to reconcile net cash provided by operating activities:		
Provision for loan losses	1,337	490
Depreciation and amortization of premises and equipment	140	136
Recapture of mortgage servicing rights		(25)
Provision for losses on other real estate, net	36	22
Net accretion of securities	(9)	(8)
Net amortization of loans and other assets	131	82
Net accretion of deposits and borrowings	(9)	(8)
Net securities gains	(161)	(92)
Net loss on sale of premises and equipment		2
(Gain) loss on early extinguishment of debt	(61)	66
Other-than-temporary impairments, net	72	1
Deferred income tax benefit	(302)	(23)
Excess tax benefits from share-based payments		(1)
Originations and purchases of loans held for sale	(6,010)	(3,151)
Proceeds from sales of loans held for sale	5,588	3,222
Gain on sale of loans, net	(67)	(27)
Loss from sale of mortgage servicing rights		15
Increase in trading account assets	(59)	(392)
Decrease (increase) in other interest-earning assets	68	(29)
(Increase) decrease in interest receivable	(43)	105
Decrease (increase) in other assets	766	(807)
Increase (decrease) in other liabilities	458	(69)
Other	(38)	23
<b>Net cash from operating activities</b>	<b>1,726</b>	<b>75</b>
Investing activities:		
Proceeds from sale of securities available for sale	2,413	2,011
Proceeds from maturity of:		
Securities available for sale	2,674	1,693
Securities held to maturity	4	4
Purchases of:		
Securities available for sale	(5,741)	(4,112)
Securities held to maturity		(1)
Proceeds from sales of loans		316
Proceeds from sales of mortgage servicing rights		44
Net decrease (increase) in loans	168	(3,458)
Net purchases of premises and equipment	(143)	(253)
Net cash received from deposits assumed	279	
<b>Net cash from investing activities</b>	<b>(346)</b>	<b>(3,756)</b>
Financing activities:		
Net increase (decrease) in deposits	3,545	(4,867)
Net (decrease) increase in short-term borrowings	(8,630)	6,470
Proceeds from long-term borrowings	1,200	4,205
Payments on long-term borrowings	(1,923)	(2,208)
Net proceeds from issuance of mandatory convertible preferred stock	278	
Net proceeds from issuance of common stock	1,769	
Cash dividends on common stock	(82)	(528)
Cash dividends on preferred stock	(89)	
Proceeds from exercise of stock options and related activity	9	19
Excess tax benefits from share-based payments		1

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Net cash from financing activities	(3,923)	3,092
Decrease in cash and cash equivalents	(2,543)	(589)
Cash and cash equivalents at beginning of year	10,973	4,745
Cash and cash equivalents at end of period	\$ 8,430	\$ 4,156

See notes to consolidated financial statements.

**Table of Contents****REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****Three and Six Months Ended June 30, 2009 and 2008****NOTE 1 Basis of Presentation**

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

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

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

**NOTE 2 Earnings (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:

<i>(In millions, except per share amounts)</i>	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Numerator:</b>				
Net income (loss)	\$ (188)	\$ 206	\$ (111)	\$ 543
Preferred stock dividends	(56)		(107)	
Net income (loss) available to common shareholders	\$ (244)	\$ 206	\$ (218)	\$ 543
<b>Denominator:</b>				
Weighted-average common shares outstanding basic	876	696	785	696
Common stock equivalents				
Weighted-average common shares outstanding diluted	876	696	785	696
<b>Earnings (loss) per common share:</b>				
Basic	\$ (0.28)	\$ 0.30	\$ (0.28)	\$ 0.78
Diluted	(0.28)	0.30	(0.28)	0.78

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The effect from the assumed exercise of 55.4 million stock options for both the quarter and six months ended June 30, 2009 and 54.2 million stock options for both the quarter and six months ended June 30, 2008, 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 issuance of 71 million common shares upon conversion of mandatorily convertible preferred stock in May 2009 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 (see Note 3 for further discussion).

**NOTE 3 Stockholders Equity and Comprehensive Income**

On November 14, 2008, Regions completed the sale of 3.5 million shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series A, par value \$1.00 and liquidation preference \$1,000.00 per share (and \$3.5 billion liquidation preference in the aggregate) to the U.S. Treasury as part of the Capital Purchase Program ( CPP ). Regions will pay the U.S. Treasury on a quarterly basis a 5% dividend, or \$175 million annually, for each of the first five years of the investment, and 9% thereafter unless Regions redeems the shares. Regions performed a discounted cash flow analysis to value the preferred stock at the date of issuance. For purposes of this analysis, Regions assumed that the preferred stock would most likely be redeemed five years from the valuation date based on optimal financial budgeting considerations. Regions used the Bloomberg USD US Bank BBB index to derive the market yield curve as of the valuation date to discount future expected cash flows to the valuation date. The discount rate used to value the preferred stock was 7.46%, based on this yield curve at a 5-year maturity. Dividends were assumed to be accrued until redemption. While the discounting was required based on a 5-year redemption, Regions did not have a 5-year security or similarly termed security available. As a result, it was necessary to use a benchmark yield curve to calculate the 5-year value. To determine the appropriate yield curve that was applicable to Regions, the yield to maturity on the outstanding debt instrument with the longest dated maturity (Perpetual Preferred 8.875% June 15, 2078, Series issued by Regions Financing Trust III) was compared to the longest point on the USD US Bank BBB index as of November 14, 2008. Regions concluded that the yield to maturity as of the valuation date of the debt, which was 11.03%, was consistent with the indicative yield of the curve noted above. The longest available point on this curve was 10.55% at 30 years.

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. The warrant expires ten years from the issuance date. Regions used the Cox-Ross-Rubinstein Binomial Option Pricing Model ( CRR Model ) to value the warrant at the date of issuance. The CRR Model is a standard option pricing model which incorporates optimal early exercise in order to receive the benefit of future dividend payments. Based on the transferability of the warrant, the CRR Model approach that was applied assumes that the warrant holder will not sub-optimally exercise its warrant. The following assumptions were used in the CRR Model:

Stock price(a)	\$ 9.67
Exercise price(b)	\$ 10.88
Expected volatility(c)	45.22%
Risk-free rate(d)	4.25%
Dividend yield(e)	3.88%
Warrant term (in years)(b)	10

- (a) Closing stock price of Regions as of the valuation date (November 14, 2008).
- (b) Per the Warrant to Purchase Agreement, dated November 14, 2008.
- (c) Expected volatility based on Regions historical volatility, as of November 14, 2008, over a look-back period of 10 years, commensurate with the terms of the warrant.
- (d) The risk-free rate represents the yield on 10-year U.S. Treasury Strips as of November 14, 2008.
- (e) The dividend yield assumption was calculated based on a weighting of 30% on Management s dividend yield expectations for the next 3 years and a weighting of 70% on Regions average dividend yield over the 10 years prior to the valuation date.



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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. Accrued dividends on the preferred shares reduced retained earnings by \$22.8 million during 2008 and \$87.5 million during the first six months of 2009. The unamortized discount on the preferred shares at December 31, 2008 was \$192.6 million and \$175.4 million at June 30, 2009. Discount accretion on the preferred shares reduced retained earnings by \$18.0 million during the first six months of 2009. Both the preferred securities and the warrant will be accounted for as components of Regions' regulatory Tier 1 Capital.

On May 20, 2009 the Company issued 287,500 shares of mandatory convertible preferred stock, Series B ( Series B shares ), generating net proceeds of approximately \$278 million. Regions will pay annual dividends at a rate of 10% per share on the initial liquidation preference of \$1,000 per share. Series B shares may be converted into common shares: 1) at December 15, 2010 (the mandatory conversion date ); 2) prior to December 15, 2010 at the option of the holder; 3) upon occurrence of certain changes in ownership as defined in the offering documents; or 4) prior to December 15, 2010 at the option of the Company. At the mandatory conversion date, the Series B shares are subject to conversion into shares of Regions' common stock with a per share conversion rate of not more than approximately 250 shares of common stock and not less than approximately 227 shares of common stock dependent upon the applicable market price, subject to anti-dilution adjustments. The Series B shares are not redeemable and rank senior to common stock and to each other class of capital stock established in the future, and on parity with the Series A preferred stock previously issued to the U.S. Treasury. If converted at June 30, 2009, approximately 71 million shares of Regions common stock would have been issued.

On May 20, 2009, the Company issued 460 million shares of common stock at \$4 per share, generating proceeds of \$1.8 billion, net of issuance costs.

In addition to the offerings mentioned above, the Company also exchanged approximately 33 million common shares for \$202 million of outstanding 6.625% trust preferred securities issued by Regions Financing Trust II ( the Trust ). The trust preferred securities were exchanged for junior subordinated notes issued by the Company to the Trust. The Company recognized a pre-tax gain of approximately \$61 million on the extinguishment of the junior subordinated notes. The increase in shareholders' equity related to the debt for common share exchange was approximately \$135 million, net of issuance costs.

At June 30, 2009, Regions had 23.1 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 six months of 2009. The Company's ability to repurchase its common stock is limited by the terms of the CPP mentioned above.

The Board of Directors declared a \$0.01 cash dividend for the second quarter of 2009, compared to \$0.10 for the fourth quarter of 2008 and \$0.38 for the second quarter of 2008. Given the current operating environment, the quarterly cash dividend was reduced to further strengthen Regions' capital position. Regions does not expect to increase its quarterly dividend above \$0.01 for the foreseeable future.

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

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

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The disclosure of the reclassification amount is as follows:

<i>(In millions)</i>	<b>Three Months Ended June 30, 2009</b>		
	<b>Before Tax</b>	<b>Tax Effect</b>	<b>Net of Tax</b>
Net income (loss)	\$ (113)	\$ (75)	\$ (188)
Net unrealized holding gains and losses on securities available for sale arising during the period	297	(108)	189
Less: non-credit portion of other-than-temporary impairments recognized in other comprehensive income	191	(67)	124
Less: reclassification adjustments for net securities gains realized in net income (loss)	108	(37)	71
Net change in unrealized gains and losses on securities available for sale	(2)	(4)	(6)
Net unrealized holding gains and losses on derivatives arising during the period	34	(13)	21
Less: reclassification adjustments for net gains realized in net income (loss)	103	(39)	64
Net change in unrealized gains and losses on derivative instruments	(69)	26	(43)
Net actuarial gains and losses arising during the period	39	(13)	26
Less: amortization of actuarial loss and prior service credit realized in net income (loss)	11	(4)	7
Net change from defined benefit plans	28	(9)	19
Comprehensive income (loss)	\$ (156)	\$ (62)	\$ (218)

<i>(In millions)</i>	<b>Three Months Ended June 30, 2008</b>		
	<b>Before Tax</b>	<b>Tax Effect</b>	<b>Net of Tax</b>
Net income	\$ 273	\$ (67)	\$ 206
Net unrealized holding gains and losses on securities available for sale arising during the period	(245)	91	(154)
Less: reclassification adjustments for net securities gains realized in net income			
Net change in unrealized gains and losses on securities available for sale	(245)	91	(154)
Net unrealized holding gains and losses on derivatives arising during the period	(186)	71	(115)
Less: reclassification adjustments for net gains realized in net income	25	(9)	16
Net change in unrealized gains and losses on derivative instruments	(211)	80	(131)
Net actuarial gains and losses arising during the period	3	(1)	2
Less: amortization of actuarial loss and prior service credit realized in net income	1		1
Net change from defined benefit plans	2	(1)	1
Comprehensive income (loss)	\$ (181)	\$ 103	\$ (78)

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<i>(In millions)</i>	<b>Six Months Ended June 30, 2009</b>		
	<b>Before Tax</b>	<b>Tax Effect</b>	<b>Net of Tax</b>
Net income (loss)	\$ 279	\$ (390)	\$ (111)
Net unrealized holding gains and losses on securities available for sale arising during the period	431	(156)	275
Less: non-credit portion of other-than-temporary impairments recognized in other comprehensive income	191	(67)	124
Less: reclassification adjustments for net securities gains realized in net income (loss)	161	(56)	105
Net change in unrealized gains and losses on securities available for sale	79	(33)	46
Net unrealized holding gains and losses on derivatives arising during the period	73	(28)	45
Less: reclassification adjustments for net gains realized in net income (loss)	198	(75)	123
Net change in unrealized gains and losses on derivative instruments	(125)	47	(78)
Net actuarial gains and losses arising during the period	48	(16)	32
Less: amortization of actuarial loss and prior service credit realized in net income (loss)	22	(8)	14
Net change from defined benefit plans	26	(8)	18
Comprehensive income (loss)	\$ 259	\$ (384)	\$ (125)

<i>(In millions)</i>	<b>Six Months Ended June 30, 2008</b>		
	<b>Before Tax</b>	<b>Tax Effect</b>	<b>Net of Tax</b>
Net income	\$ 768	\$ (225)	\$ 543
Net unrealized holding gains and losses on securities available for sale arising during the period	(118)	48	(70)
Less: reclassification adjustments for net securities gains realized in net income	92	(32)	60
Net change in unrealized gains and losses on securities available for sale	(210)	80	(130)
Net unrealized holding gains and losses on derivatives arising during the period	(5)	3	(2)
Less: reclassification adjustments for net gains realized in net income	38	(13)	25
Net change in unrealized gains and losses on derivative instruments	(43)	16	(27)
Net actuarial gains and losses arising during the period	4	(2)	2
Less: amortization of actuarial loss and prior service credit realized in net income	2	(1)	1
Net change from defined benefit plans	2	(1)	1
Comprehensive income	\$ 517	\$ (130)	\$ 387

**Table of Contents****NOTE 4 Pension and Other Postretirement Benefits**

Net periodic pension and other postretirement benefits cost included the following components as follows:

<i>(In millions)</i>	For The Three Months Ended June 30			
	Pension		Other Postretirement Benefits	
	2009	2008	2009	2008
Service cost	\$ 1	\$ 10	\$	\$
Interest cost	21	22	1	
Expected return on plan assets	(22)	(29)		
Amortization of prior service cost (credit)	1	1	(1)	
Amortization of actuarial loss	11			
Curtailement gains		(4)		
	\$ 12	\$	\$	\$

<i>(In millions)</i>	For The Six Months Ended June 30			
	Pension		Other Postretirement Benefits	
	2009	2008	2009	2008
Service cost	\$ 2	\$ 20	\$	\$
Interest cost	43	44	1	1
Expected return on plan assets	(44)	(59)		
Amortization of prior service cost (credit)	1	2	(1)	
Amortization of actuarial loss	22			
Settlement charge				
Curtailement gains		(4)		
	\$ 24	\$ 3	\$	\$ 1

The curtailment gains recognized during the second quarter of 2008 resulted from merger-related employment terminations.

Beginning in March 2009, participant accruals of service in the Regions Financial Corporation Retirement Plan were temporarily suspended resulting in a reduction in service cost. Matching contributions in the 401(k) plans were temporarily suspended beginning in the second quarter of 2009.

**NOTE 5 Share-Based Payments**

Regions has long-term incentive compensation plans that permit the granting of incentive awards in the form of stock options, restricted stock awards and units, and stock appreciation rights. The terms of all awards issued under these plans are determined by the Compensation Committee of the Board of Directors, but no options may be granted after the tenth anniversary of the plans' adoption. Options and restricted stock usually vest based on employee service, generally within three years from the date of the grant. The contractual life of options granted under these plans ranges from seven to ten years from the date of grant. The number of remaining share equivalents authorized for future issuance under long-term compensation plans was approximately 6.4 million share equivalents at June 30, 2009.

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



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The following table summarizes the weighted-average assumptions used and the estimated fair values related to stock options granted during the six months ended June 30:

	June 30	
	2009	2008
Expected dividend yield	1.85%	6.94%
Expected volatility	67.15%	26.40%
Risk-free interest rate	2.80%	2.90%
Expected option life	6.8 yrs.	5.8 yrs.
Fair value	\$ 1.78	\$ 2.47

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

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

	For the Six Months Ended June 30			
	2009			2008
	Number of Options	Wtd. Avg. Exercise Price	Number of Options	Wtd. Avg. Exercise Price
Outstanding at beginning of period	52,955,298	\$ 28.22	48,044,207	\$ 29.71
Granted	4,063,209	3.29	9,672,751	21.87
Exercised			(90,801)	17.94
Forfeited or cancelled	(1,594,451)	30.37	(3,025,808)	29.77
Outstanding at end of period	55,424,056	\$ 26.31	54,600,349	\$ 28.34
Exercisable at end of period	44,376,343	\$ 28.79	42,363,726	\$ 29.34

In 2009, Regions granted 2.9 million restricted shares that vest based upon a service condition and a market condition in addition to awards that were similar to prior grants. The fair value of these restricted shares was estimated on the date of the grant using a Monte-Carlo simulation method. The assumptions related to this grant included expected volatility of 84.81%, expected dividend yield of 1.00%, and an expected term of 4.0 years based on the vesting term of the market condition. The risk-free rate is consistent with the assumption used to value stock options. For all other grants that vest solely upon a service condition, the fair value of the awards is estimated based upon the fair value of the underlying shares on the date of the grant.

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

	For the Six Months Ended June 30			
	2009			2008
	Shares	Wtd. Avg. Grant Date Fair Value	Shares	Wtd. Avg. Grant Date Fair Value
Non-vested at beginning of period	4,123,911	\$ 27.67	3,651,054	\$ 32.60
Granted	3,100,415	2.87	1,543,144	22.00
Vested	(288,406)	33.44	(397,971)	33.17
Forfeited	(155,303)	26.64	(242,468)	32.16
Non-vested at end of period	6,780,617	\$ 16.11	4,553,759	\$ 28.98



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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:

June 30, 2009	Cost	Gross Unrealized Gains	Gross Unrealized Losses Non-credit OTTI Other <i>(In millions)</i>	Estimated Fair Value
<b>Securities available for sale:</b>				
U.S. Treasury securities	\$ 46	\$ 5	\$	\$ 51
Federal agency securities	42	2		44
Obligations of states and political subdivisions	509	7		514
Mortgage-backed securities				
Residential	16,845	395	(191)	16,954
Commercial	897	1	(55)	843
Other debt securities	23		(3)	20
Equity securities	1,253	2		1,255
	\$ 19,615	\$ 412	\$ (191)	\$ 19,681
<b>Securities held to maturity:</b>				
U.S. Treasury securities	\$ 13	\$ 2	\$	\$ 15
Federal agency securities	8			8
Mortgage-backed securities	20		(1)	19
Other debt securities	2			2
	\$ 43	\$ 2	\$ (1)	\$ 44
<b>December 31, 2008</b>				
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>Securities available for sale:</b>				
U.S. Treasury securities	\$ 802	\$ 84	\$	\$ 886
Federal agency securities	1,521	175		1,696
Obligations of states and political subdivisions	755	9	(8)	756
Mortgage-backed securities	14,585	283	(539)	14,329
Other debt securities	21		(2)	19
Equity securities	1,178	1	(15)	1,164
	\$ 18,862	\$ 552	\$ (564)	\$ 18,850
<b>Securities held to maturity:</b>				
U.S. Treasury securities	\$ 14	\$ 1	\$	\$ 15
Federal agency securities	10		(1)	9
Obligations of states and political subdivisions	1			1
Mortgage-backed securities	20			20
Other debt securities	2			2
	\$ 47	\$ 1	\$ (1)	\$ 47





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Regions evaluates securities in a loss position for other-than-temporary impairment, considering such factors as the length of time and the extent to which the market value has been below cost, the credit standing of the issuer, and Regions' ability and intent to hold the security until its market value recovers. Activity related to the credit loss component of other-than-temporary impairment is recognized in earnings. For debt securities the portion of other-than-temporary impairment related to all other factors is recognized in other comprehensive income. For the three months ended June 30, 2009, activity related to credit losses for only debt securities where a portion of the other-than-temporary impairment was recognized in other comprehensive income is as follows:

<i>(In millions)</i>	<b>Total</b>
Balance, April 1, 2009	\$
Additions for the credit loss component of other-than-temporary impairments of debt securities recognized in earnings where a portion of the impairment was charged to other comprehensive income	45
Balance, June 30, 2009	\$ 45

Note: In addition to the amount shown above, there was a \$9 million other-than-temporary impairment related to equity securities. There was also a \$15 million impairment related to a single municipal issuer which was charged entirely to earnings. Accordingly, total other-than-temporary impairments charged to earnings was \$69 million, representing \$60 million related to the credit loss component for impaired debt securities and \$9 million related to equity securities.

As of June 30, 2009, non-agency residential mortgage backed securities with other-than-temporary impairment consisted of 29 securities in which credit-related losses totaled approximately \$45 million. Gross other-than-temporary impairments related to these securities totaled \$236 million with the remaining non-credit portion of \$191 million recognized in other comprehensive income. The Company estimated the amount of losses attributable to credit using a third-party discounted cash flow model that compiles relevant details on collateral performance on a security-by-security basis. Assumptions including delinquencies, default rates, credit subordination support, prepayment rates, and loss severity based on the underlying collateral characteristics and year of origination are considered to estimate the collateral cash flows. Assumptions used can vary widely from loan to loan, and are influenced by such factors as interest rates, geography, borrower specific data and underlying collateral. Expected cash flows are then calculated using an observable discount rate that management believes a market participant would consider in determining the fair value. Based on the results of the cash flow model, the Company determines the amount of loss related to credit and the remaining unrealized loss for which recovery is expected. Significant weighted-average assumptions specific to non-agency residential mortgage backed securities as of June 30, 2009 include 21.2% collateral default rate, 9.6% credit subordination support and 11.3% delinquency rate.

An additional other-than-temporary impairment related to debt securities recognized during the second quarter related to a single municipal issuer. Due to the credit quality, the Company previously relied on third party credit support as the primary source of repayment. However, during the second quarter of 2009 there were significant developments related to the credit quality of the third party insurer, including restructuring of all of its insurance contracts as directed by the insurer's primary regulator. The Company estimated future cash flows based on several possible scenarios and, as a result, recorded an other-than-temporary impairment of approximately \$15 million related to this security. The entire amount of loss was determined to be related to credit deterioration.

In addition to the other-than-temporary impairments recognized during the second quarter of 2009 related to debt securities, the Company recognized a write-down of \$9 million representing other-than-temporary impairments of equity securities classified as available for sale. The Company recognizes impairment of available for sale equity securities when the current market value is below the highest traded price within the past six months. The cost basis of the securities is adjusted to current fair value with the entire offset recorded in the statement of operations.

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The following tables present unrealized loss and estimated fair value of securities available for sale at June 30, 2009 and December 31, 2008. The tables include debt securities where a portion of other-than-temporary impairments have been recognized in other comprehensive income (loss). 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. The tables include 678 securities and 1,065 securities at June 30, 2009 and December 31, 2008, respectively.

June 30, 2009	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
	<i>(In millions)</i>					
Federal agency securities	\$ 3	\$	\$ 1	\$	\$ 4	\$
Obligations of states and political subdivisions	43		103	(2)	146	(2)
Mortgage-backed securities						
Residential	3,659	(54)	786	(232)	4,445	(286)
Commercial	112	(5)	711	(50)	823	(55)
All other securities			8	(3)	8	(3)
	\$ 3,817	\$ (59)	\$ 1,609	\$ (287)	\$ 5,426	\$ (346)

December 31, 2008	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
	<i>(In millions)</i>					
Federal agency securities	\$ 3	\$	\$ 1	\$	\$ 4	\$
Mortgage-backed securities	1,830	(422)	660	(117)	2,490	(539)
All other securities	204	(21)	138	(4)	342	(25)
	\$ 2,037	\$ (443)	\$ 799	\$ (121)	\$ 2,836	\$ (564)

As discussed above, during the second quarter and first six months of 2009, Regions recognized net other-than-temporary impairments of \$69 million and \$72, million, respectively, related primarily to non-agency residential mortgage-backed securities, equity securities and a single municipal issuer. For all other securities included in the tables above, management does not believe any individual unrealized loss represented an other-than-temporary impairment as of those dates. The unrealized losses related primarily to the impact of lower interest rates and widening of credit and liquidity spreads related to U.S. Treasury securities, Federal agency securities and mortgage-backed securities.

The gross unrealized loss on debt securities held to maturity was \$1 million at June 30, 2009 and December 31, 2008, with all loss positions in a continuous loss position of less than twelve months.

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The cost and estimated fair value of securities available for sale and securities held to maturity at June 30, 2009, 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.

<i>(In millions)</i>	Cost	Estimated Fair Value
<b>Securities available for sale:</b>		
Due in one year or less	\$ 23	\$ 23
Due after one year through five years	250	258
Due after five years through ten years	231	235
Due after ten years	116	113
Mortgage-backed securities		
Residential	16,845	16,954
Commercial	897	843
Equity securities	1,253	1,255
	\$ 19,615	\$ 19,681
<b>Securities held to maturity:</b>		
Due in one year or less	\$ 7	\$ 7
Due after one year through five years	11	13
Due after five years through ten years	5	5
Due after ten years		
Mortgage-backed securities	20	19
	\$ 43	\$ 44

Proceeds from sales of securities available for sale in the first six months of 2009 were \$2.4 billion, with gross realized gains and losses of \$161 million and \$0 million, respectively. The cost of securities sold is based on the specific identification method.

Equity securities included \$426 million and \$475 million of amortized cost related to Federal Reserve Bank stock and Federal Home Loan Bank ( FHLB ) stock as of June 30, 2009, respectively, whose estimated fair value approximates its carrying amount.

Securities with carrying values of \$13.5 billion at June 30, 2009, were pledged to secure public funds, trust deposits and certain borrowing arrangements.

Trading account net gains (losses) totaled \$29 million and \$23 million for the three and six months ended June 30, 2009, respectively (including \$12 million of net unrealized losses as of June 30, 2009). Trading account net gains totaled \$2 million for the three months ended June 30, 2008, and net losses totaled \$2 million for the six months ended June 30, 2008 (including \$27 million of net unrealized losses as of June 30, 2008).

**NOTE 7 Business Segment Information**

Regions segment information is presented based on Regions key segments of business. Each segment is a strategic business unit that serves specific needs of Regions customers. The Company's primary segment is General Banking/Treasury, which represents the Company's branch network, including consumer and commercial banking functions, and has separate management that is responsible for the operation of that business unit. This segment also includes the Company's Treasury function, including the Company's securities portfolio and other wholesale funding activities. Prior to year-end 2008, Regions had reported an Other segment that included merger charges and the parent company. Regions realigned to include the parent company with General Banking/Treasury as parent company transactions essentially support the Treasury function. The 2008 amounts presented below have been adjusted to conform to the 2009 presentation.

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

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

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

<i>(In millions)</i>	General Banking/ Treasury	Investment Banking/ Brokerage/ Trust	Insurance	Merger Charges	Total Company
<b>Three months ended June 30, 2009</b>					
Net interest income	\$ 816	\$ 14	\$ 1	\$	\$ 831
Provision for loan losses	912				912
Non-interest income	854	318	27		1,199
Non-interest expense	926	285	20		1,231
Income tax expense	55	17	3		75
Net income (loss)	\$ (223)	\$ 30	\$ 5	\$	\$ (188)

Average assets	\$ 140,783	\$ 4,817	\$ 487	\$	\$ 146,087
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<i>(In millions)</i>	General Banking/ Treasury	Investment Banking/ Brokerage/ Trust	Insurance	Merger Charges	Total Company
<b>Three months ended June 30, 2008</b>					
Net interest income	\$ 956	\$ 22	\$ 1	\$	\$ 979
Provision for loan losses	309				309
Non-interest income	409	307	28		744
Non-interest expense	750	268	23	100	1,141
Income tax expense (benefit)	80	23	2	(38)	67
Net income (loss)	\$ 226	\$ 38	\$ 4	\$ (62)	\$ 206

Average assets	\$ 138,610	\$ 3,639	\$ 312	\$	\$ 142,561
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<i>(In millions)</i>	General Banking/ Treasury	Investment Banking/ Brokerage/ Trust	Insurance	Merger Charges	Total Company
<b>Six months ended June 30, 2009</b>					
Net interest income	\$ 1,608	\$ 30	\$ 2	\$	\$ 1,640
Provision for loan losses	1,337				1,337
Non-interest income	1,639	571	55		2,265
Non-interest expense	1,714	533	42		2,289
Income tax expense	360	25	5		390
Net income (loss)	\$ (164)	\$ 43	\$ 10	\$	\$ (111)

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Average assets	\$ 140,162	\$ 4,186	\$ 484	\$ 144,832
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<i>(In millions)</i>	General Banking/ Treasury	Investment Banking/ Brokerage/ Trust	Insurance	Merger Charges	Total Company
<b>Six months ended June 30, 2008</b>					
Net interest income	\$ 1,954	\$ 41	\$ 2	\$	\$ 1,997
Provision for loan losses	490				490
Non-interest income	980	613	59		1,652
Non-interest expense	1,625	544	46	176	2,391
Income tax expense (benefit)	246	41	5	(67)	225
<b>Net income (loss)</b>	<b>\$ 573</b>	<b>\$ 69</b>	<b>\$ 10</b>	<b>\$ (109)</b>	<b>\$ 543</b>
Average assets	\$ 138,240	\$ 3,658	\$ 320	\$	\$ 142,218

**NOTE 8 Goodwill**

Goodwill allocated to each reportable segment as of June 30, 2009, December, 31, 2008, and June 30, 2008 is presented as follows:

<i>(In millions)</i>	June 30 2009	December 31 2008	June 30 2008
General Banking/Treasury	\$ 4,691	\$ 4,691	\$ 10,669
Investment Banking/Brokerage/Trust	745	740	732
Insurance	120	117	114
Balance at end of period	\$ 5,556	\$ 5,548	\$ 11,515

The Company's goodwill is tested for impairment on an annual basis, 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 to be 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. In order to determine the implied estimated fair value, a full purchase price allocation is required to be performed in the same manner as if a business combination had occurred as outlined in Financial Accounting Standards Board Statement No. 141(R), *Business Combinations* ( FAS 141(R) ). 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.

During the second quarter of 2009, Regions assessed the indicators of goodwill impairment as of June 15, 2009, and through the date of the filing of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2009. The indicators we assessed included:

Recent operating performance,

Changes in market capitalization,

Regulatory actions and assessments,

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

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

Trends in the banking industry.



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Based on the assessment of the indicators above, quantitative testing of goodwill was performed for the June 30, 2009 interim period.

For purposes of performing Step One of the goodwill impairment test, Regions uses both the income and market approaches to value its reporting units. The income 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 projected future cash flows are discounted using cost of capital metrics for Regions peer group or a build-up approach (such as the capital asset pricing model) applicable to each reporting unit. The significant inputs to the income approach include expected future cash flows, which are primarily driven by the long-term target tangible equity to tangible assets ratio, and the discount rate, which is determined in the build-up approach using the risk-free rate of return, adjusted equity beta, equity risk premium, and a company-specific risk factor. The company-specific risk factor is used to address the uncertainty of growth estimates and earnings projections of management.

Regions uses the public company method and the transaction method as the two market approaches. The public company method applies a value multiplier derived from each reporting unit's peer group to a financial metric of the reporting unit (e.g. last twelve months of earnings before interest, taxes and depreciation, tangible book value, etc.) and an implied control premium to the respective reporting unit. The control premium is evaluated and compared to similar financial services transactions. 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. Below is a table of assumptions used in estimating the fair value of each reporting unit at June 30, 2009, and December 31, 2008, respectively. The table includes the discount rate used in the income approach, the market multiplier used in the market approaches, and the public company method control premium applied to all reporting units.

	<b>General Banking/ Treasury</b>	<b>Investment Banking/ Brokerage/ Trust</b>	<b>Insurance</b>
<b>As of June 30, 2009</b>			
Discount rate used in income approach	20%	14%	10%
Public company method market multiplier(a)	0.55x	1.6x	6.4x
Public company method control premium	30%	30%	30%
Transaction method market multiplier(b)	0.65x	2.2x	n/a

- (a) For the General Bank/Treasury and Investment Banking/Brokerage/Trust reporting units, these multipliers are applied to tangible book value. For the Insurance reporting unit, this multiplier is applied to the last twelve months of earnings before interest, taxes and depreciation, respectively.
- (b) For the General Bank/Treasury and Investment Banking/Brokerage/Trust reporting units, these multipliers are applied to tangible book value.

	<b>General Banking/ Treasury</b>	<b>Investment Banking/ Brokerage/ Trust</b>	<b>Insurance</b>
<b>As of December 31, 2008</b>			
Discount rate used in income approach	21%	11%	9%
Public company method market multiplier(a)	0.6x	n/a	8.7x
Public company method control premium	30%	30%	30%
Transaction method market multiplier(b)	0.8x	3.32x	n/a

- (a) For the General Bank/Treasury and Insurance reporting units, these multipliers are applied to tangible book value and the last twelve months of earnings before interest, taxes and depreciation, respectively.
- (b) For the General Bank/Treasury and Investment Banking/Brokerage/Trust reporting units, these multipliers are applied to tangible book value and brokerage assets under management, respectively.



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The Step One analysis performed during the second quarter of 2009 indicated that the carrying value (including goodwill) of the General Banking/Treasury reporting unit exceeded its estimated fair value. Therefore, Step Two was performed as discussed below. The Investment Banking/Brokerage/Trust and Insurance reporting units' Step One impairment tests indicated that the fair values of those reporting units were greater than the carrying values (including goodwill) as of June 30, 2009; therefore, Step Two was not performed by the Company for these units.

For purposes of performing Step Two of the goodwill impairment test, Regions compared the implied estimated fair value of the General Banking/Treasury reporting unit goodwill with the carrying amount of that goodwill. In order to determine the implied estimated fair value, a full purchase price allocation was performed in the same manner as if a business combination had occurred as outlined in FAS No. 141(R). As part of the Step Two analysis, Regions estimated the fair value of all of the assets and liabilities of the reporting unit, including unrecognized assets and liabilities. The fair values of certain material financial assets and liabilities and the valuation methodologies of such pricings are discussed in Note 10, Fair Value Measurements. Based on the results of the Step Two analysis performed, Regions concluded the General Banking/Treasury reporting unit's goodwill was not impaired as of June 30, 2009.

**NOTE 9 Loan Servicing**

Effective January 1, 2009, the Company made an election allowed by Statement of Financial Accounting Standards No. 156, Accounting for Servicing of Financial Assets, an Amendment of FASB Statement No. 140 ( FAS 156 ) to prospectively change the policy for accounting for residential mortgage servicing rights from the amortization method to the fair value measurement method. Under the fair value measurement method, servicing assets are measured at fair value each period with changes in fair value recorded as a component of mortgage banking income.

The 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. Regions uses various derivative instruments to mitigate the income statement effect of changes in the fair value of its mortgage servicing rights. During the three months ended June 30, 2009 and the first six months of 2009, Regions recognized a net \$1.8 million loss and a net \$2.8 million loss, respectively, associated with changes in mortgage servicing rights and the aforementioned derivatives, which is included in mortgage income.

The tables below present analyses of mortgage servicing rights:

<i>(In millions)</i>	<b>Three Months Ended June 30, 2009</b>	<b>Six Months Ended June 30, 2009</b>
Carrying value, beginning of period	\$ 161	\$ 161
Additions	33	52
Increase (decrease) in fair value:		
Due to change in valuation inputs or assumptions	18	9
Other changes(1)	(10)	(20)
Carrying value, end of period	\$ 202	\$ 202

(1) Represents economic amortization associated with borrower repayments.

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Data and assumptions used in the fair value calculation related to residential mortgage servicing rights (excluding related derivative instruments) as of June 30, 2009 are as follows (dollars in millions):

Unpaid principal balance	\$ 22,984
Weighted-average prepayment speed (CPR)	27.29
Estimated impact on fair value of a 10% increase	\$ (9)
Estimated impact on fair value of a 20% increase	\$ (18)
Weighted-average discount rate	10.60%
Estimated impact on fair value of a 10% increase	\$ (5)
Estimated impact on fair value of a 20% increase	\$ (10)
Weighted-average coupon interest rate	5.91%
Weighted-average remaining maturity (months)	282
Weighted-average servicing fee (basis points)	28.8

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

**NOTE 10 Derivative Financial Instruments and Hedging Activities**

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

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

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The following table presents the fair value of derivative instruments on a gross basis as of June 30, 2009:

<i>(In millions)</i>	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments under FAS 133:				
Interest rate swaps	Other assets	\$ 474	Other liabilities	\$
Interest rate options	Other assets	70	Other liabilities	
Eurodollar futures(1)	Other assets		Other liabilities	
<b>Total derivatives designated as hedging instruments under FAS 133</b>		<b>\$ 544</b>		<b>\$</b>
Derivatives not designated as hedging instruments under FAS 133 :				
Interest rate swaps	Other assets	\$ 1,696	Other liabilities	\$ 1,605
Interest rate options	Other assets	37	Other liabilities	30
Interest rate futures and forward commitments	Other assets	19	Other liabilities	1
Other contracts	Other assets	7	Other liabilities	7
<b>Total derivatives not designated as hedging instruments under FAS 133</b>		<b>\$ 1,759</b>		<b>\$ 1,643</b>
<b>Total derivatives</b>		<b>\$ 2,303</b>		<b>\$ 1,643</b>

(1) Changes in fair value are cash-settled daily.

**HEDGING DERIVATIVES**

Derivatives entered into to manage interest rate risk and facilitate asset/liability management strategies are designated as hedging derivatives under FAS 133. Derivative financial instruments that qualify under FAS 133 in a hedging relationship are classified, based on the exposure being hedged, as either fair value or cash flow hedges. The Company formally documents all hedging relationships between hedging instruments and the 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 sheets 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 income. 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 income.

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The following table presents the effect of derivative instruments on the income statement for the three months ended June 30, 2009:

<b>Derivatives in FAS 133 Fair Value Hedging Relationships</b>					
<b>Value</b>	<b>Location of Gain (Loss) Recognized in Income on Derivatives</b>	<b>Amount of Gain (Loss) Recognized in Income on Derivatives</b>	<b>Hedged Items in FAS 133 Fair Value Hedge Relationships</b>	<b>Location of Gain (Loss) Recognized in Income on Related Hedged Item</b>	<b>Amount of Gain (Loss) Recognized in Income on Related Hedged Item</b>
<i>(In millions)</i>					
Interest rate swaps	Other non-interest expense	\$ (59)	Debt	Other non-interest expense	\$ 59
Interest rate swaps	Interest expense	39	Debt	Interest expense	1
<b>Total</b>		<b>\$ (20)</b>			<b>\$ 60</b>

<b>Derivatives in FAS 133 Cash Flow Hedging Relationships</b>	<b>Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) (1)</b>	<b>Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)</b>	<b>Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (2)</b>	<b>Location of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)</b>	<b>Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)(2)</b>
<i>(In millions)</i>					
Interest rate swaps	\$ (25)	Interest income on loans	\$ 65	Interest income on loans	\$ 1
Interest rate options	(14)	Interest income on loans	34	Interest income on loans	(5)
Eurodollar futures	(2)	Interest income on loans	9		
<b>Total</b>	<b>\$ (41)</b>		<b>\$ 108</b>		<b>\$ (4)</b>

(1) After-tax

(2) Pre-tax

The following table presents the effect of derivative instruments on the income statement for the six months ended June 30, 2009:

<b>Derivatives in FAS 133 Fair Value</b>	<b>Location of Gain (Loss) Recognized in Income on Derivatives</b>	<b>Amount of Gain (Loss) Recognized in Income on Derivatives</b>	<b>Hedged Items in FAS 133 Fair Value Hedge Relationships</b>	<b>Location of Gain (Loss) Recognized in Income on Related Hedged Item</b>	<b>Amount of Gain (Loss) Recognized in Income on Related Hedged Item</b>
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<b>Hedging Relationships</b>		<i>(In millions)</i>			
Interest rate swaps	Other non-interest expense	\$	(64)	Debt	\$ 64
Interest rate swaps	Interest expense		73	Debt	2
<b>Total</b>		<b>\$</b>	<b>9</b>		<b>\$ 66</b>

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<b>Derivatives in</b>	<b>Amount of Gain(Loss) Recognized in OCI on Derivatives (Effective Portion)(1)</b>	<b>Location of Gain(Loss) Reclassified from Accumulated OCI into Income (Effective Portion)</b>	<b>Amount of Gain(Loss) Reclassified from Accumulated OCI into Income (Effective Portion)(2)</b>	<b>Location of Gain(Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)</b>	<b>Amount of Gain(Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)(2)</b>
		<i>(In millions)</i>			
		Interest income		Interest income on loans	
Interest rate swaps	\$ (42)	on loans	\$ 129		\$ 1
Interest rate options	(23)	Interest income on loans	67	Interest income on loans	(9)
Eurodollar futures	(5)	Interest income on loans	11		
Total	\$ (70)		\$ 207		\$ (8)

(1) After-tax

(2) Pre-tax

**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 the changes in fair value of the derivative do not offset the changes in fair value of the hedged item as other non-interest expense.

Regions enters into interest rate swap agreements to manage interest rate exposure on the Company's fixed-rate borrowings. These agreements involve the receipt of fixed-rate amounts in exchange for floating-rate interest payments over the life of the agreements. As of June 30, 2009, the total notional amount of the Company's interest rate swaps designated in fair value hedges was \$5.6 billion.

**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 period or 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 prime-based loans. The agreements effectively modify the Company's exposure to interest rate risk by utilizing receive fixed/pay prime interest rate swaps. As of June 30, 2009, the total notional amount of the Company's interest rate swaps designated in cash flow hedges on prime loans was \$2.6 billion.

Regions enters into interest rate swap agreements to manage overall cash flow changes related to interest rate risk exposure on LIBOR-based loans. The agreements effectively modify the Company's exposure to interest





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rate risk by utilizing receive fixed/pay LIBOR interest rate swaps. As of June 30, 2009, the total notional amount of the Company's interest rate swaps hedging cash flows on LIBOR loans was \$4.3 billion.

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. As of June 30, 2009, the total notional amount of the Company's forward-starting swaps was \$1.0 billion.

Regions enters into interest rate option contracts to protect cash flows through the maturity date of the hedging instrument on the designated one-month LIBOR floating-rate loans from adverse extreme market interest rate changes. As of June 30, 2009, the total notional amount of the Company's interest rate options was \$3.5 billion.

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. As of June 30, 2009, the total notional amount of the Company's Eurodollar futures was \$0.

Regions realized an after-tax benefit of \$17.4 million in accumulated other comprehensive income at June 30, 2009, 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 2012. Regions recognized pre-tax income of \$20.4 million during the first six months of 2009 related to this amortization.

Regions expects to reclassify out of other comprehensive income and into earnings approximately \$223.8 million in pre-tax income due to the receipt of interest payments on all cash flow hedges within the next twelve months. Of this amount, \$22.7 million relates to the amortization of discontinued cash flow hedges. The maximum length of time over which Regions is hedging its exposure to the variability in future cash flows for forecasted transactions is approximately 2 years as of June 30, 2009.

## **TRADING DERIVATIVES**

Derivative contracts that do not qualify for hedge accounting are classified as trading with gains and losses related to the change in fair value recognized in earnings during the period.

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 monitored by the asset/liability management function and evaluated by the Company. 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. As of June 30, 2009, the total notional amount of the Company's derivatives trading portfolio was \$65.4 billion.

In the normal course of business, Morgan Keegan enters into underwriting and forward and future commitments on U.S. Government and municipal securities. As of June 30, 2009, the contractual amounts of forward and future commitments was approximately \$27.9 million. The brokerage subsidiary typically settles its position by entering into equal but opposite contracts and, as such, the contract amounts do not necessarily represent future cash requirements. Settlement of the transactions relating to such commitments is not expected to have a material effect on the subsidiary's financial position. Transactions involving future settlement give rise to market risk, which represents the potential loss that can be caused by a change in the market value of a particular financial instrument. The exposure to market risk is determined by a number of factors, including size, composition and diversification of positions held, the absolute and relative levels of interest rates, and market volatility.

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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. Fair value is based on fees currently charged to enter into similar agreements and, for fixed-rate commitments, considers the difference between current levels of interest rates and the committed rates. At June 30, 2009, Regions had \$653.1 million in notional amounts of 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. At June 30, 2009, Regions had \$2.0 billion in notional amounts related to these forward rate commitments.

On January 1, 2009, Regions made an election allowed by FAS 156 and began accounting 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, primarily in the form of forward rate commitments, to mitigate the income statement effect of changes in the fair value of its mortgage servicing rights. As of June 30, 2009, the total notional amount related to these forward rate commitments was \$1.7 billion.

The following table presents information for derivatives not designated as hedging instruments under FAS 133 in the statement of operations for the three months ended June 30, 2009:

<b>Derivatives Not Designated as Hedging</b>	<b>Location of Gain (Loss)</b>	<b>Amount of Gain (Loss)</b>
<b>Instruments under FAS 133</b>	<b>Recognized in Income on Derivatives</b>	<b>Recognized in Income on Derivatives (In millions)</b>
Interest rate swaps	Brokerage income	\$ (10)
Interest rate options	Brokerage income	(5)
Interest rate options	Mortgage income	(16)
Interest rate futures and forward commitments	Brokerage income	8
Interest rate futures and forward commitments	Mortgage income	23
Other contracts	Brokerage income	1
		<b>\$ 1</b>

The following table presents information for derivatives not designated as hedging instruments under FAS 133 in the statement of operations for the six months ended June 30, 2009:

<b>Derivatives Not Designated as Hedging</b>	<b>Location of Gain (Loss)</b>	<b>Amount of Gain (Loss)</b>
<b>Instruments under FAS 133</b>	<b>Recognized in Income on Derivatives</b>	<b>Recognized in Income on Derivatives (In millions)</b>
Interest rate swaps	Brokerage income	\$ 32
Interest rate options	Brokerage income	(42)
Interest rate options	Mortgage income	(4)
Interest rate futures and forward commitments	Brokerage income	7
Interest rate futures and forward commitments	Mortgage income	28
Other contracts	Brokerage income	1
		<b>\$ 22</b>

Credit risk, defined as all positive exposures not collateralized with cash or other assets, at June 30, 2009, totaled approximately \$1.1 billion. This amount represents the net credit risk on all trading and other derivative positions held by Regions.



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**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 2012 and 2026. Credit derivatives whereby Regions has sold credit protection have maturities between 2009 and 2015. 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 is approximately \$60.7 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 June 30, 2009, 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 Regions' derivative instruments contain provisions that require Regions' debt to maintain an investment grade credit rating from each of the major credit rating agencies. If Regions' debt were to fall below investment grade, it would be in violation of these provisions, and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position on June 30, 2009, was \$332.2 million, for which Regions had posted collateral of \$308.7 million in the normal course of business. If the credit-risk-related contingent features underlying these agreements were triggered on June 30, 2009, Regions would be required to post an additional \$23.5 million of collateral to its counterparties.

**NOTE 11 Fair Value Measurements**

Regions adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157), as of January 1, 2008. FAS 157 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). Under FAS 157, 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. FAS 157 requires disclosures that stratify 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

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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.

**ITEMS MEASURED AT FAIR VALUE ON A RECURRING BASIS**

Trading account assets (net of certain short-term borrowings), securities available for sale, mortgage loans held for sale, mortgage servicing rights, and derivatives are recorded at fair value on a recurring basis.

The following tables present financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2009 and 2008, respectively:

June 30, 2009	Level 1	Level 2	Level 3	Fair Value
	<i>(In millions)</i>			
Trading account assets, net	\$ 229	\$ 429	\$ 133	\$ 791
Securities available for sale	376	19,232	73	19,681
Mortgage loans held for sale		1,373		1,373
Mortgage servicing rights			202	202
Derivatives, net(1)		783	7	790

- (1) Derivatives include approximately \$1.1 billion related to legally enforceable master netting agreements that allow the Company to settle positive and negative positions. Derivative assets and liabilities are also presented excluding cash collateral received of \$116 million and cash collateral posted of \$309 million with counterparties.

June 30, 2008	Level 1	Level 2	Level 3	Fair Value
	<i>(In millions)</i>			
Trading account assets, net	\$ (116)	\$ 495	\$ 370	\$ 749
Securities available for sale	3,089	14,531	105	17,725
Mortgage loans held for sale		622		622
Derivatives, net(1)		424	12	436

- (1) Derivatives include approximately \$1.0 billion related to legally enforceable master netting agreements that allow the Company to settle positive and negative positions. Derivative assets and liabilities are also presented excluding cash collateral received of \$136 million and cash collateral posted of \$61 million with counterparties.

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, net trading account assets and net 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.