REGIONS FINANCIAL CORP
Form 10-Q
August 05, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2009

or

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

Commission File Number: 000-50831

Regions Financial Corporation

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of** **incorporation or organization)**	**63-0589368** **(IRS Employer** **Identification Number)**
1900 Fifth Avenue North **Birmingham, Alabama** **(Address of principal executive offices)**	**35203** **(Zip code)**

(205) 944-1300

(Registrant s telephone number, including area code)

NOT APPLICABLE

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

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

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

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

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

The number of shares outstanding of each of the issuer s classes of common stock was 1,188,191,000 shares of common stock, par value $.01, outstanding as of July 31, 2009.

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Forward-Looking Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

Regions   ability to keep pace with technological changes.

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

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

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

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

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

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

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

See also Item 1A. Risk Factors of this Quarterly Report on Form 10-Q.

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In millions, except share data)	June 30 2009	December 31 2008	June 30 2008
Assets			
Cash and due from banks	$ 2,363	$ 2,643	$ 3,161
Interest-bearing deposits in other banks	2,846	7,540	46
Federal funds sold and securities purchased under agreements to resell	3,221	790	949
Trading account assets	1,109	1,050	1,483
Securities available for sale	19,681	18,850	17,725
Securities held to maturity	43	47	48
Loans held for sale (includes $1,373, $506 and $622 measured at fair value at June 30, 2009, December 31, 2008 and June 30, 2008, respectively)	1,932	1,282	677
Loans, net of unearned income	96,149	97,419	98,267
Allowance for loan losses	(2,282)	(1,826)	(1,472)
Net loans	93,867	95,593	96,795
Other interest-earning assets	829	897	534
Premises and equipment, net	2,789	2,786	2,726
Interest receivable	501	458	510
Goodwill	5,556	5,548	11,515
Mortgage servicing rights	202	161	271
Other identifiable intangible assets	568	638	709
Other assets	7,304	7,965	7,287
Total assets	$ 142,811	$ 146,248	$ 144,436
Liabilities and Stockholders Equity			
Deposits:			
Non-interest-bearing	$ 20,995	$ 18,457	$ 18,334
Interest-bearing	73,731	72,447	71,570
Total deposits	94,726	90,904	89,904
Borrowed funds:			
Short-term borrowings:			
Federal funds purchased and securities sold under agreements to repurchase	2,265	3,143	8,664
Other short-term borrowings	4,927	12,679	8,926
Total short-term borrowings	7,192	15,822	17,590
Long-term borrowings	18,238	19,231	13,319
Total borrowed funds	25,430	35,053	30,909
Other liabilities	3,918	3,478	3,915
Total liabilities	124,074	129,435	124,728
Stockholders equity:			
Preferred stock, Authorized 10 million shares			
Series A, cumulative perpetual participating, par value $1.00 (liquidation preference $1,000.00) per share, net of discount;			
Issued 3,500,000 shares	3,325	3,307	

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

See notes to consolidated financial statements.

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REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

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

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

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

See notes to consolidated financial statements.

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REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

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

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

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

See notes to consolidated financial statements.

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REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

See notes to consolidated financial statements.

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REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Three and Six Months Ended June 30, 2009 and 2008

NOTE 1 Basis of Presentation

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

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

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

NOTE 2 Earnings (Loss) per Common Share

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

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

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The effect from the assumed exercise of 55.4 million stock options for both the quarter and six months ended June 30, 2009 and 54.2 million stock options for both the quarter and six months ended June 30, 2008, was not included in the above computations of diluted earnings per common share because such amounts would have had an antidilutive effect on earnings per common share. The effect from the assumed issuance of 71 million common shares upon conversion of mandatorily convertible preferred stock in May 2009 was not included in the above computations of diluted earnings per common share because such amounts would have had an antidilutive effect on earnings per common share (see Note 3 for further discussion).

NOTE 3 Stockholders Equity and Comprehensive Income

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

As part of its purchase of the preferred securities, the U.S. Treasury also received a warrant to purchase 48.3 million shares of Regions common stock at an exercise price of $10.88 per share, subject to anti-dilution and other adjustments. The warrant expires ten years from the issuance date. Regions used the Cox-Ross-Rubinstein Binomial Option Pricing Model (CRR Model) to value the warrant at the date of issuance. The CRR Model is a standard option pricing model which incorporates optimal early exercise in order to receive the benefit of future dividend payments. Based on the transferability of the warrant, the CRR Model approach that was applied assumes that the warrant holder will not sub-optimally exercise its warrant. The following assumptions were used in the CRR Model:

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

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

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The fair value allocation of the $3.5 billion between the preferred shares and the warrant resulted in $3.304 billion allocated to the preferred shares and $196 million allocated to the warrant. Accrued dividends on the preferred shares reduced retained earnings by $22.8 million during 2008 and $87.5 million during the first six months of 2009. The unamortized discount on the preferred shares at December 31, 2008 was $192.6 million and $175.4 million at June 30, 2009. Discount accretion on the preferred shares reduced retained earnings by $18.0 million during the first six months of 2009. Both the preferred securities and the warrant will be accounted for as components of Regions regulatory Tier 1 Capital.

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

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

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

At June 30, 2009, Regions had 23.1 million common shares available for repurchase through open market transactions under an existing share repurchase authorization. There were no treasury stock purchases through open market transactions during the first six months of 2009. The Company s ability to repurchase its common stock is limited by the terms of the CPP mentioned above.

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

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

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

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The disclosure of the reclassification amount is as follows:

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

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

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

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

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NOTE 4 Pension and Other Postretirement Benefits

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

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

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

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

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

NOTE 5 Share-Based Payments

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

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

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

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

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

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

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

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

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

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

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NOTE 6 Securities

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

June 30, 2009	Cost	Gross Unrealized Gains	Gross Unrealized Losses Non-credit OTTI	Gross Unrealized Losses Other	Estimated Fair Value
			(In millions)		
Securities available for sale:					
U.S. Treasury securities	$ 46	$ 5	$	$	$ 51
Federal agency securities	42	2			44
Obligations of states and political subdivisions	509	7		(2)	514
Mortgage-backed securities					
Residential	16,845	395	(191)	(95)	16,954
Commercial	897	1		(55)	843
Other debt securities	23			(3)	20
Equity securities	1,253	2			1,255
	$ 19,615	$ 412	$ (191)	$ (155)	$ 19,681
Securities held to maturity:					
U.S. Treasury securities	$ 13	$ 2	$	$	$ 15
Federal agency securities	8				8
Mortgage-backed securities	20			(1)	19
Other debt securities	2				2
	$ 43	$ 2	$	$ (1)	$ 44

December 31, 2008	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(In millions)		
Securities available for sale:				
U.S. Treasury securities	$ 802	$ 84	$	$ 886
Federal agency securities	1,521	175		1,696
Obligations of states and political subdivisions	755	9	(8)	756
Mortgage-backed securities	14,585	283	(539)	14,329
Other debt securities	21		(2)	19
Equity securities	1,178	1	(15)	1,164
	$ 18,862	$ 552	$ (564)	$ 18,850
Securities held to maturity:				
U.S. Treasury securities	$ 14	$ 1	$	$ 15
Federal agency securities	10		(1)	9
Obligations of states and political subdivisions	1			1
Mortgage-backed securities	20			20
Other debt securities	2			2
	$ 47	$ 1	$ (1)	$ 47

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

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

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

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

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

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

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The following tables present unrealized loss and estimated fair value of securities available for sale at June 30, 2009 and December 31, 2008. The tables include debt securities where a portion of other-than-temporary impairments have been recognized in other comprehensive income (loss). These securities are segregated between investments that have been in a continuous unrealized loss position for less than twelve months and twelve months or more. The tables include 678 securities and 1,065 securities at June 30, 2009 and December 31, 2008, respectively.

June 30, 2009	Less Than Twelve Months Estimated Fair Value	Less Than Twelve Months Gross Unrealized Losses	Twelve Months or More Estimated Fair Value	Twelve Months or More Gross Unrealized Losses	Total Estimated Fair Value	Total Gross Unrealized Losses
			(In millions)			
Federal agency securities	$ 3	$	$ 1	$	$ 4	$
Obligations of states and political subdivisions	43		103	(2)	146	(2)
Mortgage-backed securities						
Residential	3,659	(54)	786	(232)	4,445	(286)
Commercial	112	(5)	711	(50)	823	(55)
All other securities			8	(3)	8	(3)
	$ 3,817	$ (59)	$ 1,609	$ (287)	$ 5,426	$ (346)

December 31, 2008	Less Than Twelve Months Estimated Fair Value	Less Than Twelve Months Gross Unrealized Losses	Twelve Months or More Estimated Fair Value	Twelve Months or More Gross Unrealized Losses	Total Estimated Fair Value	Total Gross Unrealized Losses
			(In millions)			
Federal agency securities	$ 3	$	$ 1	$	$ 4	$
Mortgage-backed securities	1,830	(422)	660	(117)	2,490	(539)
All other securities	204	(21)	138	(4)	342	(25)
	$ 2,037	$ (443)	$ 799	$ (121)	$ 2,836	$ (564)

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

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

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The cost and estimated fair value of securities available for sale and securities held to maturity at June 30, 2009, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

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

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

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

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

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

NOTE 7 Business Segment Information

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

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

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

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

(In millions)	General Banking/ Treasury	Investment Banking/ Brokerage/ Trust	Insurance	Merger Charges	Total Company
Three months ended June 30, 2009					
Net interest income	$ 816	$ 14	$ 1	$	$ 831
Provision for loan losses	912				912
Non-interest income	854	318	27		1,199
Non-interest expense	926	285	20		1,231
Income tax expense	55	17	3		75
Net income (loss)	$ (223)	$ 30	$ 5	$	$ (188)
Average assets	$ 140,783	$ 4,817	$ 487	$	$ 146,087

(In millions)	General Banking/ Treasury	Investment Banking/ Brokerage/ Trust	Insurance	Merger Charges	Total Company
Three months ended June 30, 2008					
Net interest income	$ 956	$ 22	$ 1	$	$ 979
Provision for loan losses	309				309
Non-interest income	409	307	28		744
Non-interest expense	750	268	23	100	1,141
Income tax expense (benefit)	80	23	2	(38)	67
Net income (loss)	$ 226	$ 38	$ 4	$ (62)	$ 206
Average assets	$ 138,610	$ 3,639	$ 312	$	$ 142,561

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

Average assets	$ 140,162	$ 4,186	$ 484	$	$ 144,832

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

NOTE 8 Goodwill

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

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

The Company s goodwill is tested for impairment on an annual basis, or more often if events or circumstances indicate that there may be impairment. Adverse changes in the economic environment, declining operations, or other factors could result in a decline in the implied fair value of goodwill. A goodwill impairment test includes two steps. Step One, used to identify potential impairment, compares the estimated fair value of a reporting unit with its carrying amount, including goodwill. If the estimated fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired. If the carrying amount of a reporting unit exceeds its estimated fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. Step Two of the goodwill impairment test compares the implied estimated fair value of reporting unit goodwill with the carrying amount of that goodwill. In order to determine the implied estimated fair value, a full purchase price allocation is required to be performed in the same manner as if a business combination had occurred as outlined in Financial Accounting Standards Board Statement No. 141(R), *Business Combinations* (FAS 141(R)). If the carrying amount of goodwill for that reporting unit exceeds the implied fair value of that unit s goodwill, an impairment loss is recognized in an amount equal to that excess.

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

Recent operating performance,

Changes in market capitalization,

Regulatory actions and assessments,

Changes in the business climate (including legal factors and competition), Company specific factors (including changes in key personnel, asset impairments, and business dispositions), and

Trends in the banking industry.

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

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

Regions uses the public company method and the transaction method as the two market approaches. The public company method applies a value multiplier derived from each reporting unit s peer group to a financial metric of the reporting unit (e.g. last twelve months of earnings before interest, taxes and depreciation, tangible book value, etc.) and an implied control premium to the respective reporting unit. The control premium is evaluated and compared to similar financial services transactions. The transaction method applies a value multiplier to a financial metric of the reporting unit based on comparable observed purchase transactions in the financial services industry for the reporting unit (where available).

Regions uses the output from these approaches to determine the estimated fair value of each reporting unit. Below is a table of assumptions used in estimating the fair value of each reporting unit at June 30, 2009, and December 31, 2008, respectively. The table includes the discount rate used in the income approach, the market multiplier used in the market approaches, and the public company method control premium applied to all reporting units.

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

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

(b) For the General Bank/Treasury and Investment Banking/Brokerage/Trust reporting units, these multipliers are applied to tangible book value.

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

(a) For the General Bank/Treasury and Insurance reporting units, these multipliers are applied to tangible book value and the last twelve months of earnings before interest, taxes and depreciation, respectively.

(b) For the General Bank/Treasury and Investment Banking/Brokerage/Trust reporting units, these multipliers are applied to tangible book value and brokerage assets under management, respectively.

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

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

NOTE 9 Loan Servicing

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

The fair value of mortgage servicing rights is calculated using various assumptions including future cash flows, market discount rates, expected prepayment rates, servicing costs and other factors. A significant change in prepayments of mortgages in the servicing portfolio could result in significant changes in the valuation adjustments, thus creating potential volatility in the carrying amount of mortgage servicing rights. Regions uses various derivative instruments to mitigate the income statement effect of changes in the fair value of its mortgage servicing rights. During the three months ended June 30, 2009 and the first six months of 2009, Regions recognized a net $1.8 million loss and a net $2.8 million loss, respectively, associated with changes in mortgage servicing rights and the aforementioned derivatives, which is included in mortgage income.

The tables below present analyses of mortgage servicing rights:

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

(1) Represents economic amortization associated with borrower repayments.

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

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

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

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

NOTE 10 Derivative Financial Instruments and Hedging Activities

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

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

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

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

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

HEDGING DERIVATIVES

Derivatives entered into to manage interest rate risk and facilitate asset/liability management strategies are designated as hedging derivatives under FAS 133. Derivative financial instruments that qualify under FAS 133 in a hedging relationship are classified, based on the exposure being hedged, as either fair value or cash flow hedges. The Company formally documents all hedging relationships between hedging instruments and the hedged items, as well as its risk management objective and strategy for entering into various hedge transactions. The Company performs periodic assessments to determine whether the hedging relationship has been highly effective in offsetting changes in fair values or cash flows of hedged items and whether the relationship is expected to continue to be highly effective in the future.

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

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

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

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

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

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

Derivatives in FAS 133 Fair Value	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives	Hedged Items in FAS 133 Fair Value Hedge Relationships	Location of Gain (Loss) Recognized in Income on Related Hedged Item	Amount of Gain (Loss) Recognized in Income on Related Hedged Item

Hedging Relationships			*(In millions)*				
Interest rate swaps	Other non-interest expense	$	(64)	Debt	Other non-interest expense	$	64
Interest rate swaps	Interest expense		73	Debt	Interest expense		2
Total		$	9			$	66

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Derivatives in FAS 133 Cash Flow Hedging Relationships	Amount of Gain(Loss) Recognized in OCI on Derivatives (Effective Portion)(1)	Location of Gain(Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain(Loss) Reclassified from Accumulated OCI into Income (Effective Portion)(2)	Location of Gain(Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain(Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)(2)
		(In millions)			
Interest rate swaps	$ (42)	Interest income on loans	$ 129	Interest income on loans	$ 1
Interest rate options	(23)	Interest income on loans	67	Interest income on loans	(9)
Eurodollar futures	(5)	Interest income on loans	11		
Total	$ (70)		$ 207		$ (8)

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

FAIR VALUE HEDGES

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

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

CASH FLOW HEDGES

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

Regions enters into interest rate swap agreements to manage overall cash flow changes related to interest rate risk exposure on prime-based loans. The agreements effectively modify the Company s exposure to interest rate risk by utilizing receive fixed/pay prime interest rate swaps. As of June 30, 2009, the total notional amount of the Company s interest rate swaps designated in cash flow hedges on prime loans was $2.6 billion.

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

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

Regions issues long-term fixed-rate debt for various funding needs. Regions enters into receive LIBOR/pay-fixed forward starting swaps to hedge risks of changes in the projected quarterly interest payments attributable to changes in the benchmark interest rate (LIBOR) during the time leading up to the probable issuance date of the new long term fixed-rate debt. As of June 30, 2009, the total notional amount of the Company s forward-starting swaps was $1.0 billion.

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

Regions purchases Eurodollar futures to hedge the variability in future cash flows based on forecasted resets of one-month LIBOR-based floating rate loans due to changes in the benchmark interest rate. As of June 30, 2009, the total notional amount of the Company s Eurodollar futures was $0.

Regions realized an after-tax benefit of $17.4 million in accumulated other comprehensive income at June 30, 2009, related to terminated cash flow hedges of loan and debt instruments which will be amortized into earnings in conjunction with the recognition of interest payments through 2012. Regions recognized pre-tax income of $20.4 million during the first six months of 2009 related to this amortization.

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

TRADING DERIVATIVES

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

The Company maintains a derivatives trading portfolio of interest rate swaps, option contracts, and futures and forward commitments used to meet the needs of its customers. The portfolio is used to generate trading profit and to help clients manage market risk. The Company is subject to the credit risk that a counterparty will fail to perform. The Company is also subject to market risk which is monitored by the asset/liability management function and evaluated by the Company. Separate derivative contracts are entered into to reduce overall market exposure to pre-defined limits. The contracts in this portfolio do not qualify for hedge accounting and are marked-to-market through earnings and included in other assets and other liabilities. As of June 30, 2009, the total notional amount of the Company s derivatives trading portfolio was $65.4 billion.

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

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Regions enters into interest rate lock commitments, which are commitments to originate mortgage loans whereby the interest rate on the loan is determined prior to funding and the customers have locked into that interest rate. Fair value is based on fees currently charged to enter into similar agreements and, for fixed-rate commitments, considers the difference between current levels of interest rates and the committed rates. At June 30, 2009, Regions had $653.1 million in notional amounts of rate lock commitments. Regions manages market risk on interest rate lock commitments and mortgage loans held for sale with corresponding forward sale commitments, which are recorded at fair value with changes in fair value recorded in mortgage income. At June 30, 2009, Regions had $2.0 billion in notional amounts related to these forward rate commitments.

On January 1, 2009, Regions made an election allowed by FAS 156 and began accounting for mortgage servicing rights at fair market value with any changes to fair value being recorded within mortgage income. Concurrent with the election to use the fair value measurement method, Regions began using various derivative instruments, primarily in the form of forward rate commitments, to mitigate the income statement effect of changes in the fair value of its mortgage servicing rights. As of June 30, 2009, the total notional amount related to these forward rate commitments was $1.7 billion.

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

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

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

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

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

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CREDIT DERIVATIVES

Regions has both bought and sold credit protection in the form of participations on interest rate swaps (swap participations). These swap participations, which meet the definition of credit derivatives, were entered into in the ordinary course of business to serve the credit needs of customers. Credit derivatives, whereby Regions has purchased credit protection, entitle Regions to receive a payment from the counterparty when the customer fails to make payment on any amounts due to Regions upon early termination of the swap transaction and have maturities between 2012 and 2026. Credit derivatives whereby Regions has sold credit protection have maturities between 2009 and 2015. For contracts where Regions sold credit protection, Regions would be required to make payment to the counterparty when the customer fails to make payment on any amounts due to the counterparty upon early termination of the swap transaction. Regions bases the current status of the prepayment/performance risk on bought and sold credit derivatives on recently issued internal risk ratings consistent with the risk management practices of unfunded commitments.

Regions maximum potential amount of future payments under these contracts is approximately $60.7 million. This scenario would only occur if variable interest rates were at zero percent and all counterparties defaulted with zero recovery. The fair value of sold protection at June 30, 2009, was immaterial. In transactions where Regions has sold credit protection, recourse to collateral associated with the original swap transaction is available to offset some or all of Regions obligation.

CONTINGENT FEATURES

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

NOTE 11 Fair Value Measurements

Regions adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157), as of January 1, 2008. FAS 157 establishes a framework for using fair value to measure assets and liabilities and defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) as opposed to the price that would be paid to acquire the asset or received to assume the liability (an entry price). Under FAS 157, a fair value measure should reflect the assumptions that market participants would use in pricing the asset or liability, including the assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset and the risk of nonperformance. FAS 157 requires disclosures that stratify balance sheet amounts measured at fair value based on inputs the Company uses to derive fair value measurements. These strata include:

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

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

- Level 3 valuations, where the valuation is generated from model-based techniques that use significant assumptions not observable in the market, but observable based on Company-specific data. These

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unobservable assumptions reflect the Company s own estimates for assumptions that market participants would use in pricing the asset or liability. Valuation techniques typically include option pricing models, discounted cash flow models and similar techniques, but may also include the use of market prices of assets or liabilities that are not directly comparable to the subject asset or liability.

ITEMS MEASURED AT FAIR VALUE ON A RECURRING BASIS

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

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

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

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

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

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

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

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The following tables illustrate a rollforward for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and six months ended June 30, 2009 and 2008, respectively. The tables do not reflect the change in fair value attributable to any related economic hedges the Company used to mitigate the interest rate risk associated with these assets.

	Fair Value Measurements Using Significant Unobservable Inputs Three Months Ended June 30, 2009 (Level 3 measurements only)			
(In millions)	Trading Account Assets, net(1)	Securities Available for Sale	Mortgage Servicing Rights	Net Derivatives
Beginning balance, April 1, 2009	$ 333	$ 89	$ 161	$ 30
Total gains (losses) realized and unrealized:				
Included in earnings(1)	66	(15)	8	
Included in other comprehensive income		4		
Purchases and issuances	(28,949)		33	
Settlements	28,586	(5)		(23)
Transfers in and/or out of Level 3, net	97			
Ending balance, June 30, 2009	$ 133	$ 73	$ 202	$ 7

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

	Fair Value Measurements Using Significant Unobservable Inputs Three Months Ended June 30, 2008 (Level 3 measurements only)		
(In millions)	Trading Account Assets, net(1)	Securities Available for Sale	Net Derivatives
Beginning balance, April 1, 2008	$ 158	$ 111	$ 18
Total gains (losses) realized and unrealized:			
Included in earnings(1)	1		
Included in other comprehensive income		(1)	
Purchases and issuances	2,801		
Settlements	(2,593)	(5)	(6)
Transfers in and/or out of Level 3, net	3		
Ending balance, June 30, 2008	$ 370	$ 105	$ 12

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

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(In millions)	Fair Value Measurements Using Significant Unobservable Inputs Six Months Ended June 30, 2009 (Level 3 measurements only) Trading Account Assets, net(1)	Securities Available for Sale	Mortgage Servicing Rights	Net Derivatives
Beginning balance, January 1, 2009	$ 275	$ 95	$ 161	$ 55
Total gains (losses) realized and unrealized:				
Included in earnings(1)	136	(15)	(11)	3
Included in other comprehensive income		4		
Purchases and issuances	(59,764)		52	
Settlements	59,306	(11)		(51)
Transfers in and/or out of Level 3, net	180			
Ending balance, June 30, 2009	$ 133	$ 73	$ 202	$ 7

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

(In millions)	Fair Value Measurements Using Significant Unobservable Inputs Six Months Ended June 30, 2008 (Level 3 measurements only) Trading Account Assets, net(1)	Securities Available for Sale	Net Derivatives
Beginning balance, January 1, 2008	$ 109	$ 73	$ 8
Total gains (losses) realized and unrealized:			
Included in earnings(1)	(3)		17
Included in other comprehensive income		(9)	
Purchases and issuances	4,209	49	1
Settlements	(3,948)	(8)	(14)
Transfers in and/or out of Level 3, net	3		
Ending balance, June 30, 2008	$ 370	$ 105	$ 12

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

The following tables detail the presentation of both realized and unrealized gains and losses recorded in earnings for Level 3 assets for the three and six months ended June 30, 2009 and 2008, respectively:

(In millions)	Total Gains and Losses (Level 3 measurements only) Three Months Ended June 30, 2009 Trading Account Assets, net(1)	Securities Available for Sale	Mortgage Servicing	Net Derivatives

			Rights	
Classifications of gains (losses) both realized and unrealized included in earnings for the period:				
Brokerage, investment banking and capital markets	$ 66	$	$	$ 2
Mortgage income			8	(2)
Other income		(15)		
Other comprehensive income		4		
Total realized and unrealized gains and (losses)	$ 66	$ (11)	$ 8	$

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

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(In millions)	Total Gains and Losses (Level 3 measurements only) Three Months Ended June 30, 2008 Trading Account Assets, net(1)	Securities Available for Sale	Net Derivatives
Classifications of gains (losses) both realized and unrealized included in earnings for the period:			
Interest income	$	$	$
Brokerage and investment banking	1		
Mortgage income			8
Other income			(8)
Other comprehensive income		(1)	
Total realized and unrealized gains and (losses)	$ 1	$ (1)	$

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

(In millions)	Total Gains and Losses (Level 3 measurements only) Six Months Ended June 30, 2009 Trading Account Assets, net(1)	Securities Available for Sale	Mortgage Servicing Rights	Net Derivatives
Classifications of gains (losses) both realized and unrealized included in earnings for the period:				
Brokerage, investment banking and capital markets	$ 136	$	$	$ (35)
Mortgage income			(11)	38
Other income		(15)		
Other comprehensive income		4		
Total realized and unrealized gains and (losses)	$ 136	$ (11)	$ (11)	$ 3

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

(In millions)	Total Gains and Losses (Level 3 measurements only) Six Months Ended June 30, 2008 Trading Account Assets, net(1)	Securities Available for Sale	Net Derivatives
Classifications of gains (losses) both realized and unrealized included in earnings for the period:			
Interest income	$ 1	$	$
Brokerage and investment banking	(4)		
Mortgage income			17
Other income			

Other comprehensive income		(9)	
Total realized and unrealized gains and (losses)	$ (3)	$ (9)	$ 17

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

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The following tables detail the presentation of only unrealized gains and losses recorded in earnings for Level 3 assets for the three and six months ended June 30, 2009 and 2008, respectively:

	Three Months Ended June 30, 2009		
(In millions)	Trading Account Assets, net	Securities Available for Sale	Net Derivatives
The amount of total gains and losses for the period included in earnings, attributable to the change in unrealized gains (losses) relating to assets and liabilities still held at June 30, 2009:			
Brokerage, investment banking and capital markets	$ 1	$	$
Mortgage income			2
Other income		(15)	(2)
Other comprehensive income		4	
Total unrealized gains and (losses)	$ 1	$ (11)	$

	Three Months Ended June 30, 2008		
(In millions)	Trading Account Assets, net	Securities Available for Sale	Net Derivatives
The amount of total gains and losses for the period included in earnings, attributable to the change in unrealized gains (losses) relating to assets and liabilities still held at June 30, 2008:			
Brokerage and investment banking	$ 1	$	$
Mortgage income			8
Other income			(8)
Other comprehensive income		(1)	
Total unrealized gains and (losses)	$ 1	$ (1)	$

	Six Months Ended June 30, 2009		
(In millions)	Trading Account Assets, net	Securities Available for Sale	Net Derivatives
The amount of total gains and losses for the period included in earnings, attributable to the change in unrealized gains (losses) relating to assets and liabilities still held at June 30, 2009:			
Brokerage, investment banking and capital markets	$ 30	$	$ 6
Mortgage income			38
Other income		(15)	
Other comprehensive income		4	
Total unrealized gains and (losses)	$ 30	$ (11)	$ 44

	Six Months Ended June 30, 2008
(In millions)	

	Trading Account Assets, net	Securities Available for Sale	Net Derivatives
The amount of total gains and losses for the period included in earnings, attributable to the change in unrealized gains (losses) relating to assets and liabilities still held at June 30, 2008:			
Mortgage income	$ 1	$	$ 17
Other income			
Other comprehensive income		(9)	
Total unrealized gains and (losses)	$ 1	$ (9)	$ 17

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ITEMS MEASURED AT FAIR VALUE ON A NON-RECURRING BASIS

From time to time, certain assets may be recorded at fair value on a non-recurring basis. These non-recurring fair value adjustments typically are a result of the application of lower of cost or fair value accounting or a write-down occurring during the period.

The following table presents the carrying value of those assets measured at fair value on a non-recurring basis, and gains and losses recognized during the period. The carrying values in this table represent only those assets marked to fair value during the quarter ended June 30, 2009. The table does not reflect the change in fair value attributable to any related economic hedges the Company used to mitigate the interest rate risk associated with these assets.

	Carrying Value as of June 30, 2009				Fair value adjustments for the three months ended June 30, 2009
(In millions)	Level 1	Level 2	Level 3	Total	
Loans held for sale	$	$ 122	$ 20	$ 142	$ (41)
Foreclosed property and other real estate		256		256	(26)

FAIR VALUE OPTION

Regions adopted Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (FAS 159), as of January 1, 2008. FAS 159 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. FAS 159 requires the difference between the carrying value before election of the fair value option and the fair value of these financial instruments be recorded as an adjustment to beginning retained earnings in the period of adoption. There was no material effect of adoption on the consolidated financial statements.

Regions elected the fair value option for residential mortgage loans held for sale originated after January 1, 2008. This election allows for a more effective offset of the changes in fair values of the loans and the derivative instruments used to economically hedge them without the burden of complying with the requirements for hedge accounting under FAS 133. Regions has not elected the fair value option for other loans held for sale primarily because they are not economically hedged using derivative instruments. Fair values of mortgage loans held for sale are based on traded market prices of similar assets where available and/or discounted cash flows at market interest rates, adjusted for securitization activities that include servicing values and market conditions. At June 30, 2009 and 2008, loans held for sale for which the fair value option was elected had an aggregate fair value of $1.4 billion and $622 million, respectively, and an aggregate outstanding principal balance of $1.4 billion and $622 million, respectively, and were recorded in loans held for sale in the consolidated balance sheets. Interest income on mortgage loans held for sale is recognized based on contractual rates and is reflected in interest income on loans held for sale in the consolidated statements of operations. Net losses resulting from changes in fair value of these loans of $17.8 million and net gains resulting from changes in fair value of these loans of $1.8 million was recorded in mortgage income in the consolidated statements of income during the first six months of 2009 and 2008, respectively. These changes in fair value are mostly offset by economic hedging activities. An immaterial portion of these amounts was attributable to changes in instrument-specific credit risk.

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FAIR VALUE OF FINANCIAL INSTRUMENTS

The methods and assumptions used by the Company in estimating fair values of financial instruments are disclosed in Regions Form 10-K for the year ended December 31, 2008. The carrying amounts and estimated fair values of the Company s financial instruments as of June 30, 2009 and December 31, 2008 are as follows:

(In millions)	June 30, 2009 Carrying Amount	June 30, 2009 Estimated Fair Value(1)	December 31, 2008 Carrying Amount	December 31, 2008 Estimated Fair Value(1)
Financial assets:				
Cash and cash equivalents	$ 8,430	$ 8,430	$ 10,973	$ 10,973
Trading account assets	1,109	1,109	1,050	1,050
Securities available for sale	19,681	19,681	18,850	18,850
Securities held to maturity	43	44	47	47
Loans held for sale	1,932	1,932	1,282	1,282
Loans (excluding leases), net of unearned income and allowance for loan losses(2)	90,850	68,051	93,062	79,882
Other interest-earning assets	829	829	897	897
Derivatives, net	790	790	1,002	1,002
Financial liabilities:				
Deposits	94,726	95,280	90,904	91,199
Short-term borrowings	7,192	7,192	15,822	15,822
Long-term borrowings	18,238	17,097	19,231	18,191
Loan commitments and letters of credit	100	1,566	109	732

(1) Estimated fair values are consistent with the exit price concept required by FAS 157. In estimating fair value, the Company makes adjustments for interest rates, liquidity and credit spreads as appropriate.

(2) Excluded from this table is the lease carrying amount of $3.0 billion for June 30, 2009 and December 31, 2008, which approximates fair value.

NOTE 12 Commitments and Contingencies

COMMERCIAL COMMITMENTS

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

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

(In millions)	June 30 2009	December 31 2008	June 30 2008
Unused commitments to extend credit	$ 33,354	$ 37,271	$ 43,195
Standby letters of credit	4,784	8,012	8,447
Commercial letters of credit	14	20	31

Unused commitments to extend credit To accommodate the financial needs of its customers, Regions makes commitments under various terms to lend funds to consumers, businesses and other entities. These commitments include (among others) revolving credit agreements, term loan commitments and short-term

borrowing agreements. Many of these loan commitments have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of these commitments are expected to expire without being funded, the total commitment amounts do not necessarily represent future liquidity requirements. However, the current lack of liquidity in the broader market and the current credit environment has resulted in increased fundings of commitments to extend credit.

Standby letters of credit Standby letters of credit are also issued to customers, which commit Regions to make payments on behalf of customers if certain specified future events occur. Regions has recourse against the customer for any amount required to be paid to a third party under a standby letter of credit. Historically, a large percentage of standby letters of credit expired without being funded. The current lack of liquidity in the broader market and the current credit environment has resulted in increased fundings of standby letters of credit. The contractual amount of standby letters of credit represents the maximum potential amount of future payments Regions could be required to make and represents Regions maximum credit risk. At June 30, 2009, December 31, 2008 and June 30, 2008, Regions had $106 million, $118 million and $136 million, respectively, of liabilities associated with standby letter of credit agreements, with related assets of $98 million, $108 million and $125 million, respectively.

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

The reserve for all of these off-balance sheet financial instruments was $53 million, $74 million and $64 million at June 30, 2009, December 31, 2008 and June 30, 2008, respectively.

LEGAL

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 business, consolidated financial position or results of operations, except to the extent indicated in the discussion below.

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 Funds were formerly managed by Morgan Asset Management, Inc. 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 business, consolidated financial position or results of operations.

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 business, consolidated financial position or results of operations.

In July 2009, Morgan Keegan & Company, Inc. (Morgan Keegan), a wholly-owned subsidiary of Regions, Morgan Asset Management, Inc. and three employees each received a Wells notice from the Staff of the

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Atlanta Regional Office of the Securities and Exchange Commission (SEC) stating that the Staff intends to recommend that the Commission bring enforcement actions for possible violations of the federal securities laws. The potential actions relate to the Staff s investigation of the Funds. Additionally, in July 2009, Morgan Keegan received a Wells notice from the enforcement staff of the Financial Industry Regulatory Authority (FINRA) advising Morgan Keegan that it had made a preliminary determination to recommend discipline against Morgan Keegan for violation of various NASD rules relating to sales of the Funds during 2006 and 2007. A Wells notice is neither a formal allegation nor a finding of wrongdoing. The notices provide the recipients the opportunity to provide their perspective and to address issues raised prior to any formal action being taken by the SEC or FINRA. Although it is not possible to predict the ultimate resolution or financial liability with respect to these matters, management is currently of the opinion that the outcome of these matters will not have a material effect on Regions business, consolidated financial position or results of operations.

In March 2009, Morgan Keegan received a Wells notice from the SEC s Atlanta Regional Office related to auction rate securities (ARS) indicating that the SEC staff intended to recommend that the Commission take civil action against Morgan Keegan. On July 21, 2009, the SEC filed a complaint in United States District Court for the Northern District of Georgia against Morgan Keegan alleging violations of the federal securities laws in connection with ARS that Morgan Keegan underwrote, marketed and sold. The SEC is seeking an injunction against Morgan Keegan for violations of the antifraud provisions of the federal securities laws, as well as disgorgement, financial penalties and other equitable relief for customers, including repurchase by Morgan Keegan of all ARS that it sold prior to March 20, 2008. Beginning in February 2009, Morgan Keegan commenced a voluntary program to repurchase ARS that it underwrote and sold to the firm s customers, and will extend that repurchase program in the third quarter of 2009 to include ARS that were sold by Morgan Keegan to its customers but were underwritten by other firms. As of June 30, 2009, customers of Morgan Keegan owned approximately $365 million of ARS and Morgan Keegan held approximately $128 million of ARS on its balance sheet. On July 21, 2009, the Alabama Securities Commission issued a Show Cause order to Morgan Keegan arising out of the ARS matter that is the subject of the SEC complaint described above. The order requires Morgan Keegan to show cause why its registration as a broker-dealer should not be suspended or revoked in the State of Alabama and also why it should not be subject to disgorgement, repurchasing all ARS sold to Alabama residents and payment of costs and penalties. Although it is not possible to predict the ultimate resolution or financial liability with respect to the ARS matter, management is currently of the opinion that the outcome of this matter will not have a material effect on Regions business, consolidated financial position or results of operations.

In April 2009, Regions, Regions Financing Trust III (the Trust) and certain of Regions current and former directors, were named in a purported class-action lawsuit filed in the U.S. District Court for the Southern District of New York on behalf of the purchasers of trust preferred securities offered by the Trust. The complaint alleges that defendants made statements in Regions registration statement, prospectus and year-end filings which were materially false and misleading. 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 business, consolidated financial position or results of operations.

NOTE 13 Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued FAS 157, which provides guidance for using fair value to measure assets and liabilities, but does not expand the use of fair value in any circumstance. FAS 157 also requires expanded disclosures about the extent to which a company measures assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on an entity s financial statements. This statement applies when other standards require or permit assets and liabilities to be measured at fair value. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, with early adoption permitted. Regions adopted FAS 157 on January 1, 2008, and the effect of adoption on the consolidated financial statements

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was not material. Additionally, in February 2008, the FASB issued FSP 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2), which delays the effective date of FAS 157 for non-recurring, non-financial instruments to fiscal years beginning after November 15, 2008. Regions implemented the provisions of FSP FAS 157-2 as of January 1, 2009. See Note 11, Fair Value Measurements for additional information about the impact of the adoption of FAS 157 and FAS 157-2.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), Business Combinations (FAS 141(R)). FAS 141(R) requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information needed to evaluate and understand the nature and financial effect of the business combination. FAS 141(R) is effective for fiscal years beginning after December 15, 2008. Regions adopted FAS 141(R) as of January 1, 2009, and the adoption did not have a material impact on Regions consolidated financial statements. However, the adoption of FAS 141(R) could have a material impact to the consolidated financial statements for prospective business combinations.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements (FAS 160), which requires all entities to report noncontrolling (minority) interests in subsidiaries as equity in the consolidated financial statements. Additionally, FAS 160 requires that transactions between an entity and noncontrolling interests be treated as equity transactions. FAS 160 is effective for fiscal years beginning after December 15, 2008. Regions adopted FAS 160 on January 1, 2009, and the adoption did not have a material impact on the consolidated financial statements.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities (FAS 161). FAS 161 requires entities to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (FAS 133) and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. FAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early adoption permitted. Regions adopted FAS 161 on January 1, 2009. Refer to Note 10, Derivative Financial Instruments and Hedging Activities for additional information.

In June 2008, the FASB issued FASB Staff Position No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payments Transactions Are Participating Securities (FSP EITF 03-6-1). FSP EITF 03-6-1 requires that instruments granted in share-based payment transactions, that are considered to be participating securities, should be included in the earnings allocation in computing earnings per share (EPS) under the two-class method described in FASB Statement No. 128, Earnings per Share . FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008 with all prior period EPS data being adjusted retrospectively. Early adoption was not permitted. Regions adopted FSP EITF 03-6-1 on January 1, 2009, and the adoption did not have a material impact on the consolidated financial statements.

In December 2008, the FASB issued FASB Staff Position No. 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets (FSP 132(R)-1). This FSP amends FASB Statement No. 132(R), Employer s Disclosures about Pensions and Other Postretirement Benefits (FAS 132(R)), to require additional annual disclosures about assets held in an employer s defined benefit pension or other postretirement plan. This FSP is applicable to an employer that is subject to the disclosure requirements of FAS 132(R) and is generally effective for fiscal years ending after December 15, 2009. Regions is in the process of reviewing the potential impact of FSP 132(R)-1; however, the adoption of FSP 132(R)-1 is not expected to have a material impact to the consolidated financial statements.

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In January 2009, the FASB issued FASB Staff Position No. EITF 99-20-1, Amendments to the Impairment Guidance of EITF Issue No. 99-20 (FSP EITF 99-20-1). This FSP amends the impairment guidance in EITF Issue No. 99-20, Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets, to achieve more consistent determination of whether an other-than-temporary impairment has occurred. Additionally, the FSP retains and emphasizes the objective of an other than-temporary impairment assessment and the related disclosure requirements in FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities , and other related guidance. This FSP is effective for interim and annual reporting periods ending after December 15, 2008, and is applied prospectively. Regions adopted FSP EITF 99-20-1 as of December 31, 2008, and the effect of adoption on the consolidated financial statements was not material.

In April 2009, the FASB issued FASB Staff Position No. 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies (FSP FAS 141(R)-1) to address certain implementation issues related to the accounting for assets and liabilities arising from contingencies under FAS 141(R). FSP 141(R)-1 requires that assets acquired and liabilities assumed in a business combination arising from contingencies should be recognized at fair value on the acquisition date if fair value can be determined during the measurement period. This FSP is effective for acquisitions where the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Regions is in the process of reviewing the potential impact of FSP 141(R)-1. The adoption of FSP 141(R)-1 could have a material impact to the consolidated financial statements for business combinations entered into after the effective date of FSP 141(R)-1.

In April 2009, the FASB issued FASB Staff Position No. 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP 157-4) to provide additional guidance for estimating fair value in accordance with FAS 157 when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. This FSP emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, and is applied prospectively. Regions adopted FSP 157-4 during the second quarter of 2009, and the effect of the adoption on the consolidated financial statements was not material.

In April 2009, the FASB issued FASB Staff Position No. 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP 107-1 and APB 28-1) to require disclosures about fair value of financial instruments for interim reporting periods as well as in annual financial statements. This FSP also amends APB Opinion No. 28, Interim Financial Reporting , to require those disclosures in summarized financial information at interim reporting periods. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, and is applied prospectively. Regions adopted FSP 107-1 and APB 28-1 during the second quarter of 2009. Refer to Note 11 Fair Value Measurements for additional information.

In April 2009, the FASB issued FSP 115-2 and 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP 115-2 and 124-2), which modifies and expands other-than-temporary impairment guidance for debt securities from Staff Accounting Bulletin Topic 5M, Other Than Temporary Impairment of Certain Investments In Debt and Equity Securities and other authoritative literature. This FSP addresses the unique features of debt securities and clarifies the interaction of the factors that should be considered when determining whether a debt security is other-than-temporarily impaired. This FSP requires an entity to recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the noncredit component in other comprehensive income when the entity does not intend to sell the security and it is more likely than not that the entity will not be required to sell the security prior to recovery. This FSP expands and increases the frequency of existing disclosures about other-than-temporary impairments for debt and equity securities. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, and is applied prospectively. Regions adopted FSP 115-2 and 124-2 during the second quarter of 2009. Refer to Note 6 Securities for additional information.

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In May 2009, the FASB issued Statement of Financial Accounting Standards No. 165, Subsequent Events (FAS 165), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 also requires entities to disclose the date through which subsequent events were evaluated as well as whether that date is the date that the financial statements were issued or were available to be issued. Regions adopted FAS 165 during the second quarter of 2009. Refer to Note 14 Subsequent Events for additional information.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 166, Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140 (FAS 166). FAS 166 eliminates the concept of a Qualified Special Purpose Entity from FAS 140, changes the requirements for derecognizing financial assets, and requires additional disclosures. This statement is effective for fiscal years beginning after November 15, 2009. Regions is in the process of reviewing the potential impact of FAS 166; however, the adoption of FAS 166 is not expected to have a material impact to the consolidated financial statements.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 167, Amendments to FASB Interpretation No. 46(R) (FAS 167), which modifies how a company determines when a variable interest entity (VIE) should be consolidated. FAS 167 also requires a qualitative assessment of an entity s determination of the primary beneficiary of a VIE based on whether the entity (1) has the power to direct the activities of a VIE that most significantly impact the entity s economic performance, and (2) has the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. FAS 167 requires an ongoing reassessment of whether a company is the primary beneficiary of a VIE as well as additional disclosures about a company s involvement in VIEs. This statement is effective for fiscal years beginning after November 15, 2009. Regions is in the process of reviewing the potential impact of FAS 167; however, the adoption of FAS 167 is not expected to have a material impact to the consolidated financial statements.

NOTE 14 Subsequent Events

Regions has evaluated all subsequent events for potential recognition and disclosure through August 5, 2009, the date of the filing of this Form 10-Q.

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

INTRODUCTION

The following discussion and analysis is part of Regions Financial Corporation s (Regions or the Company) Quarterly Report on Form 10-Q to the Securities and Exchange Commission (SEC) and updates Regions Form 10-K for the year ended December 31, 2008, which was previously filed with the SEC. This financial information is presented to aid in understanding Regions financial position and results of operations and should be read together with the financial information contained in the Form 10-K. Certain prior period amounts presented in this discussion and analysis have been reclassified to conform to current period classifications, except as otherwise noted. The emphasis of this discussion will be on the three and six months ended June 30, 2009 compared to the three and six months ended June 30, 2008 for the statement of operations. For the balance sheet, the emphasis of this discussion will be the balances as of June 30, 2009 compared to December 31, 2008.

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

CORPORATE PROFILE

Regions is a financial holding company headquartered in Birmingham, Alabama, which operates in 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, securities brokerage, insurance and other specialty financing.

Regions conducts its banking operations through Regions Bank, an Alabama chartered commercial bank that is a member of the Federal Reserve System. At June 30, 2009, Regions operated approximately 1,900 full-service banking offices in Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, South Carolina, Tennessee, Texas and Virginia. Regions provides brokerage services and investment banking from approximately 320 offices of Morgan Keegan & Company, Inc. (Morgan Keegan), a full-service regional brokerage and investment banking firm. Regions provides full-line insurance brokerage services primarily through Regions Insurance, Inc., one of the 25 largest insurance brokers in the country.

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, securities brokerage, investment banking 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, as well as income taxes.

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.

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 strategy with the personal attention and feel of a community bank and with the service and product offerings of a large regional bank.

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SECOND QUARTER HIGHLIGHTS

Regions reported a net loss available to common shareholders of $244 million, or $0.28 loss per diluted share in the second quarter of 2009, compared to second quarter 2008 per diluted share income of $0.30. High credit costs, primarily the result of focused efforts to identify and address loan portfolio stress, as well as increasing unemployment and ongoing deterioration in real estate values, continued to negatively impact pre-tax earnings. During the second quarter, Regions recorded a $912 million provision for loan losses, $603 million higher than the second quarter of 2008. Additionally, several other significant items, which are discussed later in this section, affected net income for the second quarter of 2009.

Net interest income on a fully taxable-equivalent basis for the second quarter of 2009 was $840 million compared to $1.0 billion in the second quarter of 2008. The net interest margin (taxable-equivalent basis) was 2.62% in the second quarter of 2009, compared to 3.36% during the second quarter of 2008. The decline in the net interest margin was impacted primarily by factors directly and indirectly associated with the erosion of economic and industry conditions since late 2007. These factors include an unfavorable variation in the general level and shape of the yield curve, Regions asset sensitive balance sheet, rate increases for new debt issuances, and rising non-performing asset levels. Additionally, declining loan yields have not been offset by similar declines in deposit rates due to the competitive demand for deposits within the industry. Recent increases in non-interest bearing deposit balances as well as the benefits of improving spreads on newly originated and renewed loans should help promote a stable net interest margin going forward.

Net charge-offs totaled $491 million, or an annualized 2.06% of average loans, in the second quarter of 2009, compared to 0.86% for the second quarter of 2008. The increase was primarily driven by deterioration in the residential homebuilder portfolio and losses within the home equity and condominium portfolios, all of which are closely tied to the housing market slowdown. The provision for loan losses totaled $912 million in the second quarter of 2009 compared to $309 million during the second quarter of 2008. The allowance for credit losses at June 30, 2009 was 2.43% of total loans, net of unearned income, compared to 1.95% at December 31, 2008 and 1.56% at June 30, 2008. Total non-performing assets, including loans held for sale, at June 30, 2009 were $3.4 billion, compared to $1.7 billion at December 31, 2008 and $1.6 billion at June 30, 2008. Residential homebuilder and condominium loans, as well as foreclosed properties, continue to be the primary drivers of the increase since December 31, 2008. Further, the increase is being partially driven by recent increases in non-performing loans secured by income producing properties. Also included in non-performing assets were $371 million of loans held for sale at June 30, 2009 compared to $423 million at December 31, 2008 and $8 million at June 30, 2008.

Non-interest income for the second quarter of 2009 increased by $455 million compared to the second quarter of 2008. The increase was due primarily to several items impacting the 2009 periods with no corresponding impact on the 2008 periods. These items include gains from terminations of leveraged leases of $189 million, gain on sale of Visa shares of $80 million, and a gain on the extinguishment of debt of $61 million realized in connection with the Company s issuance of common stock in exchange for trust preferred securities. Higher gains from sales of portfolio securities also contributed to the increase. Additionally, mortgage income was greater in the second quarter and first six months of 2009 by $39 million and $66 million, respectively, compared to the same periods of 2008 due to elevated refinancing activity driven by lower interest rates.

Total non-interest expense, excluding merger-related charges, was $1.231 billion and $1.041 billion in the second quarter of 2009 and 2008, respectively. Pre-tax merger charges of $100 million were incurred in the second quarter of 2008 (see Table 13 GAAP to Non-GAAP Reconciliation). The increase in non-interest expense was primarily attributable to increased FDIC insurance premiums, including a $64 million special assessment, and $69 million in other-than-temporary impairment charges on investment securities. Additionally, salaries and employee benefits and net occupancy expense, excluding merger charges, and other real estate owned (OREO) expense were higher in the second quarter of 2009 as compared to the corresponding 2008 period. The increase in non-interest expense was also driven by a 2008 recapture of mortgage servicing rights, which did not occur in the corresponding 2009 period. Partially offsetting these increases were decreases in furniture and equipment expense, adjusted for merger charges, and amortization of mortgage servicing rights and core deposit intangibles.

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During the second quarter of 2009, the Company significantly strengthened its balance sheet, fulfilling the $2.5 billion regulatory Supervisory Capital Assessment Program (SCAP) requirement primarily through the issuances of common and preferred securities. Tier 1 Capital at the end of the second quarter of 2009 was 12.16 percent, and the Tier 1 common ratio was 8.05 percent (see Table 13 GAAP to Non-GAAP Reconciliation).

TOTAL ASSETS

Regions total assets at June 30, 2009 were $143 billion, compared to $146 billion at December 31, 2008. The decrease in total assets from year-end 2008 resulted primarily from a decrease in interest-bearing deposits in other banks as the Company s excess liquidity position was higher at year-end.

LOANS

At June 30, 2009 and December 31, 2008, loans represented 76% of Regions interest-earning assets. The following table presents the distribution by loan type of Regions loan portfolio, net of unearned income:

(In millions, net of unearned income)	**June 30 2009**	**December 31 2008**	**June 30 2008**
Commercial and industrial	$ 23,619	$ 23,596	$ 23,242
Commercial real estate non owner-occupied	16,419	14,486	13,643
Commercial real estate owner-occupied	12,282	11,722	11,277
Construction non owner-occupied	7,163	9,029	9,478
Construction owner-occupied	1,060	1,605	2,523
Residential first mortgage	15,564	15,839	16,464
Home equity	15,796	16,130	15,447
Indirect	3,099	3,854	4,145
Other consumer	1,147	1,158	2,048
	$ 96,149	$ 97,419	$ 98,267

Loans, net of unearned income, totaled $96.1 billion at June 30, 2009, a decrease of $1.3 billion from year-end 2008 levels, primarily due to a decline in construction loans, reflecting developers reluctance to begin new projects or purchase existing projects under current economic conditions. These decreases were partially offset by increases in commercial and industrial as well as the commercial real estate portfolios. The primary driver of the increases in these categories was the funding of Variable Rate Demand Notes (VRDNs). At June 30, 2009, Regions had funded $2.4 billion in letters of credit backing VRDNs. The remaining unfunded VRDN letters of credit portfolio was approximately $2.6 billion at June 30, 2009 (net of participations). The dealer indirect portfolio is an exit portfolio and continues to be in a runoff mode.

Regions has approximately $66 million in book value of sub-prime loans retained from the disposition of EquiFirst, down slightly from the year-end 2008 balance of $77 million. The credit loss exposure related to these loans is addressed in management s periodic determination of the allowance for credit losses.

RESIDENTIAL HOMEBUILDER PORTFOLIO

During late 2007, the residential homebuilder portfolio came under significant stress. In Table 1 Loan Portfolio , the majority of these loans are reported in the construction non owner-occupied loan category, while a smaller portion is reported as commercial real estate non owner-occupied. The residential homebuilder portfolio is geographically concentrated in Florida and North Georgia; the balances in these areas total approximately $1.4 billion of the $3.8 billion total at June 30, 2009. Regions continues its proactive efforts in contacting and helping customers, along with fortifying collection efforts, in order to mitigate losses. This portfolio has decreased by approximately $616 million from December 31, 2008 to June 30, 2009, and approximately $3.4 billion since the beginning of 2008.

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The following table details the portfolio breakout of the residential homebuilder portfolio:

Table 2 Residential Homebuilder Portfolio

(In millions, net of unearned income)	June 30 2009	December 31 2008	June 30 2008
Land	$ 1,273	$ 1,553	$ 2,066
Residential spec	1,098	1,297	1,752
Residential presold	252	300	546
Lots	908	967	1,179
National homebuilders and other	255	285	215
	$ 3,786	$ 4,402	$ 5,758

ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses (allowance) represents management s estimate of credit losses inherent in the portfolio. The allowance consists of two components: the allowance for loan losses and the reserve for unfunded credit commitments. Management s assessment of the adequacy of the allowance is based on the combination of both of these components. Regions determines its allowance in accordance with regulatory guidance, Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan (FAS 114) and Statement of Financial Accounting Standards No. 5, Accounting for Contingencies (FAS 5). Binding unfunded credit commitments include items such as letters of credit, financial guarantees and binding unfunded loan commitments.

Factors considered by management in determining the adequacy of the allowance include, but are not limited to: (1) detailed reviews of individual loans; (2) historical and current trends in gross and net loan charge-offs for the various portfolio segments evaluated; (3) the Company s policies relating to delinquent loans and charge-offs; (4) the level of the allowance in relation to total loans and to historical loss levels; (5) levels and trends in non-performing and past due loans; (6) collateral values of properties securing loans; (7) the composition of the loan portfolio, including unfunded credit commitments; and (8) management s analysis of current economic conditions.

Various departments, including Credit Review, Commercial and Consumer Credit Risk Management and Special Assets are involved in the credit risk management process to assess the accuracy of risk ratings, the quality of the portfolio and the estimation of inherent credit losses in the loan portfolio. This comprehensive process also assists in the prompt identification of problem credits. The Company has taken a number of measures to aggressively manage the portfolios and mitigate losses, particularly in the more problematic portfolios. Significant action in the management of the home equity portfolio has also been taken. Also, a strong Customer Assistance Program is in place which educates customers about options and initiates early contact with customers to discuss solutions when a loan first becomes delinquent.

For the majority of the loan portfolio, management uses information from its ongoing review processes to stratify the loan portfolio into pools sharing common risk characteristics. Loans that share common risk characteristics are assigned a portion of the allowance based on the assessment process described above. Credit exposures are categorized by type and assigned estimated amounts of inherent loss based on the processes described above.

The allowance for credit losses totaled $2.34 billion at June 30, 2009 and $1.90 billion at December 31, 2008. The allowance for credit losses as a percentage of net loans was 2.43% at June 30, 2009 compared to 1.95% at December 31, 2008 and 1.56% at June 30, 2008. The increase in the allowance was primarily driven by the result of focused efforts to identify and address loan portfolio stress, as well as deterioration in the residential

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homebuilder, condominium and home equity portfolios. These developments resulted in a significant migration of loans into non-performing status. The majority of the increase in non-performing loans was driven by continued deterioration in the residential homebuilder and condominium loans. Further, the increase during the second quarter of 2009 in non-performing loans was partially driven by recent increases in non-performing loans secured by income producing properties. The Company considers increases in non-performing loans to be one of the indicators of increased risks inherent in the portfolio. The increase in the allowance for credit losses reflects these increased risks. Given continuing pressure on residential property values especially in Florida and North Georgia rising unemployment and a generally uncertain economic backdrop, the Company expects credit costs to remain elevated. The reserve for unfunded credit commitments was $53 million at June 30, 2009 and $74 million at December 31, 2008. Details regarding the allowance and net charge-offs, including an analysis of activity from the previous year s totals, are included in Table 4 Allowance for Credit Losses .

Net charge-offs as a percentage of average loans (annualized) were 1.85% and 0.70% in the first six months of 2009 and 2008, respectively. For the first six months of 2009, net charge-offs on commercial real estate non-owner-occupied and owner-occupied were an annualized 2.27% and 0.46%, respectively, compared to an annualized 0.43% and 0.26%, respectively, for the first six months of 2008. For the first six months of 2009, net charge-offs on construction non-owner-occupied and owner-occupied were an annualized 4.48% and 1.10%, respectively, compared to an annualized 0.97% and 0%, respectively, for the first six months of 2008. The increase in commercial real estate non owner-occupied and construction non owner-occupied net charge-offs are primarily driven by continued deterioration in Regions homebuilder portfolio.

Net charge-offs were an annualized 2.62% of home equity loans compared to an annualized 1.25% through the first six months of 2009 and 2008, respectively. Losses in Florida-based credits remained at elevated levels, as unemployment levels remain high and property valuations in certain markets have continued to experience ongoing deterioration. These loans and lines represent approximately $5.8 billion of Regions total home equity portfolio at June 30, 2009. Of that balance, approximately $2.2 billion represent first liens, while second liens, which total $3.6 billion, are the main source of losses. Florida second lien losses were 7.01% annualized through the first six months of 2009 as compared to 2.89% for the same period of 2008. Through the first six months of 2009, home equity losses in Florida amounted to an annualized 5.44% of loans and lines versus 1.02% across the remainder of Regions footprint. This compares to the first six months of 2008 losses of 2.24% and 0.73%, respectively.

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

Table 3 Selected Home Equity Portfolio Information

	Six Months Ended June 30, 2009								
	Florida			All Other States			Total		
(In millions)	1st Lien	2nd Lien	Total	1st Lien	2nd Lien	Total	1st Lien	2nd Lien	Total
Balance	$ 2,171	$ 3,625	$ 5,796	$ 4,509	$ 5,491	$ 10,000	$ 6,680	$ 9,116	$ 15,796
Net Charge-offs	30	127	157	13	38	51	43	165	208
Net Charge-off %(1)	2.78%	7.01%	5.44%	0.58%	1.38%	1.02%	1.28%	3.60%	2.62%

	Six Months Ended June 30, 2008								
	Florida			All Other States			Total		
(In millions)	1st Lien	2nd Lien	Total	1st Lien	2nd Lien	Total	1st Lien	2nd Lien	Total
Balance	$ 1,922	$ 3,448	$ 5,370	$ 4,525	$ 5,552	$ 10,077	$ 6,447	$ 9,000	$ 15,447
Net Charge-offs	9	49	58	9	27	36	18	76	94
Net Charge-off %(1)	1.01%	2.89%	2.24%	0.43%	0.97%	0.73%	0.60%	1.70%	1.25%

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

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

Table 4 Allowance for Credit Losses

	Six Months Ended June 30	
(In millions)	**2009**	**2008**
Allowance for loan losses at beginning of year	$ 1,826	$ 1,321
Loans charged-off:		
Commercial	153	88
Commercial real estate non owner-occupied	179	30
Commercial real estate owner-occupied	31	17
Construction non owner-occupied	179	60
Construction owner-occupied	7	
Residential first mortgage	91	23
Home equity	220	102
Indirect	37	24
Other consumer	37	36
	934	380
Recoveries of loans previously charged-off:		
Commercial	11	12
Commercial real estate non owner-occupied	2	1
Commercial real estate owner-occupied	4	3
Construction non owner-occupied	2	1
Construction owner-occupied		
Residential first mortgage	1	1
Home equity	12	8
Indirect	10	8
Other consumer	11	12
	53	46
Net charge-offs:		
Commercial	142	76
Commercial real estate non owner-occupied	177	29
Commercial real estate owner-occupied	27	14
Construction non owner-occupied	177	59
Construction owner-occupied	7	
Residential first mortgage	90	22
Home equity	208	94
Indirect	27	16
Other consumer	26	24
	881	334
Allowance allocated to sold loans and loans transferred to loans held for sale		(5)
Provision for loan losses	1,337	490
Allowance for loan losses at June 30	$ 2,282	$ 1,472
Reserve for unfunded credit commitments at January 1	$ 74	$ 58
Provision for unfunded credit commitments	(21)	6
Reserve for unfunded credit commitments at June 30	$ 53	$ 64

Allowance for credit losses at end of period	$ 2,335	$ 1,536
Loans, net of unearned income, outstanding at end of period	$ 96,149	$ 98,267
Average loans, net of unearned income, outstanding for the period	$ 96,012	$ 96,456
Ratios:		
Allowance for loan losses at end of period to loans, net of unearned income	2.37%	1.50%
Allowance for credit losses at end of period to loans, net of unearned income	2.43	1.56
Net charge-offs as percentage of:		
Average loans, net of unearned income	1.85	0.70
Provision for loan losses	65.88	68.31
Allowance for credit losses	37.73	21.79

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Impaired loans are defined as all troubled debt restructurings (TDRs) plus non-accrual loans, excluding non-accrual consumer loans. Impaired loans totaled approximately $3.7 billion at June 30, 2009, compared to $1.4 billion at December 31, 2008. The increase in impaired loans is consistent with the increase in non-performing loans, which is discussed in the Non-Performing Assets section of this report. Impaired loans with outstanding balances greater than $2.5 million are evaluated individually for impairment. For these loans, Regions measures the level of impairment based on the present value of the estimated projected cash flows, the estimated value of the collateral or, if available, observable market prices. For consumer TDRs, Regions measures the level of impairment based on pools of loans stratified by common risk characteristics. If current valuations are lower than the current book balance of the credit, the negative differences are reviewed for possible charge-off. In instances where management determines that a charge-off is not appropriate, a reserve is established for the individual loan in question. The allowance allocated to impaired loans, excluding TDRs, totaled $340 million and $130 million at June 30, 2009 and December 31, 2008, respectively. The allowance allocated to TDRs totaled $17 million at June 30, 2009 and $9 million at December 31, 2008.

The following table summarizes TDRs for the periods ending June 30, 2009 and December 31, 2008:

Table 5 Troubled Debt Restructurings

(In millions)	June 30 2009	December 31 2008
Accruing:		
Commercial and industrial	$ 11	$ 1
Residential first mortgage	1,010	406
Home equity	139	48
Other consumer	18	
	1,178	455
Non-accrual status or 90 days past due:		
Commercial and industrial	31	10
Residential first mortgage	105	67
Home equity	5	1
	141	78
	$ 1,319	$ 533

The increase in TDRs since year-end is due to rising unemployment levels and the continued decline in residential property values. Regions continues to work to meet the unique needs of consumer borrowers to stem foreclosures and keep customers in their homes through the Customer Assistance Program. As a result, Regions initiated significantly more extensions and modifications in the first six months of 2009 than for the same period in 2008. Since inception of the Customer Assistance Program in late 2007, approximately 7,600 consumer loans have been restructured driving an increase to approximately $1.3 billion in restructured consumer loans. An additional 1,800 delinquent customers received short term extensions. As shown in the table above, the majority of restructured consumer loans are on accrual status at June 30, 2008. There was an immaterial amount of TDRs at June 30, 2008.

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NON-PERFORMING ASSETS

Non-performing assets are summarized as follows:

Table 6 Non-Performing Assets

(Dollars in millions)	June 30 2009	December 31 2008	June 30 2008
Non-performing loans:			
Commercial and industrial	$ 383	$ 176	$ 181
Commercial real estate non owner-occupied	811	292	293
Commercial real estate owner-occupied	333	157	143
Construction non owner-occupied	869	273	643
Construction owner-occupied	46	26	33
Residential first mortgage	174	125	104
Home equity	2	3	13
Total non-performing loans	2,618	1,052	1,410
Foreclosed properties	439	243	211
Total non-performing assets* excluding loans held for sale	3,057	1,295	1,621
Non-performing loans held for sale	371	423	8
Total non-performing assets* including loans held for sale	$ 3,428	$ 1,718	$ 1,629
Non-performing loans, excluding loans held for sale, to loans, net of unearned income	2.72%	1.08%	1.44%
Non-performing assets* excluding loans held for sale to loans, net of unearned income, and foreclosed properties	3.17%	1.33%	1.65%
Non-performing assets* to loans, net of unearned income, and foreclosed properties	3.55%	1.76%	1.65%
Allowance for loan losses to non-performing loans	.87x	1.74x	1.04x
Accruing loans 90 days past due:			
Commercial and industrial	$ 14	$ 14	$ 11
Commercial real estate non owner-occupied	46	12	8
Commercial real estate owner-occupied	14	9	7
Construction non owner-occupied	13	12	15
Construction owner-occupied	3	3	3
Residential first mortgage	363	275	211
Home equity	148	214	167
Indirect	5	8	5
Other consumer	7	7	5
	$ 613	$ 554	$ 432
Restructured loans not included in the categories above	$ 1,178	$ 455	$ 102

* Exclusive of accruing loans 90 days past due

Total non-performing assets were $3.4 billion at June 30, 2009 compared to $1.7 billion at December 31, 2008 and $1.6 billion at June 30, 2008. Excluding loans held for sale, non-performing assets at June 30, 2009 were $3.1 billion compared to $1.3 billion at December 31, 2008 and $1.6 billion at June 30, 2008. The increase since year-end was primarily driven by commercial and industrial, commercial real estate and construction loans, including the residential homebuilder and condominium portfolios, due to the continued decline in residential property values. Of the $3.8 billion residential homebuilder portfolio, approximately $771 million is non-accruing and $14 million is 90 days or more past due as of June 30, 2009. Also, Regions has recently been experiencing an inflow of non-performing loans secured by income-producing properties.

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Loans past due 90 days or more and still accruing increased $59 million from year-end 2008 levels, reflecting continued weak economic conditions and general market deterioration. The increase was due primarily to increases in residential first mortgages particularly in Florida where extended foreclosure timelines are a result of significant backlogs in the court system.

At June 30, 2009 and December 31, 2008, Regions had approximately $1.6 billion and $813 million, respectively, of potential problem commercial and commercial real estate loans that were not included in non-accrual loans or in the accruing loans 90 days past due categories, but for which management had concerns as to the ability of such borrowers to comply with their present loan repayment terms.

SECURITIES

The following table details the carrying values of securities:

Table 7 Securities

(In millions)	June 30 2009	December 31 2008	June 30 2008
U.S. Treasury securities	$ 64	$ 900	$ 805
Federal agency securities	52	1,706	1,770
Obligations of states and political subdivisions	514	757	729
Mortgage-backed securities	17,817	14,349	13,013
Other debt securities	22	22	30
Equity securities	1,255	1,163	1,426
	$ 19,724	$ 18,897	$ 17,773

Securities totaled $19.7 billion at June 30, 2009, an increase of $827 million from year-end 2008 levels. This increase resulted from deploying excess liquidity, which was invested primarily in mortgage-backed securities as a part of the Company s asset/liability management process. In the first quarter of 2009, Regions sold approximately $656 million of U.S. Treasury securities available for sale and recognized a gain of approximately $53 million. The proceeds were reinvested in U.S. government agency mortgage-backed securities classified as available for sale. In the second quarter of 2009, Regions sold approximately $1.4 billion of federal agency securities and recognized a gain of approximately $108 million. The proceeds were reinvested in U.S government agency mortgage-backed securities classified as available for sale. All of these sales were part of Regions asset/liability management strategy. Also, during the first six months of 2009, Regions recognized a write-down of securities of approximately $72 million, representing other-than-temporary impairment, related primarily to non-agency residential mortgage-backed securities, equity securities, and a single municipal issuer (see Note 6 Securities to the consolidated financial statements).

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

LOANS HELD FOR SALE

Loans held for sale totaled $1.9 billion at June 30, 2009 compared to $1.3 billion at December 31, 2008. This increase reflects a significant increase in mortgage origination activity during 2009 due to low interest rates during the period.

OTHER INTEREST-EARNING ASSETS

All other interest-earning assets decreased approximately $2.3 billion from year-end 2008 to June 30, 2009 primarily due to a decrease in interest-bearing deposits in other banks as a result of the redeployment of excess liquidity during the first quarter.

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GOODWILL

Goodwill totaled $5.6 billion at June 30, 2009 and December 31, 2008. Regions performed an interim test of goodwill for impairment during the second quarter of 2009. Regions Step One analysis indicated that the estimated fair value of the General Banking/Treasury reporting unit was less than its carrying amount. Therefore, Step Two was performed and, based on the full purchase price allocation performed as if a business combination had occurred as outlined in Note 8 Goodwill , goodwill was not impaired as of June 30, 2009.

See Note 8 Goodwill to the consolidated financial statements for a detail of goodwill allocated to each reportable segment and discussion of goodwill impairment testing. See Note 11 Fair Value Measurements to the consolidated financial statements for the fair value measurements of certain assets and liabilities and the valuation methodology of such pricing used for testing goodwill for impairment.

DEPOSITS

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

The following table summarizes deposits by category:

Table 8 Deposits

(In millions)	**June 30 2009**	**December 31 2008**	**June 30 2008**
Non-interest-bearing demand	$ 20,995	$ 18,457	$ 18,334
Savings accounts	4,033	3,663	3,819
Interest-bearing transaction accounts	14,140	15,022	15,381
Money market accounts domestic	21,571	19,471	17,993
Money market accounts foreign	1,075	1,812	3,122
Low-cost deposits	61,814	58,425	58,649
Time deposits	32,724	32,369	27,376
Customer deposits	94,538	90,794	86,025
Time deposits	188	110	3,086
Other			793
Treasury deposits	188	110	3,879
Total deposits	$ 94,726	$ 90,904	$ 89,904

Total deposits at June 30, 2009 increased approximately $3.8 billion compared to year-end 2008 levels. A key driver was the increased growth in non-interest-bearing demand deposits and domestic money market accounts. These increases were partially offset by decreasing interest-bearing transaction accounts and foreign money market accounts. Regions continues to grow customer households and deposits by deepening and retaining existing customer relationships as well as developing new relationships through new checking products and money market rate offers. During the first six months of 2009, Regions opened a record 491,000 new retail and business checking accounts.

During the first quarter of 2009, Regions, in an FDIC-assisted transaction, assumed approximately $285 million of deposits from FirstBank Financial Services in Henry County, Georgia.

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SHORT-TERM BORROWINGS

The following is a summary of short-term borrowings:

Table 9 Short-Term Borrowings