REGIONS FINANCIAL CORP
Form 10-K
February 21, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 2012

OR

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

For the transition period from to

Commission File Number 001-34034

REGIONS FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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

1900 Fifth Avenue North, Birmingham, Alabama 35203

(Address of principal executive offices)

Registrant s telephone number, including area code: (800) 734-4667

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

Title of each class	**Name of each exchange on which registered**
Common Stock, $.01 par value	New York Stock Exchange

Depositary Shares, each representing a 1/40th Interest in a Share of 6.375% Non-Cumulative Perpetual Preferred Stock, Series A	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities

Act. Yes x No ¨

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer 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 Act). Yes ¨ No x

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

Common Stock, $.01 par value $9,273,757,331 as of June 30, 2012.

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

Common Stock, $.01 par value 1,413,393,002 shares issued and outstanding as of February 15, 2013

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the Annual Meeting to be held on May 16, 2013 are incorporated by reference into Part III.

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PART I

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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

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

- Possible stresses in the financial and real estate markets, including possible 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 expand into new markets and to maintain profit margins in the face of competitive pressures.

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

Regions ability to keep pace with technological changes.

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

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

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

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

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

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

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

Possible downgrades in ratings issued by rating agencies.

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

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

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

Regions ability to receive dividends from its subsidiaries.

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

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

The effects of any damage to Regions reputation resulting from developments related to any of the items identified above.

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

See also Item 1A. Risk Factors of this Annual Report on Form 10-K.

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Item 1. ***Business***

Regions Financial Corporation (together with its subsidiaries on a consolidated basis, Regions or Company) is a financial holding company headquartered in Birmingham, Alabama, which operates 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 asset management, wealth management, securities brokerage, insurance and other specialty financing. At December 31, 2012, Regions had total consolidated assets of approximately $121.3 billion, total consolidated deposits of approximately $95.5 billion and total consolidated stockholders equity of approximately $15.5 billion.

Regions is a Delaware corporation and on July 1, 2004, became the successor by merger to Union Planters Corporation and the former Regions Financial Corporation. Its principal executive offices are located at 1900 Fifth Avenue North, Birmingham, Alabama 35203, and its telephone number at that address is (800) 734-4667.

Banking Operations

Regions conducts its banking operations through Regions Bank, an Alabama chartered commercial bank that is a member of the Federal Reserve System. At December 31, 2012, Regions operated approximately 2,100 ATMs and 1,700 banking offices in Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, South Carolina, Tennessee, Texas and Virginia.

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

	Branches
Alabama	242
Arkansas	97
Florida	374
Georgia	137
Illinois	65
Indiana	63
Iowa	13
Kentucky	16
Louisiana	114
Mississippi	144
Missouri	67
North Carolina	6
South Carolina	30
Tennessee	259
Texas	82
Virginia	2
Total	1,711

Other Financial Services Operations

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

Regions Insurance Group, Inc., a subsidiary of Regions Financial Corporation, is an insurance broker that offers insurance products through its subsidiaries Regions Insurance, Inc., headquartered in Birmingham, Alabama, and Regions Insurance Services, Inc., headquartered in Memphis, Tennessee. Through its insurance

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brokerage operations in Alabama, Arkansas, Indiana, Georgia, Louisiana, Missouri, Mississippi, Tennessee and Texas, Regions Insurance, Inc. offers insurance coverage for various lines of personal and commercial insurance, such as property, casualty, life, health and accident insurance. Regions Insurance Services, Inc. offers credit-related insurance products, such as title, mortgage, crop, term life, accidental death and dismemberment, and environmental insurance, as well as debt cancellation products to customers of Regions. Regions Insurance Group, Inc. is one of the twenty-five largest insurance brokers in the United States based on annual revenues.

Regions has several subsidiaries and affiliates that are agents or reinsurers of debt cancellations products and credit life insurance products relating to the activities of certain affiliates of Regions. Regions Investment Services, Inc., which sells annuities and life insurance products to Regions Bank customers, is a wholly-owned subsidiary of Regions Bank. Regions Equipment Finance Corporation, a subsidiary of Regions Bank, provides domestic and international equipment financing products, focusing on commercial clients.

Also, Regions Bank has entered into an agreement with Cetera Financial Institutions to provide advisory and investment solutions to Regions customers. Through this agreement Regions Bank customers will have access to a full range of financial advisory services, including managed accounts, mutual funds, annuities, financial aid, and financial and retirement planning tools, provided by licensed business consultants based in Regions Bank branches.

Acquisition Program

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

Segment Information

Reference is made to Note 22 Business Segment Information to the consolidated financial statements included under Item 8. of this Annual Report on Form 10-K for information required by this item.

Supervision and Regulation

Regions and its subsidiaries are subject to the extensive regulatory framework applicable to bank holding companies and their subsidiaries. Regulation of financial institutions such as Regions and its subsidiaries is intended primarily for the protection of depositors, the Federal Deposit Insurance Corporation s (FDIC) Deposit Insurance Fund (the DIF) and the banking system as a whole, and generally is not intended for the protection of stockholders or other investors. Described below are the material elements of selected laws and regulations applicable to Regions and its subsidiaries. The descriptions are not intended to be complete and are qualified in their entirety by reference to the full text of the statutes and regulations described. Changes in applicable law or regulation, and in their interpretation and application by regulatory agencies and other governmental authorities, cannot be predicted, but they may have a material effect on the business and results of Regions and its subsidiaries.

Overview

Regions is registered with the Board of Governors of the Federal Reserve System (the Federal Reserve) as a bank holding company and has elected to be treated as a financial holding company under the Bank Holding

Company Act of 1956, as amended (BHC Act). As such, Regions and its subsidiaries are subject to the supervision, examination and reporting requirements of the BHC Act and the regulations of the Federal Reserve.

Generally, the BHC Act provides for umbrella regulation of financial holding companies by the Federal Reserve and functional regulation of holding company subsidiaries by applicable regulatory agencies. The BHC Act, however, requires the Federal Reserve to examine any subsidiary of a bank holding company, other than a depository institution, engaged in activities permissible for a depository institution. The Federal Reserve is also granted the authority, in certain circumstances, to require reports of, examine and adopt rules applicable to any holding company subsidiary.

In general, the BHC Act limits the activities permissible for bank holding companies. Bank holding companies electing to be treated as financial holding companies, however, may engage in additional activities under the BHC Act as described below under Permissible Activities under the BHC Act. For a bank holding company to be eligible to elect financial holding company status, all of its subsidiary insured depository institutions must be well-capitalized and well-managed as described below under Regulatory Remedies Under the FDIA and must have received at least a satisfactory rating on such institution s most recent examination under the Community Reinvestment Act of 1977 (the CRA). The bank holding company itself must also be well-capitalized and well-managed in order to be eligible to elect financial holding company status. If a financial holding company fails to continue to meet any of the prerequisites for financial holding company status after engaging in activities not permissible for bank holding companies that have not elected to be treated as financial holding companies, the company must enter into an agreement with the Federal Reserve to comply with all applicable capital and management requirements. If the company does not return to compliance within 180 days, the Federal Reserve may order the company to divest its subsidiary banks or the company may be required to discontinue or divest investments in companies engaged in activities permissible only for a bank holding company electing to be treated as a financial holding company.

Regions Bank is a member of the FDIC, and, as such, its deposits are insured by the FDIC to the extent provided by law. Regions Bank is an Alabama state-chartered bank and a member of the Federal Reserve System. It is generally subject to supervision and examination by both the Federal Reserve and the Alabama Banking Department. The Federal Reserve and the Alabama Banking Department regularly examine the operations of Regions Bank and are given authority to approve or disapprove mergers, acquisitions, consolidations, the establishment of branches and similar corporate actions. The federal and state banking regulators also have the power to prevent the continuance or development of unsafe or unsound banking practices or other violations of law. Regions Bank is subject to numerous statutes and regulations that affect its business activities and operations, including various consumer protection laws and regulations. As described below under Regulatory Reforms, Regions Bank is also subject to supervision by the Consumer Financial Protection Bureau. Some of Regions non-bank subsidiaries are also subject to regulation by various federal and state agencies.

Regulatory Reforms

The events of the past few years have led to numerous new laws and regulations in the United States applicable to financial institutions. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), which was enacted in July 2010, significantly restructures the financial regulatory regime in the United States and provides for enhanced supervision and prudential standards for, among other things, bank holding companies like Regions that have total consolidated assets of $50 billion or more. The implications of the Dodd-Frank Act for our business will depend to a large extent on the manner in which rules adopted pursuant to the Dodd-Frank Act are implemented by the Federal Reserve, the Consumer Financial Protection Bureau, the FDIC, the SEC, and other government agencies, as well as potential changes in market practices and structures in response to the requirements of those rules.

New laws or regulations or changes to existing laws and regulations (including changes in interpretation or enforcement) could materially adversely affect our financial condition or results of operations. As discussed further in this section, many aspects of the Dodd-Frank Act are subject to further rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on Regions and its subsidiaries or the financial services industry generally. In addition to the discussion in this section, see Risk Factors Recent legislation regarding the financial services industry may have a significant adverse effect on our operations for a discussion of the potential impact legislative and regulatory reforms may have on our results of operations and financial condition.

Financial Stability Oversight Council. The Dodd-Frank Act creates a new systemic risk oversight body, the Financial Stability Oversight Council (FSOC) to coordinate the efforts of the primary U.S. financial regulatory agencies (including the Federal Reserve, the FDIC and the SEC) in establishing regulations to address systemic financial stability concerns. The Dodd-Frank Act directs the FSOC to make recommendations to the Federal Reserve regarding supervisory requirements and prudential standards applicable to systemically important financial institutions (often referred to as SIFI, which includes bank holding companies with over $50 billion in assets, such as Regions), including capital, leverage, liquidity and risk-management requirements. The Dodd-Frank Act mandates that the requirements applicable to systemically important financial institutions be more stringent than those applicable to other financial companies. The Federal Reserve has discretionary authority to establish additional prudential standards, on its own or at the FSOC s recommendation. The Dodd-Frank Act also requires the Federal Reserve to conduct annual analyses of such bank holding companies to evaluate whether the companies have sufficient capital on a total consolidated basis necessary to absorb losses as a result of adverse economic conditions.

Enhanced Supervision and Prudential Standards. In December 2011, the Federal Reserve introduced a new proposal aimed at minimizing risks associated with covered companies, including U.S. bank holding companies with consolidated assets of $50 billion or more and other financial companies designated by the FSOC as systemically important (Proposed SIFI Rules). The Federal Reserve s proposal includes risk-based capital and leverage requirements, liquidity requirements, stress tests, single-counterparty credit limits and overall risk management requirements, early remediation requirements and resolution planning and credit exposure reporting. The proposed rules would address a wide, diverse array of regulatory areas, each of which is highly complex. In some cases they would implement financial regulatory requirements being proposed for the first time, and in others overlap with other regulatory reforms. The proposed rules also address the Dodd-Frank Act s early remediation requirements applicable to bank holding companies that have total consolidated assets of $50 billion or more. The proposed remediation rules are modeled after the prompt corrective action regime, described under Safety and Soundness Standards below, but are designed to require action beginning in the earlier stages of a company s financial distress by mandating action on the basis of arranged triggers, including capital and leverage, stress test results, liquidity, and risk management. Except as described in the second paragraph under *Federal Reserve s Comprehensive Capital Analysis and Review* below regarding stress testing, the Proposed SIFI Rules have not become final as of February 2013. The full impact of the Proposed SIFI Rules on Regions is being analyzed, but will not be known until the rules, and other regulatory initiatives that overlap with these rules, are finalized and their combined impacts can be understood.

Federal Reserve s Comprehensive Capital Analysis and Review. In November 2011, the Federal Reserve published a final rule which requires U.S. bank holding companies with total consolidated assets of $50 billion or more (such as Regions) to submit annual capital plans, along with related stress test requirements, to the Federal Reserve for approval. The capital analysis and review process provided for in the rule is known as the Comprehensive Capital Analysis and Review (CCAR). The purpose of the capital plan is to ensure that these bank holding companies have robust, forward-looking capital planning processes that account for each company s unique risks and that permit continued operations during times of economic and financial stress. The capital plans are required to be submitted on an annual basis. Such bank holding companies will also be required to collect and report certain related data on a quarterly basis to allow the Federal Reserve to monitor the companies progress against their annual capital plans. The comprehensive capital plans, which Regions prepares using Basel I capital guidelines, include a view of capital adequacy under the stress test scenarios described below. The effect of the rules is that, among other things, a covered bank holding company may not make a

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capital distribution unless it will meet all minimum regulatory capital ratios and will have a ratio of Tier 1 common equity to risk-weighted assets of at least 5% after making the distribution. The rules also provide that the Federal Reserve may object to a capital plan if the plan does not show that the covered bank holding company will maintain a Tier 1 common equity ratio of at least 5% on a pro forma basis under expected and stressful conditions throughout the nine-quarter planning horizon covered by the capital plan. Covered bank holding companies, including Regions, may execute capital actions such as paying dividends and repurchasing stock only in accordance with a capital plan that has been reviewed and approved by the Federal Reserve. The CCAR rules, consistent with prior Federal Reserve guidance, provide that capital plans contemplating dividend payout ratios exceeding 30% of after-tax net income will receive particularly close scrutiny.

The Proposed SIFI Rules, discussed earlier in this section under *Enhanced Supervision and Prudential Standards*, proposed to expand the stress testing requirements to include, among other things, stress testing by the Federal Reserve under three economic and financial scenarios: baseline, adverse and severely adverse scenarios. In October 2012, the Federal Reserve published final rules implementing that portion of the Proposed SIFI Rules expanding the stress testing requirements. Also, we are required to conduct our own semi-annual stress analysis (together with the Federal Reserve s stress analysis, the Stress Tests) to assess the potential impact on Regions, including our consolidated earnings, losses and capital, under each of the economic and financial conditions used as part of the Federal Reserve s annual stress analysis. The Federal Reserve may also use, and require companies to use, additional components in the adverse and severely adverse scenarios or additional or more complex scenarios designed to capture salient risks to specific lines of business. Regions Bank is also required by final Federal Reserve rules to conduct annual stress testing and report the results to the Federal Reserve.

Under the Federal Reserve s guidance, the CCAR annual process for 2013 will be implemented in conjunction with the stress testing requirements described above. A summary of results of the Federal Reserve s analysis under the severely adverse stress scenario will be publicly disclosed, and the bank holding companies subject to the rules, including Regions, must disclose a summary of the company-run severely adverse stress test results. Regions is required to include in its disclosure a summary of the severely adverse scenario stress test conducted by Regions Bank using the scenarios defined by the Federal Reserve. Regions submitted its 2013 CCAR rule capital plan to the Federal Reserve on January 7, 2013 and the Federal Reserve committed to responding by March 14, 2013.

Living Will Requirement. As required by the Dodd-Frank Act, the Federal Reserve and the FDIC have jointly issued a final rule that requires certain organizations, including each bank holding company with consolidated assets of $50 billion or more, to report periodically to regulators a plan (a so-called living will) for their rapid and orderly resolution in the event of material financial distress or failure. Regions resolution plan must, among other things, ensure that our depository institution subsidiary is adequately protected from risks arising from our other subsidiaries. The final rule sets specific standards for the resolution plans, including requiring strategic analysis of the plan s components, a description of the range of specific actions the company proposes to take in resolution, and a description of the company s organizational structure, material entities, interconnections and interdependencies, and management information systems, among other elements. The plan must be submitted annually for review to the Federal Reserve and the FDIC.

In addition, the FDIC has issued a final rule that requires insured depository institutions with $50 billion or more in total assets, such as Regions Bank, to submit to the FDIC for review periodic contingency plans for resolution in the event of the institution s failure. The rule requires these insured institutions to submit a resolution plan that will enable the FDIC, as receiver, to resolve the bank in a manner that ensures that depositors receive access to their insured deposits within one business day of the institution s failure, maximizes the net-present-value return from the sale or disposition of its assets, and minimizes the amount of any loss to be realized by the institution s creditors. The final rule also sets specific standards for the resolution plans, including requiring a strategic analysis of the plan s components, a description of the strategies for achieving the least

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costly resolution, and analyses of the financial company s organization, material entities, interconnections and interdependencies, and management information systems, among other elements. The two living will rules are complementary.

Consumer Financial Protection Bureau. The Dodd-Frank Act created the Consumer Financial Protection Bureau (the CFPB), a new consumer financial services regulator. The CFPB is directed to prevent unfair, deceptive and abusive practices and ensure that all consumers have access to fair, transparent, and competitive markets for consumer financial products and services. The Dodd-Frank Act gives the CFPB authority to enforce and issue rules and regulations implementing existing consumer protection laws and responsibility for all such existing regulations. Depository institutions with assets exceeding $10 billion, such as Regions Bank, their affiliates, and other larger participants in the markets for consumer financial services (as determined by the CFPB) are subject to direct supervision by the CFPB, including any applicable examination, enforcement and reporting requirements the CFPB may establish.

Orderly Liquidation Authority. The Dodd-Frank Act creates the Orderly Liquidation Authority (OLA), a resolution regime for systemically important non-bank financial companies and their non-bank affiliates, including bank holding companies, under which the FDIC may be appointed receiver to liquidate such a company if, among other conditions, the company is in danger of default and presents a systemic risk to U.S. financial stability. This determination must come after supermajority recommendations by the Federal Reserve and the FDIC and consultation between the Secretary of the U.S. Treasury and the President. This resolution authority is generally based on the FDIC resolution model for depository institutions, and substantial differences exist between the rights of creditors under the U.S. Bankruptcy Code and in an orderly liquidation authority proceeding including the ability of the FDIC to disregard the strict priority of creditor claims in some circumstances, the use of an administrative claims procedure to determine creditors claims (as opposed to the judicial procedure utilized in bankruptcy proceedings), and the ability of the FDIC to transfer claims to a bridge entity. In addition, OLA limits the ability of creditors to enforce contractual cross-defaults against potentially viable affiliates of the institution in receivership.

An Orderly Liquidation Fund will fund OLA liquidation proceedings through borrowings from the Treasury Department and risk-based assessments made, first, on entities that received more in the resolution than they would have received in liquidation to the extent of such excess, and second, if necessary, on bank holding companies with total consolidated assets of $50 billion or more, such as Regions. If an orderly liquidation is triggered, Regions could face assessments for the Orderly Liquidation Fund. We do not yet have an indication of the level of such assessments.

U.S. Department of Treasury s Assessment Fee Program. In December 2011, the U.S. Department of the Treasury (U.S. Treasury) issued a proposed rule to implement Section 155 of the Dodd-Frank Act. Section 155 requires the U.S. Treasury to establish an assessment schedule for bank holding companies with total consolidated assets of $50 billion or more. The rule became effective for bank holding companies on July 20, 2012, and, under the program, Regions is required to pay assessments on a semiannual basis to cover expenses associated with the Office of Financial Research, the FSOC, and the FDIC s Orderly Liquidation Authority. Regions believes the assessment will not be material to its consolidated financial position, results of operations or cash flows.

Volcker Rule. The Dodd-Frank Act requires the federal financial regulatory agencies to adopt rules that prohibit banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (defined as hedge funds and private equity funds). The statutory provision is commonly called the Volcker Rule. In October 2011, federal regulators proposed rules to implement the Volcker Rule that included an extensive request for comments on the proposal, which comment period closed in February 2012. The proposed rules are highly complex, and, because final rules have not yet been adopted, many aspects of their application remain uncertain. Based on the proposed rules, Regions does not currently anticipate that the Volcker Rule will have a material effect on the operations of Regions and its subsidiaries. Regions may incur costs if it is required to adopt additional policies and systems to ensure compliance with the Volcker Rule. Until a final rule is adopted, the precise financial impact of the rule on Regions, its customers or the financial industry more generally, cannot be determined.

Permissible Activities under the BHC Act

In general, the BHC Act limits the activities permissible for bank holding companies to the business of banking, managing or controlling banks and such other activities as the Federal Reserve has determined to be so closely related to banking as to be properly incident thereto. A bank holding company electing to be treated as a financial holding company may also engage in a range of activities that are (i) financial in nature or incidental to such financial activity or (ii) complementary to a financial activity and that do not pose a substantial risk to the safety and soundness of a depository institution or to the financial system generally. These activities include securities dealing, underwriting and market making, insurance underwriting and agency activities, merchant banking and insurance company portfolio investments.

The BHC Act does not place territorial restrictions on permissible non-banking activities of bank holding companies. The Federal Reserve has the power to order any bank holding company or its subsidiaries to terminate any activity or to terminate its ownership or control of any subsidiary when the Federal Reserve has reasonable grounds to believe that continuation of such activity or such ownership or control constitutes a serious risk to the financial soundness, safety or stability of any bank subsidiary of the bank holding company.

Capital Requirements

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

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

Currently the minimum guideline for the ratio of total capital (Total capital) to risk-weighted assets (including certain off-balance sheet items, such as standby letters of credit) is 8.0 percent. The regulatory capital rules state that voting common stockholders equity should be the predominant element within Tier 1 capital and that banking organizations should avoid over-reliance on non-common equity elements. At least half of the Total capital must be Tier 1 capital, which currently consists of qualifying common equity, qualifying noncumulative perpetual preferred stock (including related surplus), senior perpetual preferred stock issued to the U.S. Treasury as part of the Troubled Asset Relief Program Capital Purchase Program, minority interests relating to qualifying common or noncumulative perpetual preferred stock issued by a consolidated U.S. depository institution or foreign bank subsidiary, and certain restricted core capital elements, as discussed below, less goodwill and certain other intangible assets. Currently, Tier 2 capital may consist of, among other things, qualifying subordinated debt, mandatorily convertible debt securities, preferred stock and trust preferred securities not included in the definition of Tier 1 capital, and a limited amount of the allowance for loan losses. Non-cumulative perpetual preferred stock, trust preferred securities and other so-called restricted core capital elements are currently limited to 25 percent of Tier 1 capital. Pursuant to the Dodd-Frank Act, trust preferred securities will be phased-out of the definition of Tier 1 capital of bank holding companies having consolidated assets exceeding $500 million, such as Regions, over a three-year period beginning in January 2013.

Currently the minimum guideline to be considered well-capitalized for Tier 1 capital and Total capital is 6.0 percent and 10.0 percent, respectively. As of December 31, 2012, Regions consolidated Tier 1 capital to risk-adjusted assets and Total capital to risk-adjusted assets ratios were 12.00 percent and 15.38 percent, respectively. The elements currently comprising Tier 1 capital and Tier 2 capital and the minimum Tier 1 capital and Total capital ratios may be subject to change in the future, as discussed in greater detail below. The risk-based capital rules state that the capital requirements are minimum standards based primarily on broad credit-risk considerations and do not take into account the other types of risk a banking organization may be exposed to (e.g., interest rate, market, liquidity and operational risks).

Basel I and II Standards. Regions currently calculates its risk-based capital ratios under guidelines adopted by the Federal Reserve based on the 1988 Capital Accord (Basel I) of the Basel Committee on Banking Supervision (the Basel Committee). In 2004, the Basel Committee published a new set of risk-based capital standards (Basel II) to revise Basel I. Basel II provides two approaches for setting capital standards for credit risk an internal ratings-based approach tailored to individual institutions circumstances and a standardized approach that bases risk-weighting on external credit assessments to a much greater extent than permitted in the existing risk-based capital guidelines. Basel II also sets capital requirements for operational risk and refines the existing capital requirements for market risk exposures.

A definitive final rule for implementing the advanced approaches of Basel II in the United States, which applies only to internationally active banking organizations, or core banks (defined as those with consolidated total assets of $250 billion or more or consolidated on-balance sheet foreign exposures of $10 billion or more) became effective on April 1, 2008. Other U.S. banking organizations may elect to adopt the requirements of this rule (if they meet applicable qualification requirements), but are not required to comply. The rule also allows a banking organization s primary federal supervisor to determine that application of the rule would not be appropriate in light of the bank s asset size, level of complexity, risk profile or scope of operations. Regions Bank is currently not required to comply with Basel II.

In July 2008, the U.S. bank regulatory agencies issued a proposed rule that would provide banking organizations that do not use the advanced approaches with the option to implement a new risk-based capital framework. This framework would adopt the standardized approach of Basel II for credit risk, the basic indicator approach of Basel II for operational risk, and related disclosure requirements. While this proposed rule generally parallels the relevant approaches under Basel II, it diverges where United States markets have unique characteristics and risk profiles, most notably with respect to risk weighting residential mortgage exposures. Comments on the proposed rule were due to the agencies by October 27, 2008. The U.S. bank regulatory agencies did not take any other action on the 2008 proposed rule. On August 30, 2012, the agencies included in their Basel III rulemakings a proposed rule that builds on and expands the July 2008 proposed rule by, among other things, making the standardized approach applicable to all subject banks (a change from optional application included in the 2008 rule), as discussed below.

In August 2012, the Federal Reserve, the FDIC, the Office of the Comptroller of the Currency and the Department of the Treasury issued a revised Market Risk capital rule. The final rule applies to any U.S. banking organization, such as Regions, with combined trading assets and liabilities of at least $1 billion, or 10 percent of its total assets, based on its most recent Call Report. Effective on January 1, 2013, the new, revised Market Risk Rule added additional modeling and reporting requirements, including Stressed Value-at-Risk (SVaR), and enhanced profit and loss reporting and back-testing. The new Market Risk Rule increases the calculated risk-weighted assets attributable to trading market risk, but will not have a material impact on Regions total risk-weighted assets.

Basel III Standards. In December 2010, the Basel Committee released its final framework for strengthening international capital and liquidity regulation, now officially identified by the Basel Committee as Basel III. Basel III, when implemented by the U.S. bank regulatory agencies and fully phased-in, will require bank holding companies and their bank subsidiaries to maintain substantially more capital, with a greater emphasis on common equity. Basel III provided that the capital calculation changes would become effective in stages, beginning January 1, 2013 and fully phased-in on January 1, 2019. As noted below, the Federal Reserve has delayed indefinitely the effective dates for implementation of Basel III.

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On August 30, 2012, the Federal Reserve, the FDIC and the Office of the Comptroller of the Currency published notices of three proposed rules implementing the Basel III capital provisions (the Basel III Proposed Rules). Initial versions of the proposed rules were first published by the Federal Reserve on June 7, 2012. The Basel III Proposed Rules generally follow the Basel III provisions, and, among other things, establish new risk-based and leverage capital ratios (described below) and narrow the definition of what constitutes capital for purposes of calculating those ratios. Also included in the Basel III Proposed Rules is a proposed rule that revises and in effect replaces the general risk-based capital requirements currently in effect with a much more risk-sensitive standardized approach similar to the standardized approach adopted by Basel II.

In particular, the Basel III Proposed Rules:

- introduce as a new capital measure Common Equity Tier 1, or CET1, specifies that Tier 1 capital consists of CET1 and Additional Tier 1 capital instruments meeting specified requirements, defines CET1 narrowly by requiring that most adjustments to regulatory capital measures be made to CET1 and not to the other components of capital, and expand the scope of the adjustments as compared to existing regulations;
- require banks to maintain once the Basel III provisions are fully phased in:
  - as a newly adopted international standard, a minimum ratio of CET1 to risk-weighted assets of at least 4.5 percent, plus a 2.5 percent capital conservation buffer (which is added to the 4.5 percent CET1 ratio as that buffer is phased in, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7 percent);
  - a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0 percent, plus the capital conservation buffer (which is added to the 6.0 percent Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5 percent upon full implementation);
  - a minimum ratio of Total (that is, Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0 percent, plus the capital conservation buffer (which is added to the 8.0 percent total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5 percent upon full implementation);
  - for institutions with less than $250 billion in consolidated assets and on-balance sheet foreign exposures of less than $10 billion, a minimum leverage ratio of 4.0 percent, calculated as the ratio of Tier 1 capital to total on-balance sheet exposures net of deductions from Tier 1 capital; and
  - under some circumstances, a countercyclical capital buffer, generally to be imposed when national regulators determine that excess aggregate credit growth becomes associated with a buildup of systemic risk, that would be a CET1 add-on to the capital conservation buffer in the range of 0 percent to 2.5 percent when fully implemented (potentially resulting in total buffers of between 2.5 percent and 5 percent). Under the Basel III Proposed Rules, as originally drafted, the countercyclical capital buffer only applies to institutions with more than $250 billion in consolidated assets or on-balance sheet foreign exposures greater than $10 billion.

The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

Citing the large number of comments received in response to the Basel III Proposed Rules, on November 9, 2012 the Federal Reserve issued a press release indefinitely delaying the effective date of the proposed rules and the Basel III capital requirements. As of February 2013, no additional guidance has been provided regarding the effective dates for the Basel III Proposed Rules and the Basel III capital framework.

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In July 2011, the Basel Committee introduced a consultative document establishing a requirement for a capital surcharge on certain globally systemically important banks (G-SIBs), and in November 2011, the Basel Committee issued final provisions substantially unchanged from the previous proposal. An indicator-based approach will be used to determine whether a bank is a G-SIB and the appropriate level of the surcharge to be applied. The indicator-based approach consists of five broad categories: size, interconnectedness, lack of substitutability, cross-jurisdictional activity and complexity. Under Basel III, banks found to be G-SIBs will be subject to a progressive CET1 surcharge ranging from 1% to 3.5% over the Basel III 7% CET1 requirement. The Basel III Proposed Rules do not address this surcharge although the U.S. bank regulatory agencies indicated in the proposed rules that they plan to implement a surcharge for all, or a portion, of the banks with $50 billion or more in consolidated assets, based on the approach taken by the Basel Committee. The surcharge was originally intended to become fully effective on January 1, 2019. Regions is not currently subject to this CET1 surcharge. However, it is possible that regional banking organizations may be subject to CET1 or other surcharges in the future.

The Basel III Proposed Rules contemplated that the Basel III final framework would become effective January 1, 2013, with the full requirements being phased in over a number of years. Under the proposed rules, banking institutions initially would be required to meet the following minimum capital ratios:

- 3.5 percent CET1 to risk-weighted assets;
- 4.5 percent Tier 1 capital to risk-weighted assets; and
- 8.0 percent Total capital to risk-weighted assets.

Because the Federal Reserve has delayed indefinitely the effective date of the Basel III Proposed Rules, these minimum capital ratios are not currently in effect.

The Basel III final framework provides for a number of new deductions from and adjustments to CET1, such as the requirement that mortgage servicing rights, deferred tax assets and significant investments in non-consolidated financial entities be deducted from CET1.

Under Basel III, implementation of the deductions and other adjustments to CET1 would have begun on January 1, 2014, with a five-year phase-in period (20 percent per year). The capital conservation buffer would have been implemented on January 1, 2016 at 0.625 percent and phased in over a four-year period (increasing by 0.625 percent on each subsequent January 1, until it reached 2.5 percent on January 1, 2019).

Leverage Requirements. Neither Basel I nor Basel II includes a leverage requirement as an international standard; however, the Federal Reserve has established minimum leverage ratio guidelines for bank holding companies to be considered well-capitalized. These guidelines provide for a minimum ratio of Tier 1 capital to total consolidated quarterly average assets (as defined for regulatory purposes), net of the loan loss reserve, goodwill and certain other intangible assets (the leverage ratio), of 4.0 percent for all bank holding companies, with a lower 3.0 percent minimum for bank holding companies that meet certain specified criteria, including having the highest regulatory rating. The Basel III Proposed Rules would remove the more permissive 3.0 percent leverage ratio currently available under the rules for certain highly rated banking organizations.

Regions leverage ratio at December 31, 2012 as defined under Basel I was 9.65 percent.

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

Liquidity Requirements. Historically, regulation and monitoring of bank and bank holding company liquidity has been addressed as a supervisory matter, both in the U.S. and internationally, without required formulaic measures. The Basel III final framework requires banks and bank holding companies to measure their liquidity against specific liquidity tests that, although similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes, going forward will be required by regulation. One test, referred to as the liquidity coverage ratio (LCR), is designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity s expected net cash outflow for a 30-day time horizon (or, if greater, 25 percent of its expected total cash outflow) under an acute liquidity stress scenario. The other, referred to as the net stable funding ratio (NSFR), is designed to promote more medium- and long-term funding of the assets and activities of banking entities over a one-year time horizon. These requirements will incentivize banking entities to increase their holdings of U.S. Treasury securities and other sovereign debt as a component of assets and increase the use of long-term debt as a funding source. The Basel III liquidity framework contemplates that the LCR will be subject to an observation period continuing through mid-2013 and subject to any revisions resulting from the analyses conducted and data collected during the observation period, implemented as a minimum standard on January 1, 2015. Similarly, it contemplates that the NSFR will be subject to an observation period through mid-2016 and, subject to any revisions resulting from the analyses conducted and data collected during the observation period, implemented as a minimum standard by January 1, 2018. In January 2013, the Basel Committee issued amendments to the LCR that, among other things, includes an easing of the phase-in period. Institutions must be in 60% compliance with the minimum LCR as of January 1, 2015 (rather than 100% compliance as originally contemplated), increasing 10% each year thereafter with 100% compliance required as of January 1, 2019. The amendments did not address the NSFR.

As discussed above under Regulatory Reforms, the Proposed SIFI Rules address liquidity requirements for bank holding companies including Regions, with $50 billion or more in total consolidated assets. In the release accompanying those rules, the Federal Reserve states a general intention to incorporate the Basel III liquidity framework for the bank holding companies covered by the Proposed SIFI Rules or a subset of those bank holding companies. Although these rules do not include prescriptive ratios like the LCR and NSFR, they do include detailed liquidity-related requirements, including requirements for cash flow projections, liquidity stress testing (including, at a minimum, over time horizons that include an overnight time horizon, a 30-day time horizon, a 90-day time horizon and a 1-year time horizon), and a requirement that covered bank holding companies maintain a liquidity buffer of unencumbered highly liquid assets sufficient to meet projected net cash outflows and the projected loss or impairment of existing funding sources for 30 days over a range of liquidity stress scenarios. As discussed under *Enhanced Supervision and Prudential Standards* above, in October 2012 the Federal Reserve published final rules implementing that portion of the Proposed SIFI Rules that addresses stress testing. As of February 2013, final SIFI rules addressing liquidity requirements for bank holding companies have not been adopted.

Capital Requirements of Regions Bank. Regions Bank is subject to substantially similar capital requirements as those applicable to Regions. As of December 31, 2012, Regions Bank was in compliance with applicable minimum capital requirements. Failure to meet capital guidelines could subject a bank to a variety of enforcement remedies, including the termination of deposit insurance by the FDIC, and to certain restrictions on its business. See Regulatory Remedies under the FDIA below.

Safety and Soundness Standards

Guidelines adopted by the federal bank regulatory agencies pursuant to the Federal Deposit Insurance Act, as amended (the FDIA), establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, fees and benefits. In general, these guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines. Additionally, the agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been

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given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the FDIA. See Regulatory Remedies under the FDIA below. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Regulatory Remedies under the FDIA

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

Well-Capitalized

Leverage ratio of 5 percent,

Tier 1 capital ratio of 6 percent,

Total capital ratio of 10 percent, and

Not subject to a written agreement, order, capital directive or regulatory remedy directive requiring a specific capital level.

Adequately Capitalized

Leverage ratio of 4 percent,

Tier 1 capital ratio of 4 percent, and

Total capital ratio of 8 percent.

Undercapitalized

Leverage ratio less than 4 percent,

Tier 1 capital ratio less than 4 percent, or

Total capital ratio less than 8 percent.

Significantly Undercapitalized

Leverage ratio less than 3 percent,

Tier 1 capital ratio less than 3 percent, or

Total capital ratio less than 6 percent.

Critically Undercapitalized

Tangible equity to total assets less than 2 percent.

For purposes of these regulations, the term tangible equity includes core capital elements counted as Tier 1 capital for purposes of the risk-based capital standards plus the amount of outstanding cumulative perpetual preferred stock (including related surplus), minus all intangible assets with certain exceptions. An institution that is classified as well-capitalized based on its capital levels may be classified as adequately capitalized, and an institution that is adequately capitalized or undercapitalized based upon its capital levels may be treated as though it were undercapitalized or significantly undercapitalized, respectively, if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition or an unsafe or unsound practice warrants such treatment.

The Basel III Proposed Rules discussed above under -Capital Requirements would amend the prompt corrective action requirements in certain respects, including adding a CET1 risk-based capital ratio as one of the metrics (with a minimum of 6.5% for well-capitalized status) and increasing the Tier 1 risk-based capital ratio required at various levels (for example, from 6.0% to 8.0% for well-capitalized status).

An institution that is categorized as undercapitalized, significantly undercapitalized or critically undercapitalized is required to submit an acceptable capital restoration plan to its appropriate federal banking regulator. Under the FDIA, in order for the capital restoration plan to be accepted by the appropriate federal banking agency, a bank holding company must guarantee that a subsidiary depository institution will comply with its capital restoration plan, subject to certain limitations. The bank holding company must also provide appropriate assurances of performance. The obligation of a controlling bank holding company under the FDIA to fund a capital restoration plan is limited to the lesser of 5.0 percent of an undercapitalized subsidiary s assets or the amount required to meet regulatory capital requirements. An undercapitalized institution is also generally prohibited from increasing its average total assets, making acquisitions, establishing any branches or engaging in any new line of business, except in accordance with an accepted capital restoration plan or with the approval of the FDIC. Institutions that are significantly undercapitalized or undercapitalized and either fail to submit an acceptable capital restoration plan or fail to implement an approved capital restoration plan may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets and cessation of receipt of deposits from correspondent banks. Critically undercapitalized depository institutions failing to submit or implement an acceptable capital restoration plan are subject to appointment of a receiver or conservator.

Payment of Dividends

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

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

Payment of Dividends by Regions Bank. Under the Federal Reserve s Regulation H, Regions Bank may not, without approval of the Federal Reserve, declare or pay a dividend to Regions if the total of all dividends declared in a calendar year exceeds the total of (a) Regions Bank s net income for that year and (b) its retained net income for the preceding two calendar years, less any required transfers to additional paid-in capital or to a fund for the retirement of preferred stock.

Under Alabama law, Regions Bank may not pay a dividend in excess of 90 percent of its net earnings until the bank s surplus is equal to at least 20 percent of capital. Regions Bank is also required by Alabama law to seek the approval of the Alabama Superintendent of Banking prior to the payment of dividends if the total of all dividends declared by Regions Bank in any calendar year will exceed the total of (a) Regions Bank s net earnings for that year, plus (b) its retained net earnings for the preceding two years, less any required transfers to surplus. The statute defines net earnings as the remainder of all earnings from current operations plus actual recoveries on loans and investments and other assets, after deducting from the total thereof all current operating expenses, actual losses, accrued dividends on preferred stock, if any, and all federal, state and local taxes. Regions Bank cannot, without approval from the Federal Reserve and the Alabama Superintendent of Banking, declare or pay a dividend to Regions unless Regions Bank is able to satisfy the criteria discussed above. In addition to dividend restrictions, Federal statutes also prohibit unsecured loans from banking subsidiaries to the parent company, as discussed below under Transactions with Affiliates .

Payment of Dividends by Regions. The payment of dividends by Regions and the dividend rate are subject to management review and approval by Regions Board of Directors on a quarterly basis. Regions dividend payments, as well as share repurchases, are also subject to the oversight of the Federal Reserve. Under a final rule issued by the Federal Reserve in November 2011, the dividend policies and share repurchases of a large bank holding company, such as Regions, will be reviewed by the Federal Reserve based on capital plans and stress tests as submitted by the bank holding company, and will be assessed against, among other things, the bank holding company s ability to achieve the Basel III capital ratio requirements referred to above as they are phased in by U.S. regulators. Specifically, financial institutions must maintain a Tier 1 common risk-based capital ratio greater than 5 percent, under both ordinary and adverse circumstances. The Federal Reserve will only approve capital distributions for companies whose capital plans adhere to the criteria described in the CCAR, as described above under Regulatory Reforms .

Support of Subsidiary Banks

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

Transactions with Affiliates

There are various legal restrictions on the extent to which Regions and its non-bank subsidiaries may borrow or otherwise obtain funding from Regions Bank. In general, Sections 23A and 23B of the Federal Reserve Act and Federal Reserve Regulation W require that any covered transaction by Regions Bank (or its subsidiaries) with an affiliate that is an extension of credit must be secured by designated amounts of specified collateral and must be limited to (a) in the case of any single such affiliate, the aggregate amount of covered transactions of Regions Bank and its subsidiaries may not exceed 10 percent of the capital stock and surplus of Regions Bank, and (b) in the case of all affiliates, the aggregate amount of covered transactions of Regions Bank and its subsidiaries may not exceed 20 percent of the capital stock and surplus of Regions Bank. Covered transactions are defined by statute to include, among other things, a loan or extension of credit, as well as a purchase of securities issued by an affiliate, a purchase of assets (unless otherwise exempted by the Federal Reserve) from the affiliate, the acceptance of securities issued by the affiliate as collateral for a loan, and the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate. The Dodd-Frank Act significantly expanded the coverage and scope of the limitations on affiliate transactions within a banking organization. For example, commencing in July 2012, the Dodd-Frank Act requires that the 10% of capital limit on covered transactions begin to apply to financial subsidiaries. Commencing in July 2012, Dodd-Frank also expands the definition of a covered transaction to include derivatives transactions and securities lending transactions with a non-bank affiliate under which a bank (or a subsidiary) has credit exposure (with the term credit exposure to be defined by the Federal Reserve under its existing rulemaking authority). Collateral requirements will apply to such transactions as well as to certain repurchase and reverse repurchase agreements. All covered transactions, including certain additional transactions (such as transactions with a third party in which an affiliate has a financial interest), must be conducted on market terms. The Federal Reserve has indicated that it expects to request comment on a proposed rule in 2013 regarding the Dodd-Frank revisions to Sections 23A and 23B.

Deposit Insurance

Regions Bank accepts deposits, and those deposits have the benefit of FDIC insurance up to the applicable limits. The applicable limit for FDIC insurance for most types of accounts is $250,000. Under the FDIA, insurance of deposits may be terminated by the FDIC upon a finding that the insured depository institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by a bank s federal regulatory agency.

Deposit Insurance Assessments. Regions Bank pays deposit insurance premiums to the FDIC based on an assessment rate established by the FDIC. Regions FDIC assessment rates were previously calculated based upon a combination of regulatory ratings and financial ratios. However, in February 2011, the FDIC adopted a final rule (the New Assessment Rule), which took effect on April 1, 2011, to revise the deposit insurance assessment system for large institutions. The New Assessment Rule creates a two scorecard system for large institutions, one for most large institutions that have more than $10 billion in assets, such as Regions Bank, and another for highly complex institutions that have over $50 billion in assets and are fully owned by a parent with over $500 billion in assets. Each scorecard has a performance score and a loss-severity score that are combined to produce a total score, which is translated into an initial assessment rate. In calculating these scores, the FDIC utilizes the bank s supervisory (CAMELS) ratings as well as forward-looking financial measures to assess an institution s ability to withstand asset-related stress and funding-related stress. The FDIC has the ability to make discretionary adjustments to the total score, up or down, based upon significant risk factors that are not adequately captured in the scorecard. The total score is then translated to an initial base assessment rate on a non-linear, sharply-increasing scale. For large institutions, including Regions Bank, the initial base assessment rate ranges from 5 to 35 basis points on an annualized basis (basis points representing cents per $100). After the effect of potential base-rate adjustments, the total base assessment rate could range from 2.5 to 45 basis points on an annualized basis. The potential adjustments to an institution s initial base assessment rate include (i) a potential decrease of up to 5 basis points for certain long-term unsecured debt (unsecured debt adjustment) and (ii) (except for well-capitalized institutions with a CAMELS rating of 1 or 2) a potential increase of up to 10 basis points for brokered deposits in excess of 10% of domestic deposits (brokered deposit adjustment). As the DIF reserve ratio grows, the rate schedule will be adjusted downward. Additionally, the rule includes a new adjustment for depository institution debt whereby an institution will pay an additional premium equal to 50 basis points on every dollar (above 3% of an institution s Tier 1 capital) of long-term, unsecured debt held that was issued by another insured depository institution, excluding debt guaranteed under the FDIC s Temporary Liquidity Guarantee Program (TLGP). The New Assessment Rule also changed the deposit insurance assessment base from deposits to the average of consolidated total assets less the average tangible equity of the insured depository institution during the assessment period.

Regions began using the New Assessment Rule for FDIC expense calculations beginning with the second quarter of 2011. During 2011, FDIC insurance expense decreased $3 million to $217 million. Regions insurance expense further decreased by $55 million to $162 million during 2012. The level of FDIC deposit expense is expected to fluctuate over time depending on the results of the calculations using the factors discussed above.

The FDIA establishes a minimum ratio of deposit insurance reserves to estimated insured deposits, the designated reserve ratio (the DRR), of 1.15 percent prior to September 2020 and 1.35 percent thereafter. On December 20, 2010, the FDIC issued a final rule setting the DRR at 2 percent. Because the DRR fell below 1.15 percent as of June 30, 2008, and was expected to remain below 1.15 percent, the FDIC was required to establish and implement a restoration plan that would restore the reserve ratio to at least 1.15 percent within five years. In October 2008, the FDIC adopted such a restoration plan (the Restoration Plan). In February 2009, in light of the extraordinary challenges facing the banking industry, the FDIC amended the Restoration Plan to allow seven years for the reserve ratio to return to 1.15 percent. In October 2009, the FDIC passed a final rule extending the term of the Restoration Plan to eight years. This final rule also included a provision that implements a uniform three basis point increase in assessment rates, effective January 1, 2011, to help ensure that the reserve ratio returns to at least 1.15 percent within the eight year period called for by the Restoration Plan. In October 2010, the FDIC adopted a new restoration plan to ensure the DRR reaches 1.35 percent by September 2020. As part of the revised plan, the FDIC did not implement the uniform three-basis point increase in assessment rates that was scheduled to take place in January 2011. The FDIC will, at least semi-annually, update its income and loss projections for the DIF and, if necessary, propose rules to further increase assessment rates. In addition, on January 12, 2010, the FDIC announced that it would seek public comment on whether banks with compensation plans that encourage risky behavior should be charged higher deposit assessment rates than such banks would otherwise be charged. Comments were due February 18, 2010. As of February 2013, no rule has been adopted. See also Incentive Compensation below.

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We cannot predict whether, as a result of an adverse change in economic conditions or other reasons, the FDIC will in the future further increase deposit insurance assessment levels. For more information, see the Deposit Administrative Fees section of Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation of this Annual Report on Form 10-K.

FICO Assessments. In addition, the Deposit Insurance Funds Act of 1996 authorized the Financing Corporation (FICO) to impose assessments on DIF applicable deposits in order to service the interest on FICO s bond obligations from deposit insurance fund assessments. The amount assessed on individual institutions by FICO will be in addition to the amount, if any, paid for deposit insurance according to the FDIC s risk-related assessment rate schedules. FICO assessment rates may be adjusted quarterly to reflect a change in assessment base. Regions Bank had a FICO assessment of $7 million in FDIC deposit premiums in 2012.

Acquisitions

The BHC Act requires every bank holding company to obtain the prior approval of the Federal Reserve before: (1) it may acquire direct or indirect ownership or control of any voting shares of any bank or savings and loan association, if after such acquisition, the bank holding company will directly or indirectly own or control 5 percent or more of the voting shares of the institution; (2) it or any of its subsidiaries, other than a bank, may acquire all or substantially all of the assets of any bank or savings and loan association; or (3) it may merge or consolidate with any other bank holding company. Financial holding companies and bank holding companies with consolidated assets exceeding $50 billion must (i) obtain prior approval from the Federal Reserve before acquiring certain non-bank financial companies with assets exceeding $10 billion and (ii) provide prior written notice to the Federal Reserve before acquiring direct or indirect ownership or control of any voting shares of any company having consolidated assets of $10 billion or more. Bank holding companies seeking approval to complete an acquisition must be well-capitalized and well-managed.

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

Depositor Preference

Under federal law, depositors and certain claims for administrative expenses and employee compensation against an insured depository institution would be afforded a priority over other general unsecured claims against such an institution in the liquidation or other resolution of such an institution by any receiver.

Incentive Compensation

Guidelines adopted by the federal banking agencies pursuant to the FDIA prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal stockholder.

In January 2010, the FDIC announced that it would seek public comment on whether banks with compensation plans that encourage risky behavior should be charged higher deposit assessment rates than such banks would otherwise be charged. The comment period ended in February 2010. As of February 2013, a final rule has not been adopted.

In June 2010, the Federal Reserve issued comprehensive guidance on incentive compensation policies (the Incentive Compensation Guidance) intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The Incentive Compensation Guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization s incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization s ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization s board of directors. Any deficiencies in compensation practices that are identified may be incorporated into the organization s supervisory ratings, which can affect its ability to make acquisitions or perform other actions. The Incentive Compensation Guidance provides that enforcement actions may be taken against a banking organization if its incentive compensation arrangements or related risk-management control or governance processes pose a risk to the organization s safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

In April 2011, the Federal Reserve, other federal banking agencies and the Securities and Exchange Commission jointly published proposed rulemaking designed to implement provisions of the Dodd-Frank Act prohibiting incentive compensation arrangements that would encourage inappropriate risk taking at a covered institution, which includes a bank or bank holding company with $1 billion or more of assets, such as Regions and Regions Bank. The proposed rule (i) prohibits incentive-based compensation arrangements that encourage executive officers, employees, directors or principal shareholders to expose the institution to inappropriate risks by providing excessive compensation (based on the standards for excessive compensation adopted pursuant to the FDIA) and (ii) prohibits incentive-based compensation arrangements for executive officers, employees, directors or principal shareholders that could lead to a material financial loss for the institution. The proposed rule requires covered institutions to establish policies and procedures for monitoring and evaluating their compensation practices. Institutions with consolidated assets of $50 billion or more, such as Regions, are subject to additional restrictions on compensation arrangements for their executive officers and any other persons indentified by the institution s board of directors as having the ability to expose the institution to substantial losses. The comment period ended in May 2011, but final rules have not been adopted as of February 2013. These regulations may become effective before the end of 2013. If the regulations are adopted in the form initially proposed, they will impose limitations on the manner in which we may structure compensation for our executives.

The scope and content of the U.S. banking regulators policies on incentive compensation are continuing to develop. It cannot be determined at this time whether a final rule will be adopted and whether compliance with such a final rule will adversely affect the ability of Regions and its subsidiaries to hire, retain and motivate their key employees.

Financial Privacy

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

Community Reinvestment Act

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

USA PATRIOT Act

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

Office of Foreign Assets Control Regulation

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

Regulation of Insurers and Insurance Brokers

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

Regulation of Residential Mortgage Loan Originators

On July 28, 2010, the Federal Reserve and other Federal bank regulatory authorities adopted a final rule on the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (S.A.F.E. Act). Under the S.A.F.E. Act, residential mortgage loan originators employed by banks, such as Regions Bank, must register with the Nationwide Mortgage Licensing System and Registry, obtain a unique identifier from the registry, and maintain their registration. Any residential mortgage loan originator who fails to satisfy these requirements will not be permitted to originate residential mortgage loans.

Competition

All aspects of Regions business are highly competitive. Regions subsidiaries compete with other financial institutions located in the states in which they operate and other adjoining states, as well as large banks in major financial centers and other financial intermediaries, such as savings and loan associations, credit unions, consumer finance companies, brokerage firms, insurance companies, investment companies, mutual funds, mortgage companies and financial service operations of major commercial and retail corporations. Regions expects competition to intensify among financial services companies due to the sustained low interest rate and ongoing low-growth economic environment.

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

Employees

As of December 31, 2012, Regions and its subsidiaries had 23,427 employees.

Available Information

Regions maintains a website at *www.regions.com*. Regions makes available on its website free of charge its annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to those reports which are filed with or furnished to the SEC pursuant to Section 13(a) of the Securities Exchange Act of 1934. These documents are made available on Regions website as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. Also available on the website are Regions (i) Corporate Governance Principles, (ii) Code of Business Conduct and Ethics, (iii) Code of Ethics for Senior Financial Officers, and (iv) the charters of its Nominating and Corporate Governance Committee, Audit Committee, Compensation Committee and Risk Committee.

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Item 1A. *Risk Factors*
Risks Related to the Operation of Our Business

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

The capital and credit markets since 2008 have experienced unprecedented levels of volatility and disruption. In some cases, the markets produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers underlying financial strength.

Dramatic declines in the housing market during recent years, with falling home prices, increased numbers of foreclosures and higher levels of unemployment and under-employment, have adversely affected the credit performance of real estate-related loans and resulted in, and may continue to result in, significant write-downs of asset values by us and other financial institutions, including government-sponsored entities and major commercial and investment banks. These write-downs, initially of mortgage-backed securities but spreading to credit default swaps and other securities and loans, have caused many financial institutions to seek additional capital, to reduce or eliminate dividends, to merge with larger and stronger institutions and, in some cases, to fail. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have reduced, and in some cases, ceased to provide funding to borrowers, including financial institutions.

Although the economic slowdown that the United States experienced has begun to reverse and the markets have generally improved, business activities across a wide range of industries continue to face serious difficulties due to the lack of consumer spending and demand. Continued weakness in or a worsening of business and economic conditions generally or specifically in the principal markets in which we do business could have one or more of the following adverse effects on our business:

- A decrease in the demand for, or the availability of, loans and other products and services offered by us;
- A decrease in the value of our loans held for sale or other assets secured by consumer or commercial real estate;
- An impairment of certain intangible assets, such as goodwill;
- A decrease in interest income from variable rate loans, due to declines in interest rates; and
- An increase in the number of clients and counterparties who become delinquent, file for protection under bankruptcy laws or default on their loans or other obligations to us. An increase in the number of delinquencies, bankruptcies or defaults could result in a higher level of nonperforming assets, net charge-offs, provisions for loan losses, and valuation adjustments on loans held for sale.

Overall, during the past several years, the general business environment has had an adverse effect on our business. Although the general business environment has shown some improvement, there can be no assurance that it will continue to improve. Additionally, the improvement of certain economic indicators, such as real estate asset values and rents and unemployment, may vary between geographic markets and may continue to lag behind improvement in the overall economy. These economic indicators typically affect certain industries, such as real estate and financial services, more significantly than other economic sectors. For example, improvements in commercial real estate fundamentals typically lag broad economic recovery by twelve to eighteen months. Our clients include entities active in the real estate and financial services industries. Furthermore, financial services companies with a substantial lending business, like ours, are dependent upon the ability of their borrowers to make debt service payments on loans. If economic conditions worsen or remain volatile, our business, financial condition and results of operations could be materially adversely affected. Concerns about the European Union s sovereign debt and the future of the euro have also caused uncertainty for financial markets globally. Such risks could indirectly affect us by affecting our hedging or other counterparties, as well as our customers with European businesses or assets denominated in the euro or companies in our markets with European businesses or affiliates.

Ineffective liquidity management could adversely affect our financial results and condition.

Effective liquidity management is essential for the operation of our business. We require sufficient liquidity to meet customer loan requests, customer deposit maturities/withdrawals, payments on our debt obligations as they come due and other cash commitments under both normal operating conditions and other unpredictable circumstances causing industry or general financial market stress. Our access to funding sources in amounts adequate to finance our activities on terms that are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy generally. Factors that could detrimentally impact our access to liquidity sources include a downturn in the geographic markets in which our loans and operations are concentrated or difficult credit markets. Our access to deposits may also be affected by the liquidity needs of our depositors. In particular, a majority of our liabilities during 2012 were checking accounts and other liquid deposits, which are payable on demand or upon several days notice, while by comparison, a substantial majority of our assets were loans, which cannot be called or sold in the same time frame. Although we have historically been able to replace maturing deposits and advances as necessary, we might not be able to replace such funds in the future, especially if a large number of our depositors seek to withdraw their accounts, regardless of the reason. A failure to maintain adequate liquidity could materially and adversely affect our business, results of operations or financial condition.

Our operations are concentrated in the Southeastern United States, and adverse changes in the economic conditions in this region can adversely affect our performance and credit quality.

Our operations are concentrated in the Southeastern United States, particularly in the states of Alabama, Arkansas, Georgia, Florida, Louisiana, Mississippi and Tennessee. As a result, local economic conditions in the Southeastern United States can significantly affect the demand for the products offered by Regions Bank (including real estate, commercial and construction loans), the ability of borrowers to repay these loans and the value of the collateral securing these loans. Since 2008, the national real estate market has experienced a significant decline in value, and the value of real estate in the Southeastern United States in particular declined significantly more than real estate values in the United States as a whole. This decline has had an adverse impact on some of our borrowers and on the value of the collateral securing many of our loans. This decline may continue to affect borrowers and collateral values, which could adversely affect our currently performing loans, leading to future delinquencies or defaults and increases in our provision for loan losses. Further or continued adverse changes in these economic conditions could materially adversely affect our business, results of operations or financial condition.

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

A significant portion of our operations are located in the areas bordering the Gulf of Mexico and the Atlantic Ocean, regions that are susceptible to hurricanes, or in areas of the Southeastern United States that are susceptible to tornadoes and other severe weather events. Such weather events can cause disruption to our operations and could have a material adverse effect on our overall results of operations. We maintain hurricane insurance, including coverage for lost profits and extra expense; however, there is no insurance against the disruption that a catastrophic hurricane could produce to the markets that we serve. Further, a hurricane or severe tornado in any of our market areas could adversely impact the ability of borrowers to timely repay their loans and may adversely affect the value of any collateral held by us. Man-made disasters and other events connected with the Gulf of Mexico or Atlantic Ocean, such as the 2010 Gulf oil spill, could have similar effects. Some of the states in which we operate have in recent years experienced extreme droughts. The severity and impact of future hurricanes, severe tornadoes, droughts and other weather-related events are difficult to predict and may be exacerbated by global climate change. The effects of past or future hurricanes, severe tornadoes, droughts and other weather-related events, as well as man-made disasters, could have a material adverse effect on our business, financial condition or results of operations.

Continued weakness in the residential real estate markets could adversely affect our performance.

As of December 31, 2012, consumer residential real estate loans represented approximately 33.5 percent of our total loan portfolio. This portion of our loan portfolio has been under pressure for several years as disruptions in the financial markets and the deterioration in housing markets and general economic conditions have caused a decline in home values, real estate market demand and the credit quality of borrowers. Any further declines in home values would adversely affect the value of collateral securing the residential real estate that we hold, as well as the volume of loan originations and the amount we realize on sale of real estate loans. These factors could result in higher delinquencies and greater charge-offs in future periods, which could materially adversely affect our business, financial condition or results of operations.

Continued weakness in the commercial real estate markets could adversely affect our performance.

Facing continuing pressure from reduced asset values, high vacancy rates and reduced rents, the fundamentals within the commercial real estate sector also remain weak. As of December 31, 2012, approximately 10.4 percent of our loan portfolio consisted of investor real estate loans. The properties securing income-producing investor real estate loans are typically not fully leased at the origination of the loan. The borrower s ability to repay the loan is instead dependent upon additional leasing through the life of the loan or the borrower s successful operation of a business. Weak economic conditions may impair a borrower s business operations and typically slow the execution of new leases. Such economic conditions may also lead to existing lease turnover. As a result of these factors, vacancy rates for retail, office and industrial space may remain at elevated levels in 2013. High vacancy rates could result in rents falling further over the next several quarters. The combination of these factors could result in further deterioration in the fundamentals underlying the commercial real estate market and the deterioration in value of some of our loans. Any such deterioration could adversely affect the ability of our borrowers to repay the amounts due under their loans. As a result, our business, results of operations or financial condition may be materially adversely affected.

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

As a lender, we are exposed to the risk that our customers will be unable to repay their loans according to their terms and that any collateral securing the payment of their loans may not be sufficient to assure repayment. Credit losses are inherent in the business of making loans and could have a material adverse effect on our operating results.

We make various assumptions and judgments about the collectability of our loan portfolio and provide an allowance for estimated credit losses based on a number of factors. Our management periodically determines the allowance for loan losses based on available information, including the quality of the loan portfolio, economic conditions, the value of the underlying collateral and the level of non-accrual loans. Increases in this allowance will result in an expense for the period, thereby reducing our reported net income. If, as a result of general economic conditions, a decrease in asset quality or growth in the loan portfolio, our management determines that additional increases in the allowance for loan losses are necessary, we may incur additional expenses which will reduce our net income, and our business, results of operations or financial condition may be materially adversely affected.

Although our management will establish an allowance for loan losses it believes is appropriate to absorb probable and reasonably estimable losses in our loan portfolio, this allowance may not be adequate. In particular, if a hurricane or other natural disaster were to occur in one of our principal markets or if economic conditions in those markets were to deteriorate unexpectedly, additional loan losses not incorporated in the existing allowance for loan losses may occur. Losses in excess of the existing allowance for loan losses will reduce our net income and could adversely affect our business, results of operations or financial condition, perhaps materially.

In addition, bank regulatory agencies will periodically review our allowance for loan losses and the value attributed to non-accrual loans and to real estate acquired through foreclosure. Such regulatory agencies may require us to adjust our determination of the value for these items. These adjustments could materially adversely affect our business, results of operations or financial condition.

Risks associated with home equity products where we are in a second lien position could materially adversely affect our performance.

Home equity products, particularly those where we are in a second lien position, and particularly those in certain geographic areas, may carry a higher risk of non-collection than other loans. Home equity lending includes both home equity loans and lines of credit. Of our $11.8 billion home equity portfolio at December 31, 2012, approximately $10.4 billion were home equity lines of credit and $1.4 billion were closed-end home equity loans (primarily originated as amortizing loans). This type of lending, which is secured by a first or second mortgage on the borrower s residence, allows customers to borrow against the equity in their home. Real estate market values at the time of origination directly affect the amount of credit extended, and, in addition, past and future changes in these values impact the depth of potential losses. Second lien position lending carries higher credit risk because any decrease in real estate pricing may result in the value of the collateral being insufficient to cover the second lien after the first lien position has been satisfied. We have realized higher levels of charge-offs on second lien positions, particularly in the state of Florida, where real estate valuations have been depressed over the past several years. As of December 31, 2012, approximately $6.2 billion of our home equity lines and loans were in a second lien position (approximately $2.4 billion in Florida).

We are unable to track payment status on first liens held by another institution, including payment status related to loan modifications. When our second lien position becomes delinquent, an attempt is made to contact the first lien holder and inquire as to the payment status of the first lien. However, we do not continuously monitor the payment status of the first lien position. Short sale offers and settlement agreements are often received by the home equity junior lien holders well before the loan balance reaches the delinquency threshold for charge-off consideration, potentially resulting in a full balance payoff/charge-off. We are presently monitoring the status of all first lien position loans that we own or service and also own a second lien, and we are taking appropriate action when delinquent. During 2012, we evaluated a means to monitor non-Regions-serviced first liens using a third-party service provider and found that the delinquency rates were not material. As of December 31, 2012, none of our home equity lines of credit have converted to mandatory amortization under the contractual terms. The majority of home equity lines of credit will either mature with a balloon payment or convert to amortizing status after fiscal year 2020.

Industry competition may have an adverse effect on our success.

Our profitability depends on our ability to compete successfully. We operate in a highly competitive environment. Certain of our competitors are larger and have more resources than we do, enabling them to be more aggressive than us in competing for loans and deposits. In our market areas, we face competition from other commercial banks, savings and loan associations, credit unions, Internet banks, finance companies, mutual funds, insurance companies, brokerage and investment banking firms, and other financial intermediaries that offer similar services. Some of our non-bank competitors are not subject to the same extensive regulations that govern Regions or Regions Bank and, therefore, may have greater flexibility in competing for business. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes, such as the repeal in 2011 of all federal prohibitions on the payment by depository institutions of interest on demand deposit accounts and the repeal in 2010 of all prohibitions on interstate branching by depository institutions. Should competition in the financial services industry intensify, our ability to effectively market our products and services and to retain or compete for new business may be adversely affected. Consequently, our business, financial condition or results of operations may also be adversely affected, perhaps materially.

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

Fluctuations in interest rates may adversely impact our business. Our profitability depends to a large extent on our net interest income, which is the difference between the interest income received on interest-earning assets (primarily loans and investment securities) and the interest expense incurred in connection with interest-bearing liabilities (primarily deposits and borrowings). The level of net interest income is primarily a function of the average balance of interest-earning assets, the average balance of interest-bearing liabilities and the spread between the yield on such assets and the cost of such liabilities. These factors are influenced by both the pricing and mix of interest-earning assets and interest-bearing liabilities which, in turn, are impacted by external factors such as the local economy, competition for loans and deposits, the monetary policy of the Federal Open Market Committee of the Federal Reserve System (the FOMC) and market interest rates.

The cost of our deposits and short-term wholesale borrowings is largely based on short-term interest rates, the level of which is driven primarily by the FOMC s actions. However, the yields generated by our loans and securities are typically driven by longer-term interest rates, which are set by the market through benchmark interest rates such as the London Interbank Offered Rates (LIBOR) or, at times, the FOMC s actions, and generally vary from day to day. The level of net interest income is therefore influenced by movements in such interest rates and the pace at which such movements occur. Interest rate volatility can reduce unrealized gains or create unrealized losses in our portfolios. If the interest rates on our interest-bearing liabilities increase at a faster pace than the interest rates on our interest-earning assets, our net interest income may decline and, with it, a decline in our earnings may occur. Our net interest income and earnings would be similarly affected if the interest rates on our interest-earning assets declined at a faster pace than the interest rates on our interest-bearing liabilities. In particular, short-term interest rates are currently very low by historical standards, with many benchmark rates, such as the federal funds rate and the one- and three-month LIBOR near zero. These low rates have reduced our cost of funding which has caused our net interest margin to increase.

Our current one-year interest rate sensitivity position is moderately asset sensitive, meaning that an immediate or gradual increase in interest rates would likely have a positive cumulative impact on Regions twelve-month net interest income. Alternatively, an immediate or gradual decrease in rates over a twelve-month period would likely have a negative impact on twelve-month net interest income.

An increasing interest rate environment would also increase debt service requirements for some of our borrowers. Such increases may adversely affect those borrowers ability to pay as contractually obligated and could result in additional delinquencies or charge-offs. Our results of operations and financial condition may be adversely affected as a result.

For a more detailed discussion of these risks and our management strategies for these risks, see the Net Interest Income and Margin, Market Risk Interest Rate Risk and Securities sections of Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation of this Annual Report on Form 10-K.

Obligations currently rated below investment grade as well as possible future reductions in our credit ratings may increase our funding costs, place limitations on business activities related to providing credit support to customers, or contribute to ineffective liquidity management.

The major rating agencies regularly evaluate us and their ratings are based on a number of factors, including our financial strength and conditions affecting the financial services industry generally. From 2008 through 2010, all of the major ratings agencies downgraded Regions and Regions Bank s credit ratings and many issued negative outlooks. Negative watch, negative outlook or other similar terms mean that a future downgrade is possible. From August 2011 through October 2012, however, four major rating agencies, Standard & Poor s (S&P), Fitch Ratings (Fitch), Moody s Investor Services (Moody s) and Dominion Bond Rating Service (DBRS), upwardly revised their outlook of Regions from negative to stable and/or positive reflecting the Company s continued improvement in earnings performance, core capital position, and maintenance of a strong liquidity profile. Subsequent to the upward revision on their outlook, in March 2012, S&P upgraded the credit ratings of Regions and Regions Bank (including an upgrade of Regions senior debt rating from BB+ to BBB-) following Regions March 2012 stock offering and redemption of 3.5 million shares of Series A preferred stock issued to the U.S. Treasury. Additionally, in March 2012 Fitch conducted a global review of securities impacted in part by capital requirements set forth in Basel III as well as Fitch s view regarding the likelihood of sovereign support. The review resulted in a downgrade of Regions junior subordinated debt rating from BB to B+. In December 2012, Moody s upgraded Regions senior debt ratings from Ba3 to Ba1, citing declining net charge-offs and loan delinquencies, as well as enhancements to the risk management structure. Currently, Regions senior debt ratings are Ba1, BBB-, BBB- and BBB by Moody s, S&P, Fitch and DBRS, respectively.

In general, ratings agencies base their ratings on many quantitative and qualitative factors, including capital adequacy, liquidity, asset quality, business mix and level and quality of earnings, and we may not be able to maintain our current credit ratings. The ratings assigned to Regions and Regions Bank remain subject to change at any time, and it is possible that any ratings agency will take action to downgrade Regions, Regions Bank or both in the future.

Additionally, ratings agencies may also make substantial changes to their ratings policies and practices which may affect our credit ratings. In the future, changes to existing ratings guidelines and new ratings guidelines may, among other things, adversely affect the ratings of our securities or other securities in which we have an economic interest.

Regions credit ratings can have negative consequences that can impact our ability to access the debt and capital markets, as well as reduce our profitability through increased costs on future debt issuances. Specifically, when Regions was downgraded below investment grade status, we became unable to reliably access the short-term unsecured funding markets, which caused us to hold more cash and liquid investments to meet our on-going cash needs. Such actions reduced our profitability as these liquid investments earned a lower return than other assets, such as loans. Regions liquidity policy requires that we maintain a minimum cash requirement that is the greater of the next two years of corporate dividend payments and debt service and maturities less the next one year of bank dividends, or the next one year of corporate dividend payments and debt service and maturities. The current working limit does not allow the minimum cash requirement to fall below $500 million. The conservative nature of this policy helps protect us against the costs of unexpected adverse funding environments. Future issuances of debt could cost Regions more in interest costs were such debt to be issued at our current debt rating. Any future downgrades would further increase the interest costs associated with potential future borrowings, the cost of which cannot be estimated due to the uncertainty of future issuances in terms of amount and priority.

Additionally, at the time Regions was downgraded to below investment grade, certain counterparty contracts were required to be renegotiated, resulting in additional collateral postings of approximately $200 million. Refer to Note 20, Derivative Financial Instruments and Hedging Activities, Contingent Features to the consolidated financial statements of this Annual Report on Form 10-K for the fair value of contracts subject to contingent credit features and the collateral postings associated with such contracts. Future downgrades could require Regions to post additional collateral. While the exact amount of additional collateral is unknown, it is reasonable to conclude that Regions may be required to post approximately an additional $200 million related to existing contracts with contingent credit features. In early 2013, as a result of the ratings upgrades that occurred during 2012, approximately $70 million of this additional collateral has been returned to Regions. If due to future downgrades, we were required to cancel our derivatives contracts with certain counterparties and were unable to replace such contracts, our market risk profile could be altered. Regions believes that this market risk exposure would be immaterial to its consolidated financial position, liquidity and results of operations.

The value of our goodwill and other intangible assets may decline in the future.

As of December 31, 2012, we had $4.8 billion of goodwill and $345 million of other intangible assets. A significant decline in our expected future cash flows, a significant adverse change in the business climate, slower growth rates or a significant and sustained decline in the price of our common stock, any or all of which could be materially impacted by many of the risk factors discussed herein, may necessitate our taking charges in the future related to the impairment of our goodwill. Future regulatory actions could also have a material impact on assessments of goodwill for impairment. If the fair value of our net assets improves at a faster rate than the market value of our reporting units, or if we were to experience increases in book values of a reporting unit in excess of the increase in fair value of equity, we may also have to take charges related to the impairment of our goodwill. If we were to conclude that a future write-down of our goodwill and other intangible assets is necessary, we would record the appropriate charge, which could have a material adverse effect on our results of operations. A goodwill impairment charge is a non-cash item that does not have an adverse impact on regulatory capital.

Identifiable intangible assets other than goodwill consist of core deposit intangibles, purchased credit card relationship assets, and customer relationship employment assets. Adverse events or circumstances could impact the recoverability of these intangible assets including loss of core deposits, significant losses of credit card accounts and/or balances, increased competition or adverse changes in the economy. To the extent these intangible assets are deemed unrecoverable, a non-cash impairment charge would be recorded.

The value of our deferred tax assets could adversely affect our operating results and regulatory capital ratios.

As of December 31, 2012, Regions had approximately $763 million in net deferred tax assets, of which $35 million was disallowed when calculating regulatory capital. Our deferred tax assets are subject to an evaluation of whether it is more likely than not that they will be realized for financial statement purposes. In making this determination, we consider all positive and negative evidence available including the impact of recent operating results as well as potential carryback of tax to prior years taxable income, reversals of existing taxable temporary differences, tax planning strategies and projected earnings within the statutory tax loss carryover period. We have determined that the deferred tax assets are more likely than not to be realized at December 31, 2012 (except for $70 million related to state deferred tax assets for which we have established a valuation allowance). If we were to conclude that a significant portion of our deferred tax assets were not more likely than not to be realized, the required valuation allowance could adversely affect our financial position, results of operations and regulatory capital ratios.

Changes in the soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services companies are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. Furthermore, although we do not hold any European sovereign debt, we may do business with and be exposed to financial institutions that have been affected by the recent European sovereign debt crisis. As a result, defaults by, or even mere speculation about, one or more financial services companies, or the financial services industry generally, may lead to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated if the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due us. We are unable to make assurances that any such losses would not materially and adversely affect our business, financial condition or results of operations.

Potential limitations on incentive compensation contained in proposed federal agency rulemaking may adversely affect our ability to attract and retain our highest performing employees.

In April 2011, the Federal Reserve, other federal banking agencies and the Securities and Exchange Commission jointly published proposed rules designed to implement provisions of the Dodd-Frank Act prohibiting incentive compensation arrangements that would encourage inappropriate risk taking at covered financial institutions, which includes a bank or bank holding company with $1 billion or more of assets, such as

Regions and Regions Bank. It cannot be determined at this time whether or when a final rule will be adopted and whether compliance with such a final rule will substantially affect the manner in which we structure compensation for our executives and other employees. Depending on the nature and application of the final rules, we may not be able to successfully compete with certain financial institutions and other companies that are not subject to some or all of the rules to retain and attract executives and other high performing employees. If this were to occur, our business, financial condition and results of operations could be adversely affected, perhaps materially.

Maintaining or increasing market share may depend on market acceptance and regulatory approval of new products and services.

Our success depends, in part, on the ability to adapt products and services to evolving industry standards. There is increasing pressure to provide products and services at lower prices. This can reduce net interest income and noninterest income from fee-based products and services. In addition, the widespread adoption of new technologies could require us to make substantial capital expenditures to modify or adapt existing products and services or develop new products and services. We may not be successful in introducing new products and services in response to industry trends or developments in technology, or those new products may not achieve market acceptance. As a result, we could lose business, be forced to price products and services on less advantageous terms to retain or attract clients, or be subject to cost increases. As a result, our business, financial condition or results of operations may be adversely affected.

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

The financial services market, including banking services, is undergoing rapid changes with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and may enable us to reduce costs. Our future success may depend, in part, on our ability to use technology to provide products and services that provide convenience to customers and to create additional efficiencies in our operations. Some of our competitors have substantially greater resources to invest in technological improvements than we currently have. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. As a result, our ability to effectively compete to retain or acquire new business may be impaired, and our business, financial condition or results of operations, may be adversely affected.

Our customers may pursue alternatives to bank deposits which could force us to rely on relatively more expensive sources of funding.

We may experience an outflow of deposits because customers seek investments with higher yields or greater financial stability; prefer to do business with our competitors, or otherwise. This outflow of deposits could force us to rely more heavily on borrowings and other sources of funding to fund our business and meet withdrawal demands, thereby adversely affecting our net interest margin. We may also be forced, as a result of any outflow of deposits, to rely more heavily on equity to fund our business, resulting in greater dilution of our existing shareholders. As a result, our business, financial condition or results of operations may be adversely affected.

We are subject to a variety of operational risks, environmental, legal and compliance risks, and the risk of fraud or theft by employees or outsiders, which may adversely affect our business and results of operations.

We are exposed to many types of operational risks, including reputational risk, legal and compliance risk, the risk of fraud or theft by employees or outsiders, and unauthorized transactions by employees or operational errors, including clerical or record-keeping errors or those resulting from faulty or disabled computer or telecommunications systems. Negative public opinion can result from our actual or alleged conduct in any number of activities, including lending practices, corporate governance and acquisitions and from actions taken by government regulators and community organizations in response to those activities. Negative public opinion can adversely affect our ability to attract and keep customers and can expose us to litigation and regulatory action. Actual or alleged conduct by Regions can also result in negative public opinion about our other businesses. Negative public opinion could also affect our credit ratings, which are important to our access to unsecured wholesale borrowings.

If personal, non-public, confidential or proprietary information of customers in our possession were to be misappropriated, mishandled or misused, we could suffer significant regulatory consequences, reputational damage and financial loss. Such mishandling or misuse could include, for example, erroneously providing such information to parties who are not permitted to have the information, either by fault of our systems, employees, or counterparties, or the interception or inappropriate acquisition of such information by third parties.

Because the nature of the financial services business involves a high volume of transactions, certain errors may be repeated or compounded before they are discovered and successfully rectified. Our necessary dependence upon automated systems to record and process transactions and our large transaction volume may further increase the risk that technical flaws or employee tampering or manipulation of those systems will result in losses that are difficult to detect. We also may be subject to disruptions of our operating systems arising from events that are wholly or partially beyond our control (for example, computer viruses or electrical or telecommunications outages, or natural disasters, disease pandemics or other damage to property or physical assets) which may give rise to disruption of service to customers and to financial loss or liability. We are further exposed to the risk that our external vendors may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors by their respective employees as we are) and to the risk that our (or our vendors) business continuity and data security systems prove to be inadequate. The occurrence of any of these risks could result in our diminished ability to operate our business (for example, by requiring us to expend significant resources to correct the defect), as well as potential liability to clients, reputational damage and regulatory intervention, which could adversely affect our business, financial condition or results of operations, perhaps materially.

We are subject to a variety of systems failure and cyber-security risks that could adversely affect our business and financial performance.

Failure in or breach of our operational or security systems or infrastructure, or those of our third party vendors and other service providers, including as a result of cyber attacks, could disrupt our businesses or the businesses of our customers, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses. As a large financial institution, we depend on our ability to process, record and monitor a large number of customer transactions on a continuous basis. As customer, public and regulatory expectations regarding operational and information security have increased, our operational systems and infrastructure must continue to be safeguarded and monitored for potential failures, disruptions and breakdowns. Our business, financial, accounting, data processing systems or other operating systems and facilities may stop operating properly or become disabled or damaged as a result of a number of factors, including events that are wholly or partially beyond our control. For example, there could be sudden increases in customer transaction volume; electrical or telecommunications outages; natural disasters such as earthquakes, tornadoes and hurricanes; disease pandemics; events arising from local or larger scale political or social matters, including terrorist acts; and, as described below, cyber attacks. Although we have business continuity plans and other safeguards in place, our business operations may be adversely affected by significant and widespread disruption to our physical infrastructure or operating systems that support our businesses and customers.

Information security risks for large financial institutions such as Regions have generally increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, activists and other external parties. As noted above, our operations rely on the secure processing, transmission and storage of confidential information in our computer systems and networks. In addition, to access our products and services, our customers may use personal smartphones, tablet PCs, and other

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mobile devices that are beyond our control systems. Although we believe that we have robust information security procedures and controls, our technologies, systems, networks and our customers devices may be the target of cyber attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of Regions or our customers confidential, proprietary and other information. Additionally, cyber attacks, such as denial of service attacks, hacking or terrorist activities, could disrupt Regions or our customers or other third parties business operations. For example, in October 2012 and December 2012, a group launched denial of service attacks against a number of large financial services institutions. Regions was targeted by this group in October and December. These events did not result in a breach of Regions client data, and account information remained secure; however, the attacks did adversely affect the performance of Regions Bank s website, www.regions.com, and, in some instances, prevented customers from accessing Regions Bank s secure websites for consumer and commercial applications. The October event was resolved within approximately one day. The December events occurred over multiple days, but each individual event was of a shorter duration than the October event and was promptly resolved. In all cases, the attacks primarily resulted in inconvenience; however, future cyber attacks could be more disruptive and damaging, and Regions may not be able to anticipate or prevent all such attacks.

Third parties with which we do business or that facilitate our business activities could also be sources of operational and information security risk to us, including from breakdowns or failures of their own systems or capacity constraints.

Our risk and exposure to cyber attacks and other information security breaches remain heightened because of, among other things, the evolving nature of these threats and the prevalence of Internet and mobile banking. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities. Disruptions or failures in the physical infrastructure or operating systems that support our businesses and customers, or cyber attacks or security breaches of the networks, systems or devices that our customers use to access our products and services, could result in customer attrition, regulatory fines, penalties or intervention, reputational damage, reimbursement or other compensation costs and/or additional compliance costs, any of which could materially adversely affect our business, results of operations or financial condition.

We rely on other companies to provide key components of our business infrastructure.

Third parties provide key components of our business operations such as data processing, recording and monitoring transactions, online banking interfaces and services, Internet connections and network access. While we have selected these third party vendors carefully, we do not control their actions. Any problems caused by these third parties, including those resulting from disruptions in communication services provided by a vendor, failure of a vendor to handle current or higher volumes, or failure of a vendor to provide services for any reason or poor performance of services, could adversely affect our ability to deliver products and services to our customers and otherwise conduct our business. Financial or operational difficulties of a third party vendor could also hurt our operations if those difficulties interfere with the vendor s ability to serve us. Replacing these third party vendors could also create significant delay and expense. Accordingly, use of such third parties creates an unavoidable inherent risk to our business operations.

We depend on the accuracy and completeness of information about clients and counterparties.

In deciding whether to extend credit or enter into other transactions with clients and counterparties, we may rely on information furnished by or on behalf of clients and counterparties, including financial statements and other financial information. We also may rely on representations of clients and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors if made available. If this information is inaccurate, we may be subject to regulatory action, reputational harm or other adverse effects with respect to the operation of our business, our financial condition and our results of operations.

We are exposed to risk of environmental liability when we take title to property.

In the course of our business, we may foreclose on and take title to real estate. As a result, we could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination or may be required to investigate or clean up hazardous or toxic substances or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. If we become subject to significant environmental liabilities, our business, financial condition or results of operations could be adversely affected.

Our reported financial results depend on management s selection of accounting methods and certain assumptions and estimates.

Our accounting policies and assumptions are fundamental to our reported financial condition and results of operations. Our management must exercise judgment in selecting and applying many of these accounting policies and methods so they comply with generally accepted accounting principles and reflect management s judgment of the most appropriate manner to report our financial condition and results. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which may be reasonable under the circumstances, yet may result in us reporting materially different results than would have been reported under a different alternative.

Certain accounting policies are critical to presenting our reported financial condition and results. They require management to make difficult, subjective or complex judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions or estimates. These critical accounting policies include: the allowance for credit losses; fair value measurements; intangible assets; mortgage servicing rights; and income taxes. Because of the uncertainty of estimates involved in these matters, we may be required to do one or more of the following: significantly increase the allowance for credit losses and/or sustain credit losses that are significantly higher than the reserve provided; recognize significant impairment on our goodwill, other intangible assets or deferred tax asset balances; or significantly increase our accrued income taxes.

Changes in our accounting policies or in accounting standards could materially affect how we report our financial results and condition.

From time to time, the Financial Accounting Standards Board (the FASB) and SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be difficult to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in us restating prior period financial statements. For example, on December 20, 2012, the FASB issued for public comment a Proposed Accounting Standards Update, *Financial Instruments Credit Losses* (Subtopic 825-15), that would substantially change the accounting for credit losses on loans and other financial assets held by banks, financial institutions and other organizations. The proposal would remove the existing probable threshold in GAAP for recognizing credit losses and instead require affected reporting companies to reflect their estimate of credit losses on financial assets over the lifetime of each such asset, broadening the range of information that must be considered in measuring the allowance for expected credit losses. This proposal, if adopted as proposed, will likely have a negative impact, potentially material, on Regions reported earnings and capital and could also have an impact on Regions Bank s lending to the extent that higher reserves are required at the inception of a loan based on recent loan loss experience.

Risks Arising From the Legal and Regulatory Framework in which Our Business Operates

Increased litigation could result in legal liability and damage to our reputation.

We and certain of our subsidiaries have been named from time to time as defendants in various class actions and other litigation relating to their business and activities. Past, present and future litigation have included or could include claims for substantial compensatory or punitive damages or claims for indeterminate amounts of damages. We and certain of our subsidiaries are also involved from time to time in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding our and their business. These matters also could result in adverse judgments, settlements, fines, penalties, injunctions or other relief.

In addition, in recent years, a number of judicial decisions have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories, collectively termed lender liability. Generally, lender liability is founded on the premise that a lender has either violated a duty, whether implied or contractual, of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in the creation of a fiduciary duty owed to the borrower or its other creditors or shareholders.

Substantial legal liability or significant regulatory action against us or our subsidiaries could materially adversely affect our business, financial condition or results of operations or cause significant harm to our reputation. Additional information relating to litigation affecting Regions and our subsidiaries is discussed in Note 23 Commitments, Contingencies and Guarantees to the consolidated financial statements of this Annual Report on Form 10-K.

We may face significant claims for indemnification in connection with our sale of Morgan Keegan in 2012.

On January 11, 2012, Regions entered into a stock purchase agreement to sell Morgan Keegan and related affiliates to Raymond James Financial, Inc. (Raymond James). The transaction closed on April 2, 2012. In connection with the closing of the sale, Regions agreed to indemnify Raymond James for all litigation and certain other matters related to pre-closing activities of Morgan Keegan. Indemnifiable losses under the indemnification provision include legal and other expenses, such as costs for defense, judgments, settlements and awards associated with the resolution of litigation related to pre-closing activities. As of December 31, 2012 the carrying value of the indemnification obligation is approximately $345 million. This amount reflects an estimate of liability, and actual liabilities can potentially be higher than amounts reserved. The amount of liability that we may ultimately incur from indemnification claims may have an adverse impact, perhaps materially, on our results of operations.

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

The banking industry is extensively regulated and supervised under both federal and state law. Regions and Regions Bank are subject to the regulation and supervision of the Federal Reserve, the FDIC, the Consumer Financial Protection Bureau and the Superintendent of Banking of the State of Alabama. These regulations are intended primarily to protect depositors, the public and the FDIC insurance fund, and not our shareholders. These regulations govern a variety of matters, including certain debt obligations, changes in control of bank holding companies and state-chartered banks, maintenance of adequate capital by bank holding companies and state-chartered banks, and general business operations and financial condition of Regions and Regions Bank (including permissible types, amounts and terms of loans and investments, the amount of reserves against deposits, restrictions on dividends, establishment of branch offices, and the maximum interest rate that may be charged by law). Additionally, all of our non-bank subsidiaries are subject to oversight by the Federal Reserve, and certain of our other subsidiaries are subject to regulation, supervision and examination by other regulatory authorities, such as state insurance departments.

As a result, we are subject to changes in federal and state law, as well as regulations and governmental policies, income tax laws and accounting principles. Regulations affecting banks and other financial institutions are undergoing continuous review and frequently change, and the ultimate effect of such changes cannot be

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predicted. Regulations and laws may be modified at any time, and new legislation may be enacted that will affect us, Regions Bank and our subsidiaries. Any changes in any federal and state law, as well as regulations and governmental policies, income tax laws and accounting principles, could affect us in substantial and unpredictable ways, including ways which may adversely affect our business, financial condition or results of operations. Failure to appropriately comply with any such laws, regulations or principles could result in sanctions by regulatory agencies, civil money penalties or damage to our reputation, all of which could adversely affect our business, financial condition or results of operations. Our regulatory position is discussed in greater detail under the Bank Regulatory Capital Requirements section and associated Capital Ratios table of Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation of this Annual Report on Form 10-K.

Recent legislation regarding the financial services industry may have a significant adverse effect on our operations and financial condition.

The Dodd-Frank Act became law in July 2010. Many of the provisions of the Dodd-Frank Act will directly affect our ability to conduct our business including:

- Imposition of higher prudential standards, including more stringent risk-based capital, leverage, liquidity and risk-management requirements, and numerous other requirements on systemically significant institutions, including all bank holding companies with assets of at least $50 billion (which includes Regions);

- Establishment of the Financial Stability Oversight Council to identify and impose additional regulatory oversight of large financial firms;

- Imposition of additional costs and fees, including fees to be set by the Federal Reserve and charged to systemically significant institutions to cover the cost of regulating such institutions and any FDIC assessment made to cover the costs of any regular or special examination of Regions or its affiliates;

- Establishment of the Consumer Financial Protection Bureau with broad authority to implement new consumer protection regulations and to examine and enforce compliance with federal consumer laws;

- Application to bank holding companies of regulatory capital requirements similar to those applied to banks, which requirements exclude, on a phase-out basis, all trust preferred securities and cumulative preferred stock from Tier 1 capital; and

- Establishment of new rules and restrictions regarding the origination of mortgages.

Many of the provisions of the Dodd-Frank Act became effective in July 2011, on the one-year anniversary of its enactment. However, a number of these other provisions still require extensive rulemaking, guidance and interpretation by regulatory authorities and have extended implementation periods and delayed effective dates. Accordingly, in some respects, the ultimate impact of the Dodd-Frank Act and its effect on Regions and the U.S. financial system generally may not be known for some time.

The provisions of the Dodd-Frank Act and any future rules adopted to implement those provisions as well as any additional legislative or regulatory changes may impact the profitability of our business activities and costs of operations, require that we change certain of our business practices, materially affect our business model or affect retention of key personnel, require us to raise additional regulatory capital, including additional Tier 1 capital, and could expose us to additional costs (including increased compliance costs). These and other changes may also require us to invest significant management attention and resources to make any necessary changes and may adversely affect our ability to conduct our business as previously conducted or our results of operations or financial condition.

Increases in FDIC insurance premiums may adversely affect our earnings.

Our deposits are insured by the FDIC up to legal limits and, accordingly, we are subject to FDIC deposit insurance assessments. We generally cannot control the amount of premiums we will be required to pay for FDIC insurance. High levels of bank failures over the past several years and increases in the statutory deposit insurance limits have increased resolution costs to the FDIC and put pressure on the Deposit Insurance Fund (DIF). In order to maintain a strong funding position and restore the reserve ratios of the DIF, the FDIC increased assessment rates on insured institutions, charged a special assessment to all insured institutions as of June 30, 2009, and required banks to prepay three years worth of premiums on December 30, 2009. If there are additional financial institution failures, we may be required to pay even higher FDIC premiums than the recently increased levels, or the FDIC may charge additional special assessments. Further, the FDIC increased the DIF s target reserve ratio to 2.0 percent of insured deposits following the Dodd-Frank Act s elimination of the 1.5 percent cap on the DIF s reserve ratio. Additional increases in our assessment rate may be required in the future to achieve this targeted reserve ratio. These increases in deposit assessments and any future increases, required prepayments or special assessments of FDIC insurance premiums may adversely affect our business, financial condition or results of operations.

Additionally, in February 2011, pursuant to the Dodd-Frank Act, the FDIC amended its regulations regarding assessment for federal deposit insurance to base such assessments on the average total consolidated assets of the insured institution during the assessment period, less the average tangible equity of the institution during the assessment period. The FDIC also adopted a revised risk-based assessment calculation in February 2011. In January 2010, the FDIC proposed a rule tying assessment rates of FDIC insured institutions to the institution s employee compensation programs. Comments were due on February 18, 2010, but as of February 2013, no final rule has been adopted. The exact nature and cumulative effect of these recent changes are not yet known, but they may increase the amount of premiums we must pay for FDIC insurance. Any such increases may adversely affect our business, financial condition or results of operations.

We may be subject to more stringent capital requirements.

Regions and Regions Bank are each subject to capital adequacy and liquidity guidelines and other regulatory requirements specifying minimum amounts and types of capital that must be maintained. From time to time, the regulators implement changes to these regulatory capital adequacy and liquidity guidelines. If we fail to meet these minimum capital and liquidity guidelines and other regulatory requirements, our financial condition would be materially and adversely affected. In light of proposed changes to regulatory capital requirements contained in the Dodd-Frank Act and the Federal Reserve s proposed rules implementing regulatory accords on international banking institutions formulated as part of the Basel Committee III process, we expect to be required to satisfy additional, more stringent, capital adequacy and liquidity standards. We may also be required to satisfy additional, more stringent capital adequacy and liquidity standards than those specified as part of the Dodd-Frank Act and the Federal Reserve s proposed rules implementing Basel III, or comply with the requirements of these standards earlier than might otherwise be required, in order to successfully comply with the capital planning and stress test rules and guidance issued by the Federal Reserve. The ultimate impact of the new capital and liquidity standards on us cannot be determined at this time and will depend on a number of factors, including the treatment and implementation by the U.S. banking regulators. These requirements, however, and any other new regulations, could adversely affect our ability to pay dividends, or could require us to reduce business levels or to raise capital, including in ways that may adversely affect our financial condition or results of operations. For more information concerning our compliance with capital and liquidity requirements, see the Bank Regulatory Capital Requirements section of Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation of this Annual Report on Form 10-K.

Unfavorable results from ongoing stress analyses conducted on Regions may adversely affect our ability to retain customers or compete for new business opportunities.

Under the final rules discussed under Regulatory Reforms *Federal Reserve s Comprehensive Capital Analysis and Review* in the Supervision and Regulation section of Item 1. of this Annual Report on Form 10-K, the Federal Reserve conducts an annual stress analysis of Regions to evaluate our ability to absorb losses in various economic and financial scenarios. This stress analysis uses three economic and financial scenarios generated by the Federal Reserve, including adverse and severely adverse scenarios. The rules also require us to conduct our own semi-annual stress analysis to assess the potential impact on Regions, including our consolidated earnings, losses and capital, under each of the economic and financial scenarios used as part of the Federal Reserve s annual stress analysis. A summary of the results of certain aspects of the Federal Reserve s annual stress analysis is released publicly and contains bank holding company specific information and results. The rules also require us to disclose publicly a summary of the results of our semi-annual stress analyses, and Regions Banks annual stress analyses, under the severely adverse scenario.

Although the stress tests are not meant to assess our current condition, and even if we remain strong, stable and well capitalized, we cannot predict our customers potential misinterpretation of, and adverse reaction to, the results of these stress tests. Any potential misinterpretations and adverse reactions could limit our ability to attract and retain customers or to effectively compete for new business opportunities. The inability to attract and retain customers or effectively compete for new business may have a material and adverse effect on our business, financial condition or results of operations.

Additionally, our regulators may require us to raise additional capital or take other actions, or may impose restrictions on our business, based on the results of the stress tests, including rejecting or requiring revisions to our annual capital plan submitted in connection with the Comprehensive Capital Analysis and Review. We may not be able to raise additional capital if required to do so, or may not be able to do so on terms which are advantageous to Regions or its current shareholders. Any such capital raises, if required, may also be dilutive to our existing shareholders.

If an orderly liquidation of a systemically important bank holding company or non-bank financial company were triggered, we could face assessments for the Orderly Liquidation Fund.

The Dodd-Frank Act creates a new mechanism, the OLA, for liquidation of systemically important bank holding companies and non-bank financial companies. The OLA is administered by the FDIC and is based on the FDIC s bank resolution model. The Secretary of the U.S. Treasury may trigger a liquidation under this authority only after consultation with the President of the United States and after receiving a recommendation from the boards of the FDIC and the Federal Reserve upon a two-thirds vote. Liquidation proceedings will be funded by the Orderly Liquidation Fund, which will borrow from the U.S. Treasury and impose risk-based assessments on covered financial companies. Risk-based assessments would be made, first, on entities that received more in the resolution than they would have received in the liquidation to the extent of such excess, and second, if necessary, on, among others, bank holding companies with total consolidated assets of $50 billion or more, such as Regions. Any such assessments may adversely affect our business, financial condition or results of operations.

Risks Related to Our Capital Stock

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

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

- Our operating performance, financial condition and prospects, or the operating performance, financial condition and prospects of our competitors;
- Operating results that vary from the expectations of management, securities analysts and investors;
- Our creditworthiness;
- Developments in our business or in the financial sector generally;
- Regulatory changes affecting our industry generally or our business and operations;

The operating and securities price performance of companies that investors consider to be comparable to us;

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- Announcements of strategic developments, acquisitions and other material events by us or our competitors;
- Expectations of or actual equity dilution;
- Whether we declare or fail to declare dividends on our capital stock from time to time;
- The ratings given to our securities by credit-rating agencies;
- Changes in the credit, mortgage and real estate markets, including the markets for mortgage-related securities; and
- Changes in global financial markets, global economies and general market conditions, such as interest or foreign exchange rates, stock, commodity, credit or asset valuations or volatility.

Stock markets in general (and our common stock in particular) have shown considerable volatility in the recent past. The market price of our capital stock, including our common stock and depositary shares representing fractional interests in our preferred stock, may continue to be subject to similar fluctuations unrelated to our operating performance or prospects. Increased volatility could result in a decline in the market price of our capital stock.

Our capital stock is subordinate to our existing and future indebtedness.

Our capital stock, including our common stock and depositary shares representing fractional interests in our preferred stock, ranks junior to all of Regions existing and future indebtedness and Regions other non-equity claims with respect to assets available to satisfy claims against us, including claims in the event of our liquidation. As of December 31, 2012, Regions total liabilities were approximately $105.8 billion, and we may incur additional indebtedness in the future to increase our capital resources. Additionally, if our capital ratios or the capital ratios of Regions Bank fall below the required minimums, we or Regions Bank could be forced to raise additional capital by making additional offerings of debt securities, including medium-term notes, senior or subordinated notes or other applicable securities.

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

We are a legal entity separate and distinct from our banking and other subsidiaries. Our principal source of cash flow, including cash flow to pay dividends to our stockholders and principal and interest on our outstanding debt, is dividends from Regions Bank. There are statutory and regulatory limitations on the payment of dividends by Regions Bank to us, as well as by us to our stockholders. Regulations of both the Federal Reserve and the State of Alabama affect the ability of Regions Bank to pay dividends and other distributions to us and to make loans to us. If Regions Bank is unable to make dividend payments to us and sufficient cash or liquidity is not otherwise available, we may not be able to make dividend payments to our common and preferred stockholders or principal and interest payments on our outstanding debt. See the Stockholders Equity section of Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation of this Annual Report on Form 10-K. In addition, our right to participate in a distribution of assets upon a subsidiary s liquidation or reorganization is subject to the prior claims of creditors of that subsidiary, except to the extent that any of our claims as a creditor of such subsidiary may be recognized. As a result, shares of our capital stock are effectively subordinated to all existing and future liabilities and obligations of our subsidiaries. At December 31, 2012, our subsidiaries total deposits and borrowings were approximately $98.8 billion.

We may not pay dividends on shares of our capital stock.

Holders of shares of our capital stock are only entitled to receive such dividends as our Board of Directors may declare out of funds legally available for such payments. Although we have historically declared cash dividends on our common stock, we are not required to do so and may reduce or eliminate our common stock dividend in the future. This could adversely affect the market price of our common stock.

On November 1, 2012, Regions completed the sale of 20 million depositary shares each representing a 1/40th ownership interest in a share of its 6.375% Non-Cumulative Perpetual Preferred Stock, Series A, par value $1.00 per share (Series A Preferred Stock), with a liquidation preference of $1,000 per share of Series A Preferred Stock (equivalent to $25 per depositary share). Dividends on the Series A Preferred Stock are discretionary and are not cumulative. If our Board of Directors does not declare a dividend on the Series A Preferred Stock in respect of a quarterly dividend period, then no dividend shall be deemed to have accrued for such dividend period, no dividend shall be payable on the applicable dividend payment date or be cumulative, and we will have no obligation to pay any dividend for that dividend period, whether or not our Board of Directors declares a dividend on the Series A Preferred Stock or any other class or series of our capital stock for any future dividend period.

Furthermore, the terms of the Series A Preferred Stock prohibit Regions from declaring or paying any dividends on any junior series of its capital stock, including its common stock, or from repurchasing, redeeming or acquiring such junior stock, unless Regions has declared and paid full dividends on the Series A Preferred Stock for the most recently completed dividend period. Additionally, the terms of Regions outstanding junior subordinated debt securities prohibit it from declaring or paying any dividends or distributions on Regions capital stock, or purchasing, acquiring or making a liquidation payment on such stock, if Regions has given notice of its election to defer interest payments but the related deferral period has not yet commenced or a deferral period is continuing.

Regions is also subject to statutory and regulatory limitations on its ability to pay dividends on its capital stock. For example, it is the policy of the Federal Reserve that bank holding companies should generally pay dividends on common stock only out of earnings, and only if prospective earnings retention is consistent with the organization s expected future needs, asset quality and financial condition. Moreover, the Federal Reserve will closely scrutinize any dividend payout ratios exceeding 30 percent of after-tax net income. Additionally, while the impact of many of its provisions are not yet known, the Dodd-Frank Act requires federal banking agencies to establish more stringent risk-based capital guidelines and leverage limits applicable to banks and bank holding companies, and especially those institutions with consolidated assets equal to or greater than $50 billion. In August 2012, the Federal Reserve, the FDIC and the Office of the Comptroller of the Currency jointly published three proposed rules that would substantially revise the federal banking agencies current capital rules and implement the Basel Committee on Banking Supervision s December 2010 regulatory capital reforms, known as Basel III. The proposed rules, if adopted as proposed, could adversely affect our ability to pay dividends, or may result in additional limitations on our ability to pay dividends on shares of our capital stock.

Pursuant to rules adopted in November 2011, the Federal Reserve has required bank holding companies with $50 billion or more of total consolidated assets, such as Regions, to submit annual capital plans to the Federal Reserve for review before they can make capital distributions such as dividends. The Federal Reserve did not object to Regions capital plan that was submitted in January 2012; however, if the Federal Reserve does not approve any subsequent Regions capital plan, Regions may not be able to declare dividends.

Our management and Board of Directors, as part of the capital planning process, will continue to evaluate the payment of dividends in conjunction with our regulatory supervisors, and subject to applicable regulations and other limitations, as well as Regions results of operations.

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

Certain provisions of state and federal law and our certificate of incorporation may make it more difficult for someone to acquire control of us without our Board of Directors approval. Under federal law, subject to certain exemptions, a person, entity or group must notify the federal banking agencies before acquiring control of a bank holding company. Acquisition of 10 percent or more of any class of voting stock of a bank holding company or state member bank, including shares of our common stock, creates a rebuttable presumption that the acquirer controls the bank holding company or state member bank. Also, as noted under the Supervision and Regulation section of Item 1. of this Annual Report on Form 10-K, a bank holding company must obtain the prior approval of the Federal Reserve before, among other things, acquiring direct or indirect ownership or control of more than 5 percent of the voting shares of any bank, including Regions Bank. There also are provisions in our certificate of incorporation that may be used to delay or block a takeover attempt. For example, holders of our Series A Preferred Stock have certain voting rights that could adversely affect share value. If and when dividends on the preferred stock have not been declared and paid for at least six quarterly dividend periods or their equivalent (whether or not consecutive), the authorized number of directors then constituting our Board of Directors will automatically be increased by two, and the preferred stockholders will be entitled to elect the two additional directors. Also, the affirmative vote or consent of the holders of at least two-thirds of all of the then-outstanding shares of the preferred stock is required to consummate a binding share-exchange or reclassification involving the preferred stock, or a merger or consolidation of Regions with or into another entity, unless certain requirements are met. These statutory provisions and provisions in our certificate of incorporation, including the rights of the holders of our Series A Preferred Stock, could result in Regions being less attractive to a potential acquirer.

We may need to raise additional debt or equity capital in the future; such capital may be dilutive to our existing shareholders or may not be available when needed or at all.

We may need to raise additional capital in the future to provide us with sufficient capital resources and liquidity to meet our commitments and business needs. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of our control, and our financial performance. The economic slowdown and loss of confidence in financial institutions over the past several years may increase our cost of funding and limit our access to some of our customary sources of capital, including inter-bank borrowings, repurchase agreements and borrowings from the discount window of the Federal Reserve. Additionally, some of our long-term debt securities are currently rated below investment grade by certain of the credit ratings agencies. Any such ratings may affect our cost of funding and limit our access to the capital markets.

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

Future issuances of additional equity securities could result in dilution of existing stockholders equity ownership.

We may determine from time to time to issue additional equity securities to raise additional capital, support growth, or to make acquisitions. Further, we may issue stock options or other stock grants to retain and motivate our employees. These issuances of our securities could dilute the voting and economic interests of our existing shareholders.

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

None.

Item 2. ***Properties***

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

At December 31, 2012, Regions Bank, Regions banking subsidiary, operated 1,711 banking offices. At December 31, 2012, there were no significant encumbrances on the offices, equipment and other operational facilities owned by Regions and its subsidiaries.

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

Item 3. ***Legal Proceedings***

Information required by this item is set forth in Note 23 Commitments, Contingencies and Guarantees in the Notes to the Consolidated Financial Statements which are included in Item 8. of this Annual Report on Form 10-K.

Item 4. ***Mine Safety Disclosures.***

Not applicable.

Executive Officers of the Registrant

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

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PART II

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

Regions common stock, par value $.01 per share, is listed for trading on the New York Stock Exchange under the symbol RF. Quarterly high and low sales prices of and cash dividends declared on Regions common stock are set forth in Table 31 Quarterly Results of Operations of Management s Discussion and Analysis , which is included in Item 7. of this Annual Report on Form 10-K. As of February 15, 2013, there were 67,117 holders of record of Regions common stock (including participants in the Computershare Investment Plan for Regions Financial Corporation).

Restrictions on the ability of Regions Bank to transfer funds to Regions at December 31, 2012, are set forth in Note 13 Regulatory Capital Requirements and Restrictions to the consolidated financial statements, which are included in Item 8. of this Annual Report on Form 10-K. A discussion of certain limitations on the ability of Regions Bank to pay dividends to Regions and the ability of Regions to pay dividends on its common stock is set forth in Item 1. Business under the heading Supervision and Regulation Payment of Dividends of this Annual Report on Form 10-K.

The following table presents information regarding issuer purchases of equity securities during the fourth quarter of 2012.

Issuer Purchases of Equity Securities

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

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

Restrictions on Dividends and Repurchase of Stock

Holders of Regions common stock are only entitled to receive such dividends as Regions Board of Directors may declare out of funds legally available for such payments. Furthermore, holders of Regions common stock are subject to the prior dividend rights of any holders of Regions preferred stock then outstanding.

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

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

On November 1, 2012, Regions completed the sale of 20 million depositary shares each representing a 1/40th ownership interest in a share of its 6.375% Non-Cumulative Perpetual Preferred Stock, Series A, par value $1.00 per share (Series A Preferred Stock), with a liquidation preference of $1,000 per share of Series A Preferred Stock (equivalent to $25 per depositary share). The terms of the Series A Preferred Stock prohibit Regions from declaring or paying any dividends on any junior series of its capital stock, including its common stock, or from repurchasing, redeeming or acquiring such junior stock, unless Regions has declared and paid full dividends on the Series A Preferred Stock for the most recently completed dividend period. The Series A Preferred Stock is redeemable at Regions option in whole or in part, from time to time, on any dividend payment date on or after December 15, 2017 or in whole, but not in part, at any time within 90 days following a regulatory capital treatment event (as defined in the certificate of designations establishing the Series A Preferred Stock).

PERFORMANCE GRAPH

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

	Cumulative Total Return					
	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012
Regions	$ 100.00	$ 36.02	$ 24.70	$ 32.87	$ 20.36	$ 33.96
S&P 500 Index	100.00	63.00	79.67	91.68	93.61	108.59
S&P Banks Index	100.00	63.33	59.07	71.54	64.39	80.17

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

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

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

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

Management believes the following points summarize several of the most relevant items necessary for an understanding of the financial aspects of Regions Financial Corporation s (Regions or the Company) business, particularly regarding its 2012 results. Cross references to more detailed information regarding each topic within Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and the consolidated financial statements are included. This summary is intended to assist in understanding the information provided, but should be read in conjunction with the entire MD&A and consolidated financial statements, as well as the other sections of this Annual Report on Form 10-K.

Capital

Regulatory Capital Regions and Regions Bank are required to comply with applicable capital adequacy standards established by the Federal Reserve. Currently, the minimum guidelines to be considered well-capitalized for Tier I capital and Total capital are 6.0 percent and 10.0 percent, respectively. At December 31, 2012, Regions Tier 1 capital and Total capital ratios were 12.00 percent and 15.38 percent respectively. In addition, the Federal Reserve and banking regulators routinely supplement their assessment of capital adequacy based on a variation of Tier 1 capital, know as Tier 1 common equity (non-GAAP). Although Federal banking regulators have not established minimum guidelines to be considered well-capitalized, the Tier 1 common equity ratio has been a key component in assessing capital adequacy under the Comprehensive Capital Analysis and Review (CCAR) process. At December 31, 2012, Regions Tier 1 common equity ratio was 10.84 percent. In November 2012, the Federal Reserve, the Federal Deposit Insurance Corp. and the Office of the Comptroller of the Currency announced the guidelines for the 2013 CCAR review, the results of which will be released in March 2013.

In addition, in 2010 the Basel Committee released Basel III, its final framework for strengthening international capital and liquidity regulations. The framework requires bank holding companies and their bank subsidiaries to maintain substantially more capital, with a greater emphasis on common equity. Subsequently, in June 2012, the Federal Reserve, the FDIC, and the Office of the Comptroller of the Currency issued proposed rules implementing the capital provisions set forth by the Basel III framework. Regions is in the process of evaluating the anticipated impact of the proposed rules for implementing Basel III, which will be phased in beginning in 2013 and is expected to be fully phased in by January 1, 2019. Based on Regions current understanding of the Basel III requirements, the Company s estimated Basel III Tier 1 common ratio (non-GAAP) as of December 31, 2012 was approximately 8.87 percent, exceeding the Basel III minimum of 7 percent for Tier I common (non-GAAP). Similarly, based on Regions current understanding of the proposed rules related to the calculation of the Liquidity Coverage Ratio (LCR) under Basel III, the Company anticipates being fully compliant upon finalization and implementation. As further clarification of the Basel III rules as well as interpretation by U.S. banking regulators is pending, the ultimate impact of Basel III on Regions is not completely known at this time. For more information, refer to the following additional sections within this Form 10-K:

2012 Overview discussion in MD&A

Table 2 GAAP to Non-GAAP reconciliation

Bank Regulatory Capital Requirements section of MD&A

Note 13 Regulatory Capital Requirements and Restrictions to the consolidated financial statements

Morgan Keegan On January 11, 2012, Regions entered into a stock purchase agreement to sell Morgan Keegan & Company, Inc. and related affiliates (Morgan Keegan) to Raymond James Financial, Inc.

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(Raymond James). The transaction, which closed on April 2, 2012, did not include Regions Investment Management Inc. (formerly known as Morgan Asset Management, Inc.) and Regions Trust. The total purchase price received by the Company was $1.2 billion. An estimated $15 million pre-tax gain on sale, which included a $256 million adjustment of liabilities to record the legal indemnification at fair value, was recorded in the second quarter of 2012 as a component of discontinued operations. Based upon the terms of the sale, additional pre-tax adjustments were made in the second half of 2012 increasing the gain by $4 million, bringing the total pre-tax gain on sale to $19 million. The transaction reduced the Company s overall risk profile, provided substantial liquidity at the holding company level, and improved key capital ratios. For more information, refer to the following additional sections within this Form 10-K:

Note 3 Discontinued Operations to the consolidated financial statements

Note 23 Commitments, Contingencies and Guarantees to the consolidated financial statements

Redemption of TARP and Warrant Repurchase In April 2012, Regions completed its repurchase of $3.5 billion of Series A Preferred Stock issued under the U.S. Treasury s Troubled Asset Relief Program s (TARP) Capital Purchase Program. In addition to fully repaying the government s investment, Regions paid a total of $592 million in dividends over a 15-quarter period. On an annual ongoing basis, the repurchase eliminated the payment of $175 million in annual dividends on these securities. The repurchase followed Regions successful completion of an $875 million common equity offering and the completion of its aforementioned sale of Morgan Keegan. In early May of 2012, Regions repurchased the warrant issued to the U.S Department of Treasury in relation to the TARP Capital Purchase Program, which provided the U.S Treasury Department the right to purchase 48.3 million common shares at $10.88 per share. Regions repurchased the warrant from the U.S. Treasury Department for $45 million. The warrant repurchase resulted in a reduction to additional paid-in capital in the second quarter but did not impact the results of operations. For more information, refer to the following additional sections within this Form 10-K:

Stockholders Equity section of MD&A

Note 14 Stockholders Equity and Accumulated Other Comprehensive Income (Loss) to the consolidated financial statements

Preferred Stock Issuance and Redemption of Trust Preferred Securities During the fourth quarter of 2012, Regions issued $500 million of 6.375% Non-Cumulative Perpetual Preferred Stock, Series A. Following a notice by the Federal Reserve of proposed rulemaking which would phase out the Tier 1 capital treatment of trust preferred securities, Regions used a portion of the proceeds from the preferred stock issuance to redeem approximately $345 million of issued and outstanding 8.875% trust preferred securities issued by Regions Financing Trust III. For more information, refer to the following additional sections within this form 10-K:

Note 2 Variable Interest Entities to the consolidated financial statements

Note 12 Long-Term Borrowings to the consolidated financial statements

Note 13 Regulatory Capital Requirements and Restrictions to the consolidated financial statements

Note 14 Stockholders Equity and Accumulated Other Comprehensive Income (Loss) to the consolidated financials

Liquidity

At the end of 2012, Regions Bank had over $3.5 billion in cash on deposit with the Federal Reserve, the loan-to-deposit ratio was 78 percent and cash and cash equivalents at the parent company totaled $857 million. Regions internal minimum cash requirement utilizes a three step process that requires the parent to hold the greater of (1) two years of corporate dividends, debt service, and maturities by utilizing cash on hand, and the next four quarters expected dividend capacity from Regions Bank, (2) enough cash on hand with no upstream dividend capacity from Regions

Bank to meet corporate dividends, debt service payments and maturities for the next 12 months or (3) a minimum balance of $500 million. At December 31, 2012, the Company s borrowing capacity with the Federal Reserve Discount Window was $19.6 billion based on available collateral. Borrowing capacity with the Federal Home Loan Bank (FHLB) was $6.7 billion based on available collateral at the same date. Additionally, the Company has $14.4 billion of unencumbered liquid securities available for pledging or repurchase agreements. The Board of Directors has also approved a bank note program which would allow Regions Bank to issue up to $20 billion in aggregate principal amount of bank notes outstanding at any one time. As of December 31, 2012, no issues have been made under this program. In addition, during the course of 2012 Regions received favorable results from the four major credit rating agencies. In the first half of 2012, Standard & Poor s (S&P) upgraded the credit ratings for each of the obligations of both Regions and Regions Bank and Dominion Bond Rating Service (DBRS) revised its outlook for Regions from negative to positive. In the latter half of 2012, Moody s upgraded the long-term ratings of Regions and Regions Bank from Ba3 to Ba1 and from Ba2 to Baa3, respectively, and Fitch Ratings (Fitch) revised its outlook for Regions from stable to positive. For more information, refer to the following additional sections within this Form 10-K:

- Discussion of Short-Term Borrowings within the Balance Sheet Analysis section of MD&A
- Discussion of Long-Term Borrowings within the Balance Sheet Analysis section of MD&A
- Ratings section of MD&A
- Bank Regulatory Capital Requirements section of MD&A
- Liquidity Risk section of MD&A
- Note 11 Short-Term Borrowings to the consolidated financial statements
- Note 12 Long-Term Borrowings to the consolidated financial statements

Credit

The economy has been and will be the primary factor which influences Regions loan portfolio. Throughout 2012 the economy continued to work through structural headwinds including commercial and consumer deleveraging, high unemployment, a weak housing market, and fiscal uncertainty at the local, state and national levels. In spite of the slow and uneven pace of the economic recovery, Regions experienced significant improvement in credit quality in both 2011 and 2012. Regions investor real estate loan portfolio, which includes credit to real estate developers and investors for the financing of land or buildings, declined 28 percent in 2012 and totaled $7.7 billion as of December 31, 2012. In addition, the land, single-family and condominium components of the investor real estate portfolio, which have been the Company s most distressed loans, declined 33 percent and ended the year at $1.2 billion. The reduction in investor real estate over the past few years has aided in a 42 percent decline in total gross inflows of non-performing loans in 2012. In addition, commercial and investor real estate criticized and classified loans, which are the Company s earliest indicator of problem loans, declined 29 percent, and non-performing assets decreased 36 percent during 2012. These favorable trends contributed to a 47 percent decline in net charge-offs and an 86 percent decrease in the 2012 loan loss provision. The allowance for loan losses to total loans decreased to 2.59 percent as of December 31, 2012 from 3.54 percent as of December 31, 2011 and the coverage ratio of allowance for loan losses to non-performing loans was 1.14x as of December 31, 2012, compared to 1.16x as of December 31, 2011. For more information, refer to the following additional sections within this Form 10-K:

- 2012 Overview discussion in MD&A

Discussion of Allowance for Credit Losses within the Critical Accounting Policies and Estimates section of MD&A

Loans and Allowance for Credit Losses discussion within the Balance Sheet Analysis section of MD&A

Credit Risk section of MD&A

Note 6 Allowance for Credit Losses to the consolidated financial statements

Net Interest Income, Margin and Interest Rate Risk

In 2012, the net interest margin from continuing operations expanded to 3.11 percent from 3.07 percent in 2011, largely due to a mix shift from time deposits to lower cost deposit products, resulting in deposit costs decreasing to 0.30 percent in 2012 from 0.49 percent in 2011. Taxable-equivalent net interest income decreased $95 million to $3.4 billion in 2012, due primarily to a reduction in average earning assets from $112.2 billion in 2011 to $107.8 billion in 2012. Despite the continued improvements in deposit costs and mix, the margin and net interest income continue to be negatively affected by a sustained low interest rate, low growth environment. Reductions in average loans contributed to the decline in average earning assets and net interest income, partially offset by an increase in average securities from $24.6 billion in 2011 to $26.7 billion in 2012. The Company s securities yield declined 53 basis points driven by higher prepayments in the residential mortgage-backed securities portfolio and reinvestment of proceeds into lower yielding securities. Loan yields, however, remained relatively stable at 4.24 percent as the Company began to see the benefits from migrating toward more consumer products, such as expanding indirect auto lending and re-entering credit cards, as well as reductions in the Company s level of non-accrual loans. If current economic conditions persist into 2013, growing net interest income and the resulting net interest margin will continue to be challenging. However, management believes opportunities exist to maintain a relatively stable margin through further reducing deposit costs and additional liability management actions. Regions balance sheet is in a moderately asset sensitive position such that if economic conditions were to improve more rapidly, thereby resulting in a rise in interest rates, the net interest margin would likely respond favorably. For more information, refer to the following additional sections within this Form 10-K:

2012 Overview discussion in MD&A

Net Interest Income and Margin section of MD&A

Interest Rate Risk section of MD&A

GENERAL

The following discussion and financial information is presented to aid in understanding Regions financial position and results of operations. The emphasis of this discussion will be on continuing operations for the years 2012, 2011 and 2010; in addition, financial information for prior years will also be presented when appropriate. Certain amounts in prior year presentations have been reclassified to conform to the current year presentation, except as otherwise noted.

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

Economic conditions, competition, new legislation and related rules impacting regulation of the financial services industry and the monetary and fiscal policies of the Federal government significantly affect financial

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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.

Dispositions

On January 11, 2012, Regions entered into a stock purchase agreement to sell Morgan Keegan and related affiliates to Raymond James. The sale closed on April 2, 2012. Regions Investment Management, Inc. (formerly known as Morgan Asset Management, Inc.) and Regions Trust were not included in the sale; they are included in the Wealth Management segment.

Results of operations for the entities sold are presented separately as discontinued operations for all periods presented on the consolidated statements of operations. Other expenses related to the transaction are also included in discontinued operations. Refer to Note 3 Discontinued Operations and Note 23 Commitments, Contingencies, and Guarantees for further details.

Business Segments

Regions provides traditional commercial, retail and mortgage banking services, as well as other financial services in the fields of asset management, trust, insurance and other specialty financing. Regions carries out its strategies and derives its profitability from the three reportable business segments: Business Services, Consumer Services, and Wealth Management, with the remainder split between Discontinued Operations and Other. During the third quarter of 2012, Regions reorganized its internal management structure and, accordingly, its segment reporting structure. Historically, Regions primary business segment was Banking/Treasury, representing the Company s banking network (including the Consumer & Commercial Banking function along with the Treasury function). Other segments included Investment Banking/Brokerage/Trust and Insurance. During the second quarter of 2012, Regions consummated the sale of Morgan Keegan (the primary component of Investment Banking/Brokerage/Trust). Shortly thereafter, Regions announced organizational changes to better integrate and execute the Company s strategic priorities across all lines of business and geographies. As a result, Regions revised its reportable segments.

Business Services

The Business Services segment represents the Company s commercial banking functions including commercial and industrial, commercial real estate and investor real estate lending. This segment also includes equipment lease financing. Business Services customers include corporate, middle market, small business and commercial real estate developers and investors. Corresponding deposit products related to these types of customers are included in this segment. In 2012, the Business Services reportable segment contributed $631 million of net income.

Consumer Services

The Consumer Services segment represents the Company s branch network, including consumer banking products and services related to residential first mortgages, home equity lines and loans, indirect loans, consumer credit cards and other consumer loans, as well as the corresponding deposit relationships. These services are also provided through alternative channels such as the internet and telephone banking. In 2012, the Consumer Services reportable segment contributed $420 million of net income.

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Wealth Management

The Wealth Management segment includes wealth management products and services such as trust activities, commercial insurance and credit related products, and investment management. Wealth Management customers include individuals and institutional clients who desire services that include investment advice, assistance in managing assets, and estate planning. Wealth Management activities contributed $69 million of net income in 2012.

See Note 22 Business Segment Information to the consolidated financial statements for further information on Regions business segments.

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Table 1 Financial Highlights

	2012	2011	2010	2009	2008
	(In millions, except per share data)				
EARNINGS SUMMARY					
Interest income	$ 3,903	$ 4,252	$ 4,637	$ 5,277	$ 6,465
Interest expense	603	842	1,248	1,984	2,677
Net interest income	3,300	3,410	3,389	3,293	3,788
Provision for loan losses	213	1,530	2,863	3,541	2,057
Net interest income (loss) after provision for loan losses	3,087	1,880	526	(248)	1,731
Non-interest income	2,100	2,143	2,489	2,765	2,132
Non-interest expense	3,526	3,862	3,859	3,785	9,895
Income (loss) from continuing operations before income taxes	1,661	161	(844)	(1,268)	(6,032)
Income tax expense (benefit)	482	(28)	(376)	(194)	(383)
Income (loss) from continuing operations	1,179	189	(468)	(1,074)	(5,649)
Income (loss) from discontinued operations before income taxes	(99)	(408)	(41)	66	81
Income tax expense (benefit)	(40)	(4)	30	23	28
Income (loss) from discontinued operations, net of tax	(59)	(404)	(71)	43	53
Net income (loss)	$ 1,120	$ (215)	$ (539)	$ (1,031)	$ (5,596)
Income (loss) from continuing operations available to common shareholders	$ 1,050	$ (25)	$ (692)	$ (1,304)	$ (5,675)
Net income (loss) available to common shareholders	$ 991	$ (429)	$ (763)	$ (1,261)	$ (5,622)
Earnings (loss) per common share from continuing operations basic	$ 0.76	$ (0.02)	$ (0.56)	$ (1.32)	$ (8.17)
Earnings (loss) per common share from continuing operations diluted	0.76	(0.02)	(0.56)	(1.32)	(8.17)
Earnings (loss) per common share basic	0.72	(0.34)	(0.62)	(1.27)	(8.09)
Earnings (loss) per common share diluted	0.71	(0.34)	(0.62)	(1.27)	(8.09)
Return on average tangible common stockholders equity (non-GAAP) (1)	10.69%	(5.51)%	(9.29)%	(14.92)%	(71.29)%
Return on average assets from continuing operations (GAAP)	0.86	(0.02)	(0.52)	(0.93)	(4.04)
BALANCE SHEET SUMMARY					
At year-end Consolidated					
Loans, net of unearned income	$ 73,995	$ 77,594	$ 82,864	$ 90,674	$ 97,419
Allowance for loan losses	(1,919)	(2,745)	(3,185)	(3,114)	(1,826)
Assets	121,347	127,050	132,351	142,318	146,248
Deposits	95,474	95,627	94,614	98,680	90,904
Long-term debt	5,861	8,110	13,190	18,464	19,231
Stockholders equity	15,499	16,499	16,734	17,881	16,813
Average balances Continuing Operations					
Loans, net of unearned income	$ 76,035	$ 80,673	$ 86,660	$ 94,523	$ 97,601
Assets	122,182	126,719	132,720	139,468	140,455
Deposits	95,330	95,671	96,489	94,612	90,077
Long-term debt	6,694	11,240	15,489	18,501	13,422
Stockholders equity	15,035	15,350	15,916	16,224	18,514
SELECTED RATIOS					
Allowance for loan losses as a percentage of loans, net of unearned income	2.59%	3.54%	3.84%	3.43%	1.87%
Tier 1 capital	12.00	13.28	12.40	11.54	10.38
Tier 1 common risk-based ratio (non-GAAP) (1)	10.84	8.51	7.85	7.15	6.57

Total risk-based capital	15.38	16.99	16.35	15.78	14.64
Leverage	9.65	9.91	9.30	8.90	8.47
Tangible common stockholders equity to tangible assets (non-GAAP) (1)	8.63	6.58	6.04	6.22	5.43
Efficiency ratio (non-GAAP) (1)	64.42	64.56	67.74	67.88	60.67
COMMON STOCK DATA					
Cash dividends declared per common share	$ 0.04	$ 0.04	$ 0.04	$ 0.13	$ 0.96
Stockholders common equity per share	10.63	10.39	10.63	11.97	19.53
Tangible common book value per share (non-GAAP) (1)	7.11	6.37	6.09	7.11	11.03
Market value at year-end	7.13	4.30	7.00	5.29	7.96
Market price range: (2)					
High	7.73	8.09	9.33	9.07	25.84
Low	4.21	2.82	5.12	2.35	6.41
Total trading volume	5,282	5,204	6,381	8,747	3,411
Dividend payout ratio	5.63	NM	NM	NM	NM
Shareholders of record at year-end (actual)	67,574	73,659	76,996	81,166	83,600
Weighted-average number of common shares outstanding					
Basic	1,381	1,258	1,227	989	695
Diluted	1,387	1,258	1,227	989	695

NM Not meaningful
(1) See Table 2 for GAAP to non-GAAP reconciliations.
(2) High and low market prices are based on intraday sales prices.

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2012 OVERVIEW

Regions reported net income available to common shareholders of $991 million or $0.71 per diluted common share in 2012. Credit-related costs, primarily the loan loss provision, declined significantly in 2012 as a result of improvements in the credit environment. Average low-cost deposits grew 7 percent leading to a decline in both 2012 s total deposit and funding costs.

Net interest income from continuing operations remained stable at $3.3 billion in 2012. The net interest margin from continuing operations (taxable- equivalent basis) was 3.11 percent in 2012, compared to 3.07 percent during 2011, primarily due to a reduction in average earning assets. Net interest income was driven primarily by a decrease of 23 basis points in the cost of interest-bearing liabilities, while being partially offset by a 15 basis point decline in the overall yield on interest earning assets. This dynamic reflected efforts to improve deposit costs and pricing on loans, while managing the challenges posed by a low interest rate environment. Long-term interest rates in particular remained low in 2012, pressuring yields on fixed-rate loan and securities portfolios, and contributed to the decline in the yield on taxable securities from 3.08 percent in 2011 to 2.55 percent in 2012. The overall costs of deposits improved from 0.49 percent in 2011 to 0.30 percent in 2012, as short-term interest rates (for example, the Federal Funds rate) remained at historical lows. The product mix of deposits improved as well, as declines in higher cost certificates of deposits accompanied increases in low cost checking and savings products.

If current economic conditions persist into 2013, growing net interest income and the resulting net interest margin will be challenging. However, management believes opportunities exist to stabilize the margin through further reducing deposit costs and additional liability management actions. Regions balance sheet is in a moderately asset sensitive position such that if economic conditions were to improve more rapidly, thereby resulting in a rise in interest rates, the net interest margin would likely respond favorably.

Net charge-offs totaled $1.0 billion, or 1.37 percent of average loans in 2012 compared to $2.0 billion, or 2.44 percent of average loans in 2011. Net charge-offs were lower across most major categories when comparing 2012 to the prior year. Non-performing assets decreased $1.1 billion to $1.9 billion at December 31, 2012.

The provision for loan losses is used to maintain the allowance for loan losses at a level that, in management s judgment, is appropriate to cover losses inherent in the loan portfolio as of the balance sheet date. During 2012, the provision for loan losses decreased to $213 million compared to $1.5 billion in 2011. The allowance for loan losses was $1.9 billion, or 2.59 percent of loans, at December 31, 2012 as compared to $2.7 billion, or 3.54 percent of loans, at December 31, 2011. Net charge-offs exceeded provision for loan losses for 2012 due to improving credit metrics, including lower non-accrual, criticized and classified loan balances, and delinquencies, as well as a decline in overall loan balances.

Non-interest income from continuing operations decreased $43 million to $2.1 billion in 2012 compared to 2011. The year-over-year decrease was due primarily to lower securities gains and service charges, partially offset by increased mortgage income and investment fee income. See Table 5 Non-Interest Income for further details.

Non-interest expense from continuing operations totaled $3.5 billion and $3.9 billion in 2012 and 2011, respectively. Non-interest expense included a $253 million goodwill impairment charge in 2011. The 2012 period included an increase in salaries and employee benefits due to higher pension costs, annual merit increases and incentive increases, including mortgage-related incentives, lower occupancy expense and lower credit-related costs. See Table 6, Non-Interest Expense from Continuing Operations for further details.

Total loans decreased by $3.6 billion, or 4.6 percent in 2012, driven primarily by a continued run-off of balances related to investor real estate. Decreases in residential first mortgage and home equity loans also contributed to the year-over-year decrease primarily resulting from consumers decisions to de-leverage. These decreases were partially offset by growth in the commercial and industrial category and record growth in indirect loans. Total deposits decreased $153 million in 2012 to $95.5 billion at December 31, 2012, and low-cost customer deposits increased $5.8 billion, or 7.6 percent, in 2012.

Regions Tier 1 common (non-GAAP) ratio was 10.84 percent at December 31, 2012. The corresponding Basel III Tier 1 common ratio (non-GAAP), based on Regions current understanding of the guidelines, was approximately 8.87 percent, which exceeds the Basel III minimum of 7.0 percent (see Table 2, GAAP to Non-GAAP Reconciliation for a reconciliation of the non-GAAP measures to the corresponding GAAP or regulatory measure).

Table 2 GAAP to Non-GAAP Reconciliation presents computations of earnings (loss) and certain other financial measures, which exclude certain significant items that are included in financial results presented in accordance with generally accepted accounting principles (GAAP). These non-GAAP financial measures include fee income ratio , efficiency ratio , return on average assets from continuing operations , return on average tangible common stockholders equity , end of period and average tangible common stockholders equity , Tier 1 common equity , and Basel III Tier 1 common equity and related ratios. Regions believes that the exclusion of these significant items in expressing earnings and certain other financial measures provides a meaningful base for period-to-period comparisons, which management believes will assist investors in analyzing the operating results of the Company and predicting future performance. These non-GAAP financial measures are also used by management to assess the performance of Regions business because management does not consider these charges to be as relevant to ongoing operating results. Management and the Board of Directors utilize these non-GAAP financial measures as follows:

- Preparation of Regions operating budgets
- Monthly financial performance reporting
- Monthly close-out reporting of consolidated results (management only)
- Presentations to investors of Company performance

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

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

Tier 1 common equity is often expressed as a percentage of risk-weighted assets. Under the risk-based capital framework, a bank s balance sheet assets and credit equivalent amounts of off-balance sheet items are assigned to one of four broad risk categories. The aggregated dollar amount in each category is then multiplied by the risk weighting assigned to that category. The resulting weighted values from each of the four categories are added together and this sum is the risk-weighted assets total that, as adjusted, comprises the denominator of certain risk-based capital ratios. Tier 1 capital is then divided by this denominator (risk-weighted assets) to determine the Tier 1 capital ratio. Adjustments are made to Tier 1 capital to arrive at Tier 1 common equity (non-GAAP). Tier 1 common equity is also divided by the risk-weighted assets to determine the Tier 1 common equity ratio. The amounts disclosed as risk-weighted assets are calculated consistent with banking regulatory requirements.

Regions currently calculates its risk-based capital ratios under guidelines adopted by the Federal Reserve based on the 1988 Capital Accord (Basel I) of the Basel Committee on Banking Supervision (the Basel Committee). In December 2010, the Basel Committee released its final framework for Basel III, which will strengthen international capital and liquidity regulations. When implemented by U.S. bank regulatory agencies and fully phased-in, Basel III will change capital requirements and place greater emphasis on common equity. The Federal Reserve has announced a delay in the implementation date of the final rules. However, when implemented there will be a phase in period of up to 6 years. The U.S. bank regulatory agencies have not yet finalized regulations governing the implementation of Basel III. Accordingly, the calculations provided below are estimates, based on Regions current understanding of the framework, including the Company s reading of the original requirements, as well as the U.S. Notices of Proposed Rulemaking (NPR) released in June 2012, and informal feedback received through the regulatory process. Regions understanding of the framework is evolving and will likely change as the regulations are finalized. The NPR comment period ended in October 2012; changes to the calculation resulting from the comment process could result in materially different capital ratios from the amounts estimated. Because the Basel III implementation regulations are not formally defined by GAAP and have not yet been finalized and codified, these measures are considered to be non-GAAP financial measures, and other entities may calculate them differently from Regions disclosed calculations. Since analysts and banking regulators may assess Regions capital adequacy using the Basel III framework, Regions believes that it is useful to provide investors information enabling them to assess Regions capital adequacy on the same basis.

Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied and are not audited. Although these non-GAAP financial measures are frequently used by stakeholders in the evaluation of a company, they have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analyses of results as reported under GAAP. In particular, a measure of earnings that excludes selected items does not represent the amount that effectively accrues directly to stockholders (i.e., REIT investment early termination costs, merger-related charges, goodwill impairment and regulatory charge and related tax benefit are a reduction to earnings and stockholders equity).

The following tables provide: 1) a reconciliation of net income (loss) (GAAP) to income (loss) available to common shareholders (GAAP), 2) a reconciliation of net income (loss) available to common shareholders (GAAP) to income (loss) from continuing operations available to common shareholders (GAAP), 3) a

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reconciliation of income (loss) available to common shareholders (GAAP) to adjusted income (loss) available to common shareholders (non-GAAP), 4) a reconciliation of income (loss) from continuing operations available to common shareholders (GAAP) to adjusted income (loss) from continuing operations available to common shareholders (non-GAAP), 5) a reconciliation of non-interest expense from continuing operations (GAAP) to adjusted non-interest expense (non-GAAP), 6) a reconciliation of non-interest income from continuing operations (GAAP) to adjusted non-interest income (non-GAAP), 7) a computation of adjusted total revenue (non-GAAP), 8) a computation of the fee income ratio (non-GAAP), 9) a computation of the efficiency ratio (non-GAAP), 10) a computation of return on average assets from continuing operations (GAAP) and adjusted return on average assets from continuing operations (non-GAAP), 11) a reconciliation of average and ending stockholders equity (GAAP) to average and ending tangible common stockholders equity (non-GAAP) and calculations of related ratios and adjusted ratios (non-GAAP), 12) a reconciliation of stockholders equity (GAAP) to Tier 1 capital (regulatory) and to Tier 1 common equity (non-GAAP) and calculations of related ratios, and 13) a reconciliation of stockholders equity (GAAP) to Basel III Tier 1 common equity (non-GAAP) and calculation of the related ratio based on Regions current understanding of the Basel III requirements as proposed by the U.S. Notices of Proposed Rulemaking released in June 2012.

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Table 2 GAAP to Non-GAAP Reconciliation

		For Year Ended December 31				
		2012	2011	2010	2009	2008
		(In millions, except per share data)				
INCOME (LOSS)						
Net income (loss) (GAAP)		$ 1,120	$ (215)	$ (539)	$ (1,031)	$ (5,596)
Preferred dividends and accretion (GAAP)		(129)	(214)	(224)	(230)	(26)
Net income (loss) available to common shareholders (GAAP)	A	991	(429)	(763)	(1,261)	(5,622)
Income (loss) from discontinued operations, net of tax (GAAP)		(59)	(404)	(71)	43	53
Income (loss) from continuing operations available to common shareholders (GAAP)	B	$ 1,050	$ (25)	$ (692)	$ (1,304)	$ (5,675)
Income (loss) available to common shareholders (GAAP)		$ 991	$ (429)	$ (763)	$ (1,261)	$ (5,622)
Merger-related charges, pre-tax:						
Salaries and employee benefits						134
Net occupancy expense						4
Furniture and equipment expense						5
Other						58
Total merger-related charges, pre-tax						201
Merger-related charges, net of tax						125
Goodwill impairment			731			6,000
Regulatory charge and related income tax benefit [1]			(44)	200		
REIT investment early termination costs, net of tax [3]		38				
Adjusted income (loss) available to common shareholders (non-GAAP)	C	$ 1,029	$ 258	$ (563)	$ (1,261)	$ 503
Income (loss) from continuing operations available to common shareholders (GAAP)		$ 1,050	$ (25)	$ (692)	$ (1,304)	$ (5,675)
Merger-related charges, net of tax						125
Goodwill impairment			253			6,000
Regulatory charge and related income tax benefit [1]			(17)	75		
REIT investment early termination costs, net of tax [3]		38				
Adjusted income (loss) from continuing operations available to common shareholders (non-GAAP)	D	$ 1,088	$ 211	$ (617)	$ (1,304)	$ 450
EFFICIENCY AND FEE INCOME RATIOS						
Non-interest expense from continuing operations (GAAP)		$ 3,526	$ 3,862	$ 3,859	$ 3,785	$ 9,895
Significant Items:						
Merger-related charges						(201)
Goodwill impairment			(253)			(6,000)
Regulatory charge				(75)		
Mortgage servicing rights impairment						(85)
Loss on extinguishment of debt		(11)		(108)		(66)
FDIC special assessment					(64)	
Securities impairment, net		(2)	(2)	(2)	(75)	(23)
Branch consolidation and property and equipment charges			(75)	(8)	(53)	
REIT investment early termination costs [3]		(42)				
Adjusted non-interest expense (non-GAAP)	E	$ 3,471	$ 3,532	$ 3,666	$ 3,593	$ 3,520
Net interest income from continuing operations (GAAP)		$ 3,300	$ 3,410	$ 3,389	$ 3,293	$ 3,788
Taxable-equivalent adjustment		50	35	32	32	37

Net interest income from continuing operations, taxable-equivalent basis		3,350	3,445	3,421	3,325	3,825
Non-interest income from continuing operations (GAAP)		2,100	2,143	2,489	2,765	2,132
Significant Items:						
Securities gains, net		(48)	(112)	(394)	(69)	(92)
Leveraged lease termination gains, net		(14)	(8)	(78)	(587)	
Visa-related gains					(80)	(63)
Gain on early extinguishment of debt					(61)	
Loss (gain) on sale of mortgage loans			3	(26)		
Adjusted non-interest income (non-GAAP)	F	2,038	2,026	1,991	1,968	1,977
Adjusted total revenue (non-GAAP)	G	$ 5,388	$ 5,471	$ 5,412	$ 5,293	$ 5,802
Fee income ratio (non-GAAP)	F/G	37.82%	37.03%	36.79%	37.18%	34.07%
Efficiency ratio (non-GAAP)	E/G	64.42%	64.56%	67.74%	67.88%	60.67%

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		For Year Ended December 31				
		2012	2011	2010	2009	2008
		(In millions, except per share data)				
RETURN ON AVERAGE ASSETS						
Average assets (GAAP) continuing operations[2]	H	$ 122,182	$ 126,719	$ 132,720	$ 139,468	$ 140,455
Return on average assets from continuing operations (GAAP)	B/H	0.86%	(0.02)%	(0.52)%	(0.93)%	(4.04)%
Adjusted return on average assets from continuing operations (non-GAAP)	D/H	0.89%	0.17%	(0.46)%	(0.93)%	0.32%
RETURN ON AVERAGE TANGIBLE COMMON STOCKHOLDERS EQUITY						
Average stockholders equity (GAAP)		$ 15,246	$ 16,927	$ 17,444	$ 17,773	$ 19,939
Less: Average intangible assets (GAAP)		5,210	5,965	6,003	6,122	11,949
Average deferred tax liability related to intangibles (GAAP)		(195)	(220)	(255)	(286)	(321)
Average preferred equity (GAAP)		960	3,398	3,479	3,487	425
Average tangible common stockholders equity (non-GAAP)	I	$ 9,271	$ 7,784	$ 8,217	$ 8,450	$ 7,886
Return on average tangible common equity (non-GAAP)	A/I	10.69%	(5.51)%	(9.29)%	(14.92)%	(71.29)%
Adjusted return on average tangible common equity (non-GAAP)	C/I	11.10%	3.31%	(6.85)%	(14.92)%	6.38%
TANGIBLE COMMON RATIOS						
Stockholders equity (GAAP)		$ 15,499	$ 16,499	$ 16,734	$ 17,881	$ 16,813
Less: Intangible assets (GAAP)		5,161	5,265	5,946	6,060	6,186
Deferred tax liability related to intangibles (GAAP)		(191)	(200)	(240)	(269)	(303)
Preferred equity (GAAP)		482	3,419	3,380	3,602	3,307
Tangible common stockholders equity (non-GAAP)	J	$ 10,047	$ 8,015	$ 7,648	$ 8,488	$ 7,623
Total assets (GAAP)		121,347	127,050	132,351	142,318	146,248
Less: Intangible assets (GAAP)		5,161	5,265	5,946	6,060	6,186
Deferred tax liability related to intangibles (GAAP)		(191)	(200)	(240)	(269)	(303)
Tangible assets (non-GAAP)	K	$ 116,377	$ 121,985	$ 126,645	$ 136,527	$ 140,365
End of period shares outstanding	L	1,413	1,259	1,256	1,193	691
Tangible common stockholders equity to tangible assets (non-GAAP)	J/K	8.63%	6.58%	6.04%	6.22%	5.43%
Tangible common book value per share (non-GAAP)	J/L	$ 7.11	$ 6.37	$ 6.09	$ 7.11	$ 11.03

		For Year Ended December 31				
		2012	2011	2010	2009	2008
		(In millions, except per share data)				
TIER 1 COMMON RISK-BASED RATIO						
Stockholders equity (GAAP)		$ 15,499	$ 16,499	$ 16,734	$ 17,881	$ 16,813
Accumulated other comprehensive (income) loss		(65)	69	260	(130)	8
Non-qualifying goodwill and intangibles		(4,826)	(4,900)	(5,706)	(5,792)	(5,864)
Disallowed deferred tax assets (4)		(35)	(432)	(424)	(947)	
Disallowed servicing assets		(33)	(35)	(27)	(25)	(16)
Qualifying non-controlling interests		93	92	92	91	91
Qualifying trust preferred securities		501	846	846	846	1,036
Tier 1 capital (regulatory)		11,134	12,139	11,775	11,924	12,068
Qualifying non-controlling interests		(93)	(92)	(92)	(91)	(91)
Qualifying trust preferred securities		(501)	(846)	(846)	(846)	(1,036)
Preferred stock		(482)	(3,419)	(3,380)	(3,602)	(3,307)
Tier 1 common equity (non-GAAP)	M	$ 10,058	$ 7,782	$ 7,457	$ 7,385	$ 7,634
Risk-weighted assets (regulatory)	N	$ 92,811	$ 91,449	$ 94,966	$ 103,330	$ 116,251
Tier 1 common risk-based ratio (non-GAAP)	M/N	10.84%	8.51%	7.85%	7.15%	6.57%
BASEL III TIER 1 COMMON RATIO (6)						
Stockholders equity (GAAP)		$ 15,499				
Non-qualifying goodwill and intangibles (5)		(4,968)				
Adjustments, including other comprehensive income related to cash flow hedges, disallowed deferred tax assets, threshold deductions and other adjustments		(780)				
Basel III tier 1 common equity (non-GAAP)	O	9,751				
Basel I risk-weighted assets (regulatory)		92,811				
Basel III risk-weighted assets (non-GAAP) (7)	P	109,941				
Basel III tier 1 common ratio (non-GAAP)	O/P	8.87%				

(1) In the second quarter of 2010, Regions recorded a $200 million charge to account for a probable, reasonably estimable loss related to a pending settlement of regulatory matters. At that time, Regions assumed that the entire charge would be non-deductible for income tax purposes. $75 million of the regulatory charge relates to continuing operations. The regulatory settlement was finalized in the second quarter of 2011. At the time of the settlement, Regions had better information related to the income tax implications. $125 million of the approximately $200 million settlement charge was deductible for federal income tax purposes. Accordingly, during the second quarter of 2011, Regions adjusted income tax expense to account for the impact of the deduction. The adjustment reduced total income tax expense by approximately $44 million for the second quarter of 2011, of which approximately $17 million relates to continuing operations.

(2) Return on assets from continuing operations does not include average assets related to discontinued operations of $713 million, $3,254 million, $3,235 million, $3,291 million and $3,492 million for December 31, 2012, 2011, 2010, 2009 and 2008, respectively.

(3) In the fourth quarter of 2012, Regions entered into an agreement with a third party investor in Regions Asset Management Company, Inc., pursuant to which the investment was fully redeemed. This resulted in extinguishing a $203 million liability, including accrued, unpaid interest, as well as incurring early termination costs of approximately $42 million on a pre-tax basis ($38 million after tax).

(4) Taxable income from the two previous tax years and one year of projected future taxable income may be applied in calculating deferred tax assets for regulatory capital purposes.

(5) Under Basel III, regulatory capital must be reduced by purchased credit card relationship intangible assets. These assets are partially allowed in Basel I capital.

(6) Estimate based on June 2012 U.S. Notices of Proposed Rulemaking.

(7) Regions continues to develop systems and internal controls to precisely calculate risk-weighted assets as required by Basel III. The amount included above is a reasonable approximation, based on our understanding of the requirements.

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Allowance for Credit Losses

The allowance for credit losses (allowance) consists of the allowance for loan losses and the reserve for unfunded credit commitments. These two components reflect management s judgment of probable credit losses inherent in the portfolio and unfunded credit commitments at the balance sheet date. A full discussion of these estimates and other factors is included in the Allowance for Credit Losses section within the discussion of Credit Risk , found in a later section of this report, Note 1 Summary of Significant Accounting Policies , and Note 6 Allowance for Credit Losses to the consolidated financial statements.

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

Management s estimate of the allowance for the commercial and investor real estate portfolio segments could be affected by estimates of losses inherent in various product types as a result of fluctuations in the general economy, developments within a particular industry, or changes in an individual s credit due to factors particular to that credit, such as competition, management or business performance. For non-accrual commercial and investor real estate loans equal to or greater than $2.5 million, the allowance for loan losses is based on specific evaluation considering the facts and circumstances specific to each borrower. For all other commercial and investor real estate loans, the allowance for loan losses is based on statistical models using a probability of default (PD) and a loss given default (LGD). Historical default information for similar loans is used as an input for the statistical model. A 5 percent increase in the PD for non-defaulted accounts and a 5 percent increase in the LGD for all accounts would result in an increase to estimated losses of approximately $85 million.

For residential real estate mortgages, home equity lending and other consumer-related loans, individual products are reviewed on a group basis or in loan pools (e.g., residential real estate mortgage pools). Losses can be affected by such factors as collateral value, loss severity, the economy and other uncontrollable factors. A 5 percent increase or decrease in the estimated loss rates on these loans would change estimated inherent losses by approximately $28 million.

Additionally, the estimate of the allowance for the entire portfolio may change due to modifications in the mix and level of loan balances outstanding and general economic conditions, as evidenced by changes in real estate demand and values, interest rates, unemployment rates, bankruptcy filings, fluctuations in the gross domestic product, and the effects of weather and natural disasters such as droughts and hurricanes. Each has the ability to result in actual loan losses that could differ from originally estimated amounts.

The pro forma inherent loss analysis presented above demonstrates the sensitivity of the allowance to key assumptions. This sensitivity analysis does not reflect an expected outcome. For additional information regarding the allowance for credit losses calculation, see Note 1 Summary of Significant Accounting Policies and Note 6 Allowance For Credit Losses to the consolidated financial statements.

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Fair Value Measurements

A portion of the Company s assets and liabilities is carried at fair value, with changes in fair value recorded either in earnings or accumulated other comprehensive income (loss). These include trading account assets and liabilities, securities available for sale, mortgage loans held for sale, mortgage servicing rights and derivative assets and liabilities. From time to time, the estimation of fair value also affects other loans held for sale, which are recorded at the lower of cost or fair value. Fair value determination is also relevant for certain other assets such as foreclosed property and other real estate, which are recorded at the lower of the recorded investment in the loan/property or fair value, less estimated costs to sell the property. For example, the fair value of other real estate is determined based on recent appraisals by third parties and other market information, less estimated selling costs. Adjustments to the appraised value are made if management becomes aware of changes in the fair value of specific properties or property types. The determination of fair value also impacts certain other assets that are periodically evaluated for impairment using fair value estimates, including goodwill and other identifiable intangible assets.

Fair value is generally defined 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), in an orderly transaction between market participants at the measurement date under current market conditions. While management uses judgment when determining the price at which willing market participants would transact when there has been a significant decrease in the volume or level of activity for the asset or liability in relation to normal market activity, management s objective is to determine the point within the range of fair value estimates that is most representative of a sale to a third-party investor under current market conditions. The value to the Company if the asset or liability were held to maturity is not included in the fair value estimates.

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. Fair value is measured based on a variety of inputs the Company utilizes. Fair value may be based on quoted market prices for identical assets or liabilities traded in active markets (Level 1 valuations). If market prices are not available, 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 are used (Level 2 valuations). Where observable market data is not available, the valuation is generated from model-based techniques that use significant assumptions not observable in the market, but observable based on Company-specific data (Level 3 valuations). These unobservable assumptions reflect the Company s own estimates for assumptions that market participants would use in pricing the asset or liability. Valuation techniques typically include option pricing models, discounted cash flow models and similar techniques, but may also include the use of market prices of assets or liabilities that are not directly comparable to the subject asset or liability.

See Note 1 Summary of Significant Accounting Policies to the consolidated financial statements for a detailed discussion of determining fair value, including pricing validation processes.

Intangible Assets

Regions intangible assets consist primarily of the excess of cost over the fair value of net assets of acquired businesses (goodwill) and other identifiable intangible assets (primarily core deposit intangibles and purchased credit card relationships). Goodwill totaled $4.8 billion at December 31, 2012 and December 31, 2011 and is allocated to each of Regions reportable segments (each a reporting unit), at which level goodwill is tested for impairment on an annual basis as of October 1 or more often if events and circumstances indicate impairment may exist (refer to Note 1 Summary of Significant Accounting Policies to the consolidated financial statements for further discussion of when Regions tests goodwill for impairment). As further discussed in Note 22 Business Segment Information , Regions reorganized its management reporting structure during the third quarter of 2012 and, accordingly, its segment reporting structure and goodwill reporting units. In connection with the reorganization, management reallocated goodwill to the new reporting units using a relative fair value approach.

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

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

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

	Business Services	**Consumer Services**	**Wealth Management**
Discount Rate:			
4th Quarter	14%	13%	13%
3rd Quarter	14%	13%	12%

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

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

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

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

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Refer to the discussion of intangible assets in Note 1 Summary of Significant Accounting Policies to the consolidated financial statements for a discussion of these approaches and Note 9 Intangible Assets for a discussion of the assumptions. The fair values of assets and liabilities are determined using an exit price concept. Refer to Note 1 Summary of Significant Accounting Policies to the consolidated financial statements for discussions of the exit price concept and the determination of fair values of financial assets and liabilities.

Throughout 2009 and 2010 in the former Banking/Treasury reporting unit, the credit quality of Regions loan portfolio declined, which contributed to increased losses as well as elevated non-performing loan levels. Accordingly, Regions performed tests of goodwill for impairment during each quarter of 2010 and during the second, third and fourth quarters of 2009 in a manner consistent with the test conducted in the fourth quarter of 2008. While credit quality has improved, Regions continued to perform its goodwill impairment tests during the four quarters of 2011 and the first two quarters of 2012, in a manner consistent with the tests conducted in prior periods, primarily due to the Company s market capitalization remaining below book value. As a result of the management reporting changes described above, Regions revised its reportable segments and, consequently, its reporting units from the three segments previously reported and reallocated goodwill to the new reporting units based on the relative fair values of the revised reporting units. The long-term fair value of equity was determined using both income and market approaches (referenced above and discussed in Note 9 Intangible Assets). The results of these calculations indicated that the estimated fair value of the Wealth Management reporting unit was greater than its carrying amount and the estimated fair values of the Business Services and Consumer Services reporting units were less than their respective carrying amounts. At October 1, 2012, the carrying amount and estimated fair value of the Business Services reporting unit were $8.7 billion and $7.1 billion, respectively, while the carrying amount of goodwill for the reporting unit was $2.6 billion. At October 1, 2012, the carrying amount and estimated fair value of the Consumer Services reporting unit were $5.2 billion and $5.2 billion respectively, while the carrying amount of goodwill for the reporting unit was $1.8 billion. Therefore, Step Two of the goodwill impairment test was performed for both the Business Services and Consumer Services reporting units. In Step Two, the fair values of each reporting unit s assets, both tangible and intangible, and liabilities were determined using estimates of the amounts at which the assets (or liabilities) could be bought (or incurred) or sold (settled) in a taxable transaction between willing participants. For the Business Services and Consumer Services reporting units, the effects of the Step Two adjustments, which were primarily write-downs of assets to fair value, exceeded any reductions in the value of common equity determined in Step One; accordingly the calculation of implied goodwill exceeded its carrying amount. Therefore, the results were no impairment for the Business Services and Consumer Services reporting units, whose implied fair value of goodwill exceeded their carrying amounts by approximately 74 percent and 202 percent, respectively, as of October 1, 2012.

Specific factors as of the date of filing the financial statements that could negatively impact the assumptions used in assessing goodwill for impairment include: a protracted decline in the Company s market capitalization, disparities in the level of fair value changes in net assets (especially loans) compared to equity, increases in book values of equity of a reporting unit in excess of the increase in fair value of equity, adverse business trends resulting from litigation and/or regulatory actions, higher loan losses, lengthened forecasts of higher unemployment relative to pre-crisis levels beyond 2013, future increased minimum regulatory capital requirements above current thresholds (refer to Note 13 Regulatory Capital Requirements and Restrictions for a discussion of current minimum regulatory requirements), future federal rules and regulations resulting from the Dodd-Frank Act, and/or a protraction in the current low level of interest rates significantly beyond 2014.

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

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Impact to the Carrying Value of Goodwill

Business Services Reporting Unit

Change in Discount Rate	**Estimated Amount of Impairment (In millions)**
+ 7.1% (from 14% to 21.1%)	$ (a)
+ 8.0%	(147)
+ 9.0%	(219)
Improvement in Loan Fair Values (b)	
+ 4.4 Percentage Points	$ (a)
+ 5.4 Percentage Points	(435)
+ 6.4 Percentage Points	(868)

(a) Represents the point at which the implied fair value of goodwill would approximate its carrying value.

(b) Business Services loan discount to fair value is 7.9%.

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

Other identifiable intangible assets, primarily core deposit intangibles and credit card intangibles, are reviewed at least annually (usually in the fourth quarter) for events or circumstances which could impact the recoverability of the intangible asset. These events could include loss of core deposits, significant losses of credit card accounts and/or balances, increased competition or adverse changes in the economy. To the extent an other identifiable intangible asset is deemed unrecoverable, an impairment loss would be recorded to reduce the carrying amount. These events or circumstances, if they occur, could be material to Regions operating results for any particular reporting period but the potential impact cannot be reasonably estimated.

Mortgage Servicing Rights

Regions estimates the fair value of its mortgage servicing rights in order to record them at fair value on the balance sheet. Although sales of mortgage servicing rights do occur, mortgage servicing rights do not trade in an active market with readily observable market prices and the exact terms and conditions of sales may not be readily available, and are therefore Level 3 valuations in the fair value hierarchy previously discussed in the Fair Value Measurements section. Specific characteristics of the underlying loans greatly impact the estimated value of the related mortgage servicing rights. As a result, Regions stratifies its mortgage servicing portfolio on the basis of certain risk characteristics, including loan type and contractual note rate, and values its mortgage servicing rights using discounted cash flow modeling techniques. These techniques require management to make estimates regarding future net servicing cash flows, taking into consideration historical and forecasted mortgage loan prepayment rates, discount rates, escrow balances and servicing costs. Changes in interest rates, prepayment speeds or other factors impact the fair value of mortgage servicing rights which impacts earnings. Based on a hypothetical sensitivity analysis, Regions estimates that a reduction in primary mortgage market rates of 25 basis points and 50 basis points would reduce the December 31, 2012 fair value of mortgage servicing rights by approximately 7 percent ($13 million) and 14 percent ($26 million), respectively. Conversely, 25 basis point and 50 basis point increases in these rates would increase the December 31, 2012 fair value of mortgage servicing rights by approximately 7 percent ($14 million) and 15 percent ($28 million), respectively. Regions also estimates that an increase in servicing costs of approximately $10 per loan, or 18 percent, would result in a decline in the value of the mortgage servicing rights by approximately $7 million or 3 basis points.

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

Income Taxes

Accrued income taxes are reported as a component of either other assets or other liabilities, as appropriate, in the consolidated balance sheets and reflect management s estimate of income taxes to be paid or received.

Deferred income taxes represent the amount of future income taxes to be paid or received and are accounted for using the asset and liability method. The net balance is reported in other assets in the consolidated balance sheets. The Company determines the realization of the deferred tax asset based upon an evaluation of the four possible sources of taxable income: 1) the future reversals of taxable temporary differences; 2) future taxable income exclusive of reversing temporary differences and carryforwards; 3) taxable income in prior carryback years; and 4) tax-planning strategies. In projecting future taxable income, the Company utilizes forecasted pre-tax earnings, adjusts for the estimated book-tax differences and incorporates assumptions, including the amounts of income allocable to taxing jurisdictions. These assumptions require significant judgment and are consistent with the plans and estimates the Company uses to manage the underlying businesses. The realization of the deferred tax assets could be reduced in the future if these estimates are significantly different than forecasted. For a detailed discussion of realization of deferred tax assets, refer to the Income Taxes section found later in this report.

The Company is subject to income tax in the U.S. and multiple state and local jurisdictions. The tax laws and regulations in each jurisdiction may be interpreted differently in certain situations, which could result in a range of outcomes. Thus, the Company is required to exercise judgment regarding the application of these tax laws and regulations. The Company will evaluate and recognize tax liabilities related to any tax uncertainties. Due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is different from the current estimate of the tax liabilities.

The Company s estimate of accrued income taxes, deferred income taxes and income tax expense can also change in any period as a result of new legislative or judicial guidance impacting tax positions, as well as changes in income tax rates. Any changes, if they occur, can be significant to the Company s financial position, results of operations or cash flows.

OPERATING RESULTS

GENERAL

For 2012, Regions reported net income available to common shareholders of $991 million, or $0.71 per diluted common share. In January 2012, Regions entered into an agreement to sell Morgan Keegan to Raymond James Financial, Inc. The results of the entities sold are presented as discontinued operations. Refer to Note 3 Discontinued Operations of the consolidated financial statements for additional information. Regions reported net income from continuing operations available to common shareholders of $1,050 million, or $0.76 per diluted common share in 2012. Regions net loss from discontinued operations was $59 million, or ($0.04) per diluted common share.

Regions 2012 results from continuing operations reflected a significant decline in its provision for loan losses resulting from continued improving credit metrics and lower non-interest expenses due to a $253 million non-cash goodwill impairment charge in 2011. Regions also experienced lower net interest income as a result of a decline in interest-earning asset levels combined with lower earning asset yields, as well as, slightly lower non-interest income.

NET INTEREST INCOME AND MARGIN

Net interest income (interest income less interest expense) is Regions principal source of income and is one of the most important elements of Regions ability to meet its overall performance goals. Net interest income on a taxable-equivalent basis decreased approximately $95 million, or 2.8 percent in 2012, from 2011 driven by a 4 percent decrease in the level of average earning assets, from $112.2 billion in 2011 to $107.8 billion in 2012. The net interest margin increased to 3.11 percent in 2012 from 3.07 percent in 2011, reflecting a favorable mix shift in deposits out of higher cost time deposits into low cost checking, savings and money market accounts.

Comparing 2012 to 2011, interest-earning asset yields were lower, decreasing 15 basis points on average. However, interest-bearing liability rates were also lower, declining by 23 basis points, more than offsetting the drop in interest-earning asset yields. As a result, the net interest rate spread increased 8 basis points to 2.86 percent in 2012 compared to 2.78 percent in 2011.

Continued low levels of long-term interest rates affected interest-earning asset yields through their influence on the behavior and pricing of both variable-rate and fixed-rate loans and securities. Monetary policy action pursued by the Federal Reserve, as well as a modest pace of economic recovery resulted in sustained low levels of both long and short term interest rates in 2012. The yield on the benchmark 10-year U.S. Treasury note, particularly in the second half of 2012, fluctuated mainly in the range of 1.40 percent to 1.80 percent, which is approximately 100 basis points lower than in 2011. The level of long-term rates has precipitated higher levels of prepayment, particularly in fixed-rate loans and securities, which can result in the replacement of these assets at lower rates of interest. This pressure impacts portfolios that have a significant concentration of fixed-rate loans. For example, the taxable investment securities portfolio, which contains significant residential fixed-rate exposure, decreased in yield from 3.08 percent in 2011 to 2.55 percent in 2012.

The negative influence of low, long-term interest rates on the net interest margin, however, was offset by improvements in liability costs. The Federal Reserve s Rate of Interest on Excess Reserves and the prime rate, which are influential drivers of loan and deposit pricing on the shorter end of the yield curve, remained low at approximately 0.25 percent and 3.25 percent, respectively, throughout 2012, which was essentially unchanged from the previous year-end level. The Company s loan pricing is also influenced by the 30-day London Interbank Offering Rate (LIBOR), which, on average was 24 basis points 2012. With short-term interest rates remaining low, deposit costs improved considerably from 0.49 percent in 2011 to 0.30 percent in 2012. There was substantial improvement in costs in every deposit category, including average money market accounts which declined from 0.29 percent to 0.18 percent. The improvement in overall deposit costs was also attributable to a less costly mix of deposits. For example, average time deposits declined from $21.6 billion, or 22.6 percent of total average deposits, in 2011 to $16.5 billion, or 17.3 percent of total average deposits, in 2012. Meanwhile, average non-interest bearing customer deposits increased from $27.7 billion in 2011 to $29.4 billion in 2012. Net interest margin was also supported by a favorable shift of funding to customer deposits from more costly long-term borrowings. Average long-term borrowings declined to $6.7 billion in 2012 as compared to $11.2 billion in 2011.

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

Table 3 Consolidated Average Daily Balances and Yield/Rate Analysis from Continuing Operations

	2012			2011			2010		
	Average Balance	**Income/ Expense**	**Yield/ Rate**	**Average Balance**	**Income/ Expense**	**Yield/ Rate**	**Average Balance**	**Income/ Expense**	**Yield/ Rate**
Assets			(Dollars in millions; yields on taxable-equivalent basis)						
Interest-earning assets:									
Federal funds sold and securities purchased under agreements to resell	$	$	%	$ 4	$	%	$ 377	$ 2	0.53%
Trading account assets	134	3	2.24	166	4	2.41	175	7	4.00
Securities:									
Taxable	26,667	681	2.55	24,586	758	3.08	23,851	873	3.66
Tax-exempt	17			31			44	1	2.27
Loans held for sale	1,150	33	2.87	1,131	35	3.09	1,281	39	3.04
Loans, net of unearned income [1] [2]	76,035	3,227	4.24	80,673	3,477	4.31	86,660	3,734	4.31
Other interest-earning assets	3,792	9	0.24	5,623	13	0.23	5,119	13	0.25
Total interest-earning assets	107,795	3,953	3.67	112,214	4,287	3.82	117,507	4,669	3.97
Allowance for loan losses	(2,376)			(3,114)			(3,187)		
Cash and due from banks	1,836			1,988			2,021		
Other non-earning assets	14,927			15,631			16,379		
	$ 122,182			$ 126,719			$ 132,720		
Liabilities and Stockholders Equity									
Interest-bearing liabilities:									
Savings accounts	$ 5,589	4	0.07	$ 5,062	5	0.10	$ 4,459	4	0.09
Interest-bearing transaction accounts	19,419	23	0.12	15,613	27	0.17	14,404	32	0.22
Money market accounts domestic [7]	24,116	43	0.18	25,117	72	0.29	26,737	116	0.43
Money market accounts foreign [7]	355			544	1	0.18	653	1	0.15
Time deposits customer	16,484	214	1.30	21,635	367	1.70	26,236	601	2.29
Total customer deposits interest-bearing	65,963	284	0.43	67,971	472	0.69	72,489	754	1.04
Time deposits non customer	3			11			54	1	1.85
Total treasury deposits interest-bearing	3			11			54	1	1.85
Total interest-bearing deposits [4]	65,966	284	0.43	67,982	472	0.69	72,543	755	1.04
Federal funds purchased and securities sold under agreements to repurchase	1,852	2	0.11	1,801	(1)	(0.06)	1,983	3	0.15
Other short-term borrowings	251			186			331	1	0.30
Long-term borrowings	6,694	317	4.74	11,240	371	3.30	15,489	489	3.16
Total interest-bearing liabilities [5]	74,763	603	0.81	81,209	842	1.04	90,346	1,248	1.38
Net interest spread			2.86			2.78			2.59
Customer deposits non-interest-bearing [4] [5] [7]	29,364			27,689			23,946		
Other liabilities	3,020			2,471			2,512		
Stockholders equity	15,035			15,350			15,916		
	$ 122,182			$ 126,719			$ 132,720		

Net interest income/margin on a taxable-equivalent basis from continuing operations (3) (6)	$ 3,350	3.11%	$ 3,445	3.07%	$ 3,421	2.91%

(1) Loans, net of unearned income include non-accrual loans for all periods presented.

(2) Interest income includes loan fees of $65 million, $50 million and $37 million for the years ended December 31, 2012, 2011 and 2010, respectively.

(3) The computation of taxable-equivalent net interest income is based on the stautory federal income tax rate of 35%, adjusted for applicable state income taxes net of the related federal tax benefit.

(4) Total deposit costs may be calculated by dividing total interest expense on deposits by the sum of interest-bearing deposits and non-interest bearing deposits. The rates for total deposit costs equal 0.30%, 0.49% and 0.78% for the years ended December 31, 2012, 2011 and 2010, respectively.

(5) Total funding costs from continuing operations may be calculated by dividing total interest expense on interest-bearing liabilities by the sum of interest-bearing liabilities and non-interest bearing deposits. The rates for total funding costs from continuing operations equal 0.58%, 0.77% and 1.09% for the years ended December 31, 2012, 2011, and 2010, respectively.

(6) The table above does not include average assets, average liabilities, interest income or interest expense for discontinued operations (see Note 3 to the consolidated financial statements). If these assets, liabilities, and net interest income were included in the calculation, the consolidated net interest income and margin on a taxable equivalent basis would be $3,356 million and 3.10%, $3,476 million and 3.05% and $3,464 million and 2.90% for the years ended December 31, 2012, 2011, and 2010, respectively.

(7) Prior period amounts have been reclassified to conform to the current period classification.

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Table 4 Volume and Yield/Rate Variances from Continuing Operations

	2012 Compared to 2011 Change Due to			2011 Compared to 2010 Change Due to		
	Volume	Yield/ Rate	Net	Volume	Yield/ Rate	Net
	(Taxable-equivalent basis in millions)					
Interest income on:						
Federal funds sold and securities purchased under agreements to resell	$	$	$	$ (1)	$ (1)	$ (2)
Trading account assets	(1)		(1)		(3)	(3)
Securities:						
Taxable	61	(138)	(77)	26	(141)	(115)
Tax-exempt					(1)	(1)
Loans held for sale	1	(3)	(2)	(5)	1	(4)
Loans, net of unearned income	(198)	(52)	(250)	(258)	1	(257)
Other interest-earning assets	(4)		(4)	1	(1)	
Total interest-earning assets	(141)	(193)	(334)	(237)	(145)	(382)
Interest expense on:						
Savings accounts		(1)	(1)	1		1
Interest-bearing transaction accounts	6	(10)	(4)	3	(8)	(5)
Money market accounts domestic	(3)	(26)	(29)	(7)	(37)	(44)
Money market accounts foreign		(1)	(1)			
Time deposits customer	(77)	(76)	(153)	(95)	(139)	(234)
Total customer deposits interest-bearing	(74)	(114)	(188)	(98)	(184)	(282)
Time deposits non customer					(1)	(1)
Total treasury deposits interest-bearing					(1)	(1)
Total interest-bearing deposits	(74)	(114)	(188)	(98)	(185)	(283)
Federal funds purchased and securities sold under agreements to repurchase		3	3		(4)	(4)
Other short-term borrowings					(1)	(1)
Long-term borrowings	(181)	127	(54)	(140)	22	(118)
Total interest-bearing liabilities	(255)	16	(239)	(238)	(168)	(406)
Increase (decrease) in net interest income	$ 114	(209)	$ (95)	$ 1	$ 23	$ 24

Notes:

1. The change in interest not due solely to volume or yield/rate has been allocated to the volume column and yield/rate column in proportion to the relationship of the absolute dollar amounts of the change in each.
2. The computation of taxable-equivalent net interest income is based on the statutory federal income tax rate of 35%, adjusted for applicable state income taxes net of the related federal tax benefit.
3. The table above does not include average assets, average liabilities, interest income or interest expense for discontinued operations (see Note 3 to the consolidated financial statements).
4. Prior period amounts for money market accounts-domestic and money market accounts-foreign have been reclassified to conform to the current period classification.

The mix of interest-earning assets can also affect the interest rate spread. Regions primary types of interest-earning assets are loans and investment securities. Certain types of interest-earning assets have historically generated larger spreads; for example, loans typically generate larger spreads than other assets, such as securities, Federal funds sold or securities purchased under agreements to resell. The spread on loans remained depressed in 2012 due to the low interest rate environment and an elevated level of loans on non-accrual status. Average

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interest-earning assets at December 31, 2012 totaled $107.8 billion, a decrease of $4.4 billion as compared to the prior year. While average earning assets declined during 2012, the mix changed somewhat, reflecting higher securities balances and a decline in average loans due to muted loan demand, consumer deleveraging and run-off of investor real estate.

Also affecting the interest rate spread and the net interest margin were continued elevated balances of interest-bearing deposits in other banks (included in other interest-earning assets in Table 3), primarily the Federal Reserve Bank, as a result of the Company s liquidity management process. These funds generate a significantly lower spread than loans or securities. The levels of cash reserves negatively impacted the net interest margin by 9 basis points in 2012 and 13 basis points in 2011. In addition, overall levels of non-performing assets negatively impacted the net interest margin by 8 basis points in 2012 compared to 14 basis points in 2011.

Average loans as a percentage of average interest-earning assets were 71 percent in 2012 and 72 percent in 2011. The categories, which consist of interest-earning assets, are shown in Table 3 Consolidated Average Daily Balances and Yield/Rate Analysis for Continuing Operations . The proportion of average interest-earning assets to average total assets which was 88 percent and 89 percent in 2012 and in 2011, respectively, measures the effectiveness of management s efforts to invest available funds into the most profitable interest-earning vehicles. This measure was consistent with the prior year as the overwhelming majority of the decline in total assets in 2012 was in interest-earning assets. Funding for Regions interest-earning assets comes from interest-bearing and non-interest-bearing sources. Another significant factor affecting the net interest margin is the percentage of interest-earning assets funded by interest-bearing liabilities. The percentage of average interest-earning assets funded by average interest-bearing liabilities was 69 percent in 2012 and 72 percent in 2011, reflecting growth in non-interest bearing deposits.

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

PROVISION FOR LOAN LOSSES

The provision for loan losses is used to maintain the allowance for loan losses at a level that, in management s judgment, is appropriate to absorb probable losses inherent in the portfolio at the balance sheet date. During 2012, the provision for loan losses was $213 million and net charge-offs were $1.0 billion. This compares to a provision for loan losses of $1.5 billion and net charge-offs of $2.0 billion in 2011. Net charge-offs exceeded the provision for loan losses during 2012 primarily resulting from the continued improving credit metrics, including lower levels of non-accrual loans and criticized and classified loans, as well as an overall reduction in loan balances, problem loan resolutions and a continuing mix shift in loans out of higher risk investor real estate and into less risky commercial and industrial loans.

For further discussion and analysis of the total allowance for credit losses, see the Risk Management section found later in this report. See also Note 6 Allowance for Credit Losses to the consolidated financial statements.

NON-INTEREST INCOME

Non-interest income from continuing operations represents fees and income derived from sources other than interest-earning assets. Table 5 Non-Interest Income from Continuing Operations provides a detail of the components of non-interest income from continuing operations. Non-interest income decreased $43 million to $2.1 billion in 2012 compared to 2011. The decrease is primarily due to lower service charges on deposit accounts and securities gains, partially offset by an increase in mortgage income.

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Table 5 Non-Interest Income from Continuing Operations

	Year Ended December 31 2012	2011 (In millions)	2010
Service charges on deposit accounts	$ 985	$1,168	$1,174
Investment fee income	110	64	69
Mortgage income	363	220	247
Trust department income	195	199	196
Securities gains, net	48	112	394
Insurance commissions and fees	109	106	104
Leveraged lease termination gains	14	8	78
Commercial credit fee income	68	80	76
Bank-owned life insurance	81	83	88
Net loss from affordable housing	(49)	(69)	(72)
Credit card / bank card income	85	65	31
Other miscellaneous income	91	107	104
	$ 2,100	$2,143	$2,489

Service Charges on Deposit Accounts

Income from service charges on deposit accounts decreased 16 percent in 2012 and totaled $985 million and $1.2 billion in 2012 and 2011, respectively. The decrease was primarily driven by policy changes negatively impacting non-sufficient fund fees related to Regulation E, as well as a decline in interchange income as a result of debit interchange price controls implemented in the fourth quarter of 2011. During 2012, service charges on deposit accounts were also negatively impacted by a total of approximately $35 million in customer refunds resulting from a change in the Company s non-sufficient funds policy.

Interchange income, which is included in service charges on deposit accounts, was impacted by the Federal Reserve s rulemaking required by section 1075 of the Dodd-Frank Act. The Federal Reserve Board of Governors announced its final rule on debit card interchange fees mandated by the Durbin Amendment to the Dodd-Frank Act effective October 1, 2011, which contributed to the decline in service charges in 2012.

Investment Fee and Trust Department Income

Total investment fee income, which primarily relates to capital markets activities such as loan syndications, foreign exchange and derivatives, increased 72 percent to $110 million in 2012 from $64 million in 2011, due primarily to improved market valuations in the customer derivative portfolio. Trust department income decreased 2 percent to $195 million in 2012, driven by declines in assets under management to approximately $72.7 billion at year-end 2012 compared to approximately $74.6 billion at year-end 2011.

Mortgage Income

Mortgage income is generated through the origination and servicing of mortgage loans for long-term investors and sales of mortgage loans in the secondary market. Mortgage income increased $143 million or 65 percent to $363 million in 2012. The increase reflects wider margins as a result of favorable market conditions, as well as an increase in originations driven by customers taking advantage of the opportunity to refinance under the extended Home Affordable Refinance Program, or HARP II. Mortgage originations totaled $8.0 billion in 2012 as compared to $6.3 billion in 2011. In 2012, refinancing encompassed 63 percent of mortgage originations versus 54 percent in 2011.

At December 31, 2012, $26.2 billion of Regions servicing portfolio was serviced for third parties. At December 31, 2011, $26.7 billion of the servicing portfolio was serviced for third parties.

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Securities Gains, Net

Regions reported net gains of $48 million from the sale of securities available for sale in 2012, as compared to net gains of $112 million in 2011. Lower security gains during 2012 were due to lower volumes of securities sales resulting from the Company s asset/liability management process. Refer to the Securities section in the Balance Sheet Analysis for further discussion.

Insurance Commissions and Fees

Regions provides property and casualty, life and health, mortgage, title and other specialty insurance and credit related products to businesses and individuals. Insurance commissions and fees increased 3 percent to $109 million in 2012, compared to $106 million in 2011. The increase is primarily due to growth in the agency business as well as stabilizing insurance rates and exposures.

Leveraged Lease Termination Gains

Regions terminated certain leveraged leases in 2012 and 2011 resulting in gains of $14 million and $8 million, respectively. These termination gains were largely offset by increases in income tax expense.

Commercial Credit Fee Income

Commercial credit fee income decreased 15 percent to $68 million in 2012, compared to $80 million in 2011. This decrease is primarily due to a decline in standby letters of credit. Regions ability to originate standby letters of credit has been impacted by its credit rating in the prior years, as many beneficiaries require investment grade ratings for the issuing bank. During 2012, Moody s and S&P upgraded credit ratings for Regions Financial Corporation and its subsidiaries.

Bank-Owned Life Insurance

Bank-owned life insurance income decreased 2 percent to $81 million in 2012, compared to $83 million in 2011. This decrease is primarily due to a decline in death benefits and crediting rates.

Credit Card / Bank Card Income

Credit card / bank card income increased $20 million in 2012 as compared to 2011. Credit card income is derived from activity related to the Regions-branded credit card portfolio purchased from FIA Card Services in the second quarter of 2011 and subsequent originations. Bank card income relates to commercial purchasing cards. The increase during 2012 is due to an entire year s worth of impact from the 2011 credit card portfolio purchase.

NON-INTEREST EXPENSE

The following section contains a discussion of non-interest expense from continuing operations. The largest components of non-interest expense are salaries and employee benefits, net occupancy expense and furniture and equipment expense. Non-interest expense in 2012 was down $336 million from 2011. Non-interest expense in 2011 included $253 million in goodwill impairment plus $75 million in branch consolidation and property and equipment charges. The decline in non-interest expense in 2012 included $61 million in net gains related to the sale of loans held for sale in excess of their carrying values, plus a reduction in other real estate owned expenses of $110 million partially offset by a $159 million increase in salaries and employee benefits. Table 6 Non-Interest Expense from Continuing Operations presents total non-interest expense for the years ended December 31, 2012, 2011 and 2010.

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Table 6 Non-Interest Expense from Continuing Operations

	Year Ended December 31		
	2012	2011	2010
		(In millions)	
Salaries and employee benefits	$ 1,763	$ 1,604	$ 1,640
Net occupancy expense	382	388	411
Furniture and equipment expense	261	275	277
Professional and legal expenses	114	175	170
Amortization of core deposit intangible	83	95	107
Other real estate owned expense	52	162	209
Credit/checkcard expenses	64	50	41
Branch consolidation and property and equipment charges		75	
(Gain)/loss on loans held for sale, net	(61)	1	32
Deposit administrative fee	162	217	220
Marketing	87	62	66
Outside services	82	62	52
Loss on early extinguishment of debt	11		108
REIT investment early termination costs	42		
Provision (credit) for unfunded credit commitments	5	7	(3)
Regulatory charge			75
Goodwill impairment		253	
Other miscellaneous expenses	479	436	454
	$ 3,526	$ 3,862	$ 3,859

Salaries and Employee Benefits

Total salaries and employee benefits increased $159 million, or 10 percent, in 2012. The year-over-year increase was primarily due to higher pension costs, annual merit increases, restricted stock awards and incentive increases, including mortgage-related incentives, partially offset by a decline in headcount from 23,707 at December 31, 2011 to 23,427 at December 31, 2012.

Regions provides employees who meet established employment requirements with a benefits package that includes 401(k), pension, and medical, life and disability insurance plans. The pension plan has been closed to new enrollments since 2006. Regions 401(k) plan includes a Company match of eligible employee contributions. See Note 17 Employee Benefit Plans to the consolidated financial statements for further details.

There are various incentive plans in place in many of Regions lines of business that are tied to the performance levels of employees. In general, incentives are used to reward employees for selling products and services, for productivity improvements and for achievement of corporate financial goals. These achievements are determined through a review of profitability and risk management. Regions long-term incentive plan provides for the granting of stock options, restricted stock, restricted stock units and performance shares. See Note 16 Share-Based Payments to the consolidated financial statements for further information.

Net Occupancy Expense

Net occupancy expense includes rents, depreciation and amortization, utilities, maintenance, insurance, taxes, and other expenses of premises occupied by Regions and its affiliates. Net occupancy expense decreased $6 million, or 2 percent, in 2012. Rent expense decreased as a result of branch consolidations that occurred in early 2010 and late 2011, as well as a result of other lease downsizing efforts. At December 31, 2012, Regions had 1,711 branches compared to 1,726 at December 31, 2011.

Furniture and Equipment Expense

Furniture and equipment expense decreased by 5 percent to $261 million in 2012 primarily driven by branch consolidations.

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Professional and Legal Expenses

Professional and legal expenses are comprised of amounts related to legal, consulting and other professional fees. These expenses decreased $61 million or 35 percent to $114 million in 2012, reflecting a decrease in the level of legal expenses and recognition of recoveries from previously established legal accruals. Refer to Note 23 Commitments, Contingencies and Guarantees to the consolidated financial statements for additional information.

Amortization of Core Deposit Intangibles

The premium paid for core deposits in an acquisition is considered to be an intangible asset that is amortized on an accelerated basis over its useful life. As a result, amortization of core deposit intangibles decreased 13 percent to $83 million in 2012 compared to $95 million in 2011. Regions reviews core deposit intangibles for events or circumstances which could impact the recoverability of the intangible assets. Regions annual 2012 impairment test resulted in no impairment. The test reflected an increase in the estimated life of Regions core deposit intangibles. Amortization expense will be revised to reflect the increased estimated life beginning in 2013. See Note 9 Intangible Assets to the consolidated financial statements for additional information.

Other Real Estate Owned Expense

Other real estate owned (OREO) expense includes the cost of adjusting foreclosed properties and other property held for sale to estimated fair value after these assets have been classified as OREO, net gains and losses on sales of properties, and other costs to maintain the property such as property taxes, security, and grounds maintenance. Through Regions efforts to sell foreclosed properties, those balances decreased $147 million to $149 million in 2012. This reduction in foreclosed properties balances, along with lower valuation charges as a result of stabilizing real estate values, was the primary driver of the $110 million decline in OREO expense in 2012. See the Foreclosed Properties section later in the Balance Sheet Analysis section.

Credit/Checkcard Expenses

Credit/checkcard expenses increased $14 million for 2012 when compared to 2011. The year-over-year increase is due to the effect of an entire year s worth of impact from the credit card portfolio purchase at the end of the second quarter of 2011.

Branch Consolidation and Property and Equipment Charges

Non-interest expense in 2011 included $75 million of branch consolidation charges related to lower of cost or market adjustments on owned branch property, terminated ground leases and impairment of other equipment. The charges were driven primarily by Regions decision to consolidate approximately 40 branches.

(Gain)/Loss on Loans Held for Sale, Net

The Company recorded a $61 million reduction in non-interest expense for 2012 related to gains on loans held for sale. The Company recorded losses on loans held for sale of $1 million for 2011. The improvement during 2012 relates to sales and paydowns of individual loans at amounts in excess of carrying value.

Deposit Administrative Fees

Deposit administrative fees decreased in 2012 by $55 million to $162 million. Deposit administrative fees were impacted by a new assessment rule in 2011, which revised the deposit insurance assessment system for large institutions. The new rule changed the assessment base from deposits as the basis and utilizes a risk-based approach which calculates the assessment using average consolidated assets minus average tangible equity. Implementation of the new rule was effective beginning in the second quarter of 2011. The bank regulatory agencies ratings, comprised of Regions Bank s capital, asset quality, management, earnings, liquidity and sensitivity to risk, along with certain financial ratios are used in determining deposit administrative fees. The decrease in 2012 was related to lower asset balances, including a reduction in higher risk loans and improved performance metrics, including asset quality metrics, all of which impact the fee calculation. For further information, see discussion of Deposit Insurance in the Supervision and Regulation section of Item 1 of this Form 10-K.

Marketing

Marketing increased $25 million in 2012 compared to 2011, primarily due to costs incurred for customer communications in conjunction with Regions third quarter 2012 assumption of the servicing of the credit card portfolio which had been purchased in the second quarter of 2011.

Outside Services

Outside services increased in 2012 by $20 million to $82 million. The increase was due primarily to expenses incurred related to assuming the servicing of the credit card portfolio during the third quarter of 2012 that was purchased at the end of the second quarter of 2011, as well as fees related to the routine purchases of indirect loans from a third party.

Loss on Early Extinguishment of Debt

During the fourth quarter of 2012, the Company redeemed all issued and outstanding 8.875% Trust Preferred Securities issued by Regions Financing Trust III (trust preferred securities). The aggregate principal amount of the trust preferred securities was approximately $345 million. The Company recognized an $11 million loss on the early redemption of these securities.

REIT Investment Early Termination Costs

On November 30, 2012, Regions entered into an agreement with a third party investor in Regions Asset Management Company, Inc., a real estate investment trust, pursuant to which the investment was fully redeemed. As a result, Regions incurred early termination costs of approximately $42 million.

Goodwill Impairment

As a result of the process of selling Morgan Keegan, Regions 2011 results include a non-cash goodwill impairment charge of $731 million (net of $14 million income tax impact) within the investment banking/brokerage/trust segment. Based on a relative fair value allocation, $478 million was recorded within discontinued operations and $253 million within continuing operations. The goodwill impairment charge is a non-cash item which does not have an adverse impact on regulatory capital. Refer to Note 9 Intangible Assets in the footnotes to the consolidated financial statements for further details.

Other Miscellaneous Expenses

Other miscellaneous expenses increased $43 million in 2012 compared to 2011. The primary drivers of the increase were mortgage repurchase expenses (see Note 7 Servicing of Financial Assets), amortization of intangible assets related to the credit card portfolio purchase and bank operational losses. This item also includes expenses for communications, postage, supplies, certain credit-related costs and business development services.

INCOME TAXES

The Company s income tax expense from continuing operations for 2012 was $482 million compared to a tax benefit of $28 million in 2011, resulting in an effective tax rate of 29.0 percent and (17.4) percent, respectively. The increase in income tax expense was primarily a result of positive consolidated pre-tax earnings.

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At December 31, 2012, the Company reported a net deferred tax asset of $763 million compared to $1.3 billion at December 31, 2011. The change is principally due to a decrease in the allowance for loan losses and utilization of tax credit carryforwards. Of the balance at December 31, 2012, $462 million was generated from differences between the financial statement carrying amounts and the corresponding tax bases of assets and liabilities, of which a significant portion relates to the allowance for loan losses. These net deferred tax assets have not yet reduced taxable income and therefore do not have a set expiration date. The remaining $301 million net deferred tax asset balance relates to tax carryforwards that have defined expiration dates which are typically 15 or 20 years from the date of creation. Of the $301 million, $68 million of this deferred tax asset is related to tax carryforwards that have expiration dates prior to the tax year 2025.

The Company continually assesses the realizability of its deferred tax assets based on an evaluative process that considers all available positive and negative evidence. The Company has established a valuation allowance in the amount of $70 million at December 31, 2012 and $32 million at December 31, 2011 because the Company believes that a portion of the state operating loss carryforwards and state tax credit carryforwards will not be utilized. As part of this evaluative process, management considers the following sources of taxable income: 1) the future reversals of taxable temporary differences; 2) future taxable income exclusive of reversing temporary differences and carryforwards; 3) taxable income in prior carryback years; and 4) tax-planning strategies. In making a conclusion, management has evaluated all available positive and negative evidence impacting these sources of taxable income. The primary sources of evidence impacting management s judgment regarding the realization of the Company s deferred tax assets are summarized below.

History of earnings As of December 31, 2012, the Company has reestablished a positive earnings trend and is not in a three-year cumulative loss position. Therefore, the Company no longer has this negative evidence to consider in the valuation of its deferred tax assets. The Company did not generate any federal net operating losses or tax credit carryforwards until 2009, and in 2011 the Company utilized all federal net operating losses. In 2012, the Company utilized a significant portion of its federal tax credit carryforwards. There is no history of significant tax carryforwards expiring unused.

Reversals of taxable temporary differences The Company anticipates that future reversals of taxable temporary differences, including the accretion of taxable temporary differences related to leveraged leases acquired in a prior business combination, can absorb up to approximately $812 million of deferred tax assets.

Creation of future taxable income The Company has projected future taxable income that will be sufficient to absorb the remaining deferred tax assets after the reversal of future taxable temporary differences. The taxable income forecasting process utilizes the forecasted pre-tax earnings and adjusts for book-tax differences that will be exempt from taxation, primarily tax-exempt interest income and bank-owned life insurance, as well as temporary book-tax differences including the allowance for loan losses. The projections relied upon for this process are consistent with those used in the Company s financial forecasting process.

Ability to implement tax-planning strategies The Company has the ability to implement tax planning strategies to maximize the realization of deferred tax assets, such as the sale of assets. As an example, at December 31, 2012, the Company s portfolio of securities available for sale had $729 million of gross unrealized pre-tax gains which could accelerate the recognition of the associated taxable temporary differences, which management would consider being a tax planning strategy to maximize the realization of the deferred tax assets that may expire unutilized.

The Company completed the sale of Morgan Keegan and related affiliates to Raymond James on April 2, 2012. The Company has reflected the transaction as if Raymond James purchased the assets of the entities for tax purposes and in January 2013, income tax elections were finalized that are consistent with this treatment.

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

See Note 1 Summary of Significant Accounting Policies and Note 19 Income Taxes to the consolidated financial statements for additional information about income taxes.

BALANCE SHEET ANALYSIS

At December 31, 2012, Regions reported total assets of $121.3 billion compared to $127.1 billion at the end of 2011, a decrease of approximately $5.7 billion or 4 percent. The decrease in total assets from year-end 2011 resulted mainly from a decrease in loans, as well as a decrease in other assets. Loans, net of unearned income, declined approximately $3.6 billion, primarily related to the investor real estate portfolio segment. Other assets also declined between years due to decreases in derivative assets and deferred income tax assets, as well as settlements of securities sales. Also, a decrease in interest-bearing deposits in other banks was largely offset by an increase in securities available for sale. The decrease in total assets was also driven by a reduction in trading account assets, which resulted from the closing of the sale of Morgan Keegan (see Note 3 Discontinued Operations to the consolidated financial statements).

Cash and Cash Equivalents

Cash and cash equivalents include cash and due from banks, interest-bearing deposits in other banks (including the Federal Reserve Bank), and Federal funds sold and securities purchased under agreements to resell (which have a life of 90 days or less). At December 31, 2012, these assets totaled $5.5 billion as compared to $7.2 billion at December 31, 2011. The year-over-year decrease was driven by a decrease in interest-bearing deposits in other banks. These funds were utilized for repurchase of the Series A preferred shares issued to the U.S. Treasury.

Trading Account Assets

Trading account assets decreased $1.2 billion to $116 million at December 31, 2012. The trading account assets were primarily held at Morgan Keegan. As discussed above, early in 2012, Regions completed the sale of Morgan Keegan. Also included in trading account assets are securities held in rabbi trusts related to deferred compensation plans. Trading account assets are carried at fair value with changes in fair value reflected in the consolidated statements of operations. Table 7 Trading Account Assets illustrates the total carrying values of trading account assets by category.

Table 7 Trading Account Assets

	December 31 2012	2011
	(In millions)	
Trading account assets:		
U.S. Treasury and Federal agency securities	$	$ 624
Obligations of states and political subdivisions		240
Other securities	116	402
	$ 116	$ 1,266

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Securities

Regions utilizes the securities portfolio to manage liquidity, interest rate risk, and regulatory capital, as well as to take advantage of market conditions to generate a favorable return on investments without undue risk. The portfolio consists primarily of high-quality mortgage-backed and asset-backed securities. Securities represented 22 percent of total assets at December 31, 2012 compared to 19 percent at December 31, 2011. In 2012, total securities, which are almost entirely classified as available for sale, increased $2.8 billion, or 11 percent.

The Market Risk-Interest Rate Risk section, found later in this report, further explains Regions interest rate risk management practices. The weighted-average yield earned on securities, less equities, was 2.57 percent in 2012 and 2.91 percent in 2011. Table 8 Securities illustrates the carrying values of total securities by category.

Table 8 Securities

	December 31 2012	December 31 2011
	(In millions)	
U.S. Treasury securities	$ 54	$ 102
Federal agency securities	555	150
Obligations of states and political subdivisions	9	36
Mortgage-backed securities:		
Residential agency	21,283	22,184
Residential non-agency	13	16
Commercial agency	725	326
Commercial non-agency	1,098	321
Corporate and other debt securities	2,835	537
Equity securities	682	815
	$ 27,254	$ 24,487

Securities totaled $27.3 billion at December 31, 2012, an increase of $2.8 billion from year-end 2011 levels. During 2012, Regions purchased approximately $600 million in available for sale federal agency securities, $8.3 billion in available for sale mortgage-backed securities, and $2.4 billion in available for sale high quality investment grade corporate bonds. These purchases were partially offset by sales of approximately $1.4 billion in available for sale mortgage-backed securities, sales of approximately $194 million in available for sale high quality investment grade corporate bonds, paydowns and maturities. The net purchases of agency mortgage-backed securities are an offset to the Company s strategy to sell the majority of agency eligible residential first mortgages at origination, and the corporate bonds increase diversification in the portfolio with an attractive risk and return profile.

Net unrealized gains and losses in the securities available for sale portfolio are included in stockholders equity as accumulated other comprehensive income or loss, net of tax. At December 31, 2012, securities available for sale included a net unrealized gain of $701 million, which represented the difference between the estimated fair value of these securities as of year-end and their amortized cost. The net unrealized gain represents $729 million in gross unrealized gains and $28 million in gross unrealized losses. At December 31, 2011, securities available for sale included a net unrealized gain of $514 million, comprised of $532 million in gross unrealized gains and $18 million in gross unrealized losses.

The Company reviews its securities portfolio on a regular basis to determine if there are any conditions indicating that a security has other-than-temporary impairment. Factors considered in this determination include the length of time and the extent to which the market value has been below cost, the credit standing of the issuer, Regions intent to sell and whether it is more likely than not that the Company will have to sell the security before its market value recovers. During 2012 and 2011, Regions recognized minimal levels of securities impairments in earnings. See Note 4 Securities to the consolidated financial statements for further details.

Maturity Analysis The average life of the securities portfolio (excluding equities) at December 31, 2012 was estimated to be 3.9 years, with a duration of approximately 2.7 years. These metrics compare with an estimated average life of 3.9 years, with a duration of approximately 2.1 years for the portfolio at December 31, 2011. Table 9 Relative Contractual Maturities and Weighted-Average Yields for Securities provides additional details.

Table 9 Relative Contractual Maturities and Weighted-Average Yields for Securities

	Securities Maturing as of December 31, 2012 (Dollars in millions)				
	Within One Year	After One But Within Five Years	After Five But Within Ten Years	After Ten Years	Total
Securities:					
U.S. Treasury securities	$ 10	$ 44	$	$	$ 54
Federal agency securities	3	15	534	3	555
Obligations of states and political subdivisions	2	5		2	9
Mortgage-backed securities:					
Residential agency	5	58	1,148	20,072	21,283
Residential non-agency				13	13
Commercial agency			141	584	725
Commercial non-agency		99	246	753	1,098
Corporate and other debt securities	18	945	1,349	523	2,835
	$ 38	$ 1,166	$ 3,418	$ 21,950	$ 26,572
Weighted-average yield	1.90%	2.42%	2.64%	2.56%	2.57%

Notes:

1. The weighted-average yields are calculated on the basis of the yield to maturity based on the book value of each security. Weighted-average yields on tax-exempt obligations have been computed on a taxable-equivalent basis using a tax rate of 35%. Taxable-equivalent adjustments for the calculation of yields amounted to zero as of December 31, 2012. Yields on tax-exempt obligations have not been adjusted for the non-deductible portion of interest expense used to finance the purchase of tax-exempt obligations.
2. Federal Reserve Bank stock, Federal Home Loan Bank stock, and equity stock of other corporations held by Regions are not included in the table above.

Portfolio Quality Regions investment policy emphasizes credit quality and liquidity. Securities rated in the highest category by nationally recognized rating agencies and securities backed by the U.S. Government and government sponsored agencies, both on a direct and indirect basis, represented approximately 90 percent of the investment portfolio at December 31, 2012. All other securities rated below AAA, not backed by the U.S. Government or government sponsored agencies, or which are not rated represented approximately 10 percent of total securities at year-end 2012.

Loans Held for Sale

At December 31, 2012, loans held for sale totaled $1.4 billion, consisting primarily of $1.3 billion of residential real estate mortgage loans and $89 million of non-performing investor real estate loans. At December 31, 2011, loans held for sale totaled $1.2 billion, consisting primarily of $844 million of residential real estate mortgage loans and $328 million of non-performing investor real estate loans. The level of residential real estate mortgage loans held for sale fluctuates depending on the timing of origination and sale to third parties.

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Loans

GENERAL

Average loans, net of unearned income, represented 71 percent of average interest-earning assets for the year ended December 31, 2012, compared to 72 percent for the year ended December 31, 2011. Lending at Regions is generally organized along three portfolio segments: commercial loans (including commercial and industrial, and owner occupied commercial real estate mortgage and construction loans), investor real estate loans (commercial real estate mortgage and construction loans) and consumer loans (residential first mortgage, home equity, indirect, consumer credit card and other consumer loans).

Regions manages loan growth with a focus on risk management and risk-adjusted return on capital. Strategic decisions to reduce the concentration in investor real estate, continued run-off of residential mortgage loans, and lower demand for home equity products were the primary contributors to the decrease. The decrease was partially offset by increases in commercial and industrial loans and indirect automobile lending.

Table 10 illustrates a year-over-year comparison of loans by portfolio segment and class and Table 11 provides information on selected loan maturities.

Table 10 Loan Portfolio

	2012	2011	2010	2009	2008
		(In millions, net of unearned income)			
Commercial and industrial	$ 26,674	$ 24,522	$ 22,540	$ 21,547	$ 23,596
Commercial real estate mortgage owner occupied	10,095	11,166	12,046	12,054	11,722
Commercial real estate construction owner occupied	302	337	470	751	1,605
Total commercial	37,071	36,025	35,056	34,352	36,923
Commercial investor real estate mortgage	6,808	9,702	13,621	16,109	14,486
Commercial investor real estate construction	914	1,025	2,287	5,591	9,029
Total investor real estate	7,722	10,727	15,908	21,700	23,515
Residential first mortgage	12,963	13,784	14,898	15,632	15,839
Home equity	11,800	13,021	14,226	15,381	16,130
Indirect	2,336	1,848	1,592	2,452	3,854
Consumer credit card	906	987			
Other consumer	1,197	1,202	1,184	1,157	1,158
Total consumer	29,202	30,842	31,900	34,622	36,981
	$ 73,995	$ 77,594	$ 82,864	$ 90,674	$ 97,419

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Table 11 Selected Loan Maturities

	Loans Maturing as of December 31, 2012 (2)			
	Within One Year	After One But Within Five Years	After Five Years	Total
		(In millions)		
Commercial and industrial (1)	$ 4,849	$ 16,312	$ 5,383	$ 26,544
Commercial real estate mortgage owner-occupied	1,932	5,272	2,891	10,095
Commercial real estate construction owner occupied	15	163	124	302
Total commercial	6,796	21,747	8,398	36,941
Commercial investor real estate mortgage	3,340	3,052	416	6,808
Commercial investor real estate construction	479	399	36	914
Total investor real estate	3,819	3,451	452	7,722
	$ 10,615	$ 25,198	$ 8,850	$ 44,663

	Predetermined Rate	Variable Rate
	(In millions)	
Due after one year but within five years	$ 5,476	$ 19,722
Due after five years	4,505	4,345
	$ 9,981	$ 24,067

(1) Excludes $130 million of small business credit card accounts.

(2) Table 11 excludes residential first mortgage, home equity, indirect and other consumer loans.

The following sections describe the composition of the portfolio segments and classes in Table 10 and explain variations in balances from the 2011 year-end. See Note 5 Loans and Note 6 Allowance for Credit Losses to the consolidated financial statements for additional discussion.

Commercial The commercial portfolio segment includes commercial and industrial loans to commercial customers for use in normal business operations to finance working capital needs, equipment purchases and other expansion projects. Commercial and industrial loans have increased since 2011 due to Regions integrated approach to specialized lending. Commercial also includes owner-occupied commercial real estate loans to operating businesses, which are loans for long-term financing of land and buildings, and are repaid by cash flow generated by business operations. These loans declined from year-end 2011 as a result of customer deleveraging. Owner-occupied construction loans are made to commercial businesses for the development of land or construction of a building where the repayment is derived from revenues generated from the business of the borrower. During 2012, total commercial loan balances increased $1,046 million, or 3% percent, driven by growth experienced in specialized industry groups.

Investor Real Estate Loans for real estate development are repaid through cash flow related to the operation, sale or refinance of the property. This portfolio segment includes extensions of credit to real estate developers or investors where repayment is dependent on the sale of real estate or income generated from the real estate collateral. A portion of Regions investor real estate portfolio segment is comprised of loans secured by residential product types (land, single-family and condominium loans) within Regions markets. Additionally, this category includes loans made to finance income-producing properties such as apartment buildings, office and industrial buildings, and retail shopping centers. The investor real estate loan segment decreased $3.0 billion from 2011 balances primarily due to continued payoffs, paydowns, and transfers to held for sale.

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

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borrowers to finance their primary residence. These loans experienced a $0.8 billion decline to $13.0 billion in 2012, primarily due to consumer deleveraging. However, mortgage origination volume increased to $8.0 billion in 2012 as compared to $6.3 billion in 2011 reflecting customers taking advantage of the opportunity to refinance under the extended Home Affordable Refinance Program, or HARP II. A significant portion of mortgage originations were sold in the secondary market. At the end of 2012, Regions began the process of retaining 15 year fixed-rate mortgage production on the balance sheet which should mitigate additional balance reductions going forward. Refer to Note 6 Allowance for Credit Losses to the consolidated financial statements for additional discussion.

Home Equity Home equity lending includes both home equity loans and lines of credit. This type of lending, which is secured by a first or second mortgage on the borrower s residence, allows customers to borrow against the equity in their home. Substantially all of this portfolio was originated through Regions branch network. During 2012, home equity balances decreased $1.2 billion to $11.8 billion, driven by consumer deleveraging and refinancing. Net charge-offs within the home equity portfolio remain elevated, but decreased in 2012 as compared to 2011. Most of the improvement in losses came from Florida second liens because property values in Florida markets have either stabilized or started to increase. More information related to these developments is included in the Home Equity discussion below.

Indirect Indirect lending, which is lending initiated through third-party business partners, is largely comprised of loans made through automotive dealerships. This portfolio class increased $488 million, or 26 percent in 2012, reflecting growth from the late 2010 re-entry into the indirect auto lending business. Regions currently has over 1,900 dealers in its network.

Consumer Credit Card During the second quarter of 2011, Regions completed the purchase of approximately $1.0 billion of existing Regions-branded consumer credit card accounts from FIA Card Services. The products are primarily open-ended variable interest rate consumer credit card loans. In the third quarter of 2012, Regions assumed the servicing of these loans from FIA Card Services.

Other Consumer Other consumer loans include direct consumer installment loans, overdrafts and other revolving loans. Other consumer loans totaled $1.2 billion at December 31, 2012, relatively unchanged from the prior year.

CREDIT QUALITY

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

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INVESTOR REAL ESTATE

The following table presents the portions of the investor real estate portfolio segment as of December 31, 2012:

Table 12 Investor Real Estate Analysis

	Mortgage	Construction	Total	Percent of Total on Non-accrual Status
		(Dollars in billions)		
Retail	$ 1.7	$	$ 1.7	1.4%
Multi-family	1.3	0.3	1.6	1.6
Office	1.4	0.1	1.5	0.6
Industrial	0.8		0.8	0.5
Land	0.4	0.2	0.6	1.1
Single family	0.3	0.3	0.6	0.6
Hotel	0.5		0.5	
Other	0.4		0.4	0.3
Condominium				0.1
	$ 6.8	$ 0.9	$ 7.7	6.2%

The following table presents the geographic distribution of the investor real estate portfolio segment as of December 31, 2012:

Table 13 Investor Real Estate (IRE) By Geography

	Core State (1)								
	Alabama	Arkansas	Florida	Georgia	Lousisana	Mississippi	Tennessee	Other	% of Total IRE
Retail	2.1%	0.8%	5.6%	2.7%	0.5%	0.2%	1.4%	8.7%	22.0%
Multi-family	2.2	0.4	2.7	1.2	1.0	0.5	2.1	10.6	20.7
Office	1.8	0.2	4.3	2.7	1.3	0.2	1.0	7.5	19.0
Industrial	1.2		1.6	1.6	0.3	0.4	1.2	3.7	10.0
Land	0.7	0.2	3.1	0.6	0.2	0.1	0.8	1.5	7.2
Single family	1.4	0.4	1.5	0.8	0.4	0.2	1.0	2.4	8.1
Hotel	0.8	0.2	2.2	0.1	0.7	0.4	0.3	1.6	6.3
Other	0.7	0.2	2.0	0.5	0.4	0.3	0.7	1.0	5.8
Condominium	0.1		0.7	0.1					0.9
	11.0%	2.4%	23.7%	10.3%	4.8%	2.3%	8.5%	37.0%	100.0%

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

HOME EQUITY

The home equity portfolio totaled $11.8 billion at December 31, 2012 as compared to $13.0 billion at December 31, 2011. Substantially all of this portfolio was originated through Regions branch network. Losses in this portfolio generally track overall economic conditions. The main source of economic stress has been in Florida, where residential property values have declined significantly while unemployment rates remain high. Losses in Florida where Regions is in a second lien position are higher than first lien losses.

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

Table 14 Selected Home Equity Portfolio Information

	Year Ended December 31, 2012								
	Florida			All Other States			Total		
	1st Lien	2nd Lien	Total	1st Lien	2nd Lien	Total	1st Lien	2nd Lien	Total
	(Dollars in millions)								
Balance	$ 1,870	$ 2,433	$ 4,303	$ 3,752	$ 3,745	$ 7,497	$ 5,622	$ 6,178	$ 11,800
Net Charge-offs	33	113	146	29	59	88	62	172	234
Net Charge-off % (1)	1.71%	4.38%	3.25%	0.77%	1.45%	1.12%	1.08%	2.60%	1.90%

	Year Ended December 31, 2011								
	Florida			All Other States			Total		
	1st Lien	2nd Lien	Total	1st Lien	2nd Lien	Total	1st Lien	2nd Lien	Total
	(Dollars in millions)								