REGIONS FINANCIAL CORP
Form 10-K
February 25, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2008

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 000-50831

REGIONS FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**63-0589368**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1900 Fifth Avenue North, Birmingham, Alabama 35203

(Address of principal executive offices)

Registrant s telephone number, including area code: (205) 944-1300

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.01 par value	New York Stock Exchange
8.875% Trust Preferred Securities of Regions Financing Trust III	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ

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 þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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.

Large accelerated filer þ	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 Act). Yes ¨ No þ

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant s most recently completed second fiscal quarter.

Common Stock, $.01 par value $7,294,300,055 as of June 30, 2008.

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date.

Common Stock, $.01 par value 694,631,959 shares issued and outstanding as of February 17, 2009

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the Annual Meeting to be held on April 16, 2009 are incorporated by reference into Part III.

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PART I

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

Regions ability to keep pace with technological changes.

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

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

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

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

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

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

The words believe, expect, anticipate, project and similar expressions often signify forward-looking statements. You should not place 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 Annual Report on Form 10-K.

Item 1. ***Business***

Regions Financial Corporation (together with its subsidiaries on a consolidated basis, Regions or Company) is a financial holding company headquartered in Birmingham, Alabama, which operates throughout the South, Midwest and Texas. Regions provides traditional commercial, retail and mortgage banking services, as well as other financial services in the fields of investment banking, asset management, trust, mutual funds, securities brokerage, insurance and other specialty financing. At December 31, 2008, Regions had total consolidated assets of approximately $146.2 billion, total consolidated deposits of approximately $90.9 billion and total consolidated stockholders equity of approximately $16.8 billion.

Regions is a Delaware corporation that, on July 1, 2004, became the successor by merger to Union Planters Corporation and the former Regions Financial Corporation. Its principal executive offices are located at 1900 Fifth Avenue North, Birmingham, Alabama 35203, and its telephone number at that address is (205) 944-1300.

Banking Operations

Regions conducts its banking operations through Regions Bank, an Alabama chartered commercial bank that is a member of the Federal Reserve System. At December 31, 2008, Regions operated approximately 2,300 ATMs and 1,900 banking offices in Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, South Carolina, Tennessee, Texas and Virginia.

The following chart reflects the distribution of branch locations in each of the states in which Regions conducts its banking operations.

	Branches
Alabama	251
Arkansas	114
Florida	420
Georgia	155
Illinois	72
Indiana	66
Iowa	18
Kentucky	19
Louisiana	129
Mississippi	155
Missouri	68
North Carolina	9
South Carolina	37

Tennessee	300
Texas	84
Virginia	3
Totals	1,900

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Other Financial Services Operations

In addition to its banking operations, Regions provides additional financial services through the following subsidiaries:

Morgan Keegan & Company, Inc. (Morgan Keegan), a subsidiary of Regions Financial Corporation, is a full-service regional brokerage and investment banking firm. Morgan Keegan offers products and services including securities brokerage, asset management, financial planning, mutual funds, securities underwriting, sales and trading, and investment banking. Morgan Keegan also manages the delivery of trust services, which are provided pursuant to the trust powers of Regions Bank. Morgan Keegan, one of the largest investment firms in the South, employs over 1,200 financial advisors offering products and services from over 300 offices located in Alabama, Arkansas, Florida, Georgia, Illinois, Kentucky, Louisiana, Massachusetts, Mississippi, New York, North Carolina, South Carolina, Tennessee, Texas and Virginia.

Regions Insurance Group, Inc., a subsidiary of Regions Financial Corporation, is an insurance broker that offers insurance products through its subsidiaries Regions Insurance, Inc. (formerly Rebsamen Insurance, Inc.), headquartered in Little Rock, Arkansas, and Regions Insurance Services, Inc., headquartered in Memphis, Tennessee. Through its insurance brokerage operations in Alabama, Arkansas, Indiana, Louisiana, Missouri, Mississippi, Tennessee and Texas, Regions Insurance, Inc. offers insurance coverage for various lines of personal and commercial insurance, such as property, casualty, life, health and accident insurance. Regions Insurance Services, Inc. offers credit-related insurance products, such as title, term life, credit life, environmental, crop and mortgage insurance, as well as debt cancellation products to customers of Regions. With $117.1 million in annual revenues and 27 offices in eight states, Regions Insurance Group, Inc. is one of the largest insurance brokers in the United States.

Regions has several subsidiaries and affiliates which are agents or reinsurers of credit life insurance products relating to the activities of certain affiliates of Regions.

Regions Equipment Finance Corporation, a subsidiary of Regions Bank, provides domestic and international equipment financing products, focusing on commercial clients.

Acquisition Program

A substantial portion of the growth of Regions from its inception as a bank holding company in 1971 has been through the acquisition of other financial institutions, including commercial banks and thrift institutions, and the assets and deposits of those financial institutions. As part of its ongoing strategic plan, Regions continually evaluates business combination opportunities. Any future business combination or series of business combinations that Regions might undertake may be material, in terms of assets acquired or liabilities assumed, to Regions financial condition. Historically, business combinations in the financial services industry have typically involved the payment of a premium over book and market values. This practice could result in dilution of book value and net income per share for the acquirer.

Segment Information

Reference is made to Note 24 Business Segment Information to the consolidated financial statements included under Item 8. of this Annual Report on Form 10-K for information required by this item.

Supervision and Regulation

Regions and its subsidiaries are subject to the extensive regulatory framework applicable to bank holding companies and their subsidiaries. Regulation of financial institutions such as Regions and its subsidiaries is intended primarily for the protection of depositors, the deposit insurance fund of the Federal Deposit Insurance

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Corporation (FDIC) and the banking system as a whole, and generally is not intended for the protection of stockholders or other investors. Described below are the material elements of selected laws and regulations applicable to Regions and its subsidiaries. The descriptions are not intended to be complete and are qualified in their entirety by reference to the full text of the statutes and regulations described. Changes in applicable law or regulation, and in their application by regulatory agencies, cannot be predicted, but they may have a material effect on the business and results of Regions and its subsidiaries.

General. Regions is a bank holding company, registered with the Board of Governors of the Federal Reserve System (the Federal Reserve) and a financial holding company under the Bank Holding Company Act of 1956, as amended (BHC Act). As such, Regions and its subsidiaries are subject to the supervision, examination and reporting requirements of the BHC Act and the regulations of the Federal Reserve.

Under the BHC Act, an eligible bank holding company may elect to be a financial holding company and thereafter may engage in a range of activities that are financial in nature and that are not permissible for bank holding companies that are not financial holding companies. A financial holding company may engage directly or through a subsidiary in the statutorily authorized activities of securities dealing, underwriting and market making, insurance underwriting and agency activities, merchant banking and insurance company portfolio investments. A financial holding company also may engage in any activity that the Federal Reserve determines by rule or order to be financial in nature, incidental to such financial activity, or complementary to a financial activity and that does not pose a substantial risk to the safety and soundness of an institution or to the financial system generally.

In addition to these activities, a financial holding company may engage in those activities permissible for a bank holding company that has not elected to be treated as a financial holding company, including factoring accounts receivable, acquiring and servicing loans, leasing personal property, performing certain data processing services, acting as agent or broker in selling credit life insurance and certain other types of insurance in connection with credit transactions and conducting certain insurance underwriting activities. The BHC Act does not place territorial limitations on permissible non-banking activities of bank holding companies. The Federal Reserve has the power to order any bank holding company or its subsidiaries to terminate any activity or to terminate its ownership or control of any subsidiary when the Federal Reserve has reasonable grounds to believe that continuation of such activity or such ownership or control constitutes a serious risk to the financial soundness, safety or stability of any bank subsidiary of the bank holding company.

The BHC Act provides generally for umbrella regulation of financial holding companies by the Federal Reserve, and for functional regulation of banking activities by bank regulators, securities activities by securities regulators, and insurance activities by insurance regulators.

For a bank holding company to be eligible for financial holding company status, all of its subsidiary insured depository institutions must be well capitalized and well managed. A bank holding company may become a financial holding company by filing a declaration with the Federal Reserve that it elects to become a financial holding company. The Federal Reserve must deny expanded authority to any bank holding company with a subsidiary insured depository institution that received less than a satisfactory rating on its most recent Community Reinvestment Act of 1977 (the CRA) review as of the time it submits its declaration. If, after becoming a financial holding company and undertaking activities not permissible for a bank holding company that is not a financial holding company, the company fails to continue to meet any of the prerequisites for financial holding company status, the company must enter into an agreement with the Federal Reserve to comply with all applicable capital and management requirements. If the company does not return to compliance within 180 days, the Federal Reserve may order the company to divest its subsidiary banks or the company may discontinue or divest investments in companies engaged in activities permissible only for a bank holding company that has elected to be treated as a financial holding company.

The BHC Act requires every bank holding company to obtain the prior approval of the Federal Reserve before: (1) it may acquire direct or indirect ownership or control of any voting shares of any bank or savings and loan association, if after such acquisition, the bank holding company will directly or indirectly own or control more than 5.0% of the voting shares of the institution; (2) it or any of its subsidiaries, other than a bank, may acquire all or substantially all of the assets of any bank or savings and loan association; or (3) it may merge or consolidate with any other bank holding company.

The BHC Act further provides that the Federal Reserve may not approve any transaction that would result in a monopoly or would be in furtherance of any combination or conspiracy to monopolize or attempt to monopolize the business of banking in any section of the United States, or the effect of which may be substantially to lessen competition or to tend to create a monopoly in any section of the country, or that in any other manner would be in restraint of trade, unless the anticompetitive effects of the proposed transaction are clearly outweighed by the public interest in meeting the convenience and needs of the community to be served. The Federal Reserve is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks concerned and the convenience and needs of the community to be served. Consideration of financial resources generally focuses on capital adequacy, and consideration of convenience and needs issues includes the parties performance under the CRA, both of which are discussed below. In addition, the Federal Reserve must take into account the institutions effectiveness in combating money laundering.

Regions Bank is a member of the FDIC, and, as such, its deposits are insured by the FDIC to the extent provided by law. It is also subject to numerous statutes and regulations that affect its business activities and operations, and is supervised and examined by one or more state or federal bank regulatory agencies. See FDIC Temporary Liquidity Guarantee Program below.

Regions Bank is a state bank, chartered in Alabama and is a member of the Federal Reserve System. Regions Bank is generally subject to supervision and examination by both the Federal Reserve and the Alabama Department of Banking. The Federal Reserve and the Alabama Department of Banking regularly examine the operations of Regions Bank and are given authority to approve or disapprove mergers, consolidations, the establishment of branches and similar corporate actions. The federal and state banking regulators also have the power to prevent the continuance or development of unsafe or unsound banking practices or other violations of law. Various consumer laws and regulations also affect the operations of Regions Bank. In addition, commercial banks are affected significantly by the actions of the Federal Reserve as it attempts to control money and credit availability in order to influence the economy.

Community Reinvestment Act. Regions Bank is subject to the provisions of the CRA. Under the terms of the CRA, Regions Bank has a continuing and affirmative obligation consistent with safe and sound operation to help meet the credit needs of its communities, including providing credit to individuals residing in low- and moderate-income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution s discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires each appropriate federal bank regulatory agency, in connection with its examination of a depository institution, to assess such institution s record in assessing and meeting the credit needs of the community served by that institution, including low- and moderate-income neighborhoods. The regulatory agency s assessment of the institution s record is made available to the public. The assessment also is part of the Federal Reserve s consideration of applications to acquire, merge or consolidate with another banking institution or its holding company, to establish a new branch office that will accept deposits or to relocate an office. In the case of a bank holding company applying for approval to acquire a bank or other bank holding company, the Federal Reserve will assess the records of each subsidiary depository institution of the applicant bank holding company, and such records may be the basis for denying the application. Regions Bank received a satisfactory CRA rating in its most recent examination.

USA PATRIOT Act. A major focus of governmental policy relating to financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The USA PATRIOT Act of 2001 (the USA PATRIOT Act) broadened the application of anti-money laundering regulations to apply to additional types of financial institutions such as broker-dealers, investment advisors and insurance companies, and strengthened the ability of the U.S. Government to help prevent, detect and prosecute international money laundering and the financing of terrorism. The principal provisions of Title III of the USA PATRIOT Act require that regulated financial institutions, including state member banks: (i) establish an anti-money laundering program that includes training and audit components; (ii) comply with regulations regarding the verification of identity of any person seeking to open an account; (iii) take additional required precautions with non-U.S. owned accounts; and (iv) perform certain verification and certification of money laundering risk for their foreign correspondent banking relationships. Failure of a financial institution to comply with the USA PATRIOT Act s requirements could have serious legal and reputational consequences for the institution. Regions banking, broker-dealer and insurance subsidiaries have augmented their systems and procedures to meet the requirements of these regulations and will continue to revise and update their policies, procedures and controls to reflect changes required by the USA PATRIOT Act and implementing regulations.

U.S. Treasury Capital Purchase Program. Pursuant to the U.S. Department of the Treasury s (the U.S. Treasury) Capital Purchase Program (the CPP), on November 14, 2008, Regions issued and sold to the U.S. Treasury in an offering exempt from registration under Section 4(2) of the Securities Act of 1933, (i) 3.5 million shares of Regions Fixed Rate Cumulative Perpetual Preferred Stock, Series A, par value $1.00 and liquidation preference $1,000 per share ($3.5 billion aggregate liquidation preference) (the Series A Preferred Stock) and (ii) a warrant (the Warrant) to purchase 48,253,677 shares of Regions common stock, at an exercise price of $10.88 per share, subject to certain anti-dilution and other adjustments for an aggregate purchase price of $3.5 billion in cash. The securities purchase agreement, dated November 14, 2008, pursuant to which the securities issued to the U.S. Treasury under the CPP were sold, limits the payment of dividends on Regions common stock to the current quarterly dividend of $0.10 per share without prior approval of the U.S. Treasury, limits Regions ability to repurchase shares of its common stock (with certain exceptions, including the repurchase of our common stock to offset share dilution from equity-based compensation awards), grants the holders of the Series A Preferred Stock, the Warrant and the common stock of Regions to be issued under the Warrant certain registration rights, and subjects Regions to certain of the executive compensation limitations included in the Emergency Economic Stabilization Act of 2008.

FDIC Temporary Liquidity Guarantee Program. Regions and Regions Bank have chosen to participate in the FDIC s Temporary Liquidity Guarantee Program (the TLGP), which applies to, among others, all U.S. depository institutions insured by the FDIC and all United States bank holding companies, unless they have opted out. Under the TLGP, the FDIC guarantees certain senior unsecured debt of Regions and Regions Bank, as well as non-interest bearing transaction account deposits at Regions Bank. Under the transaction account guarantee component of the TLGP, all non-interest bearing transaction accounts maintained at Regions Bank are insured in full by the FDIC until December 31, 2009, regardless of the standard maximum deposit insurance amounts. Under the debt guarantee component of the TLGP, the FDIC will pay the unpaid principal and interest on an FDIC-guaranteed debt instrument upon the uncured failure of the participating entity to make a timely payment of principal or interest. On December 11, 2008, Regions Bank issued and sold $3.5 billion aggregate principal amount of its senior bank notes guaranteed under the TLGP. Regions Bank issued and sold an additional $250 million aggregate principal amount of guaranteed senior bank notes on December 16, 2008. Neither Regions nor Regions Bank is permitted to use the proceeds from the sale of securities guaranteed under the TLGP to prepay any of its other debt that is not guaranteed by the FDIC.

Comprehensive Financial Stability Plan of 2009. On February 10, 2009, Treasury Secretary Timothy Geithner announced a new comprehensive financial stability plan (the Financial Stability Plan), which builds upon existing programs and earmarks the second $350 billion of unused funds originally authorized under the Emergency Economic Stabilization Act of 2008.

The major elements of the Financial Stability Plan include: (i) a capital assistance program that will invest in convertible preferred stock of certain qualifying institutions, (ii) a consumer and business lending initiative to fund new consumer loans, small business loans and commercial mortgage asset-backed securities issuances,

(iii) a new public-private investment fund that will leverage public and private capital with public financing to purchase up to $500 billion to $1 trillion of legacy toxic assets from financial institutions, and (iv) assistance for homeowners by providing up to $75 billion to reduce mortgage payments and interest rates and establishing loan modification guidelines for government and private programs. In addition, all banking institutions with assets over $100 billion, such as Regions, will be required to undergo a comprehensive stress test to determine if they have sufficient capital to continue lending and to absorb losses that could result from a more severe decline in the economy than projected.

Institutions receiving assistance under the Financial Stability Plan going forward will be subject to higher transparency and accountability standards, including restrictions on dividends, acquisitions and executive compensation and additional disclosure requirements. Regions cannot predict at this time the effect that the Financial Stability Plan may have on it or its business, financial condition or results of operations.

Payment of Dividends. Regions is a legal entity separate and distinct from its banking and other subsidiaries. The principal source of cash flow of Regions, including cash flow to pay dividends to its stockholders and principal and interest on any debt of Regions, is dividends from Regions Bank. There are statutory and regulatory limitations on the payment of dividends by Regions Bank to Regions, as well as by Regions to its stockholders.

As to the payment of dividends, Regions Bank is subject to the laws and regulations of the state of Alabama and to the regulations of the Federal Reserve. The payment of dividends by Regions and Regions Bank may also be affected or limited by other factors, such as the requirement to maintain adequate capital above regulatory guidelines.

If, in the opinion of a federal regulatory agency, an institution under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which, depending on the financial condition of the institution, could include the payment of dividends), such agency may require, after notice and hearing, that such institution cease and desist from such practice. The federal banking agencies have indicated that paying dividends that deplete an institution s capital base to an inadequate level would be an unsafe and unsound banking practice. Under the Federal Deposit Insurance Act (FDIA), an insured institution may not pay any dividend if payment would cause it to become undercapitalized or if it already is undercapitalized. See Regulatory Remedies under the FDIA below. Moreover, the Federal Reserve and the FDIC have issued policy statements stating that bank holding companies and insured banks should generally pay dividends only out of current operating earnings.

Under the Federal Reserve s Regulation H, Regions Bank may not, without the approval of the Federal Reserve, declare or pay a dividend to Regions if the total of all dividends declared in a calendar year exceeds the total of (a) Regions Bank s net income for that year and (b) its retained net income for the preceding two calendar years, less any required transfers to additional paid-in capital or to a fund for the retirement of preferred stock. As a result of our $5.6 billion loss in 2008, Regions Bank cannot, without approval from the Federal Reserve, declare or pay a dividend to Regions until such time as Regions Bank is able to satisfy the criteria discussed in the preceding sentence. Given the loss in 2008, Regions Bank does not expect to be able to pay dividends to Regions in the near term without obtaining regulatory approval. Under Alabama law, a bank may not pay a dividend in excess of 90 percent of its net earnings until the bank s surplus is equal to at least 20 percent of capital. Regions Bank is also required by Alabama law to obtain approval of the Superintendent of Banking prior to the payment of dividends if the total of all dividends declared by Regions Bank in any calendar year will exceed the total of (a) Regions Bank s net earnings (as defined by statute) for that year, plus (b) its retained net earnings for the preceding two years, less any required transfers to surplus. Also, no dividends may be paid from Regions Bank s surplus without the prior written approval of the Superintendent of Banking.

However, the ability of Regions to pay dividends to its stockholders is not totally dependent on the receipt of dividends from Regions Bank, as Regions has other cash available to make such payment. As of December 31, 2008, Regions had $4.8 billion of cash and cash equivalents, which is available for corporate purposes, including debt service and to pay dividends to its stockholders. This is compared to an anticipated common dividend requirement, assuming current dividend payment levels, of approximately $277 million and preferred cash dividends of approximately $175 million for the full year 2009. Expected debt maturities in 2009 are approximately $425 million.

Although Regions currently has capacity to make common dividend payments in 2009, the payment of dividends by Regions and the dividend rate are subject to management review and approval by Regions Board of Directors on a quarterly basis. Preferred dividends are to be paid in accordance with the terms of the CPP. See Item 1A. Risk Factors of this Annual Report on Form 10-K for additional information.

In the current financial and economic environment, the Federal Reserve has indicated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

Prior to November 14, 2011, unless Regions has redeemed all of the Series A Preferred Stock issued to the U.S. Treasury on November 14, 2008 or unless the U.S. Treasury has transferred all the preferred securities to a third party, the consent of the U.S. Treasury will be required for Regions to declare or pay any dividend or make any distribution on common stock other than (i) regular quarterly cash dividends of not more than the current level of $0.10 per share, as adjusted for any stock split, stock dividend, reverse stock split, reclassification or similar transaction, (ii) dividends payable solely in shares of common stock and (iii) dividends or distributions of rights or junior stock in connection with a stockholders rights plan.

Capital Adequacy. Regions and Regions Bank are required to comply with the applicable capital adequacy standards established by the Federal Reserve. There are two basic measures of capital adequacy for bank holding companies that have been promulgated by the Federal Reserve: a risk-based measure and a leverage measure.

The risk-based capital standards are designed to make regulatory capital requirements more sensitive to differences in credit and market risk profiles among banks and financial holding companies, to account for off-balance sheet exposure, and to minimize disincentives for holding liquid assets. Assets and off-balance sheet items are assigned to broad risk categories, each with appropriate weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items.

The minimum guideline for the ratio of total capital (Total Capital) to risk-weighted assets (including certain off-balance sheet items, such as standby letters of credit) is 8.0%. At least half of the Total Capital must be composed of qualifying common equity, qualifying noncumulative perpetual preferred stock, including related surplus, and senior perpetual preferred stock issued to the U.S. Treasury under the CPP, minority interests relating to qualifying common or noncumulative perpetual preferred stock issued by a consolidated U.S. depository institution or foreign bank subsidiary, and certain restricted core capital elements , as discussed below, less goodwill and certain other intangible assets (Tier 1 Capital).

Tier 2 Capital may consist of, among other things, qualifying subordinated debt, mandatorily convertible debt securities, other preferred stock and trust preferred securities and a limited amount of the allowance for loan losses. Non-cumulative perpetual preferred stock, trust preferred securities and other so-called restricted core capital elements are currently limited to 25% of Tier 1 Capital. The minimum guideline for Tier 1 Capital is 4.0%. At December 31, 2008, Regions consolidated Tier 1 Capital ratio was 10.38% and its Total Capital ratio was 14.64%.

In addition, the Federal Reserve has established minimum leverage ratio guidelines for bank holding companies. These guidelines provide for a minimum ratio of Tier 1 Capital to average total assets, less goodwill and certain other intangible assets (the Leverage Ratio), of 3.0% for bank holding companies that meet certain specified criteria, including having the highest regulatory rating. All other bank holding companies generally are required to maintain a Leverage Ratio of at least 4%. Regions Leverage Ratio at December 31, 2008 was 8.47%.

The guidelines also provide that bank holding companies experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Furthermore, the Federal Reserve has indicated that it will consider a tangible Tier 1 Capital leverage ratio (deducting all intangibles) and other indicators of capital strength in evaluating proposals for expansion or new activities.

A subsidiary bank is subject to substantially similar risk-based and leverage capital requirements as those applicable to Regions. Regions Bank was in compliance with applicable minimum capital requirements as of December 31, 2008. Neither Regions nor Regions Bank has been advised by any federal banking agency of any specific minimum capital ratio requirement applicable to it as of December 31, 2008.

In 2004, the Basel Committee on Banking Supervision published a new set of risk-based capital standards (Basel II) in order to update the original international capital standards that had been put in place in 1988 (Basel I). Basel II provides two approaches for setting capital standards for credit risk an internal ratings-based approach tailored to individual institutions circumstances and a standardized approach that bases risk-weighting on external credit assessments to a much greater extent than permitted in the existing risk-based capital guidelines. Basel II also would set capital requirements for operational risk and refine the existing capital requirements for market risk exposures. The U.S. banking and thrift agencies are developing proposed revisions to their existing capital adequacy regulations and standards based on Basel II. A definitive final rule for implementing the advanced approaches of Basel II in the United States, which applies only to internationally active banking organizations, or core banks (defined as those with consolidated total assets of $250 billion or more or consolidated on-balance sheet foreign exposures of $10 billion or more) became effective on April 1, 2008. Other U.S. banking organizations may elect to adopt the requirements of this rule (if they meet applicable qualification requirements), but are not required to comply. The rule also allows a banking organization s primary Federal supervisor to determine that application of the rule would not be appropriate in light of the bank s asset size, level of complexity, risk profile or scope of operations. Regions Bank is currently not required to comply with Basel II.

In July 2008**,** the agencies issued a proposed rule that would provide banking organizations that do not use the advanced approaches with the option to implement a new risk-based capital framework. This framework would adopt the standardized approach of Basel II for credit risk, the basic indicator approach of Basel II for operational risk, and related disclosure requirements. While this proposed rule generally parallels the relevant approaches under Basel II, it diverges where United States markets have unique characteristics and risk profiles, most notably with respect to risk weighting residential mortgage exposures. Comments on the proposed rule were due to the agencies by October 27, 2008, but a definitive final rule had not been issued as of December 31, 2008. The proposed rule, if adopted, will replace the agencies earlier proposed amendments to existing risk-based capital guidelines to make them more risk sensitive (formerly referred to as the Basel I-A approach)

Failure to meet capital guidelines could subject a bank to a variety of enforcement remedies, including the termination of deposit insurance by the FDIC, and to certain restrictions on its business. See Regulatory Remedies under the FDIA below.

Support of Subsidiary Banks. Under Federal Reserve policy, Regions is expected to act as a source of financial strength to, and to commit resources to support, its subsidiary bank. This support may be required at times when, absent such Federal Reserve policy, Regions may not be inclined to provide it. In addition, any capital loans by a bank holding company to its subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a bank holding company s bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

Cross-Guarantee Provisions. Each insured depository institution controlled (as defined in the BHC Act) by the same bank holding company can be held liable to the FDIC for any loss incurred, or reasonably expected to be incurred, by the FDIC due to the default of any other insured depository institution controlled by that holding company and for any assistance provided by the FDIC to any of those banks that is in danger of default. Such a cross-guarantee claim against a depository institution is generally superior in right of payment to claims of the holding company and its affiliates against that depository institution. At this time, Regions Bank is the only insured depository institution controlled by Regions for this purpose. If in the future, however, Regions were to control other insured depository institutions, such cross-guarantee would apply to all such insured depository institutions.

Transactions with Affiliates. There are various legal restrictions on the extent to which Regions and its non-bank subsidiaries may borrow or otherwise obtain funding from Regions Bank. Under Sections 23A and 23B of the Federal Reserve Act and the Federal Reserve s Regulation W, Regions Bank (and its subsidiaries) may only engage in lending and other covered transactions with non-bank and non-savings bank affiliates to the following extent: (a) in the case of any single such affiliate, the aggregate amount of covered transactions of Regions Bank and its subsidiaries may not exceed 10% of the capital stock and surplus of Regions Bank; and (b) in the case of all affiliates, the aggregate amount of covered transactions of Regions Bank and its subsidiaries may not exceed 20% of the capital stock and surplus of Regions Bank. Covered transactions also are subject to certain collateralization requirements. Covered transactions are defined by statute to include a loan or extension of credit, as well as a purchase of securities issued by an affiliate, a purchase of assets (unless otherwise exempted by the Federal Reserve) from the affiliate, the acceptance of securities issued by the affiliate as collateral for a loan, and the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate. All covered transactions, including certain additional transactions, (such as transactions with a third party in which an affiliate has a financial interest) must be conducted on market terms.

Regulatory Remedies under the FDIA. The FDIA establishes a system of regulatory remedies to resolve the problems of undercapitalized institutions. The federal banking regulators have established five capital categories (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized) and must take certain mandatory supervisory actions, and are authorized to take other discretionary actions, with respect to institutions in the three undercapitalized categories, the severity of which will depend upon the capital category in which the institution is placed. Generally, subject to a narrow exception, the FDIA requires the banking regulator to appoint a receiver or conservator for an institution that is critically undercapitalized. The federal banking agencies have specified by regulation the relevant capital level for each category.

Under the agencies rules implementing the FDIA s remedy provisions, an institution that (1) has a Total Capital ratio of 10.0% or greater, a Tier 1 Capital ratio of 6.0% or greater, and a Leverage Ratio of 5.0% or greater and (2) is not subject to any written agreement, order, capital directive or regulatory remedy directive issued by the appropriate federal banking agency is deemed to be well capitalized. An institution with a Total Capital ratio of 8.0% or greater, a Tier 1 Capital ratio of 4.0% or greater, and a Leverage Ratio of 4.0% or greater is considered to be adequately capitalized. A depository institution that has a Total Capital ratio of less than 8.0%, a Tier 1 Capital ratio of less than 4.0%, or a Leverage Ratio of less than 4.0% is considered to be undercapitalized. An institution that has a Total Capital ratio of less than 6.0%, a Tier 1 Capital ratio of less than 3.0%, or a Leverage Ratio of less than 3.0% is considered to be significantly undercapitalized, and an institution that has a tangible equity capital to assets ratio equal to or less than 2.0% is deemed to be critically undercapitalized. For purposes of the regulation, the term tangible equity includes core capital elements counted as Tier 1 Capital for purposes of the risk-based capital standards plus the amount of outstanding cumulative perpetual preferred stock (including related surplus), minus all intangible assets with certain exceptions. A depository institution may be deemed to be in a capitalization category that is lower than is indicated by its actual capital position if it receives an unsatisfactory examination rating.

An institution that is categorized as undercapitalized, significantly undercapitalized or critically undercapitalized is required to submit an acceptable capital restoration plan to its appropriate federal banking agency. Under the FDIA, in order for the capital restoration plan to be accepted by the appropriate federal banking agency, a bank holding company must guarantee that a subsidiary depository institution will comply with its capital restoration plan, subject to certain limitations. The bank holding company must also provide appropriate assurances of performance. The obligation of a controlling bank holding company under the FDIA to fund a capital restoration plan is limited to the lesser of 5.0% of an undercapitalized subsidiary s assets or the amount required to meet regulatory capital requirements. An undercapitalized institution is also generally prohibited from increasing its average total assets, making acquisitions, establishing any branches or engaging in any new line of business, except in accordance with an accepted capital restoration plan or with the approval of the FDIC. In addition, the appropriate federal banking agency is given authority with respect to any undercapitalized depository institution to take any of the actions it is required to or may take with respect to a significantly undercapitalized institution as described below if it determines that those actions are necessary to carry out the purpose of the FDIA.

Institutions that are significantly undercapitalized or undercapitalized and either fail to submit an acceptable capital restoration plan or fail to implement an approved capital restoration plan may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets and cessation of receipt of deposits from correspondent banks. Critically undercapitalized depository institutions are subject to appointment of a receiver or conservator.

At December 31, 2008, Regions Bank had the requisite capital levels to qualify as well capitalized.

FDIC Insurance Assessments. Regions Bank pays deposit insurance premiums to the FDIC based on an assessment rate established by the FDIC. In 2006, the FDIC enacted various rules to implement the provisions of the Federal Deposit Insurance Reform Act of 2005 (the FDI Reform Act). Pursuant to the FDI Reform Act, in 2006 the FDIC merged the Bank Insurance Fund with the Savings Association Insurance Fund to create a newly named Deposit Insurance Fund (the DIF) that covers both banks and savings associations. Effective January 1, 2007, the FDIC revised the risk-based premium system under which the FDIC classifies institutions based on the factors described below and generally assesses higher rates on those institutions that tend to pose greater risks to the DIF.

For most banks and savings associations, including Regions Bank, FDIC rates will depend upon a combination of CAMELS component ratings and financial ratios. CAMELS ratings reflect the applicable bank regulatory agency s evaluation of the financial institution s capital, asset quality, management, earnings, liquidity and sensitivity to risk. For large banks and savings associations that have long-term debt issuer ratings, assessment rates will depend upon such ratings and CAMELS component ratings. Initially, assessment rates for institutions such as Regions Bank, which are in the lowest risk category, generally varied from five to seven basis points per $100 of insured deposits. On December 16, 2008, however, the FDIC adopted a final rule, effective as of January 1, 2009, increasing risk-based assessment rates uniformly by seven basis points (on an annual basis) for the first quarter of 2009. In October 2008, the FDIC also proposed changes to take effect beginning in the second quarter of 2009 that would require riskier institutions to pay a larger share. The comment period for these proposed changes expired on December 17, 2008, and the FDIC has announced its intention to discuss the proposed rule in early 2009.

The FDIA, as amended by the FDI Reform Act, requires the FDIC to set a ratio of deposit insurance reserves to estimated insured deposits, the designated reserve ratio (the DRR), for a particular year within a range of 1.15% to 1.50%. For 2009, the FDIC has set the DRR at 1.25%, which is unchanged from 2008 levels. Under the FDI Reform Act and the FDIC s revised premium assessment program, every FDIC-insured institution will pay some level of deposit insurance assessments regardless of the level of the DRR. We cannot predict whether, as a result of an adverse change in economic conditions or other reasons, the FDIC will be required in the future to increase deposit insurance assessments above current levels. The FDIC also adopted rules providing for a one-time credit assessment to each eligible insured depository institution based on the assessment base of the institution on December 31, 1996. The credit may be applied against the institution s 2007 assessment, and for the three years thereafter the institution may apply the credit against up to 90% of its assessment. Regions

Bank qualified for a credit of approximately $110 million, of which $34 million was applied in 2007, $41 million in 2008, and the remaining balance of $35 million will be applied in 2009, thereby exhausting the credit. For more information, see the Bank Regulatory Capital Requirements section of Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation of this Annual Report on Form 10-K.

In addition, the Deposit Insurance Funds Act of 1996 authorized the Financing Corporation (FICO) to impose assessments on DIF applicable deposits in order to service the interest on FICO s bond obligations from deposit insurance fund assessments. The amount assessed on individual institutions by FICO will be in addition to the amount, if any, paid for deposit insurance according to the FDIC s risk-related assessment rate schedules. FICO assessment rates may be adjusted quarterly to reflect a change in assessment base. The FICO annual assessment rate for the fourth quarter of 2008 was 1.10 cents per $100 deposits and will rise to 1.14 cents per $100 deposits for the first quarter of 2009. Regions Bank had a FICO assessment of $10.0 million in FDIC deposit premiums in 2008.

Under the FDIA, insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Safety and Soundness Standards. The FDIA requires the federal bank regulatory agencies to prescribe standards, by regulations or guidelines, relating to internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, stock valuation and compensation, fees and benefits, and such other operational and managerial standards as the agencies deem appropriate. Guidelines adopted by the federal bank regulatory agencies establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal stockholder. In addition, the agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the prompt corrective action provisions of FDIA. See Regulatory Remedies under the FDIA above. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Depositor Preference. The Omnibus Budget Reconciliation Act of 1993 provides that deposits and certain claims for administrative expenses and employee compensation against an insured depository institution would be afforded a priority over other general unsecured claims against such an institution in the liquidation or other resolution of such an institution by any receiver.

Regulation of Morgan Keegan. As a registered investment adviser and broker-dealer, Morgan Keegan is subject to regulation and examination by the Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA), the New York Stock Exchange (NYSE) and other self-regulatory organizations (SROs), which may affect its manner of operation and profitability. Such regulations cover a broad range of subject matter. Rules and regulations for registered broker-dealers cover such issues as: capital requirements; sales and trading practices; use of client funds and securities; the conduct of directors, officers and employees; record-keeping and recording; supervisory procedures to prevent improper trading on material non-public information; qualification and licensing of sales personnel; and limitations on the extension of credit in securities transactions. Rules and regulations for registered investment advisers include limitations on the ability of investment advisers to charge performance-based or non-refundable fees to clients, record-keeping and reporting requirements, disclosure requirements, limitations on principal transactions between an adviser or its affiliates and advisory clients, and anti-fraud standards.

Morgan Keegan is subject to the net capital requirements set forth in Rule 15c3-1 of the Securities Exchange Act of 1934. The net capital requirements measure the general financial condition and liquidity of a broker-dealer by specifying a minimum level of net capital that a broker-dealer must maintain, and by requiring that a significant portion of its assets be kept liquid. If Morgan Keegan failed to maintain its minimum required net capital, it would be required to cease executing customer transactions until it came back into compliance. This could also result in Morgan Keegan losing its FINRA membership, its registration with the SEC or require a complete liquidation.

The SEC s risk assessment rules also apply to Morgan Keegan as a registered broker-dealer. These rules require broker-dealers to maintain and preserve records and certain information, describe risk management policies and procedures, and report on the financial condition of affiliates whose financial and securities activities are reasonably likely to have a material impact on the financial and operational condition of the broker-dealer. Certain material associated persons of Morgan Keegan, as defined in the risk assessment rules, may also be subject to SEC regulation.

In addition to federal registration, state securities commissions require the registration of certain broker-dealers and investment advisers. Morgan Keegan is registered as a broker-dealer with every state, the District of Columbia, and Puerto Rico. Morgan Keegan is registered as an investment adviser in over 40 states and the District of Columbia.

Violations of federal, state and SRO rules or regulations may result in the revocation of broker-dealer or investment adviser licenses, imposition of censures or fines, the issuance of cease and desist orders, and the suspension or expulsion of officers and employees from the securities business firm. In addition, Morgan Keegan s business may be materially affected by new rules and regulations issued by the SEC or SROs as well as any changes in the enforcement of existing laws and rules that affect its securities business.

Regulation of Insurers and Insurance Brokers. Regions operations in the areas of insurance brokerage and reinsurance of credit life insurance are subject to regulation and supervision by various state insurance regulatory authorities. Although the scope of regulation and form of supervision may vary from state to state, insurance laws generally grant broad discretion to regulatory authorities in adopting regulations and supervising regulated activities. This supervision generally includes the licensing of insurance brokers and agents and the regulation of the handling of customer funds held in a fiduciary capacity. Certain of Regions insurance company subsidiaries are subject to extensive regulatory supervision and to insurance laws and regulations requiring, among other things, maintenance of capital, record keeping, reporting and examinations.

Financial Privacy. The federal banking regulators have adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to non-affiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a non-affiliated third party. These regulations affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. In addition, consumers may also prevent disclosure of certain information among affiliated companies that is assembled or used to determine eligibility for a product or service, such as that shown on consumer credit reports and asset and income information from applications. Beginning October 1, 2008, consumers also have the option to direct banks and other financial institutions not to share information about transactions and experiences with affiliated companies for the purpose of marketing products or services.

Office of Foreign Assets Control Regulation. The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These are typically known as the

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OFAC rules based on their administration by the U.S. Treasury Department Office of Foreign Assets Control (OFAC). The OFAC-administered sanctions targeting countries take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on U.S. persons engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences.

Other. The U.S. Congress and state lawmaking bodies continue to consider a number of wide-ranging proposals for altering the structure, regulation and competitive relationships of the nation s financial institutions. It cannot be predicted whether or in what form further legislation may be adopted or the extent to which Regions business may be affected thereby.

Competition

All aspects of Regions business are highly competitive. Regions subsidiaries compete with other financial institutions located in the states in which they operate and other adjoining states, as well as large banks in major financial centers and other financial intermediaries, such as savings and loan associations, credit unions, consumer finance companies, brokerage firms, insurance companies, investment companies, mutual funds, mortgage companies and financial service operations of major commercial and retail corporations. Regions expects competition to intensify among financial services companies due to the recent consolidation of certain competing financial institutions and the conversion of certain investment banks to bank holding companies.

Customers for banking services and other financial services offered by Regions subsidiaries are generally influenced by convenience, quality of service, personal contacts, price of services and availability of products. Although Regions position varies in different markets, Regions believes that its affiliates effectively compete with other financial services companies in their relevant market areas.

Employees

As of December 31, 2008, Regions and its subsidiaries had 30,784 employees.

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Available Information

Regions maintains a website at *www.regions.com*. Regions makes available on its website free of charge its annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to those reports which are filed with or furnished to the SEC pursuant to Section 13(a) of the Securities Exchange Act of 1934. These documents are made available on Regions website as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. Also available on the website are Regions (i) Corporate Governance Principles, (ii) Code of Business Conduct and Ethics, (iii) Code of Ethics for Senior Financial Officers and (iv) the charters of its Nominating and Corporate Governance Committee, Audit Committee, Compensation Committee and Risk Committee. You may also request a copy of any of these documents, at no cost, by writing or telephoning Regions at the following address:

ATTENTION: Investor Relations

Regions Financial Corporation

1900 Fifth Avenue North

Birmingham, Alabama 35203

(205) 581-7890

Item 1A. ***Risk Factors***

Making or continuing an investment in securities issued by Regions, including our common stock, involves certain risks that you should carefully consider. The risks and uncertainties described below are not the only risks that may have a material adverse effect on Regions. Additional risks and uncertainties also could adversely affect our businesses, financial condition and results of operations. If any of the following risks actually occur, our businesses, financial condition or results of operations could be negatively affected, the market price for your securities could decline, and you could lose all or a part of your investment. Further, to the extent that any of the information contained in this Annual Report on Form 10-K constitutes forward-looking statements, the risk factors set forth below also are cautionary statements identifying important factors that could cause Regions actual results to differ materially from those expressed in any forward-looking statements made by or on behalf of Regions.

Our businesses have been and may continue to be adversely affected by current conditions in the financial markets and economic conditions generally.

The capital and credit markets have been experiencing unprecedented levels of volatility and disruption for more than a year. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers underlying financial strength. As a consequence of the recession that the United States now finds itself in, business activity across a wide range of industries face serious difficulties due to the lack of consumer spending and the extreme lack of liquidity in the global credit markets. Unemployment has also increased significantly.

A sustained weakness or weakening in business and economic conditions generally or specifically in the principal markets in which we do business could have one or more of the following adverse effects on our businesses:

- A decrease in the demand for loans and other products and services offered by us;
- A decrease in the value of our loans held for sale or other assets secured by consumer or commercial real estate;
- An impairment of certain intangible assets, such as goodwill;

An increase in the number of clients and counterparties who become delinquent, file for protection under bankruptcy laws or default on their loans or other obligations to us. An increase in the number of delinquencies, bankruptcies or defaults could result in a higher level of nonperforming assets, net charge-offs, provision for loan losses, and valuation adjustments on loans held for sale.

Overall, during the past year, the general business environment has had an adverse effect on our business, and there can be no assurance that the environment will improve in the near term. Until conditions improve, we expect our businesses, financial condition and results of operations to be adversely affected.

Current market developments may adversely affect our industry, businesses and results of operations.

Dramatic declines in the housing market during the prior year, with falling home prices and increasing foreclosures and unemployment, have resulted in, and may continue to result in, significant write-downs of asset values by us and other financial institutions, including government-sponsored entities and major commercial and investment banks. These write-downs, initially of mortgage-backed securities but spreading to credit default swaps and other derivative securities, have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have reduced, and in some cases, ceased to provide funding to borrowers including financial institutions.

This market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally. The resulting lack of available credit, lack of confidence in the financial sector, increased volatility in the financial markets and reduced business activity could materially and adversely affect our business, financial condition and results of operations.

Further negative market developments may affect consumer confidence levels and may cause adverse changes in payment patterns, causing increases in delinquencies and default rates, which may impact our charge-offs and provisions for credit losses. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial services industry.

The soundness of other financial institutions could adversely affect us.

Since mid-2007, the financial services industry as a whole, as well as the securities markets generally, have been materially and adversely affected by very significant declines in the values of nearly all asset classes and by a very serious lack of liquidity. Financial institutions in particular have been subject to increased volatility and an overall loss in investor confidence.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services companies are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. As a result, defaults by, or even rumors or questions about, one or more financial services companies, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due us. There is no assurance that any such losses would not materially and adversely affect our businesses, financial condition or results of operations.

There can be no assurance that the Emergency Economic Stabilization Act of 2008 and other recently enacted government programs will help stabilize the U.S. financial system.

On October 3, 2008, President Bush signed into law the Emergency Economic Stabilization Act of 2008, as amended (the EESA). The legislation was the result of a proposal by Treasury Secretary Henry Paulson to the U.S. Congress on September 20, 2008 in response to the financial crises affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions. The U.S. Treasury and federal banking regulators are implementing a number of programs under this legislation and otherwise to address capital and liquidity issues in the banking system, including the CPP, in which Regions participated. In addition, other regulators have taken steps to attempt to stabilize and add liquidity to the financial markets, such as the FDIC s TLGP.

On February 10, 2009, Treasury Secretary Timothy Geithner announced the Financial Stability Plan, which earmarks the second $350 billion originally authorized under the EESA. The Financial Stability Plan is intended to, among other things, make capital available to financial institutions, purchase certain legacy loans and assets from financial institutions, restart securitization markets for loans to consumers and businesses and relieve certain pressures on the housing market, including the reduction of mortgage payments and interest rates.

In addition, the American Recovery and Reinvestment Act of 2009 (the ARRA), which was signed into law on February 17, 2009, includes, among other things, extensive new restrictions on the compensation arrangements of financial institutions participating in TARP.

There can be no assurance, however, as to the actual impact that the EESA, as supplemented by the Financial Stability Plan, the ARRA and other programs will have on the financial markets, including the extreme levels of volatility and limited credit availability currently being experienced. The failure of the EESA, the ARRA, the Financial Stability Plan and other programs to stabilize the financial markets and a continuation or worsening of current financial market conditions could materially and adversely affect our businesses, financial condition, results of operations, access to credit or the trading price of our common stock.

The EESA, ARRA and the Financial Stability Plan are relatively new initiatives and, as such, are subject to change and evolving interpretation. There can be no assurances as to the effects that any further changes will have on the effectiveness of the government s efforts to stabalize the credit markets or on our businesses, financial condition or results of operations.

The limitations on incentive compensation contained in the ARRA may adversely affect Regions ability to retain its highest performing employees.

In the case of a company such as Regions that received CPP funds, the ARRA contains restrictions on bonus and other incentive compensation payable to the five executives named in a company s proxy statement and the next twenty highest paid employees. Depending upon the limitations placed on incentive compensation by the final regulations issued under the ARRA, it is possible that Regions may be unable to create a compensation structure that permits Regions to retain its highest performing employees. If this were to occur, Regions businesses and results of operations could be adversely affected, perhaps materially.

We are subject to extensive governmental regulation, which could have an adverse impact on our operations.

The banking industry is extensively regulated and supervised under both federal and state law. We are subject to the regulation and supervision of the Federal Reserve, the FDIC and the Superintendent of Banking of the State of Alabama. These regulations are intended primarily to protect depositors, the public and the FDIC insurance fund, and not our shareholders. These regulations govern matters ranging from the regulation of certain debt obligations, changes in the control of bank holding companies and state-chartered banks, and the maintenance of adequate capital to the general business operations and financial condition of Regions Bank, including permissible types, amounts and terms of loans and investments, to the amount of reserves against deposits, restrictions on dividends, establishment of branch offices, and the maximum interest rate that may be charged by law. Additionally, certain subsidiaries of Regions and Regions Bank, such as Morgan Keegan, are subject to regulation, supervision and examination by other regulatory authorities, such as the SEC, FINRA and state securities and insurance regulators. We are subject to changes in federal and state law, as well as regulations and governmental policies, income tax laws and accounting principles. Regulations affecting banks and other

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financial institutions are undergoing continuous change, and the ultimate effect of such changes cannot be predicted. Regulations and laws may be modified at any time, and new legislation may be enacted that will affect us, Regions Bank and our subsidiaries.

Given the current disruption in the financial markets and regulatory initiatives that are likely to be proposed by the new administration and Congress, new regulations and laws that may affect us are increasingly likely. Compliance with such regulation may increase our costs and limit our ability to pursue business opportunities. Also, participation in specific programs may subject us to additional restrictions. We cannot assure you that such modifications or new laws will not adversely affect us. Our regulatory position is discussed in greater detail under Item 1. Business Supervision and Regulation of this Annual Report on Form 10-K.

In addition, Regions will be required to pay significantly higher FDIC premiums because market developments have significantly depleted the insurance fund of the FDIC and reduced the ratio of reserves to insured deposits.

We may need to raise additional capital in the future and such capital may not be available when needed or at all.

We may need to raise additional capital in the future to provide us with sufficient capital resources and liquidity to meet our commitments and business needs. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of our control, and our financial performance. The ongoing liquidity crisis and the loss of confidence in financial institutions may increase our cost of funding and limit our access to some of our customary sources of capital, including, but not limited to, inter-bank borrowings, repurchase agreements and borrowings from the discount window of the Federal Reserve.

We cannot assure you that such capital will be available to us on acceptable terms or at all. Any occurrence that may limit our access to the capital markets, such as a decline in the confidence of debt purchasers, depositors of Regions Bank or counterparties participating in the capital markets, or a downgrade of our debt rating, may adversely affect our capital costs and our ability to raise capital and, in turn, our liquidity. An inability to raise additional capital on acceptable terms when needed could have a materially adverse effect on our businesses, financial condition and results of operations.

We are a holding company and depend on our subsidiaries for dividends, distributions and other payments.

We are a legal entity separate and distinct from our banking and other subsidiaries. Our principal source of cash flow, including cash flow to pay dividends to our stockholders and principal and interest on our outstanding debt, is dividends from Regions Bank. There are statutory and regulatory limitations on the payment of dividends by Regions Bank to us, as well as by us to our stockholders. Regulations of both the Federal Reserve and the State of Alabama affect the ability of Regions Bank to pay dividends and other distributions to us and to make loans to us. Given the loss recorded at Regions Bank during the fourth quarter of 2008, under the Federal Reserve s rules, Regions Bank does not expect to be able to pay dividends to us in the near term without first obtaining regulatory approval. If Regions Bank is unable to make dividend payments to us and sufficient capital is not otherwise available, we may not be able to make dividend payments to our common stockholders or principal and interest payments on our outstanding debt. See Supervision and Regulation Payment of Dividends of this Annual Report on Form 10-K.

In addition, our right to participate in a distribution of assets upon a subsidiary s liquidation or reorganization is subject to the prior claims of the subsidiary s creditors.

Any reduction in our credit rating could increase the cost of our funding from the capital markets.

The major rating agencies regularly evaluate us and their ratings of our long-term debt based on a number of factors, including our financial strength as well as factors not entirely within our control, including conditions affecting the financial services industry generally. On February 2, 2009, Moody s Investors Service (Moody s) downgraded our long-term senior debt from A2 to A3, and downgraded the ratings of certain of our subsidiaries, including Regions Bank. Moody s downgraded its rating of Regions Bank s financial strength from B- to C+ and its rating of Regions Bank s long-term deposits from A1 to A2 and all of our debt and deposit ratings remain on negative outlook. In light of the difficulties in the financial services industry and the housing and financial markets, there can be no assurance that we will not be subject to further downgrades. Credit ratings measure a company s ability to repay its obligations and directly affect the cost and availability to that company of unsecured financing. Further downgrades could adversely affect the cost and other terms upon which we are able to obtain funding and increase our cost of capital.

We may not pay dividends on your common stock.

Holders of shares of our common stock are only entitled to receive such dividends as our board of directors may declare out of funds legally available for such payments. Although we have historically declared cash dividends on our common stock, we are not required to do so and may reduce or eliminate our common stock dividend in the future. This could adversely affect the market price of our common stock. Also, participation in the CPP limits our ability to increase our dividend or to repurchase our common stock for so long as any securities issued under such program remain outstanding, as discussed in greater detail below.

If we experience greater credit losses than anticipated, our earnings may be adversely affected.

As a lender, we are exposed to the risk that our customers will be unable to repay their loans according to their terms and that any collateral securing the payment of their loans may not be sufficient to assure repayment. Credit losses are inherent in the business of making loans and could have a material adverse effect on our operating results. Our credit risk with respect to our real estate and construction loan portfolio will relate principally to the creditworthiness of corporations and the value of the real estate serving as security for the repayment of loans. Our credit risk with respect to our commercial and consumer loan portfolio will relate principally to the general creditworthiness of businesses and individuals within our local markets.

We make various assumptions and judgments about the collectibility of our loan portfolio and provide an allowance for estimated credit losses based on a number of factors. We believe that our allowance for credit losses is adequate. However, if our assumptions or judgments are wrong, our allowance for credit losses may not be sufficient to cover our actual credit losses. We may have to increase our allowance in the future in response to the request of one of our primary banking regulators, to adjust for changing conditions and assumptions, or as a result of any deterioration in the quality of our loan portfolio. The actual amount of future provisions for credit losses cannot be determined at this time and may vary from the amounts of past provisions.

Further disruptions in the residential real estate market could adversely affect our performance.

As of December 31, 2008, residential homebuilder loans, home equity loans secured by second liens in Florida and condominium loans represented approximately 9.3% of our total loan portfolio. These portions of our loan portfolio have been under stress for over a year and, due to weakening credit quality, we increased our loan loss provision and our total allowance for credit losses. In addition, we have implemented several measures to support the management of these portions of the loan portfolio, including reassignment of experienced, key relationship managers to focus on work-out strategies for distressed borrowers.

While we expect that these actions will help mitigate the overall effects of the credit down cycle, the weakness in these portions of our loan portfolio is expected to continue well into 2009. Accordingly, it is anticipated that our non-performing asset and charge-off levels will remain elevated.

Further, the effects of recent mortgage market challenges, combined with the ongoing decrease in residential real estate market prices and demand, could result in further price reductions in home values, adversely affecting the value of collateral securing the residential real estate and construction loans that we hold, as well as loan originations and gains on sale of real estate and construction loans**.** Specifically, a significant portion of our residential mortgages and commercial real estate loan portfolios are composed of borrowers in the Southeastern United States, in which certain markets have been particularly adversely affected by declines in real estate value, declines in home sale volumes, and declines in new home building. For example, prices of Florida properties remain under significant pressure, with rising unemployment levels and the impact of the real estate downturn on the general economy. These factors could result in higher delinquencies and greater charge-offs in future periods, which would materially adversely affect our financial condition and results of operations. A decline in home values or overall economic weakness could also have an adverse impact upon the value of real estate or other assets which we own upon foreclosing a loan.

Our profitability and liquidity may be affected by changes in economic conditions in the areas where our operations or loans are concentrated.

Our success depends to a certain extent on the general economic conditions of the geographic markets served by Regions Bank in the states of Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, South Carolina, Tennessee, Texas and Virginia. The local economic conditions in these areas have a significant impact on Regions Bank s commercial, real estate and construction loans, the ability of borrowers to repay these loans and the value of the collateral securing these loans. Adverse changes in the economic conditions of these geographical areas for over a year have had a negative impact on the financial results of our banking operations and may continue to have a negative effect on our businesses, financial condition and results of operations.

We are exposed to intangible asset risk; specifically, our goodwill may become impaired.

We have determined that a portion of our goodwill was impaired and recorded a non-cash goodwill impairment charge of $6.0 billion in the fourth quarter of 2008. In addition, a further significant and sustained decline in our stock price and market capitalization, a significant decline in our expected future cash flows, a significant adverse change in the business climate or slower growth rates could result in further impairment of goodwill. If we were to conclude that a future write-down of our goodwill is necessary, then we would record the appropriate charge, which could be materially adverse to our operating results and financial position. For further discussion, see Notes 1 and 10, Summary of Significant Accounting Policies and Intangible Assets , to the Consolidated Financial Statements included in Item 8. of this Annual Report on Form 10-K.

Rapid and significant changes in market interest rates may adversely affect our performance.

Most of our assets and liabilities are monetary in nature and subject us to significant risks from changes in interest rates. Our profitability depends to a large extent on our net interest income, and changes in interest rates can impact our net interest income as well as the valuation of our assets and liabilities.

Our current one-year interest rate sensitivity position is asset sensitive, meaning that an immediate increase in interest rates would likely have a positive cumulative impact on Regions twelve-month net interest income. Alternatively, a gradual decrease in rates over a twelve-month period would likely have a negative impact on twelve-month net interest income. However, like most financial institutions, our results of operations are affected by changes in interest rates and our ability to manage interest rate risks. Changes in market interest rates, or changes in the relationships between short-term and long-term market interest rates, or changes in the relationships between different interest rate indices, can affect the interest rates charged on interest-earning assets differently than the interest rates paid on interest-bearing liabilities. This difference could result in an increase in interest expense relative to interest income, or a decrease in our interest rate spread. For a more detailed discussion of these risks and our management strategies for these risks, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation and Item 7A. Quantitative and Qualitative Disclosures about Market Risk of this Annual Report on Form 10-K.

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Our net interest margin depends on many factors that are partly or completely out of our control, including competition, federal economic monetary and fiscal policies, and general economic conditions. Despite our strategies to manage interest rate risks, changes in interest rates can still have a material adverse impact on our businesses, financial condition and results of operations.

The performance of our investment portfolio is subject to fluctuations due to changes in interest rates and market conditions.

Changes in interest rates can negatively affect the performance of most of our investments. Interest rate volatility can reduce unrealized gains or create unrealized losses in our portfolios. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions, and other factors beyond our control. Fluctuations in interest rates affect our returns on, and the market value of, our investment securities.

The fair market value of the securities in our portfolio and the investment income from these securities also fluctuate depending on general economic and market conditions. In addition, actual net investment income and/or cash flows from investments that carry prepayment risk, such as mortgage-backed and other asset-backed securities, may differ from those anticipated at the time of investment as a result of interest rate fluctuations. See the Securities section of Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation of this Annual Report on Form 10-K.

Hurricanes and other weather-related events could cause a disruption in our operations or other consequences that could have an adverse impact on our results of operations.

A significant portion of our operations are located in the areas bordering the Gulf of Mexico and the Atlantic Ocean, regions that are susceptible to hurricanes. Such weather events can cause disruption to our operations and could have a material adverse effect on our overall results of operations. We maintain hurricane insurance, including coverage for lost profits and extra expense; however, there is no insurance against the disruption to the markets that we serve that a catastrophic hurricane could produce. Further, a hurricane in any of our market areas could adversely impact the ability of borrowers to timely repay their loans and may adversely impact the value of any collateral held by us. Some of the states in which we operate have in recent years experienced extreme droughts. The effects of past or future hurricanes, droughts and other weather-related events are difficult to predict, but could have an adverse effect on our businesses, financial condition and results of operations.

Our participation in the U.S. Treasury s CPP imposes restrictions and obligations on us that limit our ability to increase dividends, repurchase shares of our common stock and access the equity capital markets.

On November 14, 2008, we issued and sold preferred stock and a warrant to purchase our common stock to the U.S. Treasury as part of its CPP. Prior to November 14, 2011, unless we have redeemed all of the preferred stock or the U.S. Treasury has transferred all of the preferred stock to a third party, the agreement pursuant to which such securities were sold, among other things, limits the payment of dividends on our common stock to the current quarterly dividend of $0.10 per share without prior regulatory approval, limits our ability to repurchase shares of our common stock (with certain exceptions, including the repurchase of our common stock to offset share dilution from equity-based compensation awards), and grants the holders of such securities certain registration rights which, in certain circumstances, impose lock-up periods during which we would be unable to issue equity securities. In addition, unless we are able to redeem the preferred stock during the first five years, the dividends on of this capital will increase substantially at that point, from 5% ($175 million annually) to 9% ($315 million annually). Depending on market conditions at the time, this increase in dividends could significantly impact our liquidity. See Regulation and Supervision U.S. Treasury Capital Purchase Program.

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The market price of shares of our common stock will fluctuate.

The market price of our common stock could be subject to significant fluctuations due to a change in sentiment in the market regarding our operations or business prospects. Such risks may be affected by:

- Operating results that vary from the expectations of management, securities analysts and investors;
- Developments in our businesses or in the financial sector generally;
- Regulatory changes affecting our industry generally or our businesses and operations;
- The operating and securities price performance of companies that investors consider to be comparable to us;
- Announcements of strategic developments, acquisitions and other material events by us or our competitors;
- Changes in the credit, mortgage and real estate markets, including the markets for mortgage-related securities; and
- Changes in global financial markets and global economies and general market conditions, such as interest or foreign exchange rates, stock, commodity, credit or asset valuations or volatility.

Stock markets in general and our common stock in particular have, over the past year, and continue to be experiencing significant price and volume volatility. As a result, the market price of our common stock may continue to be subject to similar market fluctuations that may be unrelated to our operating performance or prospects. Increased volatility could result in a decline in the market price of our common stock.

Industry competition may have an adverse effect on our success.

Our profitability depends on our ability to compete successfully. We operate in a highly competitive environment. Certain of our competitors are larger and have more resources than we do. In our market areas, we face competition from other commercial banks, savings and loan associations, credit unions, internet banks, finance companies, mutual funds, insurance companies, brokerage and investment banking firms, and other financial intermediaries that offer similar services. Some of our non-bank competitors are not subject to the same extensive regulations that govern Regions or Regions Bank and may have greater flexibility in competing for business. Regions expects competition to intensify among financial services companies due to the recent consolidation of certain competing financial institutions and the conversion of certain investment banks to bank holding companies. Should competition in the financial services industry intensify, Regions ability to market its products and services may be adversely affected.

Changes in the policies of monetary authorities and other government action could adversely affect our profitability.

The results of operations of Regions are affected by credit policies of monetary authorities, particularly the Federal Reserve. The instruments of monetary policy employed by the Federal Reserve include open-market operations in U.S. government securities, changes in the discount rate or the federal funds rate on bank borrowings, and changes in reserve requirements against bank deposits. In view of changing conditions in the national economy and in the money markets, we cannot predict possible future changes in interest rates, deposit levels, and loan demand on our businesses and earnings. Furthermore, ongoing military operations in the Middle East or elsewhere around the world, including those in response to terrorist attacks, may result in currency fluctuations, exchange controls, market disruption and other adverse effects.

Anti-takeover laws and certain agreements and charter provisions may adversely affect share value.

Certain provisions of state and federal law and our certificate of incorporation may make it more difficult for someone to acquire control of us without our Board of Directors approval. Under federal law, subject to certain exemptions, a person, entity or group must notify the federal banking agencies before acquiring control of

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a bank holding company. Acquisition of 10% or more of any class of voting stock of a bank holding company or state member bank, including shares of our common stock, creates a rebuttable presumption that the acquiror controls the bank holding company or state member bank. Also, as noted under Supervision and Regulation General, a bank holding company must obtain the prior approval of the Federal Reserve before, among other things, acquiring direct or indirect ownership or control of more than 5% of the voting shares of any bank, including Regions Bank. There also are provisions in our certificate of incorporation that may be used to delay or block a takeover attempt. As a result, these statutory provisions and provisions in our certificate of incorporation could result in Regions being less attractive to a potential acquiror.

Future issuances of additional securities could result in dilution of your ownership.

We may determine from time to time to issue additional securities to raise additional capital, support growth, or to make acquisitions. Further, we may issue stock options or other stock grants to retain and motivate our employees. These issuances of our securities will dilute the ownership interests of our stockholders.

We need to stay current on technological changes in order to compete and meet customer demands.

The financial services market, including banking services, is undergoing rapid changes with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and may enable us to reduce costs. Our future success may depend, in part, on our ability to use technology to provide products and services that provide convenience to customers and to create additional efficiencies in our operations.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

Regions corporate headquarters occupy the main banking facility of Regions Bank, located at 1900 Fifth Avenue North, Birmingham, Alabama 35203.

Regions Bank, Regions banking subsidiary, operates 1,900 banking offices. Regions provides investment banking and brokerage services from over 300 offices of Morgan Keegan. At December 31, 2008, there were no significant encumbrances on the offices, equipment and other operational facilities owned by Regions and its subsidiaries.

See Item 1. Business of this Annual Report on Form 10-K for a list of the states in which Regions Bank branches and Morgan Keegan s offices are located.

Item 3. ***Legal Proceedings***

Reference is made to Note 25 Commitments, Contingencies and Guarantees, to the consolidated financial statements under Item 8. of this Annual Report on Form 10-K.

Regions and its affiliates are subject to litigation, including the litigation discussed below, and claims arising in the ordinary course of business. Punitive damages are routinely claimed in these cases. Regions continues to be concerned about the general trend in litigation involving large damage awards against financial service company defendants. Regions evaluates these contingencies based on information currently available, including advice of counsel and assessment of available insurance coverage. Although it is not possible to predict the ultimate resolution or financial liability with respect to these litigation contingencies, management is currently of the opinion that the outcome of pending and threatened litigation would not have a material effect on Regions consolidated financial position or results of operations, except to the extent indicated in the discussion below.

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In late 2007 and during 2008, Regions and certain of its affiliates were named in class-action lawsuits filed in federal and state courts on behalf of investors who purchased shares of certain Regions Morgan Keegan Select Funds (the Funds) and shareholders of Regions. The complaints contain various allegations, including claims that the Funds and the defendants misrepresented or failed to disclose material facts relating to the activities of the Funds. No class has been certified, and at this stage of the lawsuits Regions cannot determine the probability of a material adverse result or reasonably estimate a range of potential exposures, if any. However, it is possible that an adverse resolution of these matters may be material to Regions consolidated financial position or results of operations. In addition, the Company has received requests for information from the SEC Staff regarding the matters subject to the litigation described above.

Certain of the shareholders in these Funds and other interested parties have entered into arbitration proceedings and individual civil claims, in lieu of participating in the class actions. Although it is not possible to predict the ultimate resolution or financial liability with respect to these contingencies, management is currently of the opinion that the outcome of these proceedings would not have a material effect on Regions consolidated financial position or results of operations.

Item 4. ***Submission of Matters to a Vote of Security Holders***

None.

Executive Officers of the Registrant.

Information concerning the Executive Officers of Regions is set forth under Item 10. Directors, Executive Officers and Corporate Governance of this Annual Report on Form 10-K.

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PART II

Item 5. ***Market For Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Regions common stock, par value $.01 per share, is listed for trading on the New York Stock Exchange under the symbol RF. Quarterly high and low sales prices of and cash dividends declared on Regions common stock are set forth in Table 25 Quarterly Results of Operations of Management s Discussion and Analysis , which is included in Item 7. of this Annual Report on Form 10-K. As of February 17, 2009, there were 83,232 holders of record of Regions common stock (including participants in the Computershare Investment Plan for Regions Financial Corporation).

Restrictions on the ability of Regions Bank to transfer funds to Regions at December 31, 2008, are set forth in Note 15 Regulatory Capital Requirements and Restrictions to the consolidated financial statements, which are included in Item 8. of this Annual Report on Form 10-K. A discussion of certain limitations on the ability of Regions Bank to pay dividends to Regions and the ability of Regions to pay dividends on its common stock is set forth in Item 1. Business under the heading Supervision and Regulation Payment of Dividends of this Annual Report on Form 10-K.

The following table presents information regarding issuer purchases of equity securities during the fourth quarter of 2008.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2008 October 31, 2008		$		23,072,300
November 1, 2008 November 30, 2008				23,072,300
December 1, 2008 December 31, 2008				23,072,300
Total		$		23,072,300

On January 18, 2007, Regions Board of Directors assessed the repurchase authorization of Regions and authorized the repurchase of an additional 50 million shares of Regions common stock through open market or privately negotiated transactions and announced the authorization of this repurchase. As indicated in the table above, approximately 23.1 million shares remain available for repurchase under the existing plan. As discussed in the Supervision and Regulation section of Item 1. Business of this Annual Report on Form 10-K, the Company s ability to repurchase its common stock is limited by the terms of the Purchase Agreement between Regions and the U.S. Treasury. Under the CPP, prior to the earlier of (i) November 14, 2011, or (ii) the date on which the Series A Preferred Stock is redeemed in whole or the U.S. Treasury has transferred all of the Series A Preferred Stock to unaffiliated third parties, the consent of the U.S. Treasury is required to repurchase any shares of common stock except in connection with benefit plans in the ordinary course of business and certain other limited exceptions.

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PERFORMANCE GRAPH

Set forth below is a graph comparing the yearly percentage change in the cumulative total return of Regions common stock against the cumulative total return of the S&P 500 Index and the S&P Banks Index for the past five years. This presentation assumes that the value of the investment in Regions common stock and in each index was $100 and that all dividends were reinvested.

	Period Ending					
	12/31/2003	**12/31/2004**	**12/31/2005**	**12/31/2006**	**12/31/2007**	**12/31/2008**
Regions	$ 100.00	$ 123.30	$ 123.34	$ 141.74	$ 94.06	$ 33.88
S&P 500 Index	100.00	110.88	116.32	134.69	142.09	89.52
S&P Banks Index	100.00	114.95	116.74	134.99	104.37	66.10

Item 6. ***Selected Financial Data***

The information required by Item 6. is set forth in Table 1 Financial Highlights of Management s Discussion and Analysis of Financial Condition and Results of Operation , which is included in Item 7. of this Annual Report on Form 10-K.

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Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operation***

Item 7A. ***Quantitative and Qualitative Disclosures about Market Risk***

INTRODUCTION

GENERAL

The following discussion and financial information is presented to aid in understanding Regions Financial Corporation s (Regions or the Company) financial position and results of operations. The emphasis of this discussion will be on the years 2008, 2007 and 2006; in addition, financial information for prior years will also be presented when appropriate. Certain amounts in prior year presentations have been reclassified to conform to the current year presentation, except as otherwise noted.

Regions profitability, like that of many other financial institutions, is dependent on its ability to generate revenue from net interest income and non-interest income sources. Net interest income is the difference between the interest income Regions receives on interest-earning assets, such as loans and securities, and the interest expense Regions pays on interest-bearing liabilities, principally deposits and borrowings. Regions net interest income is impacted by the size and mix of its balance sheet components and the interest rate spread between interest earned on its assets and interest paid on its liabilities. Non-interest income includes fees from service charges on deposit accounts, brokerage, investment banking, capital markets, and trust activities, mortgage servicing and secondary marketing, insurance activities, and other customer services which Regions provides. Results of operations are also affected by the provision for loan losses and non-interest expenses such as salaries and employee benefits, occupancy and other operating expenses, including income taxes. In addition, in 2008 Regions non-interest expense was impacted by a non-cash goodwill impairment charge.

Economic conditions, competition, and the monetary and fiscal policies of the Federal government significantly affect most financial institutions, including Regions. Lending and deposit activities and fee income generation are influenced by levels of business spending and investment, consumer income, consumer spending and savings, capital market activities, and competition among financial institutions, as well as customer preferences, interest rate conditions and prevailing market rates on competing products in Regions market areas. Other factors, including the Company s balance sheet capacity, capital levels and its liquidity management efforts also influence Regions lending and deposit taking activities as well as its overall profitability.

Regions business strategy has been and continues to be focused on providing a competitive mix of products and services, delivering quality customer service and maintaining a branch distribution network with offices in convenient locations. Regions delivers this business with the personal attention and feel of a community bank and with the service and product offerings of a large regional bank.

Acquisitions

The acquisitions of banks and other financial services companies have historically contributed significantly to Regions growth. The acquisitions of other financial services companies have also allowed Regions to better diversify its revenue stream and to offer additional products and services to its customers. From time to time, Regions evaluates potential bank and non-bank acquisition candidates.

On January 1, 2008, Regions Insurance Group, Inc., a subsidiary of Regions Financial Corporation, acquired certain assets of Barksdale Bonding and Insurance, Inc., a multi-line insurance agency headquartered in Jackson, Mississippi. During the third quarter of 2008, the Company assumed approximately $900 million of deposits from a failed Atlanta-area bank in a Federal Deposit Insurance Corporation (FDIC)-assisted transaction. In addition, in December 2008, Morgan Keegan & Company, Inc. (Morgan Keegan) a subsidiary of Regions Financial Corporation, acquired Revolution Partners, LLC, a Boston-based investment banking boutique specializing in mergers and acquisitions and private capital advisory services for the technology industry.

On February 6, 2009, Regions acquired from the FDIC approximately $285 million in total deposits from a failed bank headquartered in Henry County, Georgia. Under the terms of the agreement with the FDIC, Regions assumed operations of the bank s four branches and provides banking services to its former customers.

During 2007, Regions acquired two financial services entities. On January 2, 2007, Regions Insurance Group, Inc. acquired certain assets of Miles & Finch, Inc., a multi-line insurance agency headquartered in Kokomo, Indiana, with annual revenues of approximately $10 million. On June 15, 2007, Morgan Keegan acquired Shattuck Hammond Partners LLC (Shattuck Hammond), an investment banking and financial advisory firm headquartered in New York, New York.

On November 4, 2006, Regions merged with AmSouth Bancorporation (AmSouth), headquartered in Birmingham, Alabama. In the stock-for-stock merger, 0.7974 shares of Regions were exchanged, on a tax-free basis, for each share of AmSouth common stock. AmSouth had total assets of approximately $58 billion (including goodwill) and operated in 6 states at the time of the merger. This transaction was accounted for as a purchase of 100 percent of the voting interests of AmSouth by Regions and, accordingly, financial results for periods prior to November 4, 2006 have not been restated. The Company completed the operational integration of AmSouth into Regions during 2007. As part of the integration process, Regions converted its mortgage, brokerage, trust, and payroll and benefits platforms, as well as its entire network of branches to a common operating platform. Concurrent with the branch conversions, 160 branches in close proximity to one another were consolidated into the remaining branch system. Also related to the merger, during the first quarter of 2007, Regions divested 52 branches, which is discussed later in the Dispositions section of this report.

Regions incurred approximately $822 million in one-time pre-tax merger-related costs to bring the two companies together. Regions recorded $185.4 million of such costs in goodwill during 2006. This amount was subsequently adjusted down by $2.9 million in 2007. The majority of merger costs flowed directly through the income statement. These included $200.2 million, $350.9 million, and $88.7 million in pre-tax merger expenses during 2008, 2007 and 2006, respectively. No merger expenses related to the AmSouth transaction were recorded after the third quarter of 2008.

Anticipated cost savings are an important driver of any merger transaction. Regions estimates that it achieved an ongoing annual cost savings run-rate in excess of $800 million as of year-end 2008, as a result of the merger. These savings were primarily recognized in areas such as personnel, occupancy and equipment, operations and technology, and corporate functions.

Dispositions

During the first quarter of 2007, through sales to three separate buyers, Regions completed the divestiture of 52 former AmSouth branches having approximately $2.7 billion in deposits and $1.7 billion in loans. These divestitures were required in markets where the merger may have affected competition.

On March 30, 2007, Regions sold its wholly-owned non-conforming mortgage origination subsidiary, EquiFirst Corporation (EquiFirst) for an initial sales price of approximately $76 million. The business related to EquiFirst has been accounted for as discontinued operations and the results are presented separately on the consolidated statements of operations for all periods presented. Resolution of the sales price was completed in October 2008, and resulted in an after-tax loss of approximately $10 million. See Note 4 Discontinued Operations to the consolidated financial statements for further details.

Business Segments

Regions provides traditional commercial, retail and mortgage banking services, as well as other financial services in the fields of investment banking, asset management, trust, mutual funds, securities brokerage, insurance and other specialty financing. Regions carries out its strategies and derives its profitability from the following business segments:

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General Banking/Treasury

Regions primary business is providing traditional commercial, retail and mortgage banking services to its customers. Regions banking subsidiary, Regions Bank, operates as an Alabama state-chartered bank with branch offices in Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, South Carolina, Tennessee, Texas and Virginia. The Treasury function includes the Company s securities portfolio and other wholesale funding activities. In 2008, Regions general banking and treasury operations reported a loss of approximately $5.6 billion, primarily the result of a $6.0 billion non-cash goodwill impairment charge.

Investment Banking, Brokerage and Trust

Regions provides investment banking, brokerage and trust services in approximately 332 offices of Morgan Keegan, a subsidiary of Regions and one of the largest investment firms based in the South. Morgan Keegan contributed $128.3 million of income in 2008. Its lines of business include private client, retail brokerage services, fixed-income capital markets, equity capital markets, trust, and asset management.

Insurance

Regions provides insurance-related services through Regions Insurance Group, Inc., a subsidiary of Regions and a full-line insurance brokerage firm. Regions Insurance Group is one of the 25 largest insurance brokers in the country. The insurance segment includes all business associated with insurance coverage for various lines of personal and commercial insurance, such as property, casualty, life, health and accident insurance. The insurance segment also offers credit-related insurance products, such as term life, credit life, environmental, crop and mortgage insurance, as well as debt cancellation products to customers of Regions. Insurance activities contributed approximately $20.1 million of income in 2008.

See Note 24 Business Segment Information to the consolidated financial statements for further information on Regions business segments.

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Table 1 Financial Highlights

	2008	2007	2006	2005	2004
	(In thousands, except per share data)				
EARNINGS SUMMARY					
Interest income	$ 6,563,390	$ 8,074,663	$ 5,649,118	$ 4,271,145	$ 2,918,405
Interest expense	2,720,434	3,676,297	2,340,816	1,489,756	842,651
Net interest income	3,842,956	4,398,366	3,308,302	2,781,389	2,075,754
Provision for loan losses	2,057,000	555,000	142,373	166,746	124,215
Net interest income after provision for loan losses	1,785,956	3,843,366	3,165,929	2,614,643	1,951,539
Non-interest income	3,073,231	2,855,835	2,029,720	1,686,820	1,484,230
Non-interest expense	10,791,614	4,660,351	3,204,028	2,942,895	2,315,548
Income (loss) before income taxes from continuing operations	(5,932,427)	2,038,850	1,991,621	1,358,568	1,120,221
Income taxes (benefits)	(348,114)	645,687	619,100	395,861	330,478
Income (loss) from continuing operations	(5,584,313)	1,393,163	1,372,521	962,707	789,743
Income (loss) from discontinued operations before income taxes	(18,405)	(217,387)	(32,606)	63,527	55,361
Income tax expense (benefit)	(6,944)	(75,319)	(13,230)	25,690	21,339
Income (loss) from discontinued operations	(11,461)	(142,068)	(19,376)	37,837	34,022
Net income (loss)	$ (5,595,774)	$ 1,251,095	$ 1,353,145	$ 1,000,544	$ 823,765
Income (loss) from continuing operations available to common shareholders	$ (5,610,549)	$ 1,393,163	$ 1,372,521	$ 962,707	$ 783,723
Net income (loss) available to common shareholders	$ (5,622,010)	$ 1,251,095	$ 1,353,145	$ 1,000,544	$ 817,745
Earnings (loss) per common share from continuing operations basic	$ (8.07)	$ 1.97	$ 2.74	$ 2.09	$ 2.13
Earnings (loss) per common share from continuing operations diluted	(8.07)	1.95	2.71	2.07	2.10
Earnings (loss) per common share basic	(8.09)	1.77	2.70	2.17	2.22
Earnings (loss) per common share diluted	(8.09)	1.76	2.67	2.15	2.19
Return on average tangible common stockholders equity	(74.32)%	15.82%	22.86%	18.80%	18.97%
Return on average common stockholders equity	(28.81)	6.24	10.94	9.37	10.91
Return on average total assets	(3.90)	0.90	1.41	1.18	1.23
BALANCE SHEET SUMMARY					
At year end					
Loans, net of unearned income	$ 97,418,685	$ 95,378,847	$ 94,550,602	$ 58,404,913	$ 57,526,954
Assets	146,247,810	141,041,717	143,369,021	84,785,600	84,106,438
Deposits	90,903,890	94,774,968	101,227,969	60,378,367	58,667,023
Long-term debt	19,231,277	11,324,790	8,642,649	6,971,680	7,239,585
Stockholders equity	16,812,837	19,823,029	20,701,454	10,614,283	10,749,457
Average balances					
Loans, net of unearned income	97,601,272	94,372,061	64,765,653	58,002,167	44,667,472
Assets	143,947,025	138,756,619	95,800,277	85,096,467	66,838,148
Deposits	90,077,002	95,725,101	67,466,447	59,712,895	45,015,279
Long-term debt	13,509,689	9,697,823	6,855,601	7,175,075	6,519,193
Stockholders equity	19,939,407	20,036,459	12,368,632	10,677,831	7,548,207
SELECTED RATIOS					
Tangible common stockholders equity to tangible assets	5.23%	5.88%	6.53%	6.64%	6.86%
Allowance for loan losses as a percentage of loans, net of unearned income	1.87	1.39	1.12	1.34	1.31
Allowance for credit losses as a percentage of loans, net of unearned income	1.95	1.45	1.17	1.34	1.31

COMMON STOCK DATA					
Cash dividends declared per common share	$ 0.96	$ 1.46	$ 1.40	$ 1.36	$ 1.33
Stockholders common equity per share	19.53	28.58	28.36	23.26	23.06
Market value at year end	7.96	23.65	37.40	34.16	35.59
Market price range:					
High	25.84	38.17	39.15	35.54	35.97
Low	6.41	22.84	32.37	29.16	27.26
Total trading volume	3,410,723	911,981	301,488	227,380	194,916
Dividend payout ratio	NM	82.49	51.85	62.67	59.91
Shareholders of record at year end	83,600	85,060	84,877	72,140	77,715
Weighted-average number of common shares outstanding					
Basic	695,003	707,981	501,681	461,171	368,656
Diluted	695,003	712,743	506,989	466,183	373,732

Note: Periods prior to November 4, 2006 do not include the effect of Regions acquisition of AmSouth. Periods prior to July 1, 2004 do not include the effect of Regions acquisition of Union Planters Corporation.

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2008 OVERVIEW

The year ended December 31, 2008 was an extremely tumultuous year for the U.S. economy and, more specifically, for the financial services industry. Deteriorating home values, among other factors, provided a catalyst for declining valuations across nearly all asset classes, including loans and securities. The property value declines, which began in late 2007, continued to build throughout 2008. While Regions did not have material exposure to many of the issues that plagued the industry (e.g., sub-prime loans, structured investment vehicles, collateralized debt obligations), the Company s exposure to the residential housing sector, primarily within its commercial real estate and construction loan portfolios, pressured its loan portfolio, resulting in increased credit costs and other real estate expenses. In another significant event, the results of goodwill impairment testing in the fourth quarter of 2008 indicated that the estimated fair value of Regions General Banking/Treasury reporting unit goodwill was less than its book value, requiring a $6.0 billion non-cash charge to earnings.

As a result of these factors, Regions reported a net loss from continuing operations of $5.6 billion or $8.07 per diluted common share in 2008. Not included in this amount was an $11.5 million after-tax loss related to EquiFirst, which was accounted for as discontinued operations. Included in the 2008 net loss was a $6.0 billion goodwill impairment charge ($8.63 per diluted share) and $124.1 million in after-tax merger-related expenses ($0.18 per diluted share). Net income from continuing operations was $1.95 per diluted share in 2007, including a reduction of $0.31 per diluted share related to $217.5 million in after-tax merger-related expenses. Excluding merger-related charges and goodwill impairment charges, annual earnings per common share from continuing operations was $0.74 in 2008 as compared to $2.26 in 2007. Significant drivers of 2008 results include a much higher provision for loan losses and lower net interest income. Offsetting to some extent was Regions solid fee income, including revenues from Morgan Keegan. See Table 2 GAAP to Non-GAAP Reconciliation for additional details.

As a result of the large earnings impact from the goodwill impairment charge, return measures, such as return on average tangible common stockholders equity, were not meaningful for 2008 on a generally accepted accounting principles (GAAP) basis. Excluding the goodwill impairment charge, merger-related charges and discontinued operations, return on average tangible common stockholders equity was 6.79 percent for the year ended December 31, 2008, compared to 20.43 percent for the year ended December 31, 2007. See Table 2 GAAP to Non-GAAP Reconciliation for additional details and Table 1 Financial Highlights for additional ratios.

Net interest income was $3.8 billion in 2008 compared to $4.4 billion in 2007. The decrease resulted in a lower net interest margin, which declined to 3.23 percent during 2008 compared to 3.79 percent in 2007. The net interest margin was negatively impacted primarily by factors directly and indirectly associated with the erosion of economic and industry conditions in late 2007 and throughout 2008. These factors include an unfavorable variation in the general level and shape of the yield curve (exemplified by recent Federal Reserve interest rate reductions), intensification of price-based competition for retail deposits, disintermediation of deposits into other non-bank asset classes, rate increases for new debt issuances, and rising non-performing asset levels. Moreover, the costs of maintenance of the Company s liquidity profile in the presently stressed environment (including maintaining prudent levels of excess liquidity) have increased, further pressuring the net interest margin.

Net charge-offs totaled $1.5 billion, or 1.59 percent of average loans in 2008 compared to $270.5 million, or 0.29 percent of average loans in 2007. The increased loss rate resulted from deteriorating economic conditions during 2008, especially related to the housing sector. More specifically, approximately $639.0 million of 2008 net charges-offs were related to non-performing loan dispositions or transfers to held for sale as compared to none in 2007. Non-performing assets increased $853.9 million between December 31, 2007 and December 31, 2008 to $1.7 billion, primarily due to continued weakness in the Company s residential homebuilder portfolio, which began experiencing significant pressure toward the end of 2007. This pressure was due to a combination of declining residential real estate demand and resulting price and collateral value declines in certain of the Company s markets, particularly areas of Florida and Atlanta, Georgia. Condominium loans, mainly in Florida, were also a driver of the increase in non-performing assets. Regions aggressively managed its exposure to its most stressed assets by selling or transferring to held for sale approximately $1.3 billion of non-performing loans during 2008. Non-performing assets held for sale totaled $423.3 million at December 31, 2008.

The provision for loan losses is used to maintain the allowance for loan losses at a level that, in management s judgment, is adequate to cover losses inherent in the loan portfolio as of the balance sheet date. During 2008, the provision for loan losses from continuing operations increased to $2.1 billion compared to $555.0 million in 2007. The provision rose due to weakening conditions in the broad economy and, more specifically, in the residential housing market, which most significantly impacted management s estimate of inherent losses in the residential homebuilder, condominium, home equity and residential mortgage portfolios. As a result of the increased provision for loan losses and despite significantly higher loan charge-offs, which increased $1.3 billion, Regions increased its allowance for credit losses to 1.95 percent of total loans, net of unearned income, at December 31, 2008, as compared to 1.45 percent at December 31, 2007.

Non-interest income from continuing operations (excluding securities gains/losses) totaled $3.0 billion or 43 percent of total revenue (fully taxable-equivalent basis) in 2008 compared to $2.9 billion or 39 percent in 2007, and continued to reflect Regions diversified revenue stream. The increase in non-interest income is primarily due to strong brokerage, investment banking and capital markets income, especially during the first half of the year. As the year progressed, however, brokerage and equity capital markets revenue streams were affected by declining market activity and transaction flow, resulting from increasing overall market uncertainty. Despite the difficulties, 2008 was a solid year for Morgan Keegan, recording net income of $128.3 million as compared to $165.9 million in 2007. In addition, Regions recorded $62.8 million of other income due to proceeds from a sale of Class B common stock ownership interest in Visa. Offsetting these increases were decreases in service charges on deposit accounts and trust income in 2008.

Non-interest expense from continuing operations totaled $10.8 billion in 2008 compared to $4.7 billion in 2007, impacted most significantly by the $6.0 billion non-cash goodwill impairment charge. Also reflected in non-interest expenses were merger charges totaling $200.2 million and $350.9 million in 2008 and 2007, respectively. Merger costs consist mainly of personnel expenses, the cost of integrating AmSouth systems with those of Regions and the consolidation of branches. Excluding the goodwill impairment and merger-related expenses, non-interest expense increased $282.0 million or 6.5 percent in 2008 compared to 2007. The largest drivers were mortgage servicing rights impairment charges, increased professional fees due to litigation, occupancy expense reflecting continued investment in the branch franchise, and higher other real estate owned expenses driven by losses related to the continued decline in the housing market. In addition, 2008 non-interest expense was impacted by a $65.4 million loss on the early extinguishment of debt related to the redemption of subordinated notes and $49.4 million in write-downs on the investment in two Morgan Keegan mutual funds. See Table 8 Non-Interest Expense (including Non-GAAP Reconciliation) for further details. Salaries and employee benefit cost were lower in 2008, mainly due to merger-related cost savings. Regions commission-driven revenues such as brokerage, investment banking and mortgage did, and will continue to, impact the salaries and employee benefits component of non-interest expense in direct correlation to revenue trends.

In December 2008, Regions reached an agreement with the Internal Revenue Service (IRS) that resolves a broad range of tax issues for Regions and all of its predecessor companies. The agreement covers and effectively closes Regions federal tax returns for tax years 1999 through 2006. As a result of the agreement, Regions recorded a $275 million earnings benefit from a reduction in the Company s income tax expense during the fourth quarter of 2008. Refer to Income Taxes under Operating Results for additional details.

Total loans increased by 2.1 percent in 2008, driven mainly by commercial and industrial and home equity lending. Partially offsetting this growth, demand for residential-related real estate lending softened during the year, primarily a result of the challenging economic backdrop and industry-wide tightening of credit. Deposits declined 4.1 percent in 2008 as compared to 2007, driven by a decline in foreign deposits utilized as an alternative to overnight funding. Customer deposits, defined as total deposits less deposits used for corporate

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treasury purposes (e.g. overnight funding sources), increased by 4.6 percent during 2008, driven largely by higher certificate of deposit balances.

Table 2 GAAP to Non-GAAP Reconciliation presents computations of earnings and certain other financial measures excluding discontinued operations, merger and goodwill impairment charges (non-GAAP). Merger and goodwill impairment charges are included in financial results presented in accordance with generally accepted accounting principles (GAAP). Regions believes the exclusion of merger and goodwill impairment charges in expressing earnings and certain other financial measures, including earnings per common share from continuing operations, excluding merger and goodwill impairment charges and return on average tangible equity, excluding discontinued operations, merger and goodwill impairment charges provides a meaningful base for period-to-period and company-to-company comparisons, which management believes will assist investors in analyzing the operating results of the Company and predicting future performance. These non-GAAP financial measures are also used by management to assess the performance of Regions business, because management does not consider merger and goodwill impairment charges to be relevant to ongoing operating results. Management and the Board of Directors utilize these non-GAAP financial measures for the following purposes:

- Preparation of Regions operating budgets
- Calculation of performance-based annual incentive bonuses for certain executives
- Calculation of performance-based multi-year incentive bonuses for certain executives
- Monthly financial performance reporting, including segment reporting
- Monthly close-out flash reporting of consolidated results (management only)
- Presentations to investors of Company performance

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

Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied and are not audited. To mitigate these limitations, Regions has policies in place to address expenses that qualify as merger and goodwill impairment charges and procedures in place to approve and segregate merger and goodwill impairment charges from other normal operating expenses to ensure that the Company s operating results are properly reflected for period-to-period comparisons. Although these non-GAAP financial measures are frequently used by stakeholders in the evaluation of a company, they have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analyses of results as reported under GAAP. In particular, a measure of earnings that excludes merger and goodwill impairment charges does not represent the amount that effectively accrues directly to stockholders (i.e., merger and goodwill impairment charges are a reduction to earnings and stockholders equity).

See Table 2 GAAP to Non-GAAP Reconciliation below for computations of earnings and certain other GAAP financial measures and the corresponding reconciliation to non-GAAP financial measures, which exclude discontinued operations, merger and goodwill impairment charges for the periods presented.

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Table 2 GAAP to Non-GAAP Reconciliation

		For Years Ended December 31 2008	2007	2006
		(In thousands, except per share data)		
INCOME				
Income (loss) from continuing operations (GAAP)		$ (5,584,313)	$ 1,393,163	$ 1,372,521
Preferred stock expense (GAAP)		(26,236)		
Income (loss) from continuing operations available to common shareholders (GAAP)		(5,610,549)	1,393,163	1,372,521
Loss from discontinued operations, net of tax (GAAP)		(11,461)	(142,068)	(19,376)
Income (loss) available to common shareholders (GAAP)	A	$ (5,622,010)	$ 1,251,095	$ 1,353,145
Income (loss) from continuing operations available to common shareholders (GAAP)		$ (5,610,549)	$ 1,393,163	$ 1,372,521
Merger-related charges, pre-tax				
Salaries and employee benefits		133,401	158,613	65,693
Net occupancy expense		3,331	33,834	3,473
Furniture and equipment expense		4,985	4,856	427
Other		58,454	153,564	19,066
Total merger-related charges, pre-tax		200,171	350,867	88,659
Merger-related charges, net of tax		124,106	217,537	60,320
Goodwill impairment		6,000,000		
Income from continuing operations available to common shareholders, excluding merger and goodwill impairment charges (non-GAAP)	B	$ 513,557	$ 1,610,700	$ 1,432,841
Weighted-average diluted shares	C	695,003	712,743	506,989
Earnings (loss) per common share diluted (GAAP)	A/C	$ (8.09)	$ 1.76	$ 2.67
Earnings per common share from continuing operations, excluding merger and goodwill impairment charges diluted (non-GAAP)	B/C	$ 0.74	$ 2.26	$ 2.83
RETURN ON AVERAGE TANGIBLE COMMON EQUITY				
Average equity (GAAP)		$ 19,939,407	$ 20,036,459	$ 12,368,632
Average intangible assets (GAAP)		11,949,657	12,130,417	6,449,657
Average preferred equity		424,850		
Average tangible common equity	D	$ 7,564,900	$ 7,906,042	$ 5,918,975
Average equity, excluding discontinued operations		$ 19,939,407	$ 20,013,170	$ 12,215,207
Average intangible assets, excluding discontinued operations		11,949,657	12,130,417	6,449,657
Average preferred equity		424,850		
Average tangible common equity, excluding discontinued operations	E	$ 7,564,900	$ 7,882,753	$ 5,765,550
Return on average tangible common equity	A/D	(74.32)%	15.82%	22.86%

Return on average tangible common equity, excluding discontinued operations, merger and goodwill impairment charges (non-GAAP)	B/E	6.79%	20.43%	24.85%

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CRITICAL ACCOUNTING POLICIES

In preparing financial information, management is required to make significant estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses for the periods shown. The accounting principles followed by Regions and the methods of applying these principles conform with accounting principles generally accepted in the U.S. and general banking practices. Estimates and assumptions most significant to Regions are related primarily to the allowance for credit losses, intangible assets (goodwill and other identifiable intangible assets), mortgage servicing rights and income taxes, and are summarized in the following discussion and in the notes to the consolidated financial statements.

Allowance for Credit Losses

The allowance for credit losses (allowance) consists of the allowance for loan losses and the reserve for unfunded credit commitments. Management evaluates the adequacy of the allowance based on the total of these two components. Determining the appropriate level of the allowance is one of the most critical and complex accounting estimates for any financial institution. Accounting guidance requires Regions to make a number of estimates related to the level of credit losses inherent in the portfolio at year-end. A full discussion of these estimates and other factors can be found in the Allowance for Credit Losses section within the discussion of credit risk, found in a later section of this report.

The allowance is sensitive to a variety of internal factors, such as portfolio performance and assigned risk ratings, and external factors, such as interest rates and the general health of the economy. Management reviews scenarios having different assumptions for variables that could result in increases or decreases in probable inherent credit losses, which may materially impact Regions estimate of the allowance and results of operations.

Management s estimate of the allowance for commercial products, which includes commercial, construction, and commercial real estate mortgage loans, could be affected by risk rating upgrades or downgrades as a result of fluctuations in the general economy, developments within a particular industry, or changes in an individual s credit due to factors particular to that credit, such as competition, management or business performance. A reasonably possible scenario would be an estimated 20 percent migration of lower risk-related pass credits to criticized status, which could increase estimated inherent losses by approximately $218.2 million. A 20 percent reduction in the level of criticized credits is also a reasonably possible scenario, which would result in an approximate $111.8 million decrease in estimated inherent losses.

For residential real estate mortgages, home equity lending and other consumer-related loans, individual products are reviewed on a group basis or in loan pools (e.g., residential real estate mortgage pools). The total of all residential loans, including residential real estate mortgages and home equity lending, represents approximately 32 percent of total loans. Losses can be affected by such factors as collateral value, loss severity, the economy and other uncontrollable factors. A 20-basis-point increase or decrease in the estimated loss rates on these residential loans would change estimated inherent losses by approximately $61.7 million. The loss analysis related to other consumer-related loans includes reasonably possible scenarios with estimated loss rates increasing or decreasing by 50 basis points, which would increase or decrease the related estimated inherent losses by approximately $30.8 million, respectively.

Additionally, the estimate of the allowance for credit losses for the entire portfolio may change due to modifications in the mix and level of loan balances outstanding and general economic conditions, as evidenced by changes in real estate demand and values, interest rates, unemployment or employment rates, bankruptcy filings, used car prices, real estate demand and values, and the effects of weather and natural disasters such as droughts and hurricanes. While no one factor is dominant, each has the ability to result in actual loan losses that could differ materially from originally estimated amounts.

The pro forma inherent loss analysis presented above demonstrates the sensitivity of the allowance to key assumptions. This sensitivity analysis does not reflect an expected outcome.

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Intangible Assets

Regions intangible assets consist primarily of the excess of cost over the fair value of net assets of acquired businesses (goodwill) and other identifiable intangible assets (primarily core deposit intangibles). Regions goodwill is tested for impairment annually or more often if events or circumstances indicate impairment may exist. Adverse changes in the economic environment, declining operations of the business unit, or other factors could result in a decline in the estimated implied fair value of goodwill. If the estimated implied fair value is less than the carrying amount, a loss would be recognized to reduce the carrying amount to the estimated implied fair value.

For purposes of testing goodwill for impairment, Regions uses both the income and market approaches to value its reporting units. The income approach consists of discounting long-term projected 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). The market approach applies a market multiple, based on observed purchase transactions and/or price/earnings of Regions peer group for each reporting unit, to the last twelve months of net income or earnings before income taxes, depreciation and amortization or price/tangible book value. One of the critical assumptions in determining the estimated fair value of a reporting unit is the discount rate, which can change based on changes in the business climate. A decrease in the discount rate by one percentage point would result in an increase in fair value of approximately $1.0 billion for all reporting units and an increase of approximately $600 million for the General Banking/Treasury reporting unit. An increase in the discount rate by one percentage point would result in a decline in fair value of approximately $800 million for all reporting units and a decline of approximately $500 million for the General Banking/Treasury reporting unit. A variation in the discount rate may result in or from changes to other assumptions used in determining the estimated fair value; these changes could materially affect the sensitivities described above.

If the estimated implied fair value of goodwill is less than the carrying amount, a loss would be recognized to reduce the carrying amount to the estimated implied fair value. The changes or factors mentioned above, when or if they occur, could be material to Regions operating results for any particular reporting period. As previously discussed, Regions incurred a $6.0 billion impairment charge in 2008. See Note 1 Summary of Significant Accounting Policies to the consolidated financial statements for additional information.

Other identifiable intangible assets, primarily core deposit intangibles, are reviewed at least annually for events or circumstances which could impact the recoverability of the intangible asset, such as loss of core deposits, increased competition or adverse changes in the economy. To the extent an other identifiable intangible asset is deemed unrecoverable, an impairment loss would be recorded to reduce the carrying amount. These events or circumstances, when they occur, could be material to Regions operating results for any particular reporting period; the potential impact cannot be reasonably estimated.

Mortgage Servicing Rights

For purposes of evaluating mortgage servicing impairment, Regions must estimate the fair value of its mortgage servicing rights (MSRs). MSRs do not trade in an active market with readily observable market prices. Although sales of MSRs do occur, the exact terms and conditions of sales may not be readily available. Specific characteristics of the underlying loans greatly impact the value of the related MSRs. As a result, Regions stratifies its mortgage servicing portfolio on the basis of certain risk characteristics, including loan type and contractual note rate, and values its MSRs using discounted cash flow modeling techniques. These techniques require management to make estimates regarding future net servicing cash flows, taking into consideration historical and forecasted mortgage loan prepayment rates and discount rates. Changes in interest rates, prepayment speeds or other factors could result in impairment of the servicing asset and a charge against earnings. Based on a hypothetical sensitivity analysis, Regions estimates that a reduction in primary mortgage market rates of 25 basis points and 50 basis points would reduce the December 31, 2008 fair value of MSRs by

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approximately 9.5 percent ($11.3 million) and 16.8 percent ($20.1 million), respectively. Conversely, 25 basis point and 50 basis point increases in these rates would increase the December 31, 2008 fair value of MSRs by approximately 10.1 percent ($12.0 million) and 23.0 percent ($27.5 million), respectively.

The pro forma fair value analysis presented above demonstrates the sensitivity of fair values to hypothetical changes in primary mortgage rates. This sensitivity analysis does not reflect an expected outcome. Refer to Mortgage Servicing Rights discussion in the Balance Sheet analysis.

Income Taxes

Accrued taxes represent the estimated amount payable to or receivable from taxing jurisdictions, either currently or in the future, and are reported, on a net basis, as a component of other assets in the consolidated balance sheets. The calculation of Regions income tax expense is complex and requires the use of many estimates and judgments in its determination.

Management s determination of the realization of the net deferred tax asset is based upon management s judgment of various future events and uncertainties, including the timing and amount of future income earned by certain subsidiaries and the implementation of various tax plans to maximize realization of the deferred tax asset. Management believes that the subsidiaries will generate sufficient operating earnings to realize the deferred tax benefits.

From time to time, for certain business plans enacted by Regions, management bases the estimates of related tax liabilities on its belief that future events will validate management s current assumptions regarding the ultimate outcome of tax-related exposures. While Regions has obtained the opinion of advisors that the anticipated tax treatment of these transactions should prevail and has assessed the relative merits and risks of the appropriate tax treatment, examination of Regions income tax returns, changes in tax law and regulatory guidance may impact the tax treatment of these transactions and resulting provisions for income taxes.

OPERATING RESULTS

GENERAL

Regions reported a net loss available to common shareholders of $5.6 billion in 2008, compared to net income of $1.3 billion in 2007. Results in 2008 were significantly impacted by a $6.0 billion non-cash goodwill impairment charge recorded in the fourth quarter of 2008. After-tax merger-related expenses of approximately $124.1 million and $217.5 million were incurred during 2008 and 2007, respectively. Excluding the impact of merger-related charges and goodwill impairment, earnings from continuing operations were $513.6 million in 2008 compared to $1.6 billion in 2007. Refer to Table 2 GAAP to Non-GAAP Reconciliation for additional details.

NET INTEREST INCOME AND MARGIN

Net interest income (interest income less interest expense) is Regions principal source of income and is one of the most important elements of Regions ability to meet its overall performance goals. Net interest income on a taxable-equivalent basis decreased 13 percent to $3.9 billion in 2008 from $4.4 billion in 2007, resulting in a decline in the net interest margin, which declined from 3.79 percent in 2007 to 3.23 percent in 2008. The net interest margin was impacted substantially by developments in the aforementioned economic and operating environment in 2008. More specifically, changes in market interest rates and the yield curve were closely connected with economic developments during the year. Regions balance sheet was in an asset sensitive position during 2008, meaning that decreases in interest rates cause contraction in the Company s net interest margin. As such, falling rates in 2008 led to an unfavorable change in the yield curve and, in turn, the net interest margin. However, changes in the level and shape of the yield curve were largely symptomatic of the pervasive disturbances in the financial markets and the broader economy, observed particularly during the second half of

2008. Amidst the many complex implications of this recent financial turmoil, these forces intensified price-based competition in the retail deposit space (increasing the interest cost of maintaining and acquiring deposits), raised wholesale funding costs (increasing the costs of liquidity management), prompted a disintermediation out of conventional bank deposits into other asset classes, and increased the level of non-performing assets.

During 2008, the Federal Reserve lowered the Federal funds rate by approximately 400 basis points in response to mounting concerns of a recession. As indicated above, Regions was asset sensitive at year-end 2008 and anticipates this positioning to continue to pressure net interest income during 2009.

Table 3 Consolidated Average Daily Balances and Yield/Rate Analysis Including Discontinued Operations presents a detail of net interest income, on a fully taxable-equivalent basis, the net interest margin, and the net interest spread.

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Table 3 Consolidated Average Daily Balances and Yield/Rate Analysis Including Discontinued Operations

	2008			2007			2006		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
	(Dollars in thousands; yields on taxable-equivalent basis)								
Assets									
Interest-earning assets:									
Federal funds sold and securities purchased under agreements to resell	$ 867,868	$ 18,623	2.15%	$ 1,020,994	$ 50,801	4.98%	$ 961,127	$ 39,269	4.09%
Trading account assets	1,472,922	65,769	4.47	1,441,565	72,199	5.01	1,133,966	67,917	5.99
Securities:									
Taxable	16,897,189	827,622	4.90	16,981,646	856,043	5.04	12,638,833	608,171	4.81
Tax-exempt	753,700	61,065	8.10	736,762	62,751	8.52	470,003	50,961	10.84
Loans held for sale	664,456	35,733	5.38	1,538,813	110,950	7.21	2,286,604	176,672	7.73
Loans held for sale divestitures				283,697	21,521	7.59	262,884	20,087	7.64
Loans, net of unearned income(1)(2)	97,601,272	5,562,261	5.70	94,372,061	6,900,007	7.31	64,765,653	4,805,931	7.42
Other interest-earning assets	1,872,964	29,042	1.55	588,141	38,500	6.55	589,794	40,441	6.86
Total interest-earning assets	120,130,371	6,600,115	5.49	116,963,679	8,112,772	6.94	83,108,864	5,809,449	6.99
Allowance for loan losses	(1,413,085)			(1,063,011)			(833,691)		
Cash and due from banks	2,522,344			2,848,590			2,153,838		
Other non-earning assets	22,707,395			20,007,361			11,371,266		
	$ 143,947,025			$ 138,756,619			$ 95,800,277		
Liabilities and Stockholders Equity									
Interest-bearing liabilities:									
Savings accounts	$ 3,743,595	$ 4,350	0.12%	$ 3,797,413	$ 10,879	0.29%	$ 3,205,123	$ 12,356	0.39%
Interest-bearing transaction accounts	15,057,653	127,123	0.84	15,553,355	311,672	2.00	10,664,995	168,320	1.58
Money market accounts	18,269,092	326,219	1.79	19,455,402	629,187	3.23	11,442,827	325,398	2.84
Money market accounts foreign	2,827,806	46,343	1.64	3,821,607	154,806	4.05	2,714,183	111,061	4.09
Time deposits customer	28,301,406	1,099,090	3.88	28,524,600	1,282,132	4.49	22,129,808	899,208	4.06
Interest-bearing deposits divestitures				374,179	12,091	3.23	365,642	11,974	3.27
Total customer deposits interest-bearing	68,199,552	1,603,125	2.35	71,526,556	2,400,767	3.36	50,522,578	1,528,317	3.03
Time deposits non customer	2,082,891	74,714	3.59	1,338,340	69,961	5.23	896,835	45,673	5.09
Other foreign deposits	2,074,274	46,231	2.23	3,857,657	193,155	5.01	2,081,440	106,177	5.10
Total treasury deposits interest-bearing	4,157,165	120,945	2.91	5,195,997	263,116	5.06	2,978,275	151,850	5.10
Total interest-bearing deposits	72,356,717	1,724,070	2.38	76,722,553	2,663,883	3.47	53,500,853	1,680,167	3.14
Federal funds purchased and securities sold under agreements to repurchase	7,697,505	170,993	2.22	8,080,179	377,595	4.67	5,162,196	233,208	4.52
Other short-term borrowings	8,703,601	198,395	2.28	1,901,897	81,872	4.30	1,089,223	42,289	3.88
Long-term borrowings	13,509,689	626,976	4.64	9,697,823	552,947	5.70	6,855,601	385,152	5.62
Total interest-bearing liabilities	102,267,512	2,720,434	2.66	96,402,452	3,676,297	3.81	66,607,873	2,340,816	3.51
Net interest spread			2.83			3.13			3.48
Customer deposits non-interest-bearing	17,720,285			19,002,548			13,965,594		
Other liabilities	4,019,821			3,315,160			2,858,178		
Stockholders equity	19,939,407			20,036,459			12,368,632		

	$ 143,947,025		$ 138,756,619		$ 95,800,277	
Net interest income/margin on a taxable-equivalent basis(3)	$ 3,879,681	3.23%	$ 4,436,475	3.79%	$ 3,468,633	4.17%

Notes:

(1) Loans, net of unearned income include non-accrual loans for all periods presented.
(2) Interest income includes loan fees of $33,800,000, $65,673,000 and $78,360,000 for the years ended December 31, 2008, 2007 and 2006, respectively.
(3) The computation of taxable-equivalent net interest income is based on the stautory federal income tax rate of 35%, adjusted for applicable state income taxes net of the related federal tax benefit.

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Table 4 Volume and Yield/Rate Variances

	2008 Compared to 2007			2007 Compared to 2006		
	Volume	Change Due to Yield/ Rate	Net	Volume	Change Due to Yield/ Rate	Net
	(Taxable-equivalent basis in thousands)					
Interest income on:						
Federal funds sold and securities purchased under agreements to resell	$ (6,715)	$ (25,463)	$ (32,178)	$ 2,564	$ 8,968	$ 11,532
Trading account assets	1,542	(7,972)	(6,430)	16,542	(12,260)	4,282
Securities:						
Taxable	(4,239)	(24,182)	(28,421)	217,710	30,162	247,872
Tax-exempt	1,420	(3,106)	(1,686)	24,422	(12,632)	11,790
Loans held for sale	(51,972)	(23,245)	(75,217)	(54,572)	(11,150)	(65,722)
Loans held for sale divestitures	(21,521)		(21,521)	1,580	(146)	1,434
Loans, net of unearned income	229,110	(1,566,856)	(1,337,746)	2,165,675	(71,599)	2,094,076
Other interest-earning assets	36,539	(45,997)	(9,458)	(113)	(1,828)	(1,941)
Total interest-earning assets	184,164	(1,696,821)	(1,512,657)	2,373,808	(70,485)	2,303,323
Interest expense on:						
Savings accounts	(152)	(6,377)	(6,529)	2,038	(3,515)	(1,477)
Interest-bearing transaction accounts	(9,633)	(174,916)	(184,549)	90,250	53,102	143,352
Money market accounts	(36,306)	(266,662)	(302,968)	254,001	49,788	303,789
Money market accounts foreign	(32,971)	(75,492)	(108,463)	44,871	(1,126)	43,745
Time deposits customer	(9,958)	(173,084)	(183,042)	280,020	102,904	382,924
Interest-bearing deposits divestitures	(12,091)		(12,091)	277	(160)	117
Total customer deposits interest-bearing	(101,111)	(696,531)	(797,642)	671,457	200,993	872,450
Time deposits non customer	31,112	(26,359)	4,753	23,049	1,239	24,288
Other foreign deposits	(66,776)	(80,148)	(146,924)	88,971	(1,993)	86,978
Total treasury deposits interest-bearing	(35,664)	(106,507)	(142,171)	112,020	(754)	111,266
Total interest-bearing deposits	(136,775)	(803,038)	(939,813)	783,477	200,239	983,716
Federal funds purchased and securities sold under agreements to repurchase	(17,106)	(189,496)	(206,602)	136,100	8,287	144,387
Other short-term borrowings	171,058	(54,535)	116,523	34,547	5,036	39,583
Long-term borrowings	189,898	(115,869)	74,029	161,974	5,821	167,795
Total interest-bearing liabilities	207,075	(1,162,938)	(955,863)	1,116,098	219,383	1,335,481
Increase (decrease) in net interest income	$ (22,911)	$ (533,883)	$ (556,794)	$ 1,257,710	$ (289,868)	$ 967,842

Notes:

1. The change in interest not due solely to volume or yield/rate has been allocated to the volume column and yield/rate column in proportion to the relationship of the absolute dollar amounts of the change in each.

2. The computation of taxable net interest income is based on the statutory federal income tax rate of 35%, adjusted for applicable state income taxes net of the related federal tax benefit.

Comparing 2008 to 2007, interest-earning asset yields were lower, decreasing 145 basis points on average. While interest-bearing liability rates were also lower, declining by 115 basis points, this improvement in funding cost was not enough to offset the drop in interest-earning asset yields. As a result, the net average interest rate spread declined 30 basis points to 2.83 percent in 2008 as compared to 3.13 percent in 2007. Changes in market interest rates, an increase in competition for deposits, and Regions asset sensitive position were the most significant drivers of changes in Regions rates and yields.

In terms of changes in the broad interest rate environment, the Federal Funds rate, which is an influential driver of loan and deposit pricing on the shorter end of the yield curve, declined approximately 400 basis points during 2008, ending the year at approximately 0.25 percent. Longer-term rates experienced similar movement, with the yield on the benchmark 10-year U.S. Treasury note declining 166 basis points over the same period and ending the year at 2.25 percent. Both interest-earning assets and interest-bearing liabilities were impacted by these changes in market rates. More specifically, these rate declines immediately impact loan yields in a downward fashion, since approximately 55 percent of the Company s interest-earning assets are tied to the prime rate or London Inter-Bank Offered Rate (LIBOR).

The mix of interest-earning assets can also affect the interest rate spread. Regions primary types of interest-earning assets are loans and investment securities. Certain types of interest-earning assets have historically generated larger spreads. For example, loans typically generate larger spreads than other assets, such as securities, Federal funds sold or securities purchased under agreement to resell. However, in 2008, the spread on loans decreased due to lower interest rates and higher levels of assets on non-accrual status. Average interest-earning assets at December 31, 2008 totaled $120.1 billion, an increase of $3.2 billion as compared to the prior year. On an average basis, interest-earning assets were 2.7 percent higher in 2008. The proportion of average interest-earning assets to average total assets measures the effectiveness of management s efforts to invest available funds into the most profitable interest-earning vehicles and represented 83 percent and 84 percent for 2008 and 2007, respectively. Average loans as a percentage of average interest-earning assets were 81 percent in 2008 and 2007. The categories which comprise interest-earning assets are shown in Table 3 Consolidated Average Daily Balances and Yield/Rate Analysis Including Discontinued Operations .

Another significant factor affecting the net interest margin is the percentage of interest-earning assets funded by interest-bearing liabilities. Funding for Regions interest-earning assets comes from interest-bearing and non-interest-bearing sources. The percentage of average interest-earning assets funded by average interest-bearing liabilities was 85 percent in 2008 and 82 percent in 2007.

Table 4 Volume and Yield/Rate Variances provides additional information with which to analyze the changes in net interest income.

Provision for Loan Losses

The provision for loan losses is used to maintain the allowance for loan losses at a level that in management s judgment is adequate to cover losses inherent in the portfolio at the balance sheet date. During 2008, the provision for loan losses from continuing operations was $2.1 billion and net charge-offs were $1.5 billion. This compares to a provision for loan losses from continuing operations of $555.0 million and net charge-offs of $270.5 million in 2007. Net charge-offs as a percent of average loans were 1.59 percent in 2008 compared to 0.29 percent in 2007. The significant increase in the provision and net charge-offs in 2008 is related to losses on non-performing loans sold or moved to held for sale. In 2008, these losses accounted for $639.0 million of the increase in the net charge-offs. The remaining increase in the loan loss provision was primarily due to an increase in management s estimate of losses inherent in its residential homebuilder, condominium, home equity and residential mortgage portfolios, all of which are closely tied to the housing market slowdown. Losses were also impacted by the disposition of problem loans, as well as generally weaker economic conditions in the broader economy. During the second half of the year, Regions provision was $1.6 billion compared to net charge-offs of $1.2 billion, as the loan portfolio experienced increasing incremental stress.

For further discussion of the total allowance for credit losses, see the Risk Management section found later in this report and Note 7 Allowance for Credit Losses to the consolidated financial statements.

NON-INTEREST INCOME

The following section contains a discussion of non-interest income from continuing operations and excludes EquiFirst, which is reported separately as discontinued operations in the consolidated statements of operations.

Non-interest income represents fees and income derived from sources other than interest-earning assets. Table 5 Non-Interest Income provides a detail of the components of non-interest income. Non-interest income totaled $3.1 billion in 2008 compared to $2.9 billion in 2007. The increase in non-interest income is primarily due to stronger brokerage results, mainly from fixed-income and equity markets at Morgan Keegan, as well as an increase in income derived from insurance commissions and fees and bank-owned life insurance. In addition, non-interest income was aided by a $101 million increase in securities gains. Offsetting these increases, service charge income declined as a result of lower insufficient funds fees. In addition, trust income decreased due to the disarray in the markets during the latter half of the year, which affected valuations of assets under management. Non-interest income (excluding securities transactions) as a percent of total revenue (on a fully taxable-equivalent basis) equaled 43 percent in 2008 compared to 39 percent in 2007. The increase is due mainly to lower total revenues in 2008 resulting from a decline in net interest income.

Table 5 Non-Interest Income

	Year Ended December 31		
	2008	2007	2006
		(In thousands)	
Service charges on deposit accounts	$ 1,147,959	$ 1,162,740	$ 721,998
Brokerage, investment banking and capital markets	1,027,468	894,621	716,983
Trust department income	233,522	251,319	158,161
Mortgage income	137,676	135,704	178,688
Net securities gains (losses)	92,495	(8,553)	8,123
Insurance commissions and fees	110,069	99,365	85,547
Bank-owned life insurance	78,341	62,021	11,853
Other miscellaneous income	245,701	258,618	148,367
	$ 3,073,231	$ 2,855,835	$ 2,029,720

Service Charges on Deposit Accounts

Income from service charges on deposit accounts decreased 1 percent to $1.1 billion in 2008 from $1.2 billion in 2007. This decline was the result of a decrease in consumer insufficient funds and overdraft fees, due to policy changes which were enacted to retain customers. Also, the Company s new LifeGreen® checking accounts, which generated new account openings, had a lower associated fee structure.

Brokerage, Investment Banking and Capital Markets and Trust Department Income

Regions primary source of brokerage, investment banking, capital markets and trust revenue is its subsidiary, Morgan Keegan. Morgan Keegan s revenues are predominantly recorded in the brokerage, investment banking, capital markets and trust income lines of the consolidated statements of operations, while a smaller portion is reported in other non-interest income.

Morgan Keegan contributed $1.3 billion in total revenues in 2008 and 2007. Total brokerage, investment banking, and capital markets revenues increased 15 percent to $1.0 billion in 2008 from $894.6 million in 2007, reflecting stronger capital markets income. Despite the overall year-over-year increase in revenues, results for 2008 reflect the impact of the effective closure of credit markets and general upheaval in domestic and foreign markets. In addition, private client revenues were influenced by a reluctance of retail investors to make investment decisions in the market, due to increasing unemployment, declining property values, and declining personal wealth. As a result, brokerage, investment banking, and capital markets income began to decline during the latter part of 2008. Higher revenues from Morgan Keegan s fixed income business offset this decrease to some extent, however, as institutional investors seeking safety invested heavily in municipal, mortgage-backed, and treasury securities. As of December 31, 2008, Morgan Keegan employed approximately 1,285 financial advisors. Customer and trust assets under management were approximately $63 billion and $62 billion, respectively, at year-end 2008 compared to approximately $80 billion and $81 billion, respectively, at year-end 2007. The reduction in assets under management is primarily driven by lower asset valuations from declining markets during the year.

Revenues from the private client division, which were affected by market disarray, declined 14 percent to $339.4 million, or 26 percent of Morgan Keegan s total revenue in 2008 compared to $393.5 million or 30 percent in 2007. Fixed-income capital markets revenues were up in 2008, totaling $369.9 million, as compared to $244.4 million in 2007, the result of higher trading volumes due to investors change in preference to safe-haven investments, including treasuries and highly rated municipal securities. Equity markets revenue was solid early in 2008, but increasingly gave way to financial market turmoil as the capital markets became more dislocated. Equity capital markets revenues totaled $127.9 million in 2008, compared to $103.3 million in 2007. Trust revenues increased 2 percent to $230.6 million in 2008, driven higher by revenues generated from the negotiation of natural lease drilling rights on customer properties. The asset management division produced $177.4 million of revenue in 2008 compared to $188.9 million in 2007 and was pressured by the decreasing value of managed assets during the year.

Morgan Keegan s pre-tax income was negatively affected during 2008 by $49.4 million in losses on investments in two open-end mutual funds managed by Morgan Keegan. These losses totaled $42.8 million in 2007. The Company, through Morgan Keegan, purchased fund shares in order to provide liquidity to the funds. The carrying value of these investments, which is equal to their estimated market value, was approximately $8.4 million as of December 31, 2008. Professional fees, primarily legal costs, also increased at Morgan Keegan from $21.1 million in 2007 to $85.5 million in 2008.

Table 6 Morgan Keegan details the components of Morgan Keegan s contribution to the Company s revenue and earnings for the years ended December 31, 2008, 2007 and 2006. Table 7 Morgan Keegan Revenue by Division illustrates Morgan Keegan s revenues by division for the years ended December 31, 2008, 2007 and 2006.

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Table 6 Morgan Keegan

	Year Ended December 31 2008	2007 (In thousands)	2006
Revenues:			
Commissions	$ 249,216	$ 314,541	$ 242,872
Principal transactions	267,417	181,567	156,019
Investment banking	209,898	191,479	152,858
Interest	95,136	149,011	139,745
Trust fees and services	230,553	225,845	131,215
Investment advisory	206,536	184,194	149,174
Other	41,426	53,555	56,788
Total revenues	1,300,182	1,300,192	1,028,671
Expenses:			
Interest expense	45,828	90,609	87,046
Non-interest expense	1,051,813	947,673	702,913
Total expenses	1,097,641	1,038,282	789,959
Income before income taxes	202,541	261,910	238,712
Income taxes	74,200	96,038	87,625
Net income	$ 128,341	$ 165,872	$ 151,087

Table 7 Morgan Keegan Revenue by Division

	Year Ended December 31					
	Private Client	Fixed-Income Capital Markets	Equity Capital Markets	Regions MK Trust	Asset Management	Interest and Other
	(Dollars in thousands)					
2008						
Gross revenue	$ 339,438	$ 369,887	$ 127,929	$ 230,553	$ 177,352	$ 55,023
Percent of gross revenue	26.1%	28.5%	9.8%	17.7%	13.6%	4.3%
2007						
Gross revenue	$ 393,511	$ 244,407	$ 103,289	$ 225,845	$ 188,905	$ 144,235
Percent of gross revenue	30.3%	18.8%	7.9%	17.4%	14.5%	11.1%
2006						
Gross revenue	$ 305,098	$ 187,425	$ 103,282	$ 131,215	$ 149,511	$ 152,140
Percent of gross revenue	29.7%	18.2%	10.0%	12.8%	14.5%	14.8%

Mortgage Income

Mortgage income is generated through the origination and servicing of mortgage loans for long-term investors and sales of mortgage loans in the secondary market. Although mortgage income was affected by the increasingly challenging mortgage industry environment (see Economic Environment in Regions Banking Markets later in this report) which deteriorated throughout the year, mortgage income increased 1 percent, from $135.7 million in 2007 to $137.7 million in 2008 due in part to the recognition of $10.0 million in loan servicing value during the first quarter of 2008 related to the adoption of FAS 159. See Note 23 Fair Value of Financial Instruments to the consolidated financial statements for further detail. Falling mortgage interest rates in December, however, did produce a significant increase in refinancing activity during late 2008 and into 2009.

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During 2008, the Company sold mortgage servicing rights on approximately $3.4 billion of GNMA loans and recognized a loss of $14.9 million, including transaction costs. At December 31, 2008, Regions servicing portfolio totaled $36.6 billion and included 306,153 loans. Of this portfolio, $21.2 billion were serviced for third parties. At December 31, 2007, the servicing portfolio totaled $43.1 billion, $26.9 billion of which were serviced for third parties. Regions mortgage division, primarily through retail operations in its 16-state footprint, originated mortgage loans totaling $5.4 billion in 2008 compared to $6.9 billion in 2007. The decrease is primarily related to lower demand and general stresses in the housing sector.

During the first quarter of 2007, Regions sold its non-conforming mortgage origination subsidiary, EquiFirst, for an original sales price of approximately $76 million and recorded an after-tax gain of approximately $1 million at the time of sale. The sales price was subject to adjustment and was finalized during 2008 resulting in approximately $10 million of additional after-tax expense to Regions. See Note 4 Discontinued Operations to the consolidated financial statements for further detail. During the third quarter of 2007, Regions also exited the wholesale warehouse lending business as a result of risk and return considerations. In addition, Regions sold approximately $1.9 billion of its $4.5 billion out-of-market mortgage servicing portfolio in 2007, realizing a loss on the sale of approximately $4.4 million.

Net Securities Gains (Losses)

Regions reported net gains of $92.5 million from the sale of securities available for sale in 2008, as compared to net losses of $8.6 million in 2007. The 2008 net gains were primarily related to the sale of federal agency debentures and U.S. treasury securities in the first quarter of 2008.

Insurance Commissions and Fees

Insurance commissions and fees increased 11 percent to $110.1 million in 2008, compared to $99.4 million in 2007. This increase is primarily due to increased revenues from the mid-2007 acquisition of Miles & Finch and the acquisition of Barksdale Bonding and Insurance, Inc, which closed in early 2008. A general increase in commissions related to new business production and higher premiums were also a contributing factor in the year-over-year increase.

Bank-Owned Life Insurance

Bank-owned life insurance income increased 26 percent to $78.3 million in 2008, compared to $62.0 million in 2007. This increase is primarily due to additional purchases of bank-owned life insurance policies totaling $967 million in late 2007 and early 2008.

Other Miscellaneous Income

Other miscellaneous income decreased $12.9 million, or 5 percent, from $258.6 million in 2007 to $245.7 million in 2008. A significant driver of the decrease is due to a $26.2 million decrease in gains on the sale of loans in 2008 and a $21.3 million increase in losses related to write-downs of low income housing investments. In addition in 2007, Regions recognized a $9.1 million gain on the termination of Union Planters hybrid debt and a $13.3 million gain on disposal of residual interests in an acquired subsidiary. Also, in 2007, Regions recognized a $7.3 million gain related to a sale of certain mutual funds. Offsetting these events was a $62.8 million gain on the redemption of Visa shares in 2008.

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NON-INTEREST EXPENSE

The following section contains a discussion of non-interest expense from continuing operations. The largest components of non-interest expense are salaries and employee benefits, net occupancy expense and furniture and equipment expense. Total non-interest expense for 2008 also includes a $6.0 billion non-cash goodwill impairment charge. Non-interest expense, excluding the merger-related and goodwill impairment charges, increased $282.0 million, or 6.5 percent, to $4.6 billion in 2008. Included in non-interest expense are pre-tax merger-related expenses totaling $200.2 million in 2008 and $350.9 million in 2007.

Table 8 Non-Interest Expense (including Non-GAAP reconciliation) presents major non-interest expense components, both including and excluding merger-related expenses and goodwill impairment, for the years ended December 31, 2008, 2007 and 2006. Management believes Table 8 is useful in evaluating trends in non-interest expense. Note that merger-related charges as shown in this table relate to Regions acquisition of AmSouth in November 2006. See Table 2 GAAP to Non-GAAP Reconciliation, and the text preceding it, for further discussion of non-GAAP financial measures.

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Table 8 Non-Interest Expense (including Non-GAAP reconciliation)

	As Reported (GAAP)		
	2008	2007	2006
		(In thousands)	
Salaries and employee benefits	$ 2,355,939	$ 2,471,869	$ 1,859,851
Net occupancy expense	442,145	413,711	254,628
Furniture and equipment expense	334,541	301,330	157,897
Professional fees	214,191	151,991	97,220
Amortization of core deposit intangibles	134,139	155,346	63,523
Other real estate owned expense	102,766	15,862	2,206
Marketing	96,916	134,050	70,198
Goodwill impairment	6,000,000		
Mortgage servicing rights impairment	85,000	6,000	16,000
Other miscellaneous expenses	1,025,977	1,010,192	682,505
	$ 10,791,614	$ 4,660,351	$ 3,204,028

	Merger-Related Charges and Goodwill Impairment		
	2008	2007	2006
		(In thousands)	
Salaries and employee benefits	$ 133,401	$ 158,613	$ 65,693
Net occupancy expense	3,331	33,834	3,473
Furniture and equipment expense	4,985	4,856	427
Professional fees	7,409	34,573	6,083
Amortization of core deposit intangibles			
Other real estate owned expense			
Marketing	12,692	42,897	1,092
Goodwill impairment	6,000,000		
Mortgage servicing rights impairment			
Other miscellaneous expenses	38,353	76,094	11,891
	$ 6,200,171	$ 350,867	$ 88,659

	As Adjusted (Non-GAAP)		
	2008	2007	2006
		(In thousands)	
Salaries and employee benefits	$ 2,222,538	$ 2,313,256	$ 1,794,158
Net occupancy expense	438,814	379,877	251,155
Furniture and equipment expense	329,556	296,474	157,470
Professional fees	206,782	117,418	91,137
Amortization of core deposit intangibles	134,139	155,346	63,523
Other real estate owned expense	102,766	15,862	2,206
Marketing	84,224	91,153	69,106
Mortgage servicing rights impairment	85,000	6,000	16,000
Other miscellaneous expenses	987,624	934,098	670,614
	$ 4,591,443	$ 4,309,484	$ 3,115,369

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Salaries and Employee Benefits

Total salaries and employee benefits decreased $115.9 million, or 5 percent, in 2008. Included in total salaries and employee benefits are merger charges totaling $133.4 million in 2008 and $158.6 million in 2007. The year-over-year decrease in salaries and employee benefits cost is the result of ongoing merger-related and other personnel-related efficiencies, evidenced by reductions in headcount. At December 31, 2008, Regions had 30,784 employees compared to 33,161 at December 31, 2007. Lower incentives driven by a deteriorating business environment in 2008 were also a factor.

Regions provides employees who meet established employment requirements with a benefits package that includes 401(k), pension, and medical, life and disability insurance plans. New enrollment in the Regions pension plan ended effective December 31, 2000. New enrollment in the legacy AmSouth pension plan ended effective with the merger date, November 4, 2006. Former AmSouth employees enrolled as of November 4, 2006 continue to be active in the plan, but no additional participants will be added. Effective September 30, 2007, the two pension plans merged into one plan. Regions 401(k) plan includes a company match of eligible employee contributions. At December 31, 2008, this match totaled 100 percent of the eligible employee contribution (up to six percent of compensation). See Note 19 Pension and Other Employee Benefit Plans to the consolidated financial statements for further details.

There are various incentive plans in place in many of Regions lines of business that are tied to the performance levels of employees. At Morgan Keegan, commissions and incentives are a key component of compensation, which is typical in the brokerage and investment banking industry. In general, incentives are used to reward employees for selling products and services, for productivity improvements and for achievement of corporate financial goals. These achievements are determined through a review of profitability versus risk management. Regions long-term incentive plan provides for the granting of stock options, restricted stock, restricted stock units and performance shares. See Note 18 Share-Based Payments to the consolidated financial statements for further information.

Net Occupancy Expense

Net occupancy expense includes rents, depreciation and amortization, utilities, maintenance, insurance, taxes, and other expenses of premises occupied by Regions and its affiliates. Occupancy expense increased $28.4 million, or 7 percent, in 2008 due primarily to new branches opened and rising price levels. Included in net occupancy expense were merger charges of $3.3 million in 2008 and $33.8 million in 2007, reflecting costs to vacate leases due to the merger.

Furniture and Equipment Expense

Furniture and equipment expense increased $33.2 million to $334.5 million in 2008. This increase is due primarily to the increased depreciation and maintenance expense associated with capital additions, including new branches opened in 2007 and 2008. Included in furniture and equipment expense were merger charges of $5.0 million in 2008 and $4.9 million in 2007.

Professional Fees

Professional fees are comprised of amounts related to legal, consulting and other professional fees. Professional fees increased $62.2 million to $214.2 million in 2008. Included in professional fees during 2008 and 2007 were $7.4 million and $34.6 million, respectively, of merger-related charges. The 2008 increase is primarily due to higher legal expenses incurred at Morgan Keegan.

Amortization of Core Deposit Intangibles

The premium paid for core deposits in an acquisition is considered to be an intangible asset that is amortized on an accelerated basis over its useful life. As a result, amortization of core deposit intangibles decreased 14 percent to $134.1 million in 2008 compared to $155.3 million in 2007.

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Other Real Estate Owned Expense

Other real estate owned (OREO) expenses include the cost of adjusting foreclosed properties to fair value after these assets have been classified as OREO, as well as other costs to maintain the property. OREO expense increased $86.9 million to $102.8 million in 2008 compared to $15.9 million in 2007, driven by steep valuation declines and losses on the sale of foreclosed properties resulting from continued decline of the housing market. Another contributing factor is increased costs related to operating and maintaining the foreclosed properties during the holding period. Despite Regions aggressive and successful efforts to sell foreclosed properties, balances increased $122.5 million to $243.0 million in 2008. See Note 11 Other Real Estate to the consolidated financial statements.

Marketing

Marketing expense decreased $37.1 million during 2008, including a reduction of $30.2 million of merger-related charges, to $96.9 million from $134.1 million in 2007. In 2007, marketing expense was higher due to post-merger rebranding initiatives and marketing campaigns which ran to coincide with branch conversions, as well as customer communications associated with branch conversions and consolidations.

Goodwill Impairment

Regions incurred a $6.0 billion non-cash goodwill impairment charge as a result of a goodwill evaluation performed in the fourth quarter of 2008. This evaluation indicated the estimated implied fair value of the General Banking/Treasury reporting unit s goodwill was less than its book value, therefore requiring the impairment charge. Refer to Note 1 Summary of Significant Accounting Policies and Note 10 Intangible Assets to the consolidated financial statements for further discussion.

Mortgage Servicing Rights Impairment

Mortgage servicing rights impairment increased $79.0 million to $85.0 million in 2008. The increase was driven by the effects of changes in the interest rate environment in 2008.

Other Miscellaneous Expenses

Other miscellaneous expenses include communications, valuation impairment charges, business development services, and FDIC insurance. Other miscellaneous expenses increased slightly in 2008 compared to 2007. Included in other miscellaneous expenses are $49.4 million and $38.5 million write-downs on the investment in two Morgan Keegan mutual funds during 2008 and 2007, respectively. Also in 2008, Regions incurred a $65.4 million loss on early extinguishment of debt related to the redemption of subordinated notes. Other miscellaneous expenses benefited from the recognition of a $28.4 million litigation expense reduction related to Visa s IPO during the first quarter of 2008. Regions had recorded a $51.5 million expense for Visa litigation during the fourth quarter of 2007.

INCOME TAXES

Regions 2008 provision for income taxes from continuing operations decreased $993.8 million to a tax benefit to $348.1 million compared to expense of $645.7 million in 2007, primarily due to lower consolidated earnings combined with the $275 million benefit from settlement of uncertain tax positions resulting from the resolution with the IRS of the Company s federal uncertain tax positions for tax years 1999-2006.

Periodically, Regions invests in pass-through investment vehicles that generate tax credits, principally low-income housing credits and non-conventional fuel source credits, which directly reduce Regions federal income tax liability. Congress has enacted these tax credit programs to encourage capital inflows to these investment vehicles. The amount of tax benefit recognized from these tax credits was $56.3 million in 2008 compared to $81.3 million in 2007. The non-conventional fuel source credits, which totaled $39.6 million in 2007, expired at the end of 2007.

Regions has segregated a portion of its investment securities and intellectual property into separate legal entities in order to, among other business purposes, maximize the return on such assets by the professional and focused management thereof. Regions has recognized state tax benefits related to these legal entities of $37.5 million in 2008 compared to $45.8 million in 2007.

Management s determination of the realization of deferred tax assets is based upon management s judgment of various future events and uncertainties, including the timing, nature and amount of future income earned by certain subsidiaries, the level of taxable income in prior carryback years where carryback is permitted, and the implementation of various plans to maximize realization of deferred tax assets. Management believes that the subsidiaries will generate sufficient operating earnings to realize the deferred tax benefits. However, management does not believe that it is more-likely-than-not that all of its state net operating loss carryforwards will be realized. Accordingly, a valuation allowance has been established in the amount of $22.5 million against such benefits in 2008 compared to $19.2 million in 2007.

Regions and its subsidiaries file income tax returns in the United States (U.S.), as well as in various state jurisdictions. As the successor of acquired taxpayers, Regions is responsible for the resolution of audits from both federal and state taxing authorities. The Company is no longer subject to U.S. federal income tax examinations for years before 2007, which would include audits of acquired entities. The Company is no longer subject to state and local income tax examinations for years before 2000. Certain states have proposed various adjustments to the Company s previously filed tax returns. Management is currently evaluating those proposed adjustments and believes the Company to be adequately reserved for any potential exposures.

During the third quarter of 2007 and first quarter of 2008, the Company made deposits with the IRS to stop the accrual of interest on all of its federal uncertain tax positions. In the first quarter of 2008, the Company settled a dispute with the IRS related to certain leveraged lease transactions. In addition, federal examinations for the 1998 and 1999 tax years were closed in the first quarter. As a result, the Company re-designated a portion of the deposits as an additional statutory payment of tax and interest to the IRS in the first quarter of 2008.

In August of 2008, the IRS announced guidelines pursuant to which taxpayers could settle disputes relating to certain leveraged lease transactions. The deadline for notifying the IRS of a taxpayer s intent to participate in the settlement initiative was early October 2008. The Company gave notice of the intent to participate in the settlement initiative in October 2008 and increased its reserves for interest on exposures related to leveraged lease transactions consistent with the settlement initiative guidelines as of September 30, 2008. Net interest income was reduced $43 million in accordance with Financial Accounting Standards Board Staff Position 13-2, Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction (FAS 13-2), to reflect the pre-tax income impact of the leasing settlement.

In December of 2008, the Company reached an agreement with the IRS Appeals Division on the federal tax treatment of a broad range of uncertain tax positions identified by the IRS. Regions had previously established reserves for the uncertain tax positions. The agreement resulted in a $275 million earnings benefit from a reduction of the Company s income tax expense in the fourth quarter of 2008. The agreement covers the Federal tax returns of Regions and its previous acquisitions, including Union Planters Corporation and AmSouth Bancorporation, for tax years 1999 through 2006 and includes matters related to Regions real estate investment structures and acceptance of the IRS global settlement initiative on leasing transactions.

As of December 31, 2008 and December 31, 2007, the liability for gross unrecognized tax benefits was approximately $54.6 million and $746.3 million, respectively. Of the Company s liability for gross unrecognized tax benefits as of December 31, 2008, essentially all of the approximately $54.6 million would reduce the

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Company s effective tax rate, if recognized. As of December 31, 2008, the Company recognized a liability of approximately $31 million for interest, on a pre-tax basis. During the year ended December 31, 2008, Regions recognized interest expense, on a pre-tax basis, on uncertain tax positions of approximately $39 million.

See Note 1 Summary of Significant Accounting Policies and Note 21 Income Taxes to the consolidated financial statements for additional information about the provision for income taxes.

BALANCE SHEET ANALYSIS

At December 31, 2008, Regions reported total assets of $146.2 billion compared to $141.0 billion at the end of 2007, an increase of approximately $5.2 billion or 3.7 percent. The balance sheet growth reflects an increase in loans outstanding, primarily commercial and industrial and home equity balances, as well as an increase in interest-bearing deposits in other banks, primarily the Federal Reserve Bank. Offsetting these growth drivers, Regions assets were reduced by the goodwill impairment charge taken during the fourth quarter of 2008.

Loans

Average loans, net of unearned income, represented 81 percent of average interest-earning assets at December 31, 2008. Lending at Regions is generally organized along three functional lines: commercial and industrial loans (including financial and agricultural), real estate loans (commercial mortgage and construction loans) and consumer loans (residential first mortgage, home equity, indirect and other consumer loans). The composition of the portfolio by these major categories is presented in Table 9 Loan Portfolio.

Regions manages loan growth with a focus on risk management and risk adjusted return on capital. Total loans, net of unearned income, increased at a relatively slow pace during 2008. A challenging economic environment, particularly in the real estate sector, was the primary factor leading to the modest growth. Regions is continuing to make credit available to consumers, small businesses and commercial companies as intended by Treasury and the Congress in establishing the government investment in banks (See Stockholders Equity section found later in this report). During the fourth quarter of 2008, the government s investment of $3.5 billion strengthened Regions regulatory capital, which supported origination of approximately $16.5 billion in new and renewed loans and lines, including unfunded commitments. This lending production was during an economic environment when lending is typically flat or reduced.

Table 9 shows a year-over-year comparison of loans by loan type.

Table 9 Loan Portfolio

	2008	2007	2006	2005	2004
	(In thousands, net of unearned income)				
Commercial and industrial	$ 23,595,418	$ 20,906,617	$ 24,145,411	$ 14,728,006	$ 15,028,015
Commercial real estate (1)	26,208,325	23,107,176	19,646,423	24,773,539	26,059,454
Construction	10,634,063	13,301,898	14,121,030	7,362,219	5,472,463
Residential first mortgage (1)	15,839,015	16,959,545	15,583,920	n/a	n/a
Home equity	16,130,255	14,962,007	14,888,599	7,794,684	6,634,487
Indirect	3,853,770	3,938,113	4,037,539	1,353,929	1,641,629
Other consumer	1,157,839	2,203,491	2,127,680	2,392,536	2,690,906
	$ 97,418,685	$ 95,378,847	$ 94,550,602	$ 58,404,913	$ 57,526,954

(1) Breakout of residential first mortgage not available for 2005 and 2004 due to the AmSouth merger; residential first mortgage is included in commercial real estate for 2005 and 2004.

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Table 10 Selected Loan Maturities

	Loans Maturing			
	Within One Year	After One But Within Five Years	After Five Years	Total
	(In thousands)			
Commercial and industrial	$ 7,631,231	$ 12,278,452	$ 3,685,735	$ 23,595,418
Commercial real estate	7,750,421	12,684,320	5,773,584	26,208,325
Construction	5,531,291	3,960,550	1,142,222	10,634,063
	$ 20,912,943	$ 28,923,322	$ 10,601,541	$ 60,437,806

	Predetermined Rate	Variable Rate
	(In thousands)	
Due after one year but within five years	$ 8,497,816	$ 20,425,506
Due after five years	5,964,953	4,636,588
	$ 14,462,769	$ 25,062,094

Note: Table 10 excludes residential first mortgage, home equity, indirect and other consumer loans.

Commercial and Industrial Commercial and industrial loans represent loans to commercial customers for use in normal business operations to finance working capital needs, equipment purchases or other expansion projects. During 2008, commercial and industrial loan balances increased 13 percent, driven by a combination of new production, increased line utilization, selective market share gains, and higher funding under letters of credit supporting Variable Rate Demand Notes (VRDNs). Refer to Off-Balance Sheet Arrangements section for discussion of VRDNs found later in this report s Management s Discussion and Analysis .

Commercial Real Estate Commercial real estate loans consist of loans to operating businesses, loans for real estate development, and various other loans secured by real estate. Commercial real estate loans to operating businesses are for long-term financing of land and buildings, and are repaid by cash flow generated by business operations. These loans, sometimes referred to as owner occupied commercial real estate , are a subset of the commercial real estate category presented in Table 9, and totaled approximately $11.7 billion as of December 31, 2008. Loans for real estate development are repaid through cash flow related to the operation, sale or refinance of the property. These loans are made to finance income-producing properties such as apartment buildings, office and industrial buildings, and retail shopping centers. While loan production and pipeline activity declined in 2008, the commercial real estate portfolio grew $3.1 billion to $26.2 billion in 2008, largely attributable to a slow down in payoffs, draws on unfunded commitments, and transfers of construction lending to permanently financed commercial real estate. Regions focus in commercial real estate lending is to effectively manage its existing portfolio and to support those clients who have full relationships with the Company. In addition, Regions considers new projects with sound sponsorship and fundamentals and which meet the Company s standards for risk-adjusted return on capital.

Construction Construction loans are loans to individuals, companies or developers used for the purchase or construction of a commercial property for which repayment will be generated by cash flows related to the operation, sale or refinance to permanent financing of the property. A significant portion of Regions real estate construction portfolio is comprised of residential product types (land, single-family and condominium loans) within Regions markets, and to a lesser degree retail and multi-family projects. Typically, these loans are for construction projects that have been presold, preleased or otherwise have secured permanent financing as well as loans to real estate companies that have significant equity invested in each project. During 2008, outstanding construction balances declined $2.7 billion to $10.6 billion as a result of Regions selling or transferring to held for sale many of these loans. In addition, outstanding balances declined as construction projects were completed and converted from construction to commercial real estate loans and new construction originations declined.

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During late 2007, the residential homebuilder portfolio, which totaled $4.4 billion as of December 31, 2008, came under significant stress. In Table 9 Loan Portfolio , the majority of these loans are reported in the construction loan category, while a smaller portion is reported under the commercial real estate loan category. The residential homebuilder portfolio is geographically concentrated in Florida and North Georgia. Regions realigned its organizational structure in January 2008 to enable some of the Company s most experienced bankers to concentrate their efforts on management of this portfolio. See the Residential Homebuilder Portfolio table in the Credit Risk section later in this report for further detail on the residential homebuilder portfolio.

Residential First Mortgage Residential first mortgage loans represent loans to consumers to finance a residence. These loans are typically financed over a 15 to 30 year term and, in most cases, are extended to borrowers to finance their primary residence. These loans experienced a $1.1 billion decline to $15.8 billion in 2008. Demand for this type of lending slowed during 2008 as property values declined, new and used home sales reached historically low levels, and credit markets contracted in general. However, due to declining mortgage rates, which became especially attractive late in 2008 and into early 2009, refinancing activity increased substantially as 2009 began.

Loans to consumers with weak credit history, generally called sub-prime loans, became a cause for industry concern beginning in 2007 and the performance of these loans deteriorated significantly as 2008 progressed. Regions exposure to sub-prime loans is insignificant, at approximately $77.3 million at December 31, 2008, and continues to decline. This is a product that Regions does not currently originate. The credit loss exposure related to these loans is addressed in management s periodic determination of the allowance for credit losses.

Home Equity Home equity lending includes both home equity loans and lines of credit. This type of lending, which is secured by a first or second mortgage on the borrower s residence, allows customers to borrow against the equity in their home. Real estate market values as of the time the loan or line is secured directly affect the amount of credit extended and, in addition, changes in these values impact the depth of potential losses. During 2008, home equity balances increased $1.2 billion to $16.1 billion, driven by a slowing of paydowns and an increase in lending to creditworthy customers.

The majority of Regions home equity lending balances was originated through its branch network and the Company has not purchased broker-originated or other third-party production. However, home equity losses still increased significantly in 2008, impacted by the unprecedented drop in real estate values coupled with a deteriorating economy. The main source of stress has been in Florida, where home values declined precipitously in 2007 and 2008. Further, losses on relationships in Florida where Regions is in a second lien position have been especially high; much higher, in fact, than the remaining areas of Regions geographic footprint.

Indirect Indirect lending, which is lending initiated through third-party business partners, is largely comprised of loans made through automotive dealerships. Loans of this type decreased $84.3 million, or 2.1 percent, during 2008 largely due to the Company s decision to exit certain lines of business. Regions continually rationalizes the risk/reward characteristics of each of its lending lines and, as noted, ceased new originations within the indirect auto lending business in 2008 and the marine and recreational vehicle lending businesses in 2007. Each of these portfolios is a declining element in the overall loan portfolio and will continue to reduce as loans are repaid. Losses within the indirect portfolio increased during the year primarily driven by economic conditions, including high gasoline prices and rising unemployment levels.

Other Consumer Other consumer loans include direct consumer installment loans, overdrafts and other revolving credit, and educational loans. Other consumer loans decreased 47.5 percent in 2008 to $1.2 billion due to the sale or transfer to held for sale of student loans and a general contraction in credit markets.

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Loans Held for Sale

At December 31, 2008, loans held for sale totaled $1.3 billion, consisting of $420 million of non-performing commercial real estate and construction loans, $513 million of residential real estate mortgage loans, and $349 million of student loans. At December 31, 2007, loans held for sale totaled $720.9 million, consisting solely of residential real estate mortgage loans in the process of being sold to third parties.

During 2008, in an effort to manage its exposure to non-performing assets, Regions made a strategic decision to intensify its efforts to sell certain portions of non-performing loans. During 2008, the Company sold or classified as loans held for sale $1.3 billion of non-performing loans through its efforts. Regions marks all loans to the lower of cost or market value at the time they are classified as held for sale and continues to evaluate valuation at each reporting period.

Lower residential first origination volumes and tightening of the secondary market for residential mortgage production a result of the weakening housing market in 2008 somewhat offset the increase in loans held for sale resulting from the increased commercial sales activity described above. Refer to the Credit Risk section later in this report for more discussion on asset quality and non-performing assets.

Allowance for Credit Losses

The allowance for credit losses represents management s estimate of credit losses inherent in both the loan portfolio and unfunded credit commitments as of the balance sheet date. The allowance consists of two components: the allowance for loans losses, which is recorded as a contra-asset to loans, and the reserve for unfunded credit commitments, which is recorded in other liabilities. At December 31, 2008, the allowance for credit losses totaled $1.9 billion or 1.95 percent of loans, net of unearned income, compared to $1.4 billion or 1.45 percent at year-end 2007. See Allowance for Credit Losses in the Risk Management section found later in this report for a detailed discussion of the allowance.

Securities

Regions utilizes the securities portfolio to manage liquidity, interest rate risk, regulatory capital, and to take advantage of market conditions to generate a favorable return on investments without undue risk. The portfolio consists primarily of high-quality mortgage-backed and asset-backed securities, as well as U.S. Treasury and Federal agency securities. Securities represented 13 percent of total assets at December 31, 2008 compared with 12 percent at December 31, 2007. In 2008, total securities, which are almost entirely classified as available for sale, increased $1.5 billion, or 8.8 percent. Growth was largely the result of securities purchased as a part of Regions interest rate risk management activities. The Interest Rate Risk section, found later in this report, further explains Regions interest rate risk management practices. The weighted-average yield earned on securities, less equities, was 5.07 percent in 2008 and 5.03 percent in 2007. Table 11 Securities illustrates the carrying values of securities by category.

Table 11 Securities

	2008	2007	2006
		(In thousands)	
U.S. Treasury securities	$ 900,303	$ 964,647	$ 400,065
Federal agency securities	1,705,686	3,329,656	3,752,216
Obligations of states and political subdivisions	756,694	732,367	788,736
Mortgage-backed securities	14,349,342	11,092,758	12,777,358
Other debt securities	21,495	45,108	80,980
Equity securities	1,163,268	1,204,473	762,705
	$ 18,896,788	$ 17,369,009	$ 18,562,060

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At December 31, 2008, securities available for sale included a net unrealized loss of $12.7 million, which represented the difference between the estimated fair value of these securities as of year-end and their amortized cost. The net unrealized loss represents $564.5 million in gross unrealized losses and $551.8 million in gross unrealized gains. At December 31, 2007, securities available for sale included a net unrealized gain of $149.6 million, which consisted of $199.5 million of gross unrealized gains and $49.9 million in gross unrealized losses. The net unrealized loss at December 31, 2008 reflects primarily 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. 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. During 2008 and 2007, Regions recognized a write-down of securities within the General Banking/Treasury segment of approximately $28.3 million and $7.2 million, respectively, representing other-than-temporary impairment, related primarily to equity securities and retained interests on beneficial interests. Net unrealized gains and losses in the securities available for sale portfolio are included in stockholders equity as accumulated other comprehensive income or loss, net of tax.

In January 2009, Regions sold approximately $656 million in available for sale U.S Treasury securities and recognized a gain of approximately $52.1 million. The proceeds were reinvested in U.S. government agency mortgage-backed securities classified as available for sale.

Maturity Analysis The average life of the securities portfolio at December 31, 2008 was estimated to be 3.0 years, with a duration of approximately 2.6 years. These metrics compare with an estimated average life of 3.8 years, with a duration of approximately 2.9 years for the portfolio at December 31, 2007. Table 12 Relative Contractual Maturities and Weighted-Average Yields for Securities provides additional details.

Table 12 Relative Contractual Maturities and Weighted-Average Yields for Securities

	Within One Year	After One But Within Five Years	Securities Maturing After Five But Within Ten Years (Dollars in thousands)	After Ten Years	Total
Securities:					
U.S. Treasury securities	$ 97,637	$ 59,519	$ 743,147	$	$ 900,303
Federal agency securities	106,300	144,333	1,449,539	5,514	1,705,686
Obligations of states and political subdivisions	21,862	201,592	304,212	229,028	756,694
Mortgage-backed securities	1,005	230,240	2,526,445	11,591,652	14,349,342
Other debt securities	2,565	1,524		17,406	21,495
	$ 229,369	$ 637,208	$ 5,023,343	$ 11,843,600	$ 17,733,520
Weighted-average yield	3.88%	5.34%	4.60%	5.25%	5.07%
Taxable-equivalent adjustment for calculation of yield	$ 606	$ 5,586	$ 8,430	$ 6,347	$ 20,969

Notes:

1. The weighted-average yields are calculated on the basis of the yield to maturity based on the book value of each security. Weighted-average yields on tax-exempt obligations have been computed on a fully taxable-equivalent basis using a tax rate of 35%. Yields on tax-exempt obligations have not been adjusted for the non-deductible portion of interest expense used to finance the purchase of tax-exempt obligations.
2. Federal Reserve Bank stock, Federal Home Loan Bank stock, and equity stock of other corporations held by Regions are not included in the table above.

Portfolio Quality Regions investment policy stresses credit quality and liquidity. Securities rated in the highest category by nationally recognized rating agencies and securities backed by the U.S. Government and

government sponsored agencies, both on a direct and indirect basis, represented approximately 98.5 percent of the investment portfolio at December 31, 2008. State, county, and local municipal securities rated below single A or which are non-rated represented only 1.5 percent of total securities at year-end 2008.

Cash and Cash Equivalents

Cash and cash equivalents include cash and cash due from banks, interest-bearing deposits in other banks (including the Federal Reserve Bank), and federal funds sold and securities purchased under agreements to resell (which have a life of 90 days or less). At December 31, 2008 these assets totaled $11.0 billion as compared to $4.7 billion at December 31, 2007. The year-over-year increase was primarily driven by Regions participation in the Term Auction Facility (TAF) auctions, which have provided excess balances in its Federal Reserve Bank account. The excess balances are held to provide additional insulation from unforeseen contingent funding needs.

Trading Account Assets

Trading account assets decreased $41.1 million to $1.1 billion at December 31, 2008. Trading account assets, which consist of U.S. Government agency and guaranteed securities and corporate and tax-exempt securities, are primarily held at Morgan Keegan for the purpose of selling at a profit. Also included in trading account assets are securities held in rabbi trusts related to deferred compensation plans. Trading account assets are carried at market value with changes in market value reflected in the consolidated statements of operations. Table 13 Trading Account Assets provides a detail by type of security.

Table 13 Trading Account Assets

	December 31 2008	2007
	(In thousands)	
Trading account assets:		
U.S. Treasury and Federal agency securities	$ 510,226	$ 440,267
Obligations of states and political subdivisions	308,271	236,997
Other securities	231,773	414,136
	$ 1,050,270	$ 1,091,400

Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation and amortization, as applicable. Premises and equipment at December 31, 2008 increased $175.2 million to $2.8 billion compared to year-end 2007. This increase primarily resulted from the continued investment in capital additions, including the opening of 20 new branches during 2008.

Goodwill

Goodwill at December 31, 2008 totaled $5.5 billion as compared to $11.5 billion at December 31, 2007. The decrease was driven by a $6.0 billion fourth quarter 2008 non-cash impairment charge to the asset carrying value. The impairment testing is performed on each of the Company s reportable units on an annual basis, or more often if events or circumstances indicate that there may be impairment. As of December 31, 2008, Regions analysis indicated impairment for the General Banking/Treasury reporting unit s goodwill, therefore resulting in the goodwill impairment charge. The primary cause of the goodwill impairment in the General Banking/Treasury reporting unit was the continued and significant decline in the estimated fair value of the unit. This was evidenced by rapid deterioration in credit costs, continued compression of the net interest margin, cost of

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preferred stock investment by the U.S. Treasury and continued declines in the Company s overall market capitalization, compounded by investor anxiety caused by the financial crises affecting the U.S. banking system. See Note 1 Summary of Significant Accounting Policies and Note 10 Intangible Assets to the consolidated financial statements for additional details.

Mortgage Servicing Rights

Mortgage servicing rights at December 31, 2008 totaled $160.9 million compared to $321.3 million at December 31, 2007. A summary of mortgage servicing rights is presented in Table 14 Mortgage Servicing Rights. The balances shown represent the right to service mortgage loans that are owned by other investors and include original amounts capitalized, less accumulated amortization and a valuation allowance. The carrying values of mortgage servicing rights are affected by various factors, including estimated prepayments of the underlying mortgages and market rates. A significant change in prepayments of mortgages in the servicing portfolio or market rates for mortgage loans could result in significant changes in the valuation adjustments, thus creating potential volatility in the carrying amount of mortgage servicing rights. The mortgage servicing rights valuation allowance increased by $72.4 million in 2008, primarily due to lower mortgage rates and corresponding increased estimated prepayment speeds. During 2008, the Company sold mortgage servicing rights on approximately $3.4 billion of GNMA loans and recognized a loss of $14.9 million, including transaction costs. On December 31, 2007, mortgage servicing rights on approximately $1.9 billion of loans in Regions out-of-market servicing portfolio were sold at a $4.4 million loss.

On January 1, 2009, Regions made an election allowed by Statement of Financial Accounting Standards No. 156, Accounting for Servicing of Financial Assets (FAS 156) and began accounting for mortgage servicing rights at fair market value with any changes to fair value being recorded within mortgage income on the consolidated statements of operations. Also, in early 2009, Regions entered into derivative transactions to mitigate the impact of market value fluctuations related to mortgage servicing rights.

Table 14 Mortgage Servicing Rights

	2008	2007	2006
		(In thousands)	
Balance at beginning of year	$ 368,654	$ 416,217	$ 441,508
Amounts capitalized	58,632	56,931	53,777
Sale of servicing assets	(71,172)	(25,577)	(4,786)
Permanent impairment			(3,719)
Amortization	(75,430)	(78,917)	(70,563)
	280,684	368,654	416,217
Valuation allowance	(119,794)	(47,346)	(41,346)
Balance at end of year	$ 160,890	$ 321,308	$ 374,871

Other Identifiable Intangible Assets

Other identifiable intangible assets, consisting primarily of core deposit intangibles, totaled $638.4 million at December 31, 2008 compared to $759.8 million at December 31, 2007. The year-over-year decline is mainly the result of amortization. Regions noted no indicators of impairment for any other identifiable intangible assets. See Note 10 Intangible Assets to the consolidated financial statements for further information.

Other Assets

Other assets increased $1.2 billion to $8.0 billion as of December 31, 2008. This increase is primarily related to higher customer derivatives, a result of the low interest rate environment, as well as derivatives used by the Company for hedging purposes.

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DEPOSITS

Deposits are Regions primary source of funds, providing funding for 75 percent of average interest-earning assets in 2008 and 82 percent in 2007. Table 15 Deposits details year-over-year deposits on a period-ending basis. Total deposits as of year-end 2008 decreased $3.9 billion, or 4.1 percent, compared to year-end 2007, driven lower mainly by reduced use of wholesale deposit sources used for overnight funding purposes. More specifically, Regions reduced its usage of foreign deposits (which Regions uses as a source of short-term wholesale funding) in 2008, due to growth in customer deposits.

Customer deposits, which are total deposits excluding deposits used for treasury management purposes as described above, increased by 4.6 percent to $90.8 billion on an ending basis during 2008. Time deposits (e.g., certificates of deposit) were the main source of growth, while non-interest bearing demand and domestic money market balances also grew slightly. Increases in time deposits were offset by decreases in interest-bearing transaction accounts and foreign money market accounts. Deposit disintermediation through a flight to quality, such as Treasury securities, exerted pressure on bank deposits industry-wide in 2008. Furthermore, during the year, Regions also experienced substantial pricing strain from both community banks and some larger competitors. However, during the fourth quarter of 2008, Regions time deposits and money market accounts grew in response to customers desire to lock-in rates in a falling rate environment. Also a factor in overall deposit growth, during the third quarter of 2008, Regions, in an FDIC-assisted transaction, assumed approximately $900 million of deposits, primarily time deposits, from Integrity Bank in Alpharetta, Georgia.

Table 15 Deposits

	2008	2007	2006
		(In thousands)	
Non-interest bearing demand	$ 18,456,668	$ 18,417,266	$ 20,175,482
Non-interest bearing demand divestitures			533,295
Savings	3,662,949	3,646,632	3,882,533
Interest-bearing transaction accounts	15,022,207	15,846,139	15,899,812
Money market accounts	19,470,886	18,934,309	18,764,873
Money market accounts foreign	1,812,446	3,482,603	4,037,384
Time deposits	32,368,498	26,507,459	30,015,375
Interest bearing deposits divestitures			2,238,072
Customer deposits	90,793,654	86,834,408	95,546,826
Time deposits	110,236	2,791,386	1,170,033
Other foreign deposits		5,149,174	4,511,110
Treasury deposits	110,236	7,940,560	5,681,143
Total deposits	$ 90,903,890	$ 94,774,968	$ 101,227,969
Low cost deposits	$ 58,425,156	$ 60,326,949	$ 65,531,451

Regions competes with other banking and financial services companies for a share of the deposit market. Regions ability to compete in the deposit market depends heavily on the pricing of its deposits and how effectively the Company meets customers needs. Regions employs various means to meet those needs and enhance competitiveness, such as providing a high level of customer service, competitive pricing and expanding the traditional branch network to provide convenient branch locations for its customers. Regions also services customers through providing centralized, high-quality telephone banking services and alternative product delivery channels such as internet banking. During 2008, the banking industry experienced very high deposit pricing due to liquidity concerns, thereby accentuating pricing pressure on Regions and the industry as a whole.

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Non-interest-bearing deposits remained relatively unchanged versus the prior year, increasing by $39.4 million in 2008. Movement of balances to interest-bearing offerings, including Regions money market accounts and time deposits, among other product types or investment alternatives was a factor in limiting growth. Non-interest-bearing deposits accounted for approximately 20 percent of total deposits at year-end 2008 as compared to 19 percent at year-end 2007.

Savings balances were also consistent with prior year as they increased $16.3 million to $3.7 billion, generally reflecting customers preference for higher-paying accounts, including money market accounts.

Interest-bearing transaction accounts declined 5.2 percent to $15.0 billion due to pricing pressure from community banks as well as larger competitors. Customers also migrated to time deposits in order to take advantage of higher rates.

Domestic money market products, which exclude foreign money market accounts, are one of Regions most significant funding sources, accounting for 21 percent of total deposits in 2008, compared to 20 percent in 2007. These balances increased 2.8 percent in 2008 to $19.5 billion as compared to the prior year. Money market accounts were down most of the year; however, Regions experienced a significant increase in the fourth quarter of 2008 as customers moved into money market accounts and time deposits to take advantage of higher rates. Also, foreign money market accounts decreased $1.7 billion, or 48 percent, to $1.8 billion in 2008.

Included in customer time deposits are certificates of deposit and individual retirement accounts. The balance of customer time deposits increased 22 percent in 2008 to $32.4 billion compared to $26.5 billion in 2007. The increase was primarily due to customers demand for higher-rate deposits. Customer time deposits accounted for 36 percent of total deposits in 2008 compared to 28 percent in 2007.

Total treasury deposits, which are used mainly for overnight funding purposes, decreased by $7.8 billion during 2008, due to the Company s use of other funding sources, including increased customer-based deposits and the additional funding provided through new governmental liquidity programs. The Company s choice of overnight funding sources is dependent on the Company s particular funding needs and the relative attractiveness of each offering.

The sensitivity of Regions deposit rates to changes in market interest rates is reflected in Regions average interest rate paid on interest-bearing deposits. The rate paid on interest-bearing deposits decreased to 2.38 percent in 2008 from 3.47 percent in 2007. This decrease is largely due to the significant decrease in market rates as evidenced by the Federal Funds rate in 2008, somewhat offset by increased competitive pressures. Table 16 Maturity of Time Deposits of $100,000 or More presents maturities of time deposits of $100,000 or more at December 31, 2008 and 2007.

Table 16 Maturity of Time Deposits of $100,000 or More

	2008	2007
	(In thousands)	
Time deposits of $100,000 or more, maturing in:		
3 months or less	$ 2,805,489	$ 4,718,158
Over 3 through 6 months	1,977,046	2,706,805
Over 6 through 12 months	3,038,186	4,522,942
Over 12 months	4,893,356	801,575
	$ 12,714,077	$ 12,749,480

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SHORT-TERM BORROWINGS

Regions short-term borrowings consist primarily of federal funds purchased, securities sold under agreements to repurchase, Federal Home Loan Bank (FHLB) advances, and TAF borrowings. See Note 13 Short-Term Borrowings to the consolidated financial statements for further detail and discussion.

Federal funds purchased from downstream sources and securities sold under agreements to repurchase totaled $3.1 billion at December 31, 2008, compared to $8.8 billion at year-end 2007. Regions had zero balances in federal funds purchased from up-stream correspondents at December 31, 2008. The level of federal funds purchased and securities sold under agreements to repurchase can fluctuate significantly on a day-to-day basis, depending on funding requirements and which sources of funds are used to satisfy those needs. The balance of federal funds purchased and security repurchase agreements, net of federal funds sold and security reverse repurchase agreements, decreased $5.7 billion in 2008.

As one source of funding, the Company utilized short-term borrowings through the issuance of FHLB advances. FHLB borrowings are used to satisfy short-term funding requirements and can fluctuate between periods. FHLB borrowings totaled $1.5 billion at December 31, 2008 compared to $100.0 million at December 31, 2007. The increase in FHLB borrowings reflects the opportunity during 2008 to reduce overnight funding and diversify into slightly longer-term maturities at preferable rates.

During 2008, Regions was an active participant in the Federal Reserve s TAF, which was designed to address pressures in short-term funding markets. Under the TAF, the Federal Reserve auctions term funds to depository institutions with maturities of 28 or 84 days. All depository institutions that are eligible to borrow under the primary credit program are eligible to participate in TAF auctions. All advances are fully collateralized using collateral values and margins applicable for other Federal Reserve lending programs. As of December 31, 2008, Regions had outstanding through the TAF, $10.0 billion at an average rate of 1.1 percent. Consistent with the Treasury s purpose for TAF, Regions used TAF to provide additional liquidity at low rates and to build excess reserves in the Federal Reserve Bank account. This program provides Regions with an alternative source of short-term funding and aids in maintaining the stability of the financial markets by reducing uncertainty about the supply of reserves in the banking system and simplifying the Federal Reserve s implementation of monetary policy.

As of December 31, 2008, Regions had $125 thousand outstanding in the Federal Reserve s Treasury, Tax, and Loan Program, compared to $1.2 billion at December 31, 2007.

Regions maintains a liability for its brokerage customer position through Morgan Keegan. This liability represents liquid funds in customers brokerage accounts. Balances due to brokerage customers totaled $430.6 million at December 31, 2008 as compared to $505.5 million at December 31, 2007. The short-sale liability, which is primarily maintained at Morgan Keegan in connection with trading obligations related to customer accounts, was $628.7 million at December 31, 2008 compared to $451.3 million at December 31, 2007. The balance of this account fluctuates frequently based on customer activity.

Other short-term borrowings increased by $27.0 million to $120.1 million at December 31, 2008. This balance includes certain lines of credit that Morgan Keegan maintains with unaffiliated banks and derivative collateral. The lines of credit had maximum borrowings of $585 million at December 31, 2008.

Table 17 Selected Short-Term Borrowings Data provides selected information for short-term borrowing for years 2008, 2007, and 2006.

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Table 17 Selected Short-Term Borrowings Data

	2008	2007 (In thousands)	2006
Federal funds purchased and securities sold under agreements to repurchase:			
Balance at year end	$ 3,142,493	$ 8,820,235	$ 7,676,254
Average outstanding (based on average daily balances)	7,697,505	8,080,179	5,162,196
Maximum amount outstanding at any month-end	10,879,818	9,984,206	7,676,254
Weighted-average interest rate at year end	0.5%	3.3%	4.6%
Weighted-average interest rate on amounts outstanding during the year (based on average daily balances)	2.2%	4.7%	4.5%
Term Auction Facility:			
Balance at year end	$ 10,000,000	$	$
Average outstanding (based on average daily balances)	5,924,639		
Maximum amount outstanding at any month-end	13,000,000		
Weighted-average interest rate at year end	1.1%	%	%
Weighted-average interest rate on amounts outstanding during the year (based on average daily balances)	2.0%	%	%

LONG-TERM BORROWINGS

Regions long-term borrowings consist primarily of FHLB borrowings, subordinated notes, senior notes and other long-term notes payable. Total long-term debt increased $7.9 billion to $19.2 billion at December 31, 2008. See Note 14 Long-Term Borrowings to the consolidated financial statements for further discussion.

Membership in the FHLB system provides access to a source of lower-cost funds. Long-term FHLB advances totaled $8.1 billion at December 31, 2008, an increase of $4.3 billion compared to 2007.

In October 2008, the FDIC announced its TLGP to strengthen confidence and encourage liquidity in the banking system by guaranteeing newly issued senior unsecured debt of banks, thrifts, and certain holding companies, and by providing full coverage of non-interest bearing deposit transaction accounts, regardless of dollar amount. Under the final rules, certain newly issued senior unsecured debt with maturities greater than 30 days issued on or before June 30, 2009, would be backed by the full faith and credit of the U.S. government through June 30, 2012. The FDIC s payment obligation under the guarantee for eligible senior unsecured debt will be triggered by a payment default. The guarantee is limited to 125% of senior unsecured debt as of September 30, 2008 that is scheduled to mature before June 30, 2009. This includes federal funds purchased, promissory notes, commercial paper, and certain types of inter-bank funding. Participants will be charged a 50-100 basis point fee to protect their new debt issues which varies depending on the maturity date (amounts paid as a non-refundable fee will be applied to offset the guaranteed fee until the non-refundable fee is exhausted). Regions issued $3.75 billion of qualifying senior debt securities covered by the TLGP in December 2008, and has remaining capacity under the program to issue up to an additional $4 billion.

Long-term borrowings also increased in 2008 as a result of the Company s issuance of $750 million of subordinated notes and $345 million of trust preferred securities. The increase from these issuances was partially offset by the redemption of approximately $630 million in subordinated notes in 2008, resulting in a $65.4 million loss on early extinguishment of debt (see Table 8 Non-Interest Expense (Including Non-GAAP Reconciliation)), and the maturity of approximately $750 million of senior debt notes during the year. As of December 31, 2008, Regions had outstanding subordinated notes totaling $4.4 billion compared to $4.3 billion at December 31, 2007. Regions subordinated notes consist of 11 issues with interest rates ranging from 4.85

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percent to 7.75 percent. Senior debt and bank notes totaled $4.8 billion at December 31, 2008 compared to $1.8 billion at December 31, 2007, reflecting the $3.75 billion TLGP issuance, offset by the maturity of $750 million of senior debt notes during the year.

During 2007, Regions Financing Trust II issued $700 million of institutional enhanced trust preferred securities, which are reflected as junior subordinated notes. Also in 2007, $225.8 million of Union Planters trust preferred securities were called and the related 8.20 percent junior subordinated notes were redeemed.

Other long-term debt at December 31, 2008 and 2007, had weighted-average interest rates of 2.9 percent and 6.1 percent, respectively, and a weighted-average maturity of 4.9 years at December 31, 2008. Regions has $62.8 million included in other long-term debt in connection with a seller-lessee transaction with continuing involvement. See Note 25 Commitments, Contingencies and Guarantees to the consolidated financial statements for further information.

During 2007, Regions filed a shelf registration statement with the SEC. This shelf registration can be utilized by Regions to issue various debt and/or equity securities, and does not have a limit on the amount of securities that can be issued.

Regions long-term debt includes $175 million of callable subordinated notes that mature in early 2009. See Note 14 Long-Term Borrowings to the consolidated financial statements for additional information regarding these transactions.

RATINGS

Table 18 Credit Ratings reflects the debt ratings of Regions Financial Corporation and Regions Bank by Standard & Poor s Corporation, Moody s Investors Service, Fitch IBCA and Dominion Bond Rating Service as of December 31, 2008.

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

Table 18 Credit Ratings

	Standard & Poor s	Moody s	Fitch	Dominion
Regions Financial Corporation				
Senior notes	A	A2	A+	AH
Subordinated notes	A-	A3	A	A
Junior subordinated notes	BBB+	A3	A	A
Regions Bank				
Short-term debt	A-1	P-1	F1+	R-1M
Long-term bank deposits	A+	A1	AA-	AAL
Long-term debt	A+	A1	A+	AAL
Subordinated debt	A	A2	A	AH

Table reflects ratings as of December 31, 2008.

In February 2009, Regions Financial Corporation s senior notes, subordinated notes, and junior subordinated notes were downgraded to A3, Baa1, and Baa1, respectively, by Moody s, reflecting the Company s concentration in residential homebuilder and home equity lending, particularly in Florida. Also, Moody s downgraded Regions Bank s long-term bank deposits, long-term debt, and subordinated debt to A2, A2, and A3, respectively. These downgrades are not expected to have a significant impact on Regions earnings in 2009.

STOCKHOLDERS EQUITY

Stockholders equity decreased to $16.8 billion at year-end 2008 versus $19.8 billion at year-end 2007, primarily reflecting the Company s $5.6 billion net loss due to the $6.0 billion goodwill impairment charge, offset by $3.5 billion related to the issuance of preferred stock and a warrant for 48.3 million shares of Regions common stock at an initial per share price of $10.88 under the Capital Purchase Program (CPP). The warrant expires ten years from the issuance date. Under the terms of the government s investment in preferred stock of the Company, Regions must pay an annual dividend of 5 percent, or $175 million annually, for the first five years, and a 9 percent dividend thereafter, until the Company has redeemed the shares. In addition, as part of the Company s participation in the program, Regions cannot repurchase shares or increase the dividend payment above the current rate of $0.10 per share without permission from the U.S. Treasury until November 14, 2011 or until the U.S. Treasury no longer owns any of Regions Series A Preferred Stock. As stated above, the government also received a 10-year warrant for common stock, which will give the U.S. Treasury the opportunity to benefit from an increase in the price of the Company s common stock. Accrued dividends on preferred shares reduced retained earnings by $26.2 million in 2008.

Common dividends declared reduced stockholders equity by $669.0 million. In addition, the net change in unrealized loss on securities available for sale and the net change from defined benefit pension plans decreased stockholders equity by $414.6 million. Offsetting these items was a $190.1 million increase from the net change in unrealized gains on derivative instruments. The internal capital generation rate (net income available to common shareholders less dividends as a percentage of average stockholders equity) was negative 31.6 percent in 2008 compared to 1.1 percent in 2007. Excluding the $6.0 billion non-cash goodwill impairment charge, the 2008 internal capital generation rate was negative 1.5 percent.

During 2007, Regions repurchased 40.8 million common shares at a total cost of $1.4 billion. There were no treasury stock purchases in 2008. Although the Company has 23.1 million common shares available for repurchase under its current share repurchase authorization, under the terms of the CPP, Regions is not eligible to repurchase treasury shares without permission from the U.S. Treasury until November 14, 2011 or until the U.S. Treasury no longer owns any of Regions Series A Preferred Stock.

Regions ratio of stockholders equity to total assets was 11.5 percent at December 31, 2008 compared to 14.1 percent at December 31, 2007. Regions ratio of tangible common stockholders equity (stockholders equity less goodwill and other identifiable intangibles) to total tangible assets was 5.23 percent at December 31, 2008 compared to 5.88 percent at December 31, 2007, mainly reflecting the reduced earnings and the increasing balance sheet, reflecting proceeds from the $3.5 billion CPP and the $3.75 billion TLGP issuances.

Regions attempts to balance the return to stockholders through the payment of dividends with the need to maintain strong capital levels for future growth opportunities. After careful consideration of the current environment, Regions reduced its dividend in 2008. This decision will strengthen its capital ratios as the Company navigates the current economic environment. Regions total dividends in 2008 were $669.0 million, or $0.96 per share, a decrease of 34.2 percent from the $1.46 per share paid in 2007. Under the terms of the CPP, Regions is unable to increase its common dividend above the current rate of $0.10 per share without approval from the U.S. Treasury until November 14, 2011 or until the U.S. Treasury no longer owns any of Regions Series A Preferred Stock.

Regions is a legal entity separate and distinct from its banking subsidiary Regions Bank. Regions principal source of cash flow, including cash flow to pay dividends to its stockholders, is dividends from Regions Bank. There are statutory and regulatory limitations on the payment of dividends by Regions Bank to Regions. Regulations of both the Federal Reserve and the State of Alabama affect the ability of Regions Bank to pay dividends and other distributions to Regions. Given the loss at Regions Bank during 2008, under the Federal Reserve s rules, Regions Bank does not expect to be able to pay dividends to Regions in the near term without first obtaining regulatory approval.

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The ability of Regions to pay dividends to its shareholders, however, is not totally dependent on the receipt of dividends from Regions Bank, as Regions has other cash available to make such payment. As of December 31, 2008, Regions had $4.8 billion of cash and cash equivalents, which is available for corporate purposes, including debt service and to pay dividends to its shareholders. This compares to an anticipated common dividend requirement, assuming current dividend payment levels, of approximately $277 million and preferred cash dividends of approximately $175 million for the full-year 2009. Expected debt maturities in 2009 total approximately $425 million.

Although Regions currently has capacity to make common dividend payments in 2009, the payment of dividends by Regions and the dividend rate are subject to management review and approval by Regions Board of Directors on a quarterly basis. Preferred dividends are to be paid in accordance with the terms of the CPP. See Item 1 Business and Item 1A. Risk Factors for additional information.

BANK REGULATORY CAPITAL REQUIREMENTS

Regions and Regions Bank are required to comply with capital adequacy standards established by banking regulatory agencies. Currently, there are two basic measures of capital adequacy: a risk-based measure and a leverage measure.

The risk-based capital standards are designed to make regulatory capital requirements more sensitive to differences in credit risk profiles among banks and bank holding companies, to account for off-balance sheet exposure and interest rate risk, and to minimize disincentives for holding liquid assets. Assets and off-balance sheet items are assigned to broad risk categories, each with specified risk-weighting factors. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items. Banking organizations that are considered to have excessive interest rate risk exposure are required to maintain higher levels of capital.

The minimum standard for the ratio of total capital to risk-weighted assets is 8%. At least 50% of that capital level must consist of common equity, undivided profits and non-cumulative perpetual preferred stock, less goodwill and certain other intangibles (Tier 1 Capital). The remainder (Tier 2 Capital) may consist of a limited amount of other preferred stock, mandatory convertible securities, subordinated debt, and a limited amount of the allowance for loan losses. The sum of Tier 1 Capital and Tier 2 Capital is total risk-based capital or total capital.

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

In October, 2008, President Bush signed into law the Emergency Economic Stabilization Act of 2008 in response to the financial crises affecting the banking system. The U.S. Treasury and banking regulators are implementing a number of programs under this legislation to address capital and liquidity issues in the banking system. Under the U. S. Treasury s CPP, Regions received $3.5 billion through its issuance of preferred stock and a warrant for common stock to the U.S. Treasury. The preferred stock issuance and the related warrant both qualify for Tier 1 capital and added approximately 300 basis points to that measure. 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. Both the preferred securities and the warrant will be accounted for as components of Regions regulatory Tier 1 capital. See discussion of Stockholders Equity above for additional details.

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The following chart summarizes the applicable bank regulatory capital requirements. Regions capital ratios at December 31, 2008 and December 31, 2007 substantially exceeded all regulatory requirements.

Table 19 Capital Ratios

	2008	2007
	(In thousands)	
Risk-based capital:		
Stockholders equity	$ 16,812,837	$ 19,823,029
Less: Accumulated other comprehensive income (loss)	(8,427)	202,753
Qualifying minority interests in consolidated subsidiaries	90,649	90,002
Qualifying trust preferred securities	1,036,448	691,342
Less: Goodwill and other disallowed intangible assets	5,864,243	11,933,193
Less: Disallowed servicing assets	16,089	27,462
Tier 1 Capital	12,068,029	8,440,965
Qualifying subordinated debt	3,337,280	3,056,994
Adjusted allowance for loan losses*	1,458,722	1,381,713
Other	150,000	150,000
Tier 2 Capital	4,946,002	4,588,707
Total capital	$ 17,014,031	$ 13,029,672
Risk-adjusted assets	$ 116,250,704	$ 115,801,508
Capital ratios:		
Tier 1 Capital to total risk-adjusted assets	10.38%	7.29%
Total capital to total risk-adjusted assets	14.64	11.25
Leverage	8.47	6.66
Stockholders equity to total assets	11.50	14.05
Tangible equity to tangible assets	7.59	5.88
Common stockholders equity to total assets	9.23	14.05
Tangible common equity to tangible assets	5.23	5.88

* Includes $79,654 and $60,469 in 2008 and 2007, respectively, associated with reserves recorded for off-balance sheet credit exposures, including derivatives.

Total capital at Regions Bank also has an important effect on the amount of FDIC insurance premiums paid. Institutions not considered well capitalized can be subject to higher rates for FDIC insurance. Other requirements are needed in addition to total capital in order for a company to be considered well capitalized. See Note 15 Regulatory Capital Requirements and Restrictions to the consolidated financial statements for further details. As of December 31, 2008, Regions Bank had the requisite capital levels to qualify as well capitalized.

Under the Federal Deposit Insurance Reform Act of 2005 and the FDIC s revised premium assessment program, every FDIC-insured institution will pay some level of deposit insurance assessments regardless of the level of designated reserve ratio. Regions Bank had a FICO assessment of $10 million in FDIC deposit premiums in 2008 and $11 million in 2007, both of which were expensed in their respective years.

The FDIC also has finalized rules providing for a one-time credit to each eligible insured depository institution based on the assessment base of the institution on December 31, 1996. Regions Bank qualified for a credit of approximately $110 million, of which $34 million was applied in 2007, $41 million in 2008, and the remaining balance of $35 million will be used in 2009, thereby exhausting the credit.

On October 7, 2008, the Board of Directors of the FDIC adopted a restoration plan accompanied by a notice of proposed rulemaking that would increase the rates banks pay for deposit insurance, while at the same time

making adjustments to the system that determines what rate a bank pays the FDIC. Under this and additional proposals, the assessment rate schedule will be raised beginning on January 1, 2009. Also during 2009, Regions one-time assessment credit will expire. Based on certain assumptions regarding various assessment criteria, including future deposit levels, Regions estimates FDIC premiums will increase within a range of $90 million to $110 million (pre-tax) during 2009. Assessment rates, however, are subject to change by the FDIC throughout the year.

OFF-BALANCE SHEET ARRANGEMENTS

Regions primary off-balance sheet arrangements are financial instruments issued in connection with lending activities. These arrangements include commitments to extend credit, standby letters of credit and commercial letters of credit. A meaningful component of the off-balance sheet arrangements are facilities supporting Variable Rate Demand Notes (VRDNs), including certain standby letters of credit and standby bond purchase agreements (also referred to as liquidity facilities). Fundings under these letters of credit are largely related to redemption requests in money market mutual funds that invested in VRDNs as a result of the increased volatility in the financial markets. Late in 2008, disruption in market liquidity supporting VRDNs resulted in significant frequency of failed remarketing of VRDNs. As of December 31, 2008, Regions had funded $331.7 million in letters of credit backing VRDN s. An additional $9 million had been tendered but not yet funded. The remaining unfunded VRDN letters of credit portfolio is approximately $4.9 billion (net of participations). See Note 25 Commitments, Contingencies and Guarantees to the consolidated financial statements for further discussion, including details of the contractual amounts outstanding at December 31, 2008.

Regions has certain variable interests in unconsolidated variable interest entities (i.e., Regions is not the primary beneficiary). Regions owns the common stock of subsidiary business trusts, which have issued mandatorily redeemable preferred capital securities (trust preferred securities) in the aggregate of $1.0 billion at the time of issuance. These trusts meet the definition of a variable interest entity of which Regions is not the primary beneficiary; the trusts only assets are junior subordinated debentures issued by Regions, which were acquired by the trusts using the proceeds from the issuance of the trust preferred securities and common stock. The junior subordinated debentures are included in long-term borrowings and Regions equity interests in the business trusts are included in other assets. For regulatory reporting and capital adequacy purposes, the Federal Reserve Board has indicated that such trust preferred securities will continue to constitute Tier 1 Capital until further notice.

Also, Regions periodically invests in various limited partnerships that sponsor affordable housing projects, which are funded through a combination of debt and equity with equity typically comprising 30% to 50% of the total partnership capital. Regions maximum exposure to loss as of December 31, 2008 was $710.0 million, which included $298.1 million in unfunded commitments to the partnerships. Additionally, Regions has short-term construction loans or letters of credit with the partnerships totaling $187.7 million as of December 31, 2008. The portion of the letters of credit which was funded was $114.8 million at December 31, 2008. The funded portion is included with loans on the consolidated balance sheets. See Note 2 Variable Interest Entities to the consolidated financial statements for further discussion.

EFFECTS OF INFLATION

The majority of assets and liabilities of a financial institution are monetary in nature; therefore, a financial institution differs greatly from most commercial and industrial companies, which have significant investments in fixed assets or inventories that are greatly impacted by inflation. However, inflation does have an important impact on the growth of total assets in the banking industry and the resulting need to increase equity capital at higher than normal rates in order to maintain an appropriate equity-to-assets ratio. Inflation also affects other expenses that tend to rise during periods of general inflation.

Management believes the most significant potential impact of inflation on financial results is a direct result of Regions ability to react to changes in interest rates. Management attempts to maintain an essentially balanced position between rate-sensitive assets and liabilities in order to minimize the impact of interest rate fluctuations on net interest income. This goal, however, can be difficult to completely achieve in times of rapidly changing rate structure, such as that experienced in 2008.

EFFECTS OF DEFLATION

A period of deflation would affect all industries, including financial institutions. Potentially, deflation could lead to lower profits, higher unemployment and deterioration in overall economic conditions. In addition, deflation could depress economic activity and impair bank earnings through increasing the value of debt while decreasing the value of collateral for loans. If the economy experienced a severe period of deflation, then it could depress loan demand, impair the ability of borrowers to repay loans and sharply reduce bank earnings.

Management believes the most significant potential impact of deflation on financial results is a direct result of Regions ability to maintain a high amount of capital to cushion against future losses. In addition, the Company s risk management can utilize certain tools to help the bank maintain its balance sheet strength even if a deflationary scenario were to develop.

RISK MANAGEMENT

Risk identification and risk management are key elements in the overall management of Regions. Management believes the primary risk exposures are interest rate and associated prepayment risk, liquidity risk, market and other brokerage-related risk associated with Morgan Keegan, counterparty risk, and credit risk. Interest rate risk is the risk to net interest income due to the impact of movements in interest rates. Prepayment risk is the risk that borrowers may repay their loans or securities earlier than at their stated maturities. Liquidity risk relates to Regions ability to fund present and future obligations. The Company, through Morgan Keegan, is also subject to various market-related risks associated with its brokerage and market-related activities. Counterparty risk represents the risk that a counterparty will not comply with its contractual obligations. Credit risk represents the possibility that borrowers may not be able to repay loans.

External factors beyond management s control may result in losses despite risk management efforts. Management follows a formal policy to evaluate and document the key risks facing each line of business, how those risks can be controlled or mitigated, and how management monitors the controls to ensure that they are effective. Regions Internal Audit Division performs ongoing, independent reviews of the risk management process and assures the adequacy of documentation. The results of these reviews are reported regularly to the Audit Committee of the Board of Directors. The Company also has a Risk Committee that assists the Board of Directors in overseeing the Company s policies, procedures and practices relating to market, regulatory and operational risk.

Some of the more significant processes used to manage and control these and other risks are described in the remainder of this report.

INTEREST RATE RISK

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

Sensitivity Measurement Financial simulation models are Regions primary tools used to measure interest rate exposure. Using a wide range of sophisticated simulation techniques provides management with extensive information on the potential impact to net interest income caused by changes in interest rates. Models are structured to simulate cash flows and accrual characteristics of Regions balance sheet. Assumptions are made

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about the direction and volatility of interest rates, the slope of the yield curve, and the changing composition of the balance sheet that result from both strategic plans and from customer behavior. Among the assumptions are expectations of balance sheet growth and composition, the pricing and maturity characteristics of existing business and the characteristics of future business. Interest rate-related risks are expressly considered, such as pricing spreads, the lag time in pricing administered rate accounts, prepayments and other option risks. Regions considers these factors, as well as the degree of certainty or uncertainty surrounding their future behavior. Financial derivative instruments are used in hedging the values of selected assets and liabilities against changes in interest rates. The effect of these hedges is included in the simulations of net interest income.

The primary objective of Asset/Liability Management at Regions is to coordinate balance sheet composition with interest rate risk management to sustain reasonable and stable net interest income throughout various interest rate cycles. A standard set of alternate interest rate scenarios is compared to the results of the base case scenario to determine the extent of potential fluctuations and to establish exposure limits. The standard set of interest rate scenarios includes the traditional instantaneous parallel rate shifts of plus and minus 100 and 200 basis points. However, for the purposes of analyzing the impact of further downward movement in the rate structure, in the down scenarios, whenever prevailing rates are less than 100 basis points (e.g. the Federal Funds Target rate is currently at 0 to 25 basis points) rates have been assumed to be zero. Accordingly, the Company has determined that the down 200 scenario that is typically calculated is not a meaningful measure. Refer to Table 20 Interest Rate Sensitivity for more information.

In addition to instantaneous scenarios, Regions employs simulations of gradual interest rate movements that may more realistically mimic potential interest rate movements. The gradual scenarios include curve steepening, flattening and parallel movements of various magnitudes phased in over a six-month period.

Exposure to Interest Rate Movements As of December 31, 2008, Regions was asset sensitive in positioning to both gradual and instantaneous rate shifts. Table 20 Interest Rate Sensitivity demonstrates the estimated potential effects that gradual (over six months beginning at December 31, 2008 and 2007, respectively) and instantaneous parallel interest rate shifts would have on Regions net interest income.

Table 20 Interest Rate Sensitivity

	Estimated % Change in Net Interest Income December 31	
Gradual Change in Interest Rates	**2008**	**2007**
+ 200 basis points	4.9%	1.7%
+ 100 basis points	2.8	1.1
- 100 basis points	(1.4)	(1.1)
- 200 basis points	NA	(3.2)

	Estimated % Change in Net Interest Income December 31	
Instantaneous Change in Interest Rates	**2008**	**2007**