REGIONS FINANCIAL CORP
Form 10-Q
November 03, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 30, 2010

or

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

Commission File Number: 000-50831

Regions Financial Corporation

(Exact name of registrant as specified in its charter)

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

(205) 326-5807

(Registrant s telephone number, including area code)

NOT APPLICABLE

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

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

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

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

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

The number of shares outstanding of each of the issuer s classes of common stock was 1,256,084,000 shares of common stock, par value $.01, outstanding as of October 29, 2010.

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Forward-Looking Statements

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

The Dodd-Frank Wall Street Reform and Consumer Protection Act became law on July 21, 2010, and a number of legislative, regulatory and tax proposals remain pending. Additionally, the U.S. Treasury and federal banking regulators continue to implement, but are also beginning to wind down, a number of programs to address capital and liquidity in the banking system. 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.

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

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

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

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

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

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

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

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

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

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

Regions ability to keep pace with technological changes.

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

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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 and hurricanes, and the effects of the Gulf of Mexico oil spill.

Regions ability to maintain favorable ratings from rating agencies.

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

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

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

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

Regions ability to receive dividends from its subsidiaries.

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

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

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

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

See also Item 1A. Risk Factors of this Form 10-Q and of Regions Annual Report on Form 10-K for the year ended December 31, 2009 and Quarterly Reports on Form 10-Q for the quarters ended March 31, 2010 and June 30, 2010.

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	September 30 2010	December 31 2009	September 30 2009
	(In millions, except share data)		
Assets			
Cash and due from banks	$ 1,898	$ 2,052	$ 2,101
Interest-bearing deposits in other banks	3,852	5,580	5,902
Federal funds sold and securities purchased under agreements to resell	1,137	379	366
Trading account assets	1,580	3,039	1,388
Securities available for sale	23,555	24,069	21,030
Securities held to maturity	26	31	39
Loans held for sale (includes $1,183, $780 and $726 measured at fair value, respectively)	1,587	1,511	1,470
Loans, net of unearned income	84,420	90,674	92,754
Allowance for loan losses	(3,185)	(3,114)	(2,627)
Net loans	81,235	87,560	90,127
Other interest-earning assets	1,043	734	839
Premises and equipment, net	2,564	2,668	2,694
Interest receivable	512	468	499
Goodwill	5,561	5,557	5,557
Mortgage servicing rights	204	247	216
Other identifiable intangible assets	414	503	535
Other assets	8,330	7,920	7,223
Total assets	$ 133,498	$ 142,318	$ 139,986
Liabilities and Stockholders Equity			
Deposits:			
Non-interest-bearing	$ 25,300	$ 23,204	$ 21,226
Interest-bearing	69,678	75,476	73,654
Total deposits	94,978	98,680	94,880
Borrowed funds:			
Short-term borrowings:			
Federal funds purchased and securities sold under agreements to repurchase	2,451	1,893	2,633
Other short-term borrowings	1,210	1,775	2,653
Total short-term borrowings	3,661	3,668	5,286
Long-term borrowings	14,335	18,464	18,093
Total borrowed funds	17,996	22,132	23,379
Other liabilities	3,361	3,625	3,235
Total liabilities	116,335	124,437	121,494

Stockholders equity:			
Preferred stock, authorized 10 million shares			
Series A, cumulative perpetual participating, par value $1.00 (liquidation preference $1,000.00) per share, net of discount;			
Issued 3,500,000 shares	3,370	3,343	3,334
Series B, mandatorily convertible, cumulative perpetual participating, par value $1,000.00 (liquidation preference $1,000.00) per share;			
Issued 0; 267,665 and 287,500 shares, respectively		259	278
Common stock, par value $.01 per share:			
Authorized 3 billion shares at September 30, 2010, and 1.5 billion shares at December 31, 2009 and September 30, 2009			
Issued including treasury stock 1,298,993,365; 1,235,850,589 and 1,231,352,421 shares, respectively	13	12	12
Additional paid-in capital	19,047	18,781	18,754
Retained earnings (deficit)	(4,070)	(3,235)	(2,618)
Treasury stock, at cost 42,909,422; 43,241,020 and 43,316,136 shares, respectively	(1,405)	(1,409)	(1,411)
Accumulated other comprehensive income, net	208	130	143
Total stockholders equity	17,163	17,881	18,492
Total liabilities and stockholders equity	$ 133,498	$ 142,318	$ 139,986

See notes to consolidated financial statements.

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REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
	(In millions, except per share data)			
Interest income on:				
Loans, including fees	$ 919	$ 1,047	$ 2,794	$ 3,218
Securities:				
Taxable	214	232	680	710
Tax-exempt		6	1	18
Total securities	214	238	681	728
Loans held for sale	10	12	27	43
Federal funds sold and securities purchased under agreements to resell	1		2	2
Trading account assets	8	10	29	32
Other interest-earning assets	6	7	20	21
Total interest income	1,158	1,314	3,553	4,044
Interest expense on:				
Deposits	167	301	603	997
Short-term borrowings	3	9	8	45
Long-term borrowings	120	159	387	517
Total interest expense	290	469	998	1,559
Net interest income	868	845	2,555	2,485
Provision for loan losses	760	1,025	2,181	2,362
Net interest income (loss) after provision for loan losses	108	(180)	374	123
Non-interest income:				
Service charges on deposit accounts	294	300	884	857
Brokerage, investment banking and capital markets	257	252	747	732
Mortgage income	66	76	196	213
Trust department income	49	49	146	143
Securities gains, net	2	4	61	165
Leveraged lease termination gains		4	19	517
Other	82	87	265	410
Total non-interest income	750	772	2,318	3,037
Non-interest expense:				
Salaries and employee benefits	582	578	1,717	1,703
Net occupancy expense	110	121	340	340
Furniture and equipment expense	75	83	228	237
Other-than-temporary impairments (1)	1	3	2	75
Regulatory charge			200	
Other	395	458	1,232	1,177
Total non-interest expense	1,163	1,243	3,719	3,532

Income (loss) before income taxes	(305)	(651)	(1,027)	(372)
Income tax expense (benefit)	(150)	(274)	(399)	116
Net income (loss)	$ (155)	$ (377)	$ (628)	$ (488)
Net income (loss) available to common shareholders	$ (209)	$ (437)	$ (799)	$ (655)
Weighted-average number of shares outstanding:				
Basic	1,257	1,189	1,217	921
Diluted	1,257	1,189	1,217	921
Earnings (loss) per common share:				
Basic	$ (0.17)	$ (0.37)	$ (0.66)	$ (0.71)
Diluted	(0.17)	(0.37)	(0.66)	(0.71)
Cash dividends declared per common share	0.01	0.01	0.03	0.12

(1) Includes $3 million for the three months ended and $266 million for the nine months ended September 30, 2009, respectively, of gross charges, net of $0 for the three months ended and $191 million for the nine months ended September 30, 2009, respectively, of non-credit portion reported in other comprehensive income (loss). The corresponding 2010 amounts are immaterial.

See notes to consolidated financial statements.

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REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

	Preferred Stock		Common Stock					Accumulated Other	
	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Retained Earnings (Deficit)	Treasury Stock, At Cost	Comprehensive Income (Loss)	Total
				(In millions, except share and per share data)					
BALANCE AT JANUARY 1, 2009	4	$ 3,307	691	$ 7	$ 16,815	$ (1,869)	$ (1,425)	$ (22)	$ 16,813
Comprehensive income:									
Net income (loss)						(488)			(488)
Net change in unrealized gains and losses on securities available for sale, net of tax and reclassification adjustment, excluding non-credit portion of other-than temporary impairments*								389	389
Non-credit portion of other-than-temporary impairments recognized in other comprehensive income, net of tax*								(124)	(124)
Net change in unrealized gains and losses on derivative instruments, net of tax and reclassification adjustment*								(120)	(120)
Net change from defined benefit pension plans, net of tax*								20	20
Comprehensive income (loss)									(323)
Cash dividends declared - $0.12 per share						(94)			(94)
Preferred dividends						(140)			(140)
Preferred stock transactions:									
Net proceeds from issuance of 287,500 shares of mandatorily convertible preferred stock		278							278
Discount accretion		27				(27)			
Common stock transactions:									
Net proceeds from issuance of 460 million shares of common stock			460	5	1,764				1,769
Issuance of 33 million shares of common stock in connection with early extinguishment of debt			33		135				135
Impact of stock transactions under compensation plans, net			4		40		14		54
BALANCE AT SEPTEMBER 30, 2009	4	$ 3,612	1,188	$ 12	$ 18,754	$ (2,618)	$ (1,411)	$ 143	$ 18,492
BALANCE AT JANUARY 1, 2010	4	$ 3,602	1,193	$ 12	$ 18,781	$ (3,235)	$ (1,409)	$ 130	$ 17,881
Comprehensive income:									
Net income (loss)						(628)			(628)
Net change in unrealized gains and losses on securities available for sale, net of tax and reclassification adjustment*								144	144
Net change in unrealized gains and losses on derivative instruments, net of tax and reclassification adjustment*								(83)	(83)
Net change from defined benefit pension plans, net of tax*								17	17
Comprehensive income (loss)									(550)
Cash dividends declared - $0.03 per share						(36)			(36)
Preferred dividends					3	(144)			(141)
Preferred stock transactions:									
Conversion of mandatorily convertible preferred stock into 63 million shares of common stock		(259)	63	1	258				
Discount accretion		27				(27)			
Common stock transactions:									

Impact of stock transactions under compensation plans, net					5		4		9
BALANCE AT SEPTEMBER 30, 2010	4	$ 3,370	1,256	$ 13	$ 19,047	$ (4,070)	$ (1,405)	$ 208	$ 17,163

See notes to consolidated financial statements.

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

REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30 2010	2009
	(In millions)	
Operating activities:		
Net income (loss)	$ (628)	$ (488)
Adjustments to reconcile net cash provided by operating activities:		
Provision for loan losses	2,181	2,362
Depreciation and amortization of premises and equipment	216	212
Provision for losses on other real estate, net	121	90
Net amortization (accretion) of securities	151	(9)
Net amortization of loans and other assets	167	192
Net accretion of deposits and borrowings	(4)	(13)
Net securities gains	(61)	(165)
Loss (gain) on early extinguishment of debt	53	(61)
Other-than-temporary impairments, net	2	75
Deferred income tax benefit	(216)	(471)
Originations and purchases of loans held for sale	(3,744)	(6,179)
Proceeds from sales of loans held for sale	4,167	6,358
Gain on sale of loans, net	(59)	(79)
Decrease (increase) in trading account assets	1,459	(338)
(Increase) decrease in other interest-earning assets	(309)	58
Increase in interest receivable	(44)	(41)
Decrease in other assets	51	1,368
Decrease in other liabilities	(244)	(223)
Other	75	(11)
Net cash from operating activities	3,334	2,637
Investing activities:		
Proceeds from sales of securities available for sale	1,610	3,657
Proceeds from maturities of:		
Securities available for sale	5,617	4,002
Securities held to maturity	4	7
Purchases of:		
Securities available for sale	(6,572)	(9,312)
Proceeds from sales of loans	966	350
Net decrease in loans	2,168	1,786
Net purchases of premises and equipment	(118)	(120)
Net cash received from deposits assumed		279
Net cash from investing activities	3,675	649
Financing activities:		
Net (decrease) increase in deposits	(3,702)	3,700
Net decrease in short-term borrowings	(7)	(10,536)
Proceeds from long-term borrowings	743	1,602
Payments on long-term borrowings	(4,990)	(2,482)
Net proceeds from issuance of mandatorily convertible preferred stock		278
Net proceeds from issuance of common stock		1,769
Cash dividends on common stock	(36)	(94)

Cash dividends on preferred stock	(141)	(140)
Proceeds from stock transactions under compensation plans		13
Net cash from financing activities	(8,133)	(5,890)
Decrease in cash and cash equivalents	(1,124)	(2,604)
Cash and cash equivalents at beginning of year	8,011	10,973
Cash and cash equivalents at end of period	$ 6,887	$ 8,369

See notes to consolidated financial statements.

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REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Three and Nine Months Ended September 30, 2010 and 2009

NOTE 1 Basis of Presentation

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

The accounting and reporting policies of Regions and the methods of applying those policies that materially affect the consolidated financial statements conform with accounting principles generally accepted in the United States (GAAP) and with general financial services industry practices. The accompanying interim financial statements have been prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all information and notes to the consolidated financial statements necessary for a complete presentation of financial position, results of operations and cash flows in conformity with GAAP. In the opinion of management, all adjustments, consisting of normal and recurring items, necessary for the fair presentation of the consolidated financial statements have been included. These interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto in Regions Form 10-K for the year ended December 31, 2009.

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

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

NOTE 2 Earnings (Loss) per Common Share

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
	(In millions, except per share amounts)			
Numerator:				
Net income (loss)	$ (155)	$ (377)	$ (628)	$ (488)
Preferred stock dividends and accretion	(54)	(60)	(171)	(167)
Net income (loss) available to common shareholders	$ (209)	$ (437)	$ (799)	$ (655)
Denominator:				
Weighted-average common shares outstanding basic and dilulted	1,257	1,189	1,217	921
Earnings (loss) per common share:				
Basic	$ (0.17)	$ (0.37)	$ (0.66)	$ (0.71)
Diluted	(0.17)	(0.37)	(0.66)	(0.71)

Basic and diluted weighted-average common shares outstanding are the same due to the net losses for all periods presented.

As discussed in Note 3 to the consolidated financial statements, approximately 63 million common shares were issued in June of 2010 in connection with the conversion of the remaining Series B mandatorily convertible preferred shares, which were originally issued in May 2009. Under applicable accounting literature, such shares should be included in the denominator in arriving at diluted earnings per share as if they were issued at the beginning of the reporting period or as of the date issued, if later. Prior to conversion, these shares were not included in the computation above as such amounts would have had an antidilutive effect on earnings (loss) per common share.

NOTE 3 Stockholders Equity and Comprehensive Income (Loss)

On November 14, 2008, Regions completed the sale of 3.5 million shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series A, par value $1.00 and liquidation preference $1,000.00 per share (and $3.5 billion liquidation preference in the aggregate) to the U.S. Treasury as part of the Capital Purchase Program (CPP). Regions will pay the U.S. Treasury on a quarterly basis a 5 percent dividend, or $175 million annually, for each of the first five years of the investment, and 9 percent thereafter unless Regions redeems the shares. Regions performed a discounted cash flow analysis to value the preferred stock at the date of issuance. For purposes of this analysis, Regions assumed that the preferred stock would most likely be redeemed five years from the valuation date based on optimal financial budgeting considerations. Regions used the Bloomberg USD US Bank BBB index to derive the market yield curve as of the valuation date to discount future expected cash flows to the valuation date. The discount rate used to value the preferred stock was 7.46 percent, based on this yield curve at a 5-year maturity. Dividends were assumed to be accrued until redemption. While the discounting was required based on a 5-year redemption, Regions did not have a 5-year security or similarly termed security available. As a result, it was necessary to use a benchmark yield curve to calculate the 5-year value. To determine the appropriate yield curve that was applicable to Regions, the yield to maturity on the outstanding debt instrument with the longest dated maturity (8.875% junior subordinated notes due June 2048) was compared to the longest point on the USD US Bank BBB index as of November 14, 2008. Regions concluded that the yield to maturity as of the valuation date of the debt, which was 11.03 percent, was consistent with the indicative yield of the curve noted above. The longest available point on this curve was 10.55 percent at 30 years.

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

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

(a) Closing stock price of Regions as of the valuation date (November 14, 2008).
(b) As outlined in the Warrant to Purchase Agreement, dated November 14, 2008.
(c) Expected volatility based on Regions historical volatility, as of November 14, 2008, over a look-back period of 10 years, commensurate with the terms of the warrant.

(d) The risk-free rate represents the yield on 10-year U.S. Treasury Strips as of November 14, 2008.
(e) The dividend yield assumption was calculated based on a weighting of 30% on management s dividend yield expectations for the next 3 years and a weighting of 70% on Regions average dividend yield over the 10 years prior to the valuation date.

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The fair value allocation of the $3.5 billion between the preferred shares and the warrant resulted in $3.304 billion allocated to the preferred shares and $196 million allocated to the warrant. Accrued dividends on the preferred shares reduced retained earnings by $131 million during the first nine months of both 2010 and 2009. The unamortized discount on the preferred shares was $130 million at September 30, 2010, $157 million at December 31, 2009 and $166 million at September 30, 2009. Discount accretion on the preferred shares reduced retained earnings by $27 million during the first nine months of both 2010 and 2009, respectively. Both the preferred securities and the warrant are accounted for as components of Regions regulatory Tier 1 Capital.

On May 20, 2009 the Company issued 287,500 shares of mandatorily convertible preferred stock, Series B (Series B shares), generating net proceeds of approximately $278 million. Accrued dividends on the Series B shares reduced retained earnings by $12 million and $9 million for the first nine months of 2010 and 2009, respectively. In November 2009, a single investor converted approximately 20,000 Series B shares to common shares as allowed under the original transaction documents. On June 18, 2010, as allowed by the terms of the Series B shares, Regions initiated an early conversion of all of the remaining outstanding Series B shares. Dividends accrued and unpaid at the conversion date were settled through issuance of common shares in accordance with the original document. No Series B shares were outstanding at September 30, 2010. Approximately 63 million common shares were issued in the conversion and dividend settlement.

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

In addition to the offerings mentioned above, in the second quarter of 2009, the Company also exchanged approximately 33 million common shares for $202 million of outstanding 6.625% trust preferred securities issued by Regions Financing Trust II (the Trust). The trust preferred securities were exchanged for junior subordinated notes issued by the Company to the Trust. The Company recognized a pre-tax gain of approximately $61 million on the extinguishment of the junior subordinated notes. The increase in shareholders equity related to the debt for common share exchange was approximately $135 million, net of issuance costs.

At September 30, 2010, Regions had 23.1 million common shares available for repurchase through open market transactions under an existing share repurchase authorization. There were no treasury stock purchases through open market transactions during the first nine months of 2010. The Company s ability to repurchase its common stock is limited by the terms of the CPP mentioned above.

The Board of Directors declared a $0.01 cash dividend for the third quarters of both 2010 and 2009. Regions does not expect to increase its quarterly dividend above $0.01 for the foreseeable future. Cash dividends declared for the first nine months of 2010 and 2009 were $0.03 and $0.12, respectively.

Comprehensive income (loss) is the total of net income (loss) and all other non-owner changes in equity. Items are recognized as components of comprehensive income (loss) and are displayed in the consolidated statements of changes in stockholders equity. In the calculation of comprehensive income (loss), certain reclassification adjustments are made to avoid double-counting items that are displayed as part of net income (loss) for a period that also had been displayed as part of other comprehensive income (loss) in that period or earlier periods.

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The following disclosure reflects the components of comprehensive income (loss) and any associated reclassification amounts:

	Three Months Ended September 30, 2010		
	Before Tax	Tax Effect (In millions)	Net of Tax
Net income (loss)	$ (305)	$ 150	$ (155)
Net unrealized holding gains and losses on securities available for sale arising during the period	(144)	56	(88)
Less: reclassification adjustments for net securities gains realized in net income (loss)	2		2
Net change in unrealized gains and losses on securities available for sale	(146)	56	(90)
Net unrealized holding gains and losses on derivatives arising during the period	34	(13)	21
Less: reclassification adjustments for net gains realized in net income (loss)	60	(23)	37
Net change in unrealized gains and losses on derivative instruments	(26)	10	(16)
Net actuarial gains and losses arising during the period	23	(8)	15
Less: amortization of actuarial loss and prior service credit realized in net income (loss)	11	(4)	7
Net change from defined benefit plans	12	(4)	8
Comprehensive income (loss)	$ (465)	$ 212	$ (253)

	Three Months Ended September 30, 2009		
	Before Tax	Tax Effect (In millions)	Net of Tax
Net income (loss)	$ (651)	$ 274	$ (377)
Net unrealized holding gains and losses on securities available for sale arising during the period	352	(131)	221
Less: non-credit portion of other-than-temporary impairments recognized in other comprehensive income (loss)			
Less: reclassification adjustments for net securities gains realized in net income (loss)	4	(2)	2
Net change in unrealized gains and losses on securities available for sale	348	(129)	219
Net unrealized holding gains and losses on derivatives arising during the period	37	(14)	23
Less: reclassification adjustments for net gains realized in net income (loss)	105	(40)	65
Net change in unrealized gains and losses on derivative instruments	(68)	26	(42)
Net actuarial gains and losses arising during the period	18	(9)	9
Less: amortization of actuarial loss and prior service credit realized in net income (loss)	11	(4)	7
Net change from defined benefit plans	7	(5)	2
Comprehensive income (loss)	$ (364)	$ 166	$ (198)

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	Nine Months Ended September 30, 2010		
	Before Tax	Tax Effect	Net of Tax
		(In millions)	
Net income (loss)	$ (1,027)	$ 399	$ (628)
Net unrealized holding gains and losses on securities available for sale arising during the period	293	(109)	184
Less: reclassification adjustments for net securities gains realized in net income (loss)	61	(21)	40
Net change in unrealized gains and losses on securities available for sale	232	(88)	144
Net unrealized holding gains and losses on derivatives arising during the period	52	(20)	32
Less: reclassification adjustments for net gains realized in net income (loss)	186	(71)	115
Net change in unrealized gains and losses on derivative instruments	(134)	51	(83)
Net actuarial gains and losses arising during the period	62	(24)	38
Less: amortization of actuarial loss and prior service credit realized in net income (loss)	33	(12)	21
Net change from defined benefit plans	29	(12)	17
Comprehensive income (loss)	$ (900)	$ 350	$ (550)

	Nine Months Ended September 30, 2009		
	Before Tax	Tax Effect	Net of Tax
		(In millions)	
Net income (loss)	$ (372)	$ (116)	$ (488)
Net unrealized holding gains and losses on securities available for sale arising during the period	783	(287)	496
Less: non-credit portion of other-than-temporary impairments recognized in other comprehensive income (loss)	191	(67)	124
Less: reclassification adjustments for net securities gains realized in net income (loss)	165	(58)	107
Net change in unrealized gains and losses on securities available for sale	427	(162)	265
Net unrealized holding gains and losses on derivatives arising during the period	110	(42)	68
Less: reclassification adjustments for net gains realized in net income (loss)	303	(115)	188
Net change in unrealized gains and losses on derivative instruments	(193)	73	(120)
Net actuarial gains and losses arising during the period	66	(25)	41
Less: amortization of actuarial loss and prior service credit realized in net income (loss)	33	(12)	21
Net change from defined benefit plans	33	(13)	20
Comprehensive income (loss)	$ (105)	$ (218)	$ (323)

NOTE 4 Pension and Other Postretirement Benefits

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

	For The Three Months Ended September 30			
	Pension		Other Postretirement Benefits	
	2010	2009	2010	2009
	(In millions)			
Service cost	$ 8	$	$	$
Interest cost	23	22		
Expected return on plan assets	(28)	(22)		
Amortization of actuarial loss	12	11		
Settlement charge		1		
	$ 15	$ 12	$	$

	For The Nine Months Ended September 30			
	Pension		Other Postretirement Benefits	
	2010	2009	2010	2009
	(In millions)			
Service cost	$ 27	$ 2	$	$
Interest cost	69	65	2	1
Expected return on plan assets	(78)	(66)		
Amortization of prior service cost (credit)	1	1	(1)	(1)
Amortization of actuarial loss	33	33		
Settlement charge		1		
	$ 52	$ 36	$ 1	$

During 2009, participant accruals of service in the Regions Financial Corporation Retirement Plan (the pension plan) and the Company s current active non-qualified supplemental retirement plan (the SERP) were temporarily suspended resulting in a reduction in service cost. Effective January 1, 2010, the benefit accruals were reinstated for pension plan and SERP participants.

Matching contributions in the 401(k) plan were temporarily suspended beginning in the second quarter of 2009. Effective January 1, 2010, Regions restored matching contributions to the 401(k) plan to pre-existing levels.

NOTE 5 Share-Based Payments

Regions has long-term incentive compensation plans that permit the granting of incentive awards in the form of stock options, restricted stock awards and units, and/or stock appreciation rights. The terms of all awards issued under these plans are determined by the Compensation Committee of the Board of Directors; however, no awards may be granted after the tenth anniversary from the date the plans were initially approved by shareholders. Options and restricted stock usually vest based on employee service, generally within three years from the date of the grant. The contractual lives of options granted under these plans range from seven to ten years from the date of grant.

On May 13, 2010, the shareholders of the Company approved the Regions Financial Corporation 2010 Long-Term Incentive Plan (2010 LTIP), which permits the Company to grant to employees and directors various forms of incentive compensation. These forms of incentive compensation are similar to the types of compensation approved in prior plans. The 2010 LTIP authorizes 100 million common share equivalents available for grant, where grants of options count as one share equivalent and grants of full value awards (e.g., shares of restricted stock and restricted stock units) count as 2.25 share equivalents. Unless otherwise determined

by the Compensation Committee of the Board of Directors, grants of restricted stock and restricted stock units accrue dividends as they are declared by the Board of Directors, and the dividends are paid upon vesting of the award. The 2010 LTIP closed all prior long-term incentive plans to new grants, and accordingly, prospective grants must be made under the 2010 LTIP or a successor plan. All existing grants under prior long-term incentive plans were unaffected by this amendment. The number of remaining share equivalents available for future issuance under the active long-term compensation plan was approximately 91 million at September 30, 2010.

In the second quarter of 2010, Regions made stock option grants that vest based upon a service condition. The fair value of these stock options was estimated on the date of the grant using a Black-Scholes option pricing model and related assumptions. The stock options vest ratably over a 3-year term. During the first quarter of 2009, Regions made stock option grants from prior long-term incentive plans that vest based upon a service condition and a market condition in addition to awards that were similar to prior grants. The fair value of these stock options was estimated on the date of the grant using a Monte-Carlo simulation method. The simulation generates a defined number of stock price paths in order to develop a reasonable estimate of the range of future expected stock prices and minimize standard error.

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

	September 30	
	2010	2009
Expected option life	5.8 yrs.	6.8 yrs.
Expected volatility	74.04%	67.15%
Expected dividend yield	2.22%	1.85%
Risk-free interest rate	2.24%	2.80%
Fair value	$ 3.86	$ 1.78

The second quarter 2010 awards of stock options were granted to a broader pool of employees than the 2009 awards. The expected exercise behavior of the broader base of employees receiving awards resulted in a lower expected option life when comparing 2010 to 2009. The expected volatility increased based upon increases in the historical volatility of Regions stock price, offset slightly by reductions in the implied volatility measurements from traded options on the Company s stock. The expected dividend yield increased based upon the Company s expectation of increased dividends over the long term.

The following table details the activity during the first nine months of 2010 and 2009 related to stock options:

	For the Nine Months Ended September 30			
	2010		2009	
	Number of Options	Wtd. Avg. Exercise Price	Number of Options	Wtd. Avg. Exercise Price
Outstanding at beginning of period	52,968,560	$ 26.34	52,955,298	$ 28.22
Granted	7,173,667	7.00	4,063,209	3.29
Exercised	(137,736)	3.29		
Forfeited or cancelled	(3,610,699)	20.07	(2,335,717)	30.38
Outstanding at end of period	56,393,792	$ 24.34	54,682,790	$ 26.29
Exercisable at end of period	45,537,603	$ 27.85	43,875,821	$ 28.76

In the second quarter of 2010, Regions granted 800 thousand restricted shares that vest based upon a service condition. Dividend payments during the vesting period are deferred to the end of the vesting term. The fair value of these restricted shares was estimated based upon the fair value of the underlying shares on the date of the grant. The valuation was not adjusted for the deferral of dividends.

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

The following table details the activity during the first nine months of 2010 and 2009 related to restricted share awards and units:

	For the Nine Months Ended September 30			
	2010		2009	
	Number of Shares	Wtd. Avg. Grant Date Fair Value	Number of Shares	Wtd. Avg. Grant Date Fair Value
Non-vested at beginning of period	5,964,594	$ 17.15	4,123,911	$ 27.67
Granted	1,151,968	6.96	3,100,415	2.87
Vested	(873,383)	34.35	(787,349)	16.02
Forfeited	(1,049,924)	16.57	(281,524)	21.69
Non-vested at end of period	5,193,255	$ 12.39	6,155,453	$ 16.94

NOTE 6 Securities

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

September 30, 2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(In millions)		
Securities available for sale:				
U.S. Treasury securities	$ 85	$ 7	$	$ 92
Federal agency securities	40	1		41
Obligations of states and political subdivisions	32	6		38
Mortgage-backed securities:				
Residential agency	21,586	642	(4)	22,224
Residential non-agency	20	3		23
Commercial agency	56	3		59
Other debt securities	29		(3)	26
Equity securities	1,044	8		1,052
	$ 22,892	$ 670	$ (7)	$ 23,555
Securities held to maturity:				
U.S. Treasury securities	$ 6	$ 1	$	$ 7
Federal agency securities	5			5
Mortgage-backed securities:				
Residential agency	13	1		14
Other debt securities	2			2

	$	26	$	2	$		$	28

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December 31, 2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)			
Securities available for sale:				
U.S. Treasury securities	$ 46	$ 4	$	$ 50
Federal agency securities	44	1		45
Obligations of states and political subdivisions	70			70
Mortgage-backed securities:				
Residential agency	22,271	474	(61)	22,684
Residential non-agency	33	3		36
Commercial agency	20	1		21
Other debt securities	22		(3)	19
Equity securities	1,132	12		1,144
	$ 23,638	$ 495	$ (64)	$ 24,069
Securities held to maturity:				
U.S. Treasury securities	$ 7	$	$	$ 7
Federal agency securities	6			6
Mortgage-backed securities:				
Residential agency	16			16
Other debt securities	2			2
	$ 31	$	$	$ 31

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. For debt securities, activity related to the credit loss component of other-than-temporary impairment is recognized in earnings, and the portion of other-than-temporary impairment related to all other factors is recognized in other comprehensive income (loss). For the three and nine months ended September 30, 2010, Regions recorded a credit related impairment charge related to debt securities of approximately $0 and $1 million, respectively. For the three and nine months ended September 30, 2009, Regions recorded a credit related impairment charge related to debt securities of approximately $3 million and $63 million, respectively. There were no non-credit related impairment charges related to debt securities recorded during the three and nine months ended September 30, 2010. For the three and nine months ended September 30, 2009, $0 and $191 million non-credit portion of other-than-temporary impairment charges related to debt securities were recorded in other comprehensive income (loss).

In addition to the other-than-temporary impairment charge recognized during the nine months ended September 30, 2010 related to debt securities, the Company recognized a write-down of approximately $1 million during both the three and nine months ended September 30, 2010 and $0 and $12 million for the three and nine months ended September 30, 2009, representing other-than-temporary-impairments of equity securities classified as available for sale. The Company recognizes impairment of available for sale equity securities when the current market value is below the highest traded price within the past six months. The cost basis of the securities is adjusted to current fair value with the entire offset recorded in the statement of operations.

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The following tables present unrealized loss and estimated fair value of securities available for sale at September 30, 2010 and December 31, 2009. These securities are segregated between investments that have been in a continuous unrealized loss position for less than twelve months and twelve months or more.

September 30, 2010	Less Than Twelve Months Estimated Fair Value	Less Than Twelve Months Gross Unrealized Losses	Twelve Months or More Estimated Fair Value	Twelve Months or More Gross Unrealized Losses	Total Estimated Fair Value	Total Gross Unrealized Losses
	(In millions)					
Mortgage-backed securities:						
Residential agency	$ 1,272	$ (4)	$	$	$ 1,272	$ (4)
Other debt securities			6	(3)	6	(3)
	$ 1,272	$ (4)	$ 6	$ (3)	$ 1,278	$ (7)

December 31, 2009	Less Than Twelve Months Estimated Fair Value	Less Than Twelve Months Gross Unrealized Losses	Twelve Months or More Estimated Fair Value	Twelve Months or More Gross Unrealized Losses	Total Estimated Fair Value	Total Gross Unrealized Losses
	(In millions)					
Mortgage-backed securities:						
Residential agency	$ 6,686	$ (61)	$	$	$ 6,686	$ (61)
Other debt securities			8	(3)	8	(3)
	$ 6,686	$ (61)	$ 8	$ (3)	$ 6,694	$ (64)

For securities included in the tables above, management does not believe that any of the 83 securities and 151 securities at September 30, 2010 and December 31, 2009, respectively, in an individual loss position represented an other-than-temporary impairment as of those dates.

The gross unrealized loss on debt securities held to maturity was less than $1 million at September 30, 2010 and December 31, 2009.

The cost and estimated fair value of securities available for sale and securities held to maturity at September 30, 2010, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
	(In millions)	
Securities available for sale:		
Due in one year or less	$ 41	$ 41
Due after one year through five years	89	96
Due after five years through ten years	14	14
Due after ten years	42	46
Mortgage-backed securities:		
Residential agency	21,586	22,224
Residential non-agency	20	23
Commercial agency	56	59
Equity securities	1,044	1,052
	$ 22,892	$ 23,555
Securities held to maturity:		
Due in one year or less	$ 4	$ 4
Due after one year through five years	6	7
Due after five years through ten years	3	3
Due after ten years		
Mortgage-backed securities:		
Residential agency	13	14
	$ 26	$ 28

Proceeds from sales of securities available for sale in the three and nine months of 2010 were $150 million and $1.6 billion, respectively. Gross realized gains and losses were $2 million and $0 million for the three months ended September 30, 2010, and $84 million and $23 million, respectively, for the nine months ended September 30, 2010. Proceeds from sales of securities available for sale in the three and nine months of 2009 were $1.3 billion and $3.7 billion, respectively. Gross realized gains and losses were $8 million and $4 million, respectively, for the three months ended September 30, 2009, and $169 million and $4 million, respectively, for the nine months ended September 30, 2009.

Equity securities included $477 million and $437 million, respectively, of amortized cost related to Federal Reserve Bank stock and Federal Home Loan Bank (FHLB) stock as of September 30, 2010 and $492 million and $533 million, respectively, of amortized cost related to Federal Reserve Bank stock and FHLB stock as of December 31, 2009. The estimated fair value of both Federal Reserve Bank and FHLB stock approximates their carrying amounts.

Securities with carrying values of $14.4 billion and $12.4 billion at September 30, 2010 and December 31, 2009, respectively, were pledged to secure public funds, trust deposits and certain borrowing arrangements.

Trading account net gains totaled $18 million and $27 million for the three and nine months ended September 30, 2010, respectively, (including $6 million and $10 million of net unrealized gains for the three months and nine months ended September 30, 2010, respectively). Trading account net gains totaled $27 million and $50 million for the three and nine months ended September 30, 2009, respectively, (including $24 million and $12 million of net unrealized gains for the three months and nine months ended September 30, 2009, respectively). The unrealized gains primarily represent market valuation changes in securities related to deferred compensation plans, and are offset by increases in salaries and employee benefits expense.

NOTE 7 Business Segment Information

Regions segment information is presented based on Regions key segments of business. Each segment is a strategic business unit that serves specific needs of Regions customers. The Company s primary segment is Banking/Treasury, which represents the Company s branch network, including consumer and commercial banking functions, and has separate management that is responsible for the operation of that business unit. This segment also includes the Company s Treasury function, including the Company s securities portfolio and other wholesale funding activities.

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

During the third quarter of 2010, minor reclassifications were made from the Banking/Treasury segment to the Insurance segment to more appropriately present management s current view of the segments. The 2009 amounts presented below have been adjusted to conform to the 2010 presentation.

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

Three months ended September 30, 2010	Banking/ Treasury	Investment Banking/ Brokerage/ Trust	Insurance	Total Company
		(In millions)		
Net interest income	$ 852	$ 15	$ 1	$ 868
Provision for loan losses	760			760
Non-interest income	415	309	26	750
Non-interest expense	851	289	23	1,163
Income tax expense (benefit)	(165)	13	2	(150)
Net income (loss)	$ (179)	$ 22	$ 2	$ (155)
Average assets	$ 127,090	$ 6,121	$ 518	$ 133,729

Three months ended September 30, 2009	Banking/ Treasury	Investment Banking/ Brokerage/ Trust	Insurance	Total Company
		(In millions)		
Net interest income	$ 830	$ 14	$ 1	$ 845
Provision for loan losses	1,025			1,025
Non-interest income	430	316	26	772
Non-interest expense	935	284	24	1,243
Income tax expense (benefit)	(292)	17	1	(274)
Net income (loss)	$ (408)	$ 29	$ 2	$ (377)
Average assets	$ 134,824	$ 4,981	$ 500	$ 140,305

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Nine months ended September 30, 2010	Banking/ Treasury	Investment Banking/ Brokerage/ Trust	Insurance	Total Company
		(In millions)		
Net interest income	$ 2,508	$ 45	$ 2	$ 2,555
Provision for loan losses	2,181			2,181
Non-interest income	1,340	899	79	2,318
Non-interest expense	2,613	838	68	3,519
Regulatory charge		200		200
Income tax expense (benefit)	(443)	39	5	(399)
Net income (loss)	$ (503)	$ (133)	$ 8	$ (628)
Average assets	$ 130,811	$ 5,515	$ 512	$ 136,838

Nine months ended September 30, 2009	Banking/ Treasury	Investment Banking/ Brokerage/ Trust	Insurance	Total Company
		(In millions)		
Net interest income	$ 2,438	$ 44	$ 3	$ 2,485
Provision for loan losses	2,362			2,362
Non-interest income	2,068	887	82	3,037
Non-interest expense	2,646	817	69	3,532
Income tax expense (benefit)	67	42	7	116
Net income (loss)	$ (569)	$ 72	$ 9	$ (488)
Average assets	$ 138,360	$ 4,454	$ 493	$ 143,307

NOTE 8 Goodwill

Goodwill allocated to each reportable segment as of September 30, 2010, December 31, 2009, and September 30, 2009 is presented as follows:

	September 30 2010	December 31 2009	September 30 2009
		(In millions)	
Banking/Treasury	$ 4,691	$ 4,691	$ 4,691
Investment Banking/Brokerage/Trust	745	745	745
Insurance	125	121	121
Total goodwill	$ 5,561	$ 5,557	$ 5,557

The Company s goodwill is tested for impairment on an annual basis, or more often if events or circumstances indicate that there may be impairment. Adverse changes in the economic environment, declining operations, or other factors could result in a decline in the implied fair value of goodwill. A goodwill impairment test includes two steps. Step One, used to identify potential impairment, compares the estimated fair value of a reporting unit with its carrying amount, including goodwill. If the estimated fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired. If the carrying amount of a reporting unit exceeds its estimated fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. Step Two of the goodwill impairment test compares the implied estimated fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of goodwill for that reporting unit exceeds the implied fair value of that unit s goodwill, an impairment loss is recognized in an amount equal to that excess.

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During the third quarter of 2010, Regions assessed the indicators of goodwill impairment as of August 31, 2010, and through the date of the filing of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2010. The indicators assessed included:

- Recent operating performance,
- Changes in market capitalization,
- Regulatory actions and assessments,
- Changes in the business climate (including legislation, legal factors and competition),
- Company-specific factors (including changes in key personnel, asset impairments, and business dispositions), and
- Trends in the banking industry.

Based on the assessment of the indicators above, quantitative testing of goodwill was required for all of Regions reporting units for the September 30, 2010 interim period.

For purposes of performing Step One of the goodwill impairment test, Regions uses both the income and market approaches to value its reporting units. The income approach, which is the primary valuation approach, consists of discounting projected long-term future cash flows, which are derived from internal forecasts and economic expectations for the respective reporting units. The significant inputs to the income approach include expected future cash flows, the long-term target tangible equity to tangible assets ratio, and the discount rate.

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

Regions uses the output from these approaches to determine the estimated fair value of each reporting unit. Below is a table of assumptions used in estimating the fair value of each reporting unit for the September 30, 2010 interim period. The table includes the discount rate used in the income approach, the market multiplier used in the market approaches, and the public company method control premium applied to all reporting units.

	Banking/ Treasury	Investment Banking/ Brokerage/ Trust	Insurance
Discount rate used in income approach	16%	13%	11%
Public company method market multiplier (a)	0.8x	1.5x	20.5x
Public company method control premium	30%	30%	30%
Transaction method market multiplier (b)	1.0x	2.1x	n/a

(a) For the Banking/Treasury and Investment Banking/Brokerage/Trust reporting units, these multipliers are applied to tangible common book value. For the Insurance reporting unit, this multiplier is applied to the last twelve months of net income.

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

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

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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 tests of the Banking/Treasury reporting unit for the reporting periods indicated:

	3rd Quarter 2010	2nd Quarter 2010	1st Quarter 2010	Annual Test 2009	3rd Quarter 2009
Discount Rate	16%	16%	16%	18%	18%

The decrease in discount rate from the Annual 2009 test to the first quarter 2010 test was driven primarily by a reduction in the company-specific risk premium, which was lowered as a result of updated forecasts that reduced uncertainty from the projected cash flows.

In estimating future cash flows, a balance sheet as of the test date and an income statement for the last twelve months of activity for the reporting unit are compiled. From that point, future balance sheets and income statements 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 5 years. These internal forecasts are typically projections submitted to regulators and are based on inputs developed by the Company s internal economic forecasting committee.

Specific factors as of the date of filing our financial statements that could negatively impact the assumptions used in assessing goodwill for impairment include: disparities in the level of fair value changes in net assets compared to equity; adverse business trends resulting from litigation and/or regulatory actions; increasing FDIC premiums; higher loan losses resulting from a double-dip recession or deflation; lengthened forecasts of unemployment in excess of 10 percent beyond 2012; future increased minimum regulatory capital requirements above current thresholds (refer to Note 14 Regulatory Capital Requirements and Restrictions of the consolidated financial statements included in the 2009 Form 10-K for a discussion of current minimum regulatory requirements); future federal rules and regulations resulting from the Dodd-Frank Wall Street Reform and Consumer Protection Act; and/or a protraction in the current low level of interest rates beyond 2012.

The Step One analyses performed for the Investment Banking/Brokerage/Trust and Insurance reporting units during the third quarter of 2010 indicated that the estimated fair value exceeded its carrying value (including goodwill). Therefore, a Step Two analysis was not required for these reporting units.

The Step One analysis performed for the Banking/Treasury reporting unit during the third quarter of 2010 indicated that the carrying value (including goodwill) of the reporting unit exceeded its estimated fair value. Therefore, Step Two was performed for the Banking/Treasury reporting unit as discussed below. For purposes of performing Step Two of the goodwill impairment test, Regions compared the implied estimated fair value of the Banking/Treasury reporting unit goodwill with the carrying amount of that goodwill. In order to determine the implied estimated fair value, a full purchase price allocation was performed in the same manner as if a business combination had occurred. As part of the Step Two analysis, Regions estimated the fair value of all of the assets and liabilities of the reporting unit, including unrecognized assets and liabilities. The fair values of certain material financial assets and liabilities and the valuation methodologies are discussed in Note 11 Fair Value Measurements. Based on the results of the Step Two analysis performed, Regions concluded the Banking/Treasury reporting unit s goodwill was not impaired for the September 30, 2010 interim period.

Regions has not completed the annual goodwill impairment test performed in the fourth quarter.

NOTE 9 Loan Servicing

The fair value of mortgage servicing rights is calculated using various assumptions including future cash flows, market discount rates, expected prepayment rates, servicing costs and other factors. A significant change

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in prepayments of mortgages in the servicing portfolio could result in significant changes in the valuation adjustments, thus creating potential volatility in the carrying amount of mortgage servicing rights. Regions uses various derivative instruments and/or trading securities to mitigate the effect of changes in the fair value of its mortgage servicing rights in the statement of operations. The table below presents the impact on the statements of operations associated with changes in mortgage servicing rights and related derivative and/or trading securities for the three and nine months ended September 30, 2010 and 2009.

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
	(In millions)			
Net interest income	$	$	$ 3	$
Brokerage, investment banking and capital markets income			4	
Mortgage income	2	19	30	16
Total	$ 2	$ 19	$ 37	$ 16

Beginning in the third quarter of 2009, Regions began using an option-adjusted spread (OAS) valuation approach. The OAS represents the additional spread over the swap rate that is required in order for the asset s discounted cash flows to equal its market price.

The table below presents an analysis of mortgage servicing rights for the three and nine months ended September 30, 2010 and 2009, under the fair value measurement method:

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
	(In millions)			
Carrying value, beginning of period	$ 220	$ 202	$ 247	$ 161
Additions	23	31	53	83
Increase (decrease) in fair value:				
Due to change in valuation inputs or assumptions	(31)	(11)	(77)	(2)
Other changes (1)	(8)	(6)	(19)	(26)
Carrying value, end of period	$ 204	$ 216	$ 204	$ 216

(1) Represents economic amortization associated with borrower repayments.

Data and assumptions used in the fair value calculation related to mortgage servicing rights (excluding related derivative instruments) as of September 30, 2010 and 2009 are as follows:

	September 30	
	2010	2009
	(Dollars in millions)	
Unpaid principal balance	$ 24,378	$ 23,951
Weighted-average prepayment speed (CPR; percentage)	21.6%	20.4%
Estimated impact on fair value of a 10% increase	$ (16)	$ (13)
Estimated impact on fair value of a 20% increase	$ (31)	$ (25)
Option-adjusted spread (basis points)	529	633
Estimated impact on fair value of a 10% increase	$ (4)	$ (4)
Estimated impact on fair value of a 20% increase	$ (7)	$ (8)

Weighted-average coupon interest rate	5.63%	5.81%
Weighted-average remaining maturity (months)	290	285
Weighted-average servicing fee (basis points)	29.0	28.8

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

NOTE 10 Derivative Financial Instruments and Hedging Activities

Regions enters into derivative financial instruments to manage interest rate risk, facilitate asset/liability management strategies and manage other exposures. These derivative instruments primarily include interest rate swaps, options on interest rate swaps, interest rate caps and floors, Eurodollar futures, forward rate contracts and forward sale commitments. All derivative financial instruments are recognized on the consolidated balance sheets as other assets or other liabilities at fair value. Regions enters into master netting agreements with counterparties and/or requires collateral based on counterparty credit ratings to cover exposures.

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

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The following tables present the fair value of derivative instruments on a gross basis as of September 30, 2010 and December 31, 2009, respectively:

September 30, 2010

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	**Fair Value**	**Balance Sheet Location**	**Fair Value**
		(In millions)		
Derivatives designated as hedging instruments				
Interest rate swaps	Other assets	$ 402	Other liabilities	$ 51
Interest rate options	Other assets	19	Other liabilities	
Eurodollar futures (1)	Other assets		Other liabilities	
Total derivatives designated as hedging instruments		$ 421		$ 51
Derivatives not designated as hedging instruments				
Interest rate swaps	Other assets	$ 2,393	Other liabilities	$ 2,394
Interest rate options	Other assets	46	Other liabilities	29
Interest rate futures and forward commitments	Other assets	8	Other liabilities	15
Other contracts	Other assets	21	Other liabilities	19
Total derivatives not designated as hedging instruments		$ 2,468		$ 2,457
Total derivatives		$ 2,889		$ 2,508

(1) Changes in fair value are cash-settled daily; therefore there is no ending balance at any given reporting period.

December 31, 2009

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	**Fair Value**	**Balance Sheet Location**	**Fair Value**
		(In millions)		
Derivatives designated as hedging instruments				
Interest rate swaps	Other assets	$ 390	Other liabilities	$ 22
Interest rate options	Other assets	52	Other liabilities	
Eurodollar futures (1)	Other assets		Other liabilities	
Total derivatives designated as hedging instruments		$ 442		$ 22
Derivatives not designated as hedging instruments				
Interest rate swaps	Other assets	$ 1,518	Other liabilities	$ 1,505
Interest rate options	Other assets	26	Other liabilities	33
Interest rate futures and forward commitments	Other assets	13	Other liabilities	
Other contracts	Other assets	20	Other liabilities	19
Total derivatives not designated as hedging instruments		$ 1,577		$ 1,557

Total derivatives	$ 2,019	$ 1,579

(1) Changes in fair value are cash-settled daily; therefore there is no ending balance at any given reporting period.

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HEDGING DERIVATIVES

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

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

The following tables present the effect of derivative instruments on the statements of operations for the periods indicated:

Three Months Ended September 30, 2010

Derivatives in Fair Value Hedging Relationships	Location of Gain(Loss) Recognized in Income on Derivatives	Amount of Gain(Loss) Recognized in Income on Derivatives (In millions)	Hedged Items in Fair Value Hedge Relationships	Location of Gain(Loss) Recognized in Income on Related Hedged Item	Amount of Gain(Loss) Recognized in Income on Related Hedged Item
Interest rate swaps	Other non-interest expense	$ 38	Debt/CDs	Other non-interest expense	$ (31)
Interest rate swaps	Interest expense	63	Debt	Interest expense	4
Total		$ 101			$ (27)

Derivatives in Cash Flow Hedging Relationships	Amount of Gain(Loss) Recognized in OCI on Derivatives (Effective Portion) (1)	Location of Gain(Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (In millions)	Amount of Gain(Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (2)	Location of Gain(Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain(Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (2)
Interest rate swaps	$ 8	Interest income on loans	$ 40	Other non-interest expense	$ 1
Interest rate swaps	(14)	Interest expense on debt		Other non-interest expense	
Interest rate options	(5)	Interest income on loans	11	Interest income on loans	
Eurodollar futures	(5)	Interest income on loans	9	Other non-interest expense	

Total	$	(16)	$	60	$	1

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

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Three Months Ended September 30, 2009

Derivatives in Fair Value Hedging Relationships	Location of Gain(Loss) Recognized in Income on Derivatives	Amount of Gain(Loss) Recognized in Income on Derivatives	Hedged Items in Fair Value Hedge Relationships	Location of Gain(Loss) Recognized in Income on Related Hedged Item	Amount of Gain(Loss) Recognized in Income on Related Hedged Item
		(In millions)			
Interest rate swaps	Other non-interest expense	$ 16	Debt/CDs	Other non-interest expense	$ (15)
Interest rate swaps	Interest expense	43	Debt	Interest expense	1
Total		$ 59			$ (14)

Derivatives in Cash Flow Hedging Relationships	Amount of Gain(Loss) Recognized in OCI on Derivatives (Effective Portion) (1)	Location of Gain(Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain(Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (2)	Location of Gain(Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain(Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (2)
		(In millions)			
Interest rate swaps	$ (20)	Interest income on loans	$ 60	Other non-interest expense	$ 7
Forward starting swaps	(9)	Interest expense on debt		Other non-interest expense	
Interest rate options	(2)	Interest income on loans	18	Interest income on loans	
Eurodollar futures	(11)	Interest income on loans	19	Other non-interest expense	3
Total	$ (42)		$ 97		$ 10

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

Nine Months Ended September 30, 2010

Derivatives in Fair Value Hedging Relationships	Location of Gain(Loss) Recognized in Income on Derivatives	Amount of Gain(Loss) Recognized in Income on Derivatives	Hedged Items in Fair Value Hedge Relationships	Location of Gain(Loss) Recognized in Income on Related Hedged Item	Amount of Gain(Loss) Recognized in Income on Related Hedged Item
		(In millions)			
Interest rate swaps	Other non-interest expense	$ 140	Debt/CDs	Other non-interest expense	$ (145)
Interest rate swaps	Interest expense	184	Debt	Interest expense	6
Total		$ 324			$ (139)

Derivatives in Cash Flow Hedging Relationships	**Amount of Gain(Loss) Recognized in OCI on Derivatives (Effective Portion) (1)**	**Location of Gain(Loss) Reclassified from Accumulated OCI into Income (Effective Portion)**	**Amount of Gain(Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (2)**	**Location of Gain(Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)**	**Amount of Gain(Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (2)**
		(In millions)			
Interest rate swaps	$ (22)	Interest income on loans	$ 131	Other non-interest expense	$ 3
Interest rate swaps	(42)	Interest expense on debt		Other non-interest expense	
Interest rate options	(15)	Interest income on loans	33	Interest income on loans	
Eurodollar futures	(4)	Interest income on loans	20	Other non-interest expense	(7)
Total	$ (83)		$ 184		$ (4)

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

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Nine Months Ended September 30, 2009

Derivatives in Fair Value Hedging Relationships	Location of Gain(Loss) Recognized in Income on Derivatives	Amount of Gain(Loss) Recognized in Income on Derivatives	Hedged Items in Fair Value Hedge Relationships	Location of Gain(Loss) Recognized in Income on Related Hedged Item	Amount of Gain(Loss) Recognized in Income on Related Hedged Item
		(In millions)			
Interest rate swaps	Other non-interest expense	$ (48)	Debt/CDs	Other non-interest expense	$ 49
Interest rate swaps	Interest expense	116	Debt	Interest expense	3
Total		$ 68			$ 52

Derivatives in Cash Flow Hedging Relationships	Amount of Gain(Loss) Recognized in OCI on Derivatives (Effective Portion) (1)	Location of Gain(Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain(Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (2)	Location of Gain(Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain(Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (2)
		(In millions)			
Interest rate swaps	$ (87)	Interest income on loans	$ 189	Other non-interest expense	$ 8
Forward starting swaps	8	Interest expense on debt		Other non-interest expense	
Interest rate options	(25)	Interest income on loans	76	Interest income on loans	
Eurodollar futures	(16)	Interest income on loans	30	Other non-interest expense	3
Total	$ (120)		$ 295		$ 11

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

FAIR VALUE HEDGES

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

Regions enters into interest rate swap agreements to manage interest rate exposure on the Company s fixed-rate borrowings, which includes long-term debt and certificates of deposit. These agreements involve the receipt of fixed-rate amounts in exchange for floating-rate interest payments over the life of the agreements.

CASH FLOW HEDGES

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

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

Regions issues long-term fixed-rate debt for various funding needs. Regions enters into receive LIBOR/pay-fixed forward starting swaps to hedge risks of changes in the projected quarterly interest payments attributable to changes in the benchmark interest rate (LIBOR) during the time leading up to the probable issuance date of the new long term fixed-rate debt.

Regions enters into interest rate option contracts to protect cash flows through the maturity date of the hedging instrument on designated one-month LIBOR floating-rate loans from adverse extreme market interest rate changes. Regions purchases Eurodollar futures to hedge the variability in future cash flows based on forecasted resets of one-month LIBOR-based floating rate loans due to changes in the benchmark interest rate. Regions realized an after-tax benefit of $47 million and $19 million in accumulated other comprehensive income at September 30, 2010 and 2009, respectively, related to terminated cash flow hedges of loan and debt instruments which will be amortized into earnings in conjunction with the recognition of interest payments through the beginning of 2012. Regions recognized pre-tax income of $25 million and $31 million during the first nine months of 2010 and 2009, respectively, related to the amortization of terminated cash flow hedges of loan and debt instruments.

At September 30, 2010, Regions expects to reclassify out of other comprehensive income and into earnings approximately $154 million in pre-tax income due to the receipt of interest payments on all cash flow hedges within the next twelve months. Of this amount, $64 million relates to the amortization of discontinued cash flow hedges. The maximum length of time over which Regions is hedging its exposure to the variability in future cash flows for forecasted transactions is approximately 2 years as of September 30, 2010.

The following table presents the notional value of fair value and cash flow hedges as of September 30, 2010 and December 31, 2009:

Derivatives in Fair Value Hedging Relationships	September 30 2010	December 31 2009
	(In millions)	
Interest rate swaps	$ 10,730	$ 10,258
Derivatives in Cash Flow Hedging Relationships		
Interest rate swaps	$ 23,420	$ 5,300
Interest rate options	2,000	2,000
Eurodollar futures		30,225
Total	$ 25,420	$ 37,525
Total notional value	$ 36,150	$ 47,783

DERIVATIVES NOT DESIGNATED AS HEDGES

Derivative contracts that do not qualify for hedge accounting are classified as trading with gains and losses related to the change in fair value recognized in earnings during the period. These positions are used to mitigate economic and accounting volatility related to customer derivative transactions, as well as non-derivative instruments.

The Company maintains a derivatives trading portfolio of interest rate swaps, option contracts, and futures and forward commitments used to help customers mitigate market risk. The Company is subject to the credit risk that a counterparty will fail to perform. The Company is also subject to market risk, which is monitored by the asset/liability management function and evaluated by the Company. Separate derivative contracts are entered into to reduce overall market exposure to pre-defined limits. The contracts in this portfolio do not qualify for hedge accounting and are marked-to-market through earnings and included in other assets and other liabilities. As of September 30, 2010 and 2009, the total absolute notional amount of the Company s derivatives trading portfolio was $92.9 billion and $65.8 billion, respectively.

In the normal course of business, Morgan Keegan enters into underwriting and forward commitments on U.S. Government and municipal securities. As of September 30, 2010 and 2009, the contractual amounts of forward commitments was approximately $535 million and $256 million, respectively. The brokerage subsidiary typically settles its position by entering into equal but opposite contracts and, as such, the contract amounts do not necessarily represent future cash requirements. Settlement of the transactions relating to such commitments is not expected to have a material effect on the subsidiary s financial position. Transactions involving future settlement give rise to market risk, which represents the potential loss that can be caused by a change in the market value of a particular financial instrument. The exposure to market risk is determined by a number of factors, including size, composition and diversification of positions held, the absolute and relative levels of interest rates, and market volatility.

Regions enters into interest rate lock commitments, which are commitments to originate mortgage loans whereby the interest rate on the loan is determined prior to funding and the customers have locked into that interest rate. Fair value is based on fees currently charged to enter into similar agreements and, for fixed-rate commitments, considers the difference between current levels of interest rates and the committed rates. As of September 30, 2010 and 2009, Regions had $1.2 billion and $669 million in notional amounts of interest rate lock commitments. Regions manages market risk on interest rate lock commitments and mortgage loans held for sale with corresponding forward sale commitments, which are recorded at fair value with changes in fair value recorded in mortgage income. As of September 30, 2010 and 2009, Regions had $2.1 billion and $1.3 billion in absolute notional amounts related to these forward rate commitments.

On January 1, 2009, Regions made an election to account for mortgage servicing rights at fair market value with any changes to fair value being recorded within mortgage income. Concurrent with the election to use the fair value measurement method, Regions began using various derivative instruments to mitigate the income statement effect of changes in the fair value of its mortgage servicing rights. Regions continues to use derivatives such as forward rate commitments, swaptions, interest rate swaps, and futures contracts to mitigate these fair value changes. Additionally, Regions has and may prospectively use marketable securities classified as trading assets to mitigate these changes. As of September 30, 2010 and 2009, the total notional amount related to these swaptions, interest rate swaps, forward rate commitments, and futures contracts was $1.4 billion and $1.8 billion, respectively.

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The following tables present information for derivatives not designated as hedging instruments in the statements of operations for the periods presented:

Three Months Ended September 30, 2010

Derivatives Not Designated as Hedging Instruments	Location of Gain(Loss) Recognized in Income on Derivatives	Amount of Gain(Loss) Recognized in Income on Derivatives (In millions)
Interest rate swaps	Brokerage income	$ (7)
Interest rate swaps	Mortgage income	31
Interest rate options	Brokerage income	1
Interest rate options	Mortgage income	9
Interest rate futures and forward commitments	Brokerage income	(1)
Interest rate futures and forward commitments	Mortgage income	17
Other contracts	Brokerage income	2
		$ 52

Three Months Ended September 30, 2009

Derivatives Not Designated as Hedging Instruments	Location of Gain(Loss) Recognized in Income on Derivatives	Amount of Gain(Loss) Recognized in Income on Derivatives (In millions)
Interest rate swaps	Brokerage income	$ (11)
Interest rate options	Brokerage income	
Interest rate options	Mortgage income	5
Interest rate futures and forward commitments	Brokerage income	
Interest rate futures and forward commitments	Mortgage income	13
Other contracts	Brokerage income	
		$ 7

Nine Months Ended September 30, 2010

Derivatives Not Designated as Hedging Instruments	Location of Gain(Loss) Recognized in Income on Derivatives	Amount of Gain(Loss) Recognized in Income on Derivatives (In millions)
Interest rate swaps	Brokerage income	$ (12)
Interest rate swaps	Mortgage income	31
Interest rate options	Brokerage income	3
Interest rate options	Mortgage income	(11)
Interest rate futures and forward commitments	Brokerage income	(4)
Interest rate futures and forward commitments	Mortgage income	100
Other contracts	Brokerage income	7
		$ 114

Nine Months Ended September 30, 2009

Derivatives Not Designated as Hedging Instruments	Location of Gain(Loss) Recognized in Income on Derivatives	Amount of Gain(Loss) Recognized in Income on Derivatives (In millions)
Interest rate swaps	Brokerage income	$ 20
Interest rate options	Brokerage income	(42)
Interest rate options	Mortgage income	1
Interest rate futures and forward commitments	Brokerage income	7
Interest rate futures and forward commitments	Mortgage income	41
Other contracts	Brokerage income	1
		$ 28

Credit risk, defined as all positive exposures not collateralized with cash or other liquid assets, at September 30, 2010 and 2009, totaled approximately $1.3 billion and $1.2 billion, respectively. This amount represents the net credit risk on all trading and other derivative positions held by Regions.

CREDIT DERIVATIVES

Regions has both bought and sold credit protection in the form of participations on interest rate swaps (swap participations). These swap participations, which meet the definition of credit derivatives, were entered into in the ordinary course of business to serve the credit needs of customers. Credit derivatives, whereby Regions has purchased credit protection, entitle Regions to receive a payment from the counterparty when the customer fails to make payment on any amounts due to Regions upon early termination of the swap transaction and have maturities between 2012 and 2026. Credit derivatives whereby Regions has sold credit protection have maturities between 2010 and 2016. For contracts where Regions sold credit protection, Regions would be required to make payment to the counterparty when the customer fails to make payment on any amounts due to the counterparty upon early termination of the swap transaction. Regions bases the current status of the prepayment/performance risk on bought and sold credit derivatives on recently issued internal risk ratings consistent with the risk management practices of unfunded commitments.

Regions maximum potential amount of future payments under these contracts is approximately $38 million. This scenario would only occur if variable interest rates were at zero percent and all counterparties defaulted with zero recovery. The fair value of sold protection at September 30, 2010 and 2009 was immaterial. In transactions where Regions has sold credit protection, recourse to collateral associated with the original swap transaction is available to offset some or all of Regions obligation.

CONTINGENT FEATURES

Certain Regions derivative instruments contain provisions that require Regions debt to maintain an investment grade credit rating from each of the major credit rating agencies. If Regions debt were to fall below investment grade, it would be in violation of these provisions, and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position on September 30, 2010 and December 31, 2009 was $647 million and $347 million, respectively, for which Regions had posted collateral of $637 million and $336 million, respectively, in the normal course of business. If the credit-risk-related contingent features underlying these agreements were triggered on September 30, 2010 and December 31, 2009 Regions would be required to post an additional $10 million and $11 million, respectively, of collateral to its counterparties.

NOTE 11 Fair Value Measurements

Fair value guidance establishes a framework for using fair value to measure assets and liabilities and defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) as opposed to the price that would be paid to acquire the asset or received to assume the liability (an entry price). 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. Required disclosures include stratification of balance sheet amounts measured at fair value based on inputs the Company uses to derive fair value measurements. These strata include:

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

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

Level 3 valuations, where the valuation is generated from model-based techniques that use significant assumptions not observable in the market, but observable based on Company-specific data. These unobservable assumptions reflect the Company s own estimates for assumptions that market participants would use in pricing the asset or liability. Valuation techniques typically include option pricing models, discounted cash flow models and similar techniques, but may also include the use of market prices of assets or liabilities that are not directly comparable to the subject asset or liability.

ITEMS MEASURED AT FAIR VALUE ON A RECURRING BASIS

Trading account assets (net of certain short-term borrowings), securities available for sale, mortgage loans held for sale, mortgage servicing rights and derivatives were recorded at fair value on a recurring basis during 2010 and 2009. Below is a description of valuation methodologies for these assets and liabilities:

Trading account assets, net and securities available for sale primarily consist of U.S. Treasuries, obligations of states and political subdivisions, mortgage-backed securities (including agency securities), and equity securities. Trading account assets are presented net of short-sale liabilities which are valued based on the fair value of the underlying securities.

U.S. Treasuries and mortgage-backed securities are valued primarily using data from third-party pricing services for similar securities as applicable. Pricing from these third party services is generally based on quoted market prices of similar instruments (including matrix pricing); these valuations are Level 2 measurements.

Obligations of states and political subdivisions are generally based on data from third party pricing services for similar securities (Level 2 measurements as described above). Where such comparable data is not available, the Company develops valuations based on assumptions that are not readily observable in the market place; these valuations are Level 3 measurements. For example, auction-rate securities fall into this category; for these instruments, internal pricing models assume converting the securities into fixed-rate debt securities with similar credit ratings and maturity dates based on management s estimates of the term of the securities. Assumed terms generally fall within a range of one to four years.

Equity securities are valued based on quoted market prices of identical assets on active exchanges; these valuations are Level 1 measurements.

Mortgage loans held for sale consist of residential first mortgage loans held for sale that are valued based on traded market prices of similar assets where available and/or discounted cash flows at market interest rates, adjusted for securitization activities that include servicing value and market conditions, a Level 2 measurement. Regions has elected to measure mortgage loans held for sale at fair value by applying the fair value option (see additional discussion under the Fair Value Option section below).

Mortgage servicing rights consist of residential mortgage servicing rights and were valued using an option-adjusted spread valuation approach, a Level 3 measurement. See Note 9 Loan Servicing for additional details regarding assumptions relevant to this valuation.

Derivatives, net which primarily consist of interest rate contracts that include futures, options and swaps, are included in other assets and other liabilities (as applicable) on the consolidated balance sheets, and are presented in the tables below as a net amount. Interest rate swaps are predominantly traded in over-the-counter markets and, as such, values are determined using widely accepted discounted cash flow models, or Level 2 measurements. These discounted cash flow models use projections of future cash payments/receipts that are discounted at mid-market rates. The assumed cash flows are sourced from an assumed yield curve, which is consistent with industry standards and conventions. These valuations are adjusted for the unsecured credit risk at the reporting date, which considers collateral posted and the impact of master netting agreements. For exchange-traded options and futures contracts, values are based on quoted market prices, or Level 1 measurements. For all other options and futures contracts traded in over-the-counter markets, values are determined using discounted cash flow analyses and option pricing models based on market rates and volatilities, or Level 2 measurements.

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Interest rate lock commitments on loans intended for sale, treasury locks and credit derivatives are valued using option pricing models that incorporate significant unobservable inputs, and therefore are Level 3 measurements.

Regions rarely transfers assets and liabilities measured at fair value between Level 1 and Level 2 measurements. There were no such transfers during the three or nine months ended September 30, 2010 or 2009. Trading account assets are periodically transferred to or from Level 3 valuation based on management s conclusion regarding the best method for pricing for an individual security. Such transfers are accounted for as if they occur at the beginning of a reporting period.

New accounting literature effective for 2010 financial reporting requires more granular levels of disclosure for fair value measurements. The new guidance does not require any changes to presentation of prior periods. The following tables present assets and liabilities measured at fair value on a recurring basis as of September 30, 2010 and 2009:

	September 30, 2010			
	Level 1	Level 2	Level 3	Fair Value
	(In millions)			
Trading account assets, net (1)				
U.S. Treasury securities	$	$ (221)	$	$ (221)
Obligations of states and political subdivisions		293	222	515
Mortgage-backed securities:				
Residential agency		423		423
Residential non-agency		(8)		(8)
Commercial agency			43	43
Other securities	207	72	3	282
Equity securities	169			169
Total trading account assets, net (1)	$ 376	$ 559	$ 268	$ 1,203
Securities available for sale				
U.S. Treasury securities	$ 92	$	$	$ 92
Federal agency securities	25	16		41
Obligations of states and political subdivisions		21	17	38
Mortgage-backed securities:				
Residential agency		22,224		22,224
Residential non-agency			23	23
Commercial agency		59		59
Other debt securities		26		26
Equity securities	1,052			1,052
Total securities available for sale	$ 1,169	$ 22,346	$ 40	$ 23,555
Mortgage loans held for sale	$	$ 1,183	$	$ 1,183
Mortgage servicing rights	$	$	$ 204	$ 204
Derivatives, net (2)				
Interest rate swaps	$	$ 350	$	$ 350
Interest rate options		19	17	36
Interest rate futures and forward commitments		(12)	5	(7)
Other contracts		2		2
Total derivatives, net (2)	$	$ 359	$ 22	$ 381

(1) Trading account assets are presented in the table above net of short-sale liabilities; accordingly, the total of the balances above are not in agreement with trading account assets as shown on the balance sheet.

(2) Derivatives include approximately $1.4 billion related to legally enforceable master netting agreements that allow the Company to settle positive and negative positions. Derivatives, net are also presented excluding cash collateral received of $111 million and cash collateral posted of $637 million with counterparties.

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	September 30, 2009			
	Level 1	Level 2	Level 3	Fair Value
	(In millions)			
Trading account assets, net	$ 321	$ 456	$ 204	$ 981
Securities available for sale	256	20,687	87	21,030
Mortgage loans held for sale		726		726
Mortgage servicing rights			216	216
Derivatives, net (1)		649	12	661

(1) Derivatives include approximately $1.1 billion related to legally enforceable master netting agreements that allow the Company to settle positive and negative positions. Derivative assets and liabilities are also presented excluding cash collateral received of $101 million and cash collateral posted of $403 million with counterparties.

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

The following tables illustrate a rollforward for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2010 and 2009, respectively. The tables do not reflect the change in fair value attributable to any related economic hedges the Company used to mitigate the interest rate risk associated with these assets.

Fair Value Measurements Using Significant Unobservable Inputs

Three Months Ended September 30, 2010

(Level 3 measurements only)

	Trading account assets, net (1)			Securities available for sale			Derivatives, net	
	Obligations of states and political subdivisions	Commercial agency MBS	Other securities	Obligations of states and political subdivisions	Residential non-agency MBS	Mortgage servicing rights	Interest rate options	Interest rate futures and forward commitments
	(In millions)							
Beginning balance, July 1, 2010	$ 185	$ 28	$ (4)	$ 17	$ 25	$ 220	$ 13	$ 3
Total gains (losses) realized and unrealized:								
Included in earnings (1)	(4)	1	10			(39)	46	
Included in other comprehensive income								
Purchases and issuances	60	120	2,838			23		2
Settlements	(19)	(106)	(2,841)		(2)		(42)	
Transfers into Level 3								
Ending balance, September 30, 2010	$ 222	$ 43	$ 3	$ 17	$ 23	$ 204	$ 17	$ 5

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

Fair Value Measurements Using Significant Unobservable Inputs
Three Months Ended September 30, 2009
(Level 3 measurements only)

	Trading account assets, net (1)	Securities available for sale	Mortgage servicing rights	Derivatives, net
	(In millions)			
Beginning balance, July 1, 2009	$ 181	$ 73	$ 202	$ 7
Total gains (losses) realized and unrealized:				
Included in earnings (1)	(6)		(17)	31
Included in other comprehensive income		16		
Purchases and issuances	(140)		31	
Settlements	157	(2)		(26)
Transfers in and/or out of Level 3, net	12			
Ending balance, September 30, 2009	$ 204	$ 87	$ 216	$ 12

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

Fair Value Measurements Using Significant Unobservable Inputs
Nine Months Ended September 30, 2010
(Level 3 measurements only)

	Trading account assets, net (1)			Securities available for sale			Derivatives, net	
	Obligations of states and political subdivisions	Commercial agency MBS	Other securities	Obligations of states and political subdivisions	Residential non-agency MBS	Mortgage servicing rights	Interest rate options	Interest rate futures and forward commitments
	(In millions)							
Beginning balance, January 1, 2010	$ 171	$ 39	$ 4	$ 17	$ 36	$ 247	$	$ 3
Total gains (losses) realized and unrealized:								
Included in earnings (1)	(7)	2	22			(96)	106	
Included in other comprehensive income				5				
Purchases and issuances	190	626	9,853			53		2
Settlements	(132)	(634)	(9,882)	(5)	(13)		(89)	
Transfers into Level 3		10	6					
Ending balance, September 30, 2010	$ 222	$ 43	$ 3	$ 17	$ 23	$ 204	$ 17	$ 5

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

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	Fair Value Measurements Significant Unobservable Inputs Nine Months Ended September 30, 2009 (Level 3 measurements only)			
	Trading account assets, net (1)	Securities available for sale	Mortgage servicing rights	Derivatives, net
	(In millions)			
Beginning balance, January 1, 2009	$ 275	$ 95	$ 161	$ 55
Total gains (losses) realized and unrealized:				
Included in earnings (1)	(8)	(15)	(28)	34
Included in other comprehensive income		20		
Purchases and issuances	60		83	
Settlements	(100)	(13)		(77)
Transfers in and/or out of Level 3, net	(23)			
Ending balance, September 30, 2009	$ 204	$ 87	$ 216	$ 12

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

The following tables detail the presentation of both realized and unrealized gains and losses recorded in earnings for Level 3 assets for the three and nine months ended September 30, 2010 and 2009, respectively:

	Total Gains and Losses (Level 3 measurements only) Three Months Ended September 30, 2010				
	Trading account assets, net (1)				Derivatives, net
	Obligations of states and political subdivisions	Commercial agency MBS	Other securities	Mortgage servicing rights	Interest rate options
	(In millions)				
Classifications of gains (losses) both realized and unrealized included in earnings for the period:					
Brokerage, investment banking and capital markets	$ (4)	$ 1	$ 10	$	$
Mortgage income				(39)	46
Other comprehensive income					
Total realized and unrealized gains and (losses)	$ (4)	$ 1	$ 10	$ (39)	$ 46

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

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Total Gains and Losses (Level 3 measurements only) Three Months Ended September 30, 2009

	Trading account assets, net (1)	Securities available for sale	Mortgage servicing rights	Derivatives, net
		(In millions)		
Classifications of gains (losses) both realized and unrealized included in earnings for the period:				
Brokerage, investment banking and capital markets	$ (6)	$	$	$
Mortgage income			(17)	31
Other income				
Other comprehensive income		16		
Total realized and unrealized gains and (losses)	$ (6)	$ 16	$ (17)	$ 31

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

Total Gains and Losses (Level 3 measurements only) Nine Months Ended September 30, 2010

	Trading account assets, net (1)			Securities available for sale		Derivatives, net
	Obligations of states and political subdivisions	Commercial agency MBS	Other securities	Obligations of states and political subdivisions	Mortgage servicing rights	Interest rate options
			(In millions)			
Classifications of gains (losses) both realized and unrealized included in earnings for the period:						
Brokerage, investment banking and capital markets	$ (7)	$ 2	$ 22	$	$	$
Mortgage income					(96)	106
Other comprehensive income				5		
Total realized and unrealized gains and (losses)	$ (7)	$ 2	$ 22	$ 5	$ (96)	$ 106

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

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	Total Gains and Losses (Level 3 measurements only) Nine Months Ended September 30, 2009			
	Trading account assets, net (1)	Securities available for sale	Mortgage servicing rights	Derivatives, net
	(In millions)			
Classifications of gains (losses) both realized and unrealized included in earnings for the period:				
Brokerage, investment banking and capital markets	$ (8)	$	$	$ (35)
Mortgage income			(28)	69
Other income		(15)		
Other comprehensive income		20		
Total realized and unrealized gains and (losses)	$ (8)	$ 5	$ (28)	$ 34

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

The following tables detail the presentation of only unrealized gains and losses recorded in earnings for Level 3 assets for the three and nine months ended September 30, 2010 and 2009, respectively:

	Three Months Ended September 30, 2010	
		Derivatives, net
	Mortgage servicing rights	Interest rate options
	(In millions)	
The amount of total gains and losses for the period, included in earnings, attributable to the change in unrealized gains (losses) relating to assets and liabilities still held at September 30, 2010:		
Mortgage income	$ (31)	$ 17
Other comprehensive income		
Total unrealized gains and (losses)	$ (31)	$ 17

	Three Months Ended September 30, 2009		
	Securities available for sale	Mortgage servicing rights	Derivatives, net
	(In millions)		
The amount of total gains and losses for the period included in earnings, attributable to the change in unrealized gains (losses) relating to assets and liabilities still held at September 30, 2009:			
Brokerage, investment banking and capital markets	$	$	$ 31

Mortgage income		(11)	
Other income			
Other comprehensive income	16		
Total unrealized gains and (losses)	$ 16	$ (11)	$ 31

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	Nine Months Ended September 30, 2010		
	Securities available for sale		Derivatives, net
	Obligations of states and political subdivisions	Mortgage servicing rights	Interest rate options
	(In millions)		
The amount of total gains and losses for the period, included in earnings, attributable to the change in unrealized gains (losses) relating to assets and liabilities still held at September 30, 2010:			
Mortgage income	$	$ (77)	$ 17
Other comprehensive income	5		
Total unrealized gains and (losses)	$ 5	$ (77)	$ 17

	Nine Months Ended September 30, 2009			
	Trading account assets, net	Securities available for sale	Mortgage servicing rights	Derivatives, net
	(In millions)			
The amount of total gains and losses for the period included in earnings, attributable to the change in unrealized gains (losses) relating to assets and liabilities still held at September 30, 2009:				
Brokerage, investment banking and capital markets	$ (3)	$	$	$ 6
Mortgage income			(2)	69
Other income		(15)		
Other comprehensive income		20		
Total unrealized gains and (losses)	$ (3)	$ 5	$ (2)	$ 75

ITEMS MEASURED AT FAIR VALUE ON A NON-RECURRING BASIS

From time to time, certain assets may be recorded at fair value on a non-recurring basis. These non-recurring fair value adjustments typically are a result of the application of lower of cost or fair value accounting or a write-down occurring during the period. For example, if the fair value of an asset in these categories falls below its cost basis, it is considered to be at fair value at the end of the period of the adjustment. In periods where there is no adjustment, the asset is generally not considered to be at fair value. The following is a description of the valuation methodologies used for certain assets that are recorded at fair value.

Foreclosed property and other real estate is carried in other assets at the lower of the recorded investment in the loan or fair value less estimated costs to sell the property. The fair value for foreclosed property that is based on either observable transactions of similar instruments or formally committed sale prices is classified as a Level 2 measurement. If no formally committed sale price is available, a professional valuation is obtained. Updated valuations are obtained on at least an annual basis. Foreclosed property exceeding established dollar thresholds are valued based on appraisals. Appraisals are performed by third-parties with appropriate professional certifications and conform to generally accepted appraisal standards as evidenced by the Uniform Standards of Professional Appraisal Practice (USPAP). Regions policies related to appraisals conform with regulations established by the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) and other regulatory guidance. Professional valuations are considered Level 2 measurements because they are based largely on observable inputs. In some instances, management may decrease the estimate of fair value below the appraised value, given trends in valuation of similar properties. These valuations are considered Level 3 measurements as management uses assumptions not observable in the market.

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Loans held for sale for which the fair value option has not been elected are recorded at the lower of cost or fair value and therefore are reported at fair value on a non-recurring basis. The fair values for loans held for sale that are based on formally committed loan sale prices or valuations performed using observable inputs are classified as a Level 2 measurement. If no formally committed sales price is available, a professional valuation is obtained, consistent with the process described above for foreclosed property and other real estate.

The following tables present the carrying value of those assets measured at fair value on a non-recurring basis as of September 30, 2010 and 2009, as well as the corresponding fair value adjustments.

	Carrying Value as of September 30, 2010				Fair value adjustments for the three months ended September 30, 2010
	Level 1	Level 2	Level 3	Total	
			(In millions)		
Loans held for sale	$	$ 266	$	$ 266	$ (2)
Foreclosed property and other real estate		304	22	326	(67)

	Carrying Value as of September 30, 2009				Fair value adjustments for the three months ended September 30, 2009
	Level 1	Level 2	Level 3	Total	
			(In millions)		
Loans held for sale	$	$ 132	$ 16	$ 148	$ (79)
Foreclosed property and other real estate		340		340	(78)

FAIR VALUE OPTION

Regions elected the fair value option for residential mortgage loans held for sale originated after January 1, 2008. This election allows for a more effective offset of the changes in fair values of the loans and the derivative instruments used to economically hedge them without the burden of complying with the requirements for hedge accounting. Regions has not elected the fair value option for other loans held for sale primarily because they are not economically hedged using derivative instruments. Fair values of mortgage loans held for sale are based on traded market prices of similar assets where available and/or discounted cash flows at market interest rates, adjusted for securitization activities that include servicing values and market conditions, and were recorded in loans held for sale in the consolidated balance sheets.

The following table summarizes the difference between the aggregate fair value and the aggregate unpaid principal balance for mortgage loans held for sale measured at fair value:

	September 30, 2010			December 31, 2009		
	Aggregate Fair Value	Aggregate Unpaid Principal	Aggregate Fair Value Less Aggregate Unpaid Principal	Aggregate Fair Value	Aggregate Unpaid Principal	Aggregate Fair Value Less Aggregate Unpaid Principal
			(In millions)			
Mortgage loans held for sale, at fair value	$ 1,183	$ 1,151	$ 32	$ 780	$ 773	$ 7

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Interest income on mortgage loans held for sale is recognized based on contractual rates and is reflected in interest income on loans held for sale in the consolidated statements of operations. The following table details net gains (losses) resulting from changes in fair value of these loans which was recorded in mortgage income in the consolidated statements of operations during the three months and nine months ended September 2010 and 2009, respectively. These changes in fair value are mostly offset by economic hedging activities. An immaterial portion of these amounts was attributable to changes in instrument-specific credit risk.

	Mortgage loans held for sale, at fair value			
	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
	(In millions)			
Net gains (losses) resulting from changes in fair value	$ (3)	$ 28	$ 24	$ 10

FAIR VALUE OF FINANCIAL INSTRUMENTS

The methods and assumptions used by the Company in estimating fair values of financial instruments are disclosed in Regions Form 10-K for the year ended December 31, 2009. The carrying amounts and estimated fair values of the Company s financial instruments as of September 30, 2010 and December 31, 2009 are as follows:

	September 30, 2010		December 31, 2009	
	Carrying Amount	Estimated Fair Value (1)	Carrying Amount	Estimated Fair Value (1)
	(In millions)			
Financial assets:				
Cash and cash equivalents	$ 6,887	$ 6,887	$ 8,011	$ 8,011
Trading account assets	1,580	1,580	3,039	3,039
Securities available for sale	23,555	23,555	24,069	24,069
Securities held to maturity	26	28	31	31
Loans held for sale	1,587	1,587	1,511	1,511
Loans (excluding leases), net of unearned income and allowance for loan losses (2), (3)	79,225	69,082	85,452	72,119
Other interest-earning assets	1,043	1,043	734	734
Derivatives, net	381	381	520	520
Financial liabilities:				
Deposits	94,978	95,355	98,680	99,168
Short-term borrowings	3,661	3,661	3,668	3,668
Long-term borrowings	14,335	14,283	18,464	17,710
Loan commitments and letters of credit	147	977	194	1,014

(1) Estimated fair values are consistent with an exit price concept. The assumptions used to estimate the fair values are intended to approximate those that a market participant would use in a hypothetical orderly transaction. In estimating fair value, the Company makes adjustments for interest rates, market liquidity and credit spreads as appropriate.

(2) The estimated fair value of portfolio loans assumes sale of the loans to a third-party financial investor. Accordingly, the value to the Company if the loans were held to maturity is not reflected in the fair value estimate. In the current whole loan market, financial investors are generally requiring a higher rate of return than the return inherent in loans if held to maturity. The fair value discount at September 30, 2010 was $10.1 billion or 12.8%. The majority of the discount represents the higher rate of return required by financial investors.

(3) Excluded from this table is the lease carrying amount of $2.0 billion at September 30, 2010 and $2.1 billion at December 31, 2009, which approximates fair value.

NOTE 12 Commitments and Contingencies

COMMERCIAL COMMITMENTS

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

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

	September 30 2010	December 31 2009 (In millions)	September 30 2009
Unused commitments to extend credit	$ 31,649	$ 31,008	$ 31,993
Standby letters of credit	3,956	4,610	5,859
Commercial letters of credit	44	30	14
Liabilities associated with standby letters of credit	76	119	88
Assets associated with standby letters of credit	74	114	82
Reserve for unfunded credit commitments	71	74	63

Unused commitments to extend credit To accommodate the financial needs of its customers, Regions makes commitments under various terms to lend funds to consumers, businesses and other entities. These commitments include (among others) revolving credit agreements, term loan commitments and short-term borrowing agreements. Many of these loan commitments have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of these commitments are expected to expire without being funded, the total commitment amounts do not necessarily represent future liquidity requirements.

Standby letters of credit Standby letters of credit are also issued to customers, which commit Regions to make payments on behalf of customers if certain specified future events occur. Regions has recourse against the customer for any amount required to be paid to a third party under a standby letter of credit. Historically, a large percentage of standby letters of credit expired without being funded. The contractual amount of standby letters of credit represents the maximum potential amount of future payments Regions could be required to make and represents Regions maximum credit risk.

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

LEGAL

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

Regions and certain of its affiliates have been named in class-action lawsuits filed in federal and state courts on behalf of investors who purchased shares of certain Regions Morgan Keegan Select Funds (the Funds) and shareholders of Regions. The Funds were formerly managed by Morgan Asset Management, Inc. (Morgan Asset Management). Morgan Asset Management no longer manages these Funds, which were transferred to Hyperion Brookfield Asset Management in 2008. Certain of the funds have since been terminated by Hyperion. The complaints contain various allegations, including claims that the Funds and the defendants misrepresented or failed to disclose material facts relating to the activities of the Funds. No class has been certified and at this stage of the lawsuits Regions cannot determine the probability of a material adverse result or reasonably estimate a range of potential exposures, if any. However, it is possible that an adverse resolution of these matters may be material to Regions business, consolidated financial position or results of operations.

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

On April 7, 2010, the Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA) and a joint state task force of securities regulators from Alabama, Kentucky, Mississippi, and South Carolina (Task Force) announced that they were commencing administrative proceedings against Morgan Keegan, Morgan Asset Management and certain of their employees for violations of federal and state securities laws and NASD rules relating to the Funds. The proceedings contain various allegations, including that the net asset values of the Funds were artificially inflated due to allegedly improper conduct related to the valuation of the securities held by the Funds, and that the defendants failed to disclose certain risks associated with the Funds. The administrative proceedings seek civil penalties, injunctive relief, disgorgement, rescission and other relief. Based on the then current status of settlement negotiations, Regions believed that a loss on this matter was probable and reasonably estimable. Accordingly, during the quarter ended June 30, 2010, Morgan Keegan recorded a non-tax deductible $200 million charge representing the estimate of probable loss. Settlement negotiations and hearing preparations are ongoing.

On July 21, 2009, the SEC filed a complaint in U.S. District Court for the Northern District of Georgia against Morgan Keegan alleging violations of the federal securities laws in connection with auction rate securities (ARS) that Morgan Keegan underwrote, marketed and sold. The SEC is seeking an injunction against Morgan Keegan for violations of the antifraud provisions of the federal securities laws, as well as disgorgement, financial penalties and other equitable relief for customers, including repurchase by Morgan Keegan of all ARS that it sold prior to March 20, 2008. Beginning in February 2009, Morgan Keegan commenced a voluntary program to repurchase ARS that it underwrote and sold to the firm s customers, and extended that repurchase program on October 1, 2009 to include ARS that were sold by Morgan Keegan to its customers but were underwritten by other firms. As of September 30, 2010, customers of Morgan Keegan owned approximately $61 million of ARS and Morgan Keegan held approximately $217 million of ARS on its balance sheet. On July 21, 2009, the Alabama Securities Commission issued a Show Cause order to Morgan Keegan arising out of the ARS matter that is the subject of the SEC complaint described above. The order requires Morgan Keegan to show cause why its registration as a broker-dealer should not be suspended or revoked in the State of Alabama and also why it should not be subject to disgorgement, repurchasing all ARS sold to Alabama residents and payment of costs and penalties. Although it is not possible to predict the ultimate resolution or financial liability with respect to the ARS matter, management is currently of the opinion that the outcome of this matter will not have a material effect on Regions business, consolidated financial position or results of operations.

In April 2009, Regions, Regions Financing Trust III (the Trust) and certain of Regions current and former directors, were named in a purported class-action lawsuit filed in the U.S. District Court for the Southern District of New York on behalf of the purchasers of trust preferred securities offered by the Trust. The complaint alleges that defendants made statements in Regions registration statement, prospectus and year-end filings which were materially false and misleading. On May 10, 2010, the trial court dismissed all claims against all defendants in this case. However, the plaintiffs have appealed the decision. In October 2010, a separate purported class-action lawsuit was filed by Regions stockholders in the U.S. District Court for the Northern District of Alabama against Regions and certain former officers of Regions. The lawsuit alleges violations of the federal securities laws based on alleged actions similar to those that were the basis for the suit filed by purchasers of the trust preferred securities, including allegations that statements that were materially false and misleading were included in filings made with the SEC. Although it is not possible to predict the ultimate resolution or financial liability with respect to these matters, management is currently of the opinion that the outcome of these matters will not have a material effect on Regions business, consolidated financial position or results of operations.

In December 2009, Regions and certain current and former directors and officers were named in a consolidated shareholder derivative action filed in Jefferson County, Alabama. The complaint alleges mismanagement, waste of corporate assets, breach of fiduciary duty and unjust enrichment relating to bonuses and other benefits received by executive management. Although it is not possible to predict the ultimate resolution or financial liability with respect to this matter, management is currently of the opinion that the outcome of this matter will not have a material effect on Regions business, consolidated financial position or results of operations.

In September 2009, Regions was named as a defendant in a purported class-action lawsuit filed by customers of Regions Bank in the U.S. District Court for the Northern District of Georgia challenging the manner in which non-sufficient funds (NSF) and overdraft fees were charged and the policies related to posting order. The case was transferred to multidistrict litigation in the U.S. District Court for the Southern District of Florida, and in May 2010 an order to compel arbitration was denied. In July 2010, a separate class action was filed in the Circuit Court of Greene County Missouri, making a claim under Missouri s consumer protection statute. The case has been removed to the U.S. District Court for the Western District of Missouri. Neither class has been certified and at this stage of the lawsuits, Regions cannot determine the probability of a material adverse result or reasonably estimate a range of potential exposures, if any. However, it is possible that adverse resolutions of these matters may be material to Regions business, consolidated financial position or results of operations.

NOTE 13 Recent Accounting Pronouncements

In July 2010, the FASB issued accounting guidance related to disclosures about the credit quality of financing receivables and the allowance for credit losses. The amended guidance applies to all financing receivables except for short-term trade receivables and receivables measured at either fair value or the lower of cost or fair value. The objective of the amendment is disclosure of information that enables financial statement users to understand the nature of inherent credit risks, the entity s method of analysis and assessment of credit risk in estimating the allowance for credit losses, and the reasons for changes in both the receivables and allowances when examining a creditor s portfolio of financing receivables and its allowance for losses. Under the new guidance, the disaggregation of financing receivables will be disclosed by portfolio segment or by class of financing receivable. The amended guidance is applicable to period-end balances beginning with the first interim or annual reporting period ending on or after December 15, 2010. The adoption of this guidance is not expected to have a material impact to the consolidated financial statements.

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

The following discussion and analysis is part of Regions Financial Corporation s (Regions or the Company) Quarterly Report on Form 10-Q to the Securities and Exchange Commission (SEC) and updates Regions Form 10-K for the year ended December 31, 2009, which was previously filed with the SEC. This financial information is presented to aid in understanding Regions financial position and results of operations and should be read together with the financial information contained in the Form 10-K. Certain prior period amounts presented in this discussion and analysis have been reclassified to conform to current period classifications, except as otherwise noted. The emphasis of this discussion will be on the three and nine months ended September 30, 2010 compared to the three and nine months ended September 30, 2009 for the statement of operations. For the balance sheet, the emphasis of this discussion will be the balances as of September 30, 2010 compared to December 31, 2009.

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

CORPORATE PROFILE

Regions is a financial holding company headquartered in Birmingham, Alabama, which operates in the South, Midwest and Texas. Regions provides traditional commercial, retail and mortgage banking services, as well as other financial services in the fields of investment banking, asset management, trust, securities brokerage, insurance and other specialty financing.

Regions conducts its banking operations through Regions Bank, an Alabama chartered commercial bank that is a member of the Federal Reserve System. At September 30, 2010, Regions operated approximately 1,774 total branch outlets in Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, South Carolina, Tennessee, Texas and Virginia. Regions provides brokerage services and investment banking from approximately 329 offices of Morgan Keegan & Company, Inc. (Morgan Keegan), a full-service regional brokerage and investment banking firm. Regions provides full-line insurance brokerage services primarily through Regions Insurance, Inc.

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

Economic conditions, competition, new legislation and related rules impacting regulation of the financial services industry, and the monetary and fiscal policies of the Federal government significantly affect most financial institutions, including Regions. Lending and deposit activities and fee income generation are influenced by levels of business spending and investment, consumer income, consumer spending and savings, capital market activities, and competition among financial institutions, as well as customer preferences, interest rate conditions and prevailing market rates on competing products in Regions market areas.

Regions business strategy has been and continues to be focused on providing a competitive mix of products and services, delivering quality customer service and maintaining a branch distribution network with offices in

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convenient locations. Regions delivers this business strategy with the personal attention and feel of a community bank and with the service and product offerings of a large regional bank.

THIRD QUARTER HIGHLIGHTS

Regions reported a net loss available to common shareholders of $209 million, or $0.17 loss per diluted share in the third quarter of 2010, compared to a net loss available to common shareholders of $437 million, or $0.37 loss per diluted share in the third quarter of 2009. During the third quarter of 2010, Regions recorded a $760 million provision for loan losses, $265 million lower than the third quarter of 2009. The decrease in provision for loan losses was the primary driver of the improvement in operations from the prior year period. However, credit costs continue to be elevated, reflecting an economy that remains under pressure. Maturities of higher-rate certificates of deposits and lower deposit pricing drove the net interest margin to 2.96 percent for the third quarter of 2010, a 23 basis point improvement over the third quarter of 2009.

Net interest income on a fully taxable-equivalent basis for the third quarter of 2010 was $876 million compared to $853 million in the third quarter of 2009. Improved deposit pricing, as evidenced by a decline in deposit costs from 1.26 percent to 0.70 percent, as well as a favorable mix shift to lower cost products, drove the improvement.

Net charge-offs totaled $759 million, or an annualized 3.52 percent of average loans, in the third quarter of 2010, compared to $680 million, or an annualized 2.86 percent for the third quarter of 2009. Charge-offs were higher across most major categories when comparing the 2010 period to the prior year period, with investor real estate representing the most significant driver of the increase. Increased charge-offs reflect the impact of opportunistic asset dispositions. The provision for loan losses totaled $760 million in the third quarter of 2010 compared to $1.025 billion during the third quarter of 2009. The allowance for loan losses at September 30, 2010 was 3.77 percent of total loans, net of unearned income, compared to 3.43 percent at December 31, 2009 and 2.83 percent at September 30, 2009. Total non-performing assets, excluding loans held for sale, at September 30, 2010 were $3.8 billion, compared to $4.1 billion at December 31, 2009 and $3.7 billion at September 30, 2009.

Non-interest income for the third quarter of 2010 decreased by $22 million compared to the third quarter of 2009. The impact of policy changes and changes related to Regulation E on service charges on deposit accounts contributed to the decrease. Service charges will be negatively impacted going forward due to these changes. Lower mortgage income, resulting from market valuation adjustments for mortgage servicing rights and related derivatives, also drove the year-over-year decrease.

Total non-interest expense was $1.2 billion in the third quarter of 2010, an $80 million decrease from the third quarter of 2009. The 2009 period included approximately $41 million related to branch consolidation costs. Lower professional and legal fees also contributed to the year-over-year decrease.

The Company continues to closely monitor the impact of the oil spill in the Gulf of Mexico on Regions customer base. Regions estimates the maximum loss potential is approximately $20 million.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) which was signed into law on July 21, 2010 provides some level of clarity regarding how the industry and Regions specific business will be affected moving forward. However, provisions in the Dodd-Frank Act remain subject to regulatory rule-making and implementation, and it will be some time before the business implications are completely defined. For example, the Durbin amendment authorizes the Federal Reserve to regulate interchange fees and network charges in connection with debit card transactions, and the impact of this provision on the Company s annual interchange revenue stream is not currently defined. Non-interest expenses (e.g., FDIC insurance premiums, compliance costs, and other regulatory fees) could also be pressured by provisions included in the legislation. Additionally, trust preferred securities will be phased out as an allowable component of Tier 1 capital over a three-year period beginning in 2013.

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On September 12, 2010, the Group of Governors and Heads of Supervisors of the Basel Committee on Banking Supervision published its calibrated capital standards for major banking institutions (Basel III). Regions is evaluating the anticipated impact of Basel III. The Company s Tier 1 Common ratio is currently 7.6 percent, above the Basel III minimum 7 percent guideline. Regions Tier 1 Capital ratio is currently 12.1 percent, above the Basel III minimum 8.5 percent guideline. Regions also expects to meet the Basel III liquidity requirements in its current form. However, there is still need for some clarification of the Basel III rules and implementation by U.S. banking regulators, so the ultimate impact on Regions is not completely known at this point. See the Risk Factors section of this Form 10-Q for more information.

TOTAL ASSETS

Regions total assets at September 30, 2010 were $133.5 billion, compared to $142.3 billion at December 31, 2009. The decrease in total assets from year-end 2009 resulted primarily from decreases in the loan portfolio, a product of weak demand as well as strategic decisions to reduce the concentration in investor real estate loans. Lower interest-bearing deposits in other banks also contributed to the decrease.

LOANS

At September 30, 2010 and December 31, 2009, loans represented 72 percent of Regions interest-earning assets. The following table presents the distribution by loan type of Regions loan portfolio, net of unearned income:

Table 1 Loan Portfolio

	September 30 2010	December 31 2009	September 30 2009
	(In millions, net of unearned income)		
Commercial and industrial	$ 21,501	$ 21,547	$ 21,925
Commercial real estate mortgage owner occupied	11,850	12,054	12,103
Commercial real estate construction owner occupied	522	751	875
Total commercial	33,873	34,352	34,903
Commercial investor real estate mortgage	14,489	16,109	16,190
Commercial investor real estate construction	2,975	5,591	6,616
Total investor real estate	17,464	21,700	22,806
Residential first mortgage	15,723	15,632	15,513
Home equity	14,534	15,381	15,630
Indirect	1,657	2,452	2,755
Other consumer	1,169	1,157	1,147
Total consumer	33,083	34,622	35,045
	$ 84,420	$ 90,674	$ 92,754

Loans, net of unearned income, totaled $84.4 billion at September 30, 2010, a decrease of $6.3 billion from year-end 2009 levels. Strategic decisions to reduce the concentration in investor real estate were the primary contributor to the decrease. All other categories also decreased from year-end reflecting continued overall weak loan demand. However, commercial and industrial increased $405 million from June 30, 2010 as a result of growth experienced in certain specialty lending groups such as healthcare and energy in the Texas, Tennessee and Georgia markets.

CREDIT QUALITY

Weak economic conditions, including declining property values and high levels of unemployment, impacted the credit quality of Regions loan portfolio. Investor real estate loans and home equity products (particularly, Florida second lien) carry a higher risk of non-collection than other loans.

The following chart presents details of Regions $17.5 billion investor real estate portfolio as of September 30, 2010 (dollars in billions):

LAND, SINGLE-FAMILY, AND CONDOMINIUM

Beginning in late 2007, the land, single-family, and condominium components of the investor real estate portfolio came under significant pressure. Credit quality of the investor real estate portfolio is sensitive to risks associated with construction loans such as cost overruns, project completion risk, general contractor credit risk, environmental and other hazard risks, and market risks associated with the sale or rental of completed properties. While losses within these loan types were influenced by conditions described above, the most significant drivers of losses were the continued decline in demand for residential real estate and in the value of property. Beginning in 2008 and continuing through 2010, Regions has strategically reduced exposures in these product types through pro-active workouts, appropriate charge-offs, and asset dispositions as detailed in Table 2 below. In the third quarter of 2010, Regions executed a bulk sale of nonperforming assets which totaled $350 million. Non-accrual portfolio loans secured predominantly by land represented approximately $200 million of the sale, with the remaining amount primarily comprised of foreclosed property and loans held for sale. Accordingly, this transaction contributed to the decrease in non-accruing loans in the land table below.

The following table presents credit metrics for land, single-family and condominium loans:

Table 2 Land, Single-Family and Condominium

	September 30 2010	December 31 2009	September 30 2009
	(In millions, net of unearned income)		
Land			
Loan balance	$ 1,889	$ 2,979	$ 3,362
Accruing loans 90 days past due	1	16	17
Non-accruing loans	489	724	713

	September 30 2010	December 31 2009	September 30 2009
	(In millions, net of unearned income)		
Single-Family			
Loan balance	$ 1,402	$ 2,083	$ 2,344
Accruing loans 90 days past due	2	7	6
Non-accruing loans	341	545	483

	September 30 2010	December 31 2009	September 30 2009
	(In millions, net of unearned income)		
Condominium			
Loan balance	$ 359	$ 586	$ 677
Accruing loans 90 days past due			
Non-accruing loans	132	184	231

MULTI-FAMILY AND RETAIL

Beginning in 2009, multi-family and retail loans experienced increased pressure and contributed to increases in non-accrual loans. Continued weak economic conditions impacted demand for products and services in these sectors. Lower demand impacted cash flows generated by these properties, leading to a higher rate of non-collection. The geographic diversity of Regions exposure tends to mitigate the risk of non-collection.

The following table presents credit metrics and geographic distribution for multi-family and retail loans:

Table 3 Multi-family and Retail

	September 30 2010 (1)	December 31 2009	September 30 2009
	(In millions, net of unearned income)		
Multi-family			
Loan balance	$ 4,569	$ 5,049	$ 5,147
Accruing loans 90 days past due		1	5
Non-accruing loans	242	113	190

(1) The majority of the September 30, 2010 balance related to multi-family loans is geographically distributed throughout the following areas: Texas 21%, Florida 14%, Georgia 9%, Tennessee 8%, Louisiana 7% and North Carolina 6%. All other states, none of which comprise more than 5%, make up the remainder of the balance.

	September 30 2010 (1)	December 31 2009	September 30 2009
	(In millions, net of unearned income)		
Retail			
Loan balance	$ 3,389	$ 4,120	$ 4,270
Accruing loans 90 days past due		4	
Non-accruing loans	265	288	258

(1) The majority of the September 30, 2010 balance related to retail loans is geographically distributed throughout the following areas: Florida 23%, Texas 14%, Georgia 9%, Alabama 9%, Tennessee 8% and North Carolina 6%. All other states, none of which comprise more than 5%, make up the remainder of the balance.

HOME EQUITY PORTFOLIO

The home equity portfolio totaled $14.5 billion at September 30, 2010 as compared to $15.6 billion at September 30, 2009. 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 have risen to historically high levels. Losses on relationships in Florida where Regions is in a second lien position are higher than first lien losses.

The Company calculated an estimate of the current value of property secured as collateral for home equity lending products (current LTV). The estimate is based on home price indices compiled by the Federal Housing

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Finance Agency (FHFA). The FHFA data indicates trends for Metropolitan Statistical Areas (MSA). Regions uses the FHFA valuation trends from the MSA s in the Company s footprint in its estimate. The trend data is applied to the loan portfolios taking into account the age of the most recent valuation and geographic area. At September 30, 2010, the Company estimates that the number of home equity loans where the current LTV exceeded 100 was approximately 8.5 percent, while approximately 14.8 percent of the outstanding balances of home equity loans had a current LTV greater than 100. If the home equity loan is in a second lien position, the first lien has also been considered in the analysis. If the first lien position is with another institution, the Company uses the first lien outstanding balance at the time the second lien was originated.

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

Table 4 Selected Home Equity Portfolio Information

	As of and for the Nine Months Ended September 30, 2010								
	Florida			All Other States			Total		
(Dollars in millions)	1st Lien	2nd Lien	Total	1st Lien	2nd Lien	Total	1st Lien	2nd Lien	Total
Balance	$ 2,090	$ 3,254	$ 5,344	$ 4,188	$ 5,002	$ 9,190	$ 6,278	$ 8,256	$ 14,534
Net Charge-offs	44	185	229	27	67	94	71	252	323
Net Charge-off % (1)	2.79%	7.32%	5.57%	0.82%	1.74%	1.33%	1.48%	3.95%	2.89%

	As of and for the Nine Months Ended September 30, 2009								
	Florida			All Other States			Total		
(Dollars in millions)	1st Lien	2nd Lien	Total	1st Lien	2nd Lien	Total	1st Lien	2nd Lien	Total
Balance	$ 2,181	$ 3,570	$ 5,751	$ 4,451	$ 5,428	$ 9,879	$ 6,632	$ 8,998	$ 15,630
Net Charge-offs	42	184	226	19	57	76	61	241	302
Net Charge-off % (1)	2.59%	6.80%	5.23%	0.57%	1.36%	1.00%	1.22%	3.50%	2.54%

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

Net charge-offs were an annualized 2.89 percent of home equity loans for the first nine months of 2010 compared to an annualized 2.54 percent through the first nine months of 2009. Losses in Florida-based credits remained at elevated levels, as unemployment levels remain high and property valuations in certain markets have continued to experience ongoing deterioration. As illustrated in Table 4 Selected Home Equity Portfolio Information, these loans and lines in Florida represent approximately $5.3 billion of Regions total home equity portfolio at September 30, 2010. Of that balance, approximately $2.1 billion represent first liens, while second liens, which total $3.2 billion, are the main source of losses. Florida second lien losses were 7.32 percent annualized through the first nine months of 2010 as compared to 6.80 percent for the same period of 2009. Through the first nine months of 2010, home equity losses in Florida amounted to an annualized 5.57 percent of loans and lines versus 1.33 percent across the remainder of Regions footprint. This compares to the first nine months of 2009 losses of 5.23 percent and 1.00 percent, respectively.

OTHER CREDIT QUALITY MATTERS

Regions does not have any option adjustable rate mortgage (ARM) products, loans with initial teaser rates or other higher-risk residential loans. As of September 30, 2010, Regions has approximately $53 million in book value of sub-prime loans retained from the disposition of EquiFirst in 2007, down from the year-end 2009 balance of $61 million. The credit loss exposure related to these loans is addressed in management s periodic determination of the allowance for credit losses.

Using the same methodology described in the above discussion of home equity loans, at September 30, 2010, the Company estimates that the number of residential first mortgage loans where the current LTV exceeded 100 was approximately 4.8 percent, while approximately 10.6 percent of the outstanding balances of residential first mortgage loans had a current LTV greater than 100.

Regions recourse liability, which primarily relates to residential mortgage loans, totaled $32 million and $30 million at September 30, 2010 and December 31, 2009, respectively. During the nine months ended September 30, 2010, $14 million of provision expense (included in non-interest expense) was recorded and $12 million was charged-off against the reserve. The recourse liability represents Regions estimated credit losses on contingent repurchases of loans or make-whole payments related to residential mortgage loans previously sold. This recourse arises when debtors fail to pay for an initial period of time after the loan is sold or due to defects in the underwriting of the sold loans.

ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses represents management s estimate of credit losses inherent in the portfolio as of year-end. The allowance for credit losses consists of two components: the allowance for loan losses and the reserve for unfunded credit commitments. Management s assessment of the adequacy of the allowance for credit losses is based on a combination of both of these components. Regions determines its allowance for credit losses in accordance with applicable accounting literature as well as regulatory guidance related to receivables and contingencies. Binding unfunded credit commitments include items such as letters of credit, financial guarantees and binding unfunded loan commitments.

Factors considered by management in determining the adequacy of the allowance include, but are not limited to: (1) detailed reviews of individual loans; (2) historical and current trends in gross and net loan charge-offs for the various portfolio segments evaluated; (3) the Company s policies relating to delinquent loans and charge-offs; (4) the level of the allowance in relation to total loans and to historical loss levels; (5) levels and trends in non-performing and past due loans; (6) collateral values of properties securing loans; (7) the composition of the loan portfolio, including unfunded credit commitments; (8) management s analysis of current economic conditions; (9) migration of loans between risk rating categories; and (10) estimation of inherent credit losses in the portfolio. In support of collateral values, Regions obtains updated valuations for non-performing loans on at least an annual basis.

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

For the majority of the loan portfolio, management uses information from its ongoing review processes to stratify the loan portfolio into pools sharing common risk characteristics. Loans that share common risk characteristics are assigned a portion of the allowance for credit losses based on the assessment process described above. Credit exposures are categorized by type and assigned estimated amounts of inherent loss based on several factors, including current and historical loss experience for each pool and management s judgment of current economic conditions and their expected impact on credit performance. Adjustments to the allowance for credit losses calculated using a pooled approach are recorded through the provision for loan losses.

As a matter of business practice, Regions may require some form of credit support, such as a guarantee. Guarantees are legally binding and simultaneous with the primary loan agreements. Regions underwrites the ability of each guarantor to perform under its guarantee in the same manner and to the same extent as would be required to underwrite the repayment plan of a direct obligor. This entails obtaining sufficient information on the guarantor, including financial and operating information, to sufficiently measure a guarantor s ability to perform, under the guarantee. However, the benefit assigned to credit support within the calculation of the allowance for credit losses is not material to the consolidated financial statements.

The allowance for loan losses totaled $3.2 billion at September 30, 2010, $3.1 billion at December 31, 2009 and $2.6 billion at September 30, 2009. The allowance for loan losses as a percentage of net loans was 3.77 percent at September 30, 2010 compared to 3.43 percent at December 31, 2009 and 2.83 percent at September 30, 2009. The reserve for unfunded credit commitments was $71 million at September 30, 2010 compared to $74 million at December 31, 2009 and $63 million at September 30, 2009. The increase in the allowance for loan losses from December 31, 2009, was attributable to losses incurred in the commercial, investor real estate (primarily land, retail and multi-family), residential first mortgage, and home equity lending portfolios. Non-performing loans, excluding loans held for sale, decreased $116 million from December 31, 2009. As compared to June 30, 2010, total non-performing loans, excluding loans held for sale, decreased $101 million. However, gross inflows to non-performing loans increased during the third quarter of 2010 as compared to the previous quarters, reflecting the slow pace of economic recovery. Importantly, an increasing and substantial portion of new non-performing loan inflows was attributable to loans that are currently paying as agreed, but have been classified as non-performing due to concerns regarding borrowers willingness and/or ability to meet contractually due principal and interest.

Net charge-offs as a percentage of average loans (annualized) were 3.22 percent and 2.19 percent in the first nine months of 2010 and 2009, respectively. Charge-off ratios were higher across all major categories, period over period. Investor real estate losses were the largest contributor, reflecting increased charge-offs in the land, single-family and retail components of investor real estate. Increased charge-offs reflect the impact of opportunistic asset dispositions.

Management considers the current level of allowance for credit losses adequate to absorb losses inherent in the loan portfolio and unfunded commitments. Management s determination of the adequacy of the allowance for credit losses, which is based on the factors and risk identification procedures previously discussed, requires the use of judgments and estimations that may change in the future. Changes in the factors used by management to determine the adequacy of the allowance or the availability of new information could cause the allowance for credit losses to be increased or decreased in future periods. In addition, bank regulatory agencies, as part of their examination process, may require changes in the level of the allowance based on their judgments and estimates.

Given current economic pressures, management expects that net loan charge-offs for all portfolios will continue at an elevated level during 2010. Details regarding the allowance and net charge-offs, including an analysis of activity from the previous year s totals, are included in Table 5 Allowance for Credit Losses.

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

Table 5 Allowance for Credit Losses

	Nine Months Ended September 30 2010	2009
	(Dollars in millions)	
Allowance for loan losses at beginning of year	$ 3,114	$ 1,826
Loans charged-off:		
Commercial and industrial	293	299
Commercial real estate mortgage owner occupied	142	49
Commercial real estate construction owner occupied	20	9
Commercial investor real estate mortgage	673	378
Commercial investor real estate construction	464	329
Residential first mortgage	184	149
Home equity	336	324
Indirect	26	52
Other consumer	63	59
	2,201	1,648
Recoveries of loans previously charged-off:		
Commercial and industrial	25	20
Commercial real estate mortgage owner occupied	7	5
Commercial real estate construction owner occupied	1	
Commercial investor real estate mortgage	9	5
Commercial investor real estate construction	9	4
Residential first mortgage	2	2
Home equity	13	22
Indirect	12	15
Other consumer	13	14
	91	87
Net charge-offs:		
Commercial and industrial	268	279
Commercial real estate mortgage owner occupied	135	44
Commercial real estate construction owner occupied	19	9
Commercial investor real estate mortgage	664	373
Commercial investor real estate construction	455	325
Residential first mortgage	182	147
Home equity	323	302
Indirect	14	37
Other consumer	50	45
	2,110	1,561
Provision for loan losses	2,181	2,362
Allowance for loan losses at September 30	$ 3,185	$ 2,627
Reserve for unfunded credit commitments at January 1	74	74
Provision for unfunded credit commitments	(3)	(11)

Reserve for unfunded credit commitments at September 30	71	63
Allowance for credit losses at end of period	$ 3,256	$ 2,690
Loans, net of unearned income, outstanding at end of period	$ 84,420	$ 92,754
Average loans, net of unearned income, outstanding for the period	$ 87,520	$ 95,453
Ratios:		
Allowance for loan losses at end of period to loans, net of unearned income	3.77%	2.83%
Net charge-offs as percentage of:		
Average loans, net of unearned income	3.22	2.19
Provision for loan losses	96.74	66.10

Loans deemed to be impaired include troubled debt restructurings (TDRs), plus commercial and investor real estate non-accrual loans. Commercial and investor real estate impaired loans with outstanding balances equal to or greater than $2.5 million are evaluated individually for impairment. For these loans, Regions measures the level of impairment based on the present value of the estimated projected cash flows, the estimated value of the collateral or, if available, observable market prices. For consumer TDRs, Regions measures the level of impairment based on pools of loans stratified by common risk characteristics. If current valuations are lower than the current book balance of the credit, the negative differences are reviewed for possible charge-off. In instances where management determines that a charge-off is not appropriate, a specific reserve is established for the individual loan in question. This specific reserve is incorporated as a part of the overall allowance for credit losses. The recorded investment in impaired loans was approximately $4.5 billion at September 30, 2010, compared to $5.0 billion at December 31, 2009. The allowance allocated to specifically evaluated impaired loans, excluding TDRs, totaled $429 million and $403 million at September 30, 2010 and December 31, 2009, respectively. Loans that were characterized as TDRs totaled $1.8 billion and $1.9 billion at September 30, 2010 and December 31, 2009, respectively. The allowance allocated to TDRs, excluding specifically-impaired loans referred to above, totaled $161 million at September 30, 2010 and $38 million at December 31, 2009.

Regions continues to work to meet the individual needs of consumer borrowers to stem foreclosure through CAP. Regions designed the program to allow for customer-tailored modifications with the goal of keeping customers in their homes and avoiding foreclosure where possible. Modification may be offered to any borrower experiencing financial hardship regardless of the borrower s payment status. Under the CAP, Regions may offer a short-term deferral, a term extension, an interest rate reduction, a new loan product, or a combination of these options. Regions evaluates the success of the modification program (the recidivism rate). Our recidivism rate is the 60-day and greater delinquency rate inclusive of non-accruing loans for all TDRs which were restructured six months or prior to the reporting period. For CAP modifications, this rate is currently approximately 21%. For loans restructured under CAP, Regions expects to collect the original contractually due principal. The gross original contractual interest may be collectible, depending on the terms modified. The length of the CAP modifications ranges from temporary payment deferrals of three months to term extensions for the life of the loan. All such modifications are considered TDRs regardless of the term if there is a concession to a borrower experiencing financial difficulty. Modified loans are subject to policies governing accrual/nonaccrual evaluation consistent with all other loans of the same product type. Consumer loans are subject to objective accrual/nonaccrual decisions. Under these policies, loans subject to CAP are assessed for charge down to estimated value and placed on nonaccrual status, unless they are well-secured and in the process of collection, on or before the month in which the loan becomes 180 days past due. Because the program was designed to evaluate potential CAP participants as early as possible in the lifecycle of the troubled loan, many of the modifications are finalized without the borrower ever reaching 180 days past due, and with the loans having never been placed on nonaccrual. Accordingly, given the positive impact of the restructuring on the likelihood of recovery of cash flows due under the modified terms, accrual status continues to be appropriate for these loans. None of the modified consumer loans listed in our TDR disclosures were collateral-dependent at the time of modification. At September 30, 2010, approximately $146 million in residential first mortgage TDRs and approximately $8 million in home equity TDRs were in excess of 180 days past due and are considered collateral-dependent.

Residential first mortgage, home equity and other consumer TDRs are consumer loans modified under the CAP. Commercial and investor real estate are not the result of a formal program, but represent situations where modification was offered as a workout alternative. The following table summarizes TDRs for the periods ending September 30, 2010 and December 31, 2009:

Table 6 Troubled Debt Restructurings

	September 30, 2010		December 31, 2009	
	Loan Balance	Allowance for Credit Losses	Loan Balance	Allowance for Credit Losses
	(In millions)			
Accruing:				
Commercial	$ 23	$ 2	$ 24	$ 2
Investor real estate	150	6	1	
Residential first mortgage	746	82	1,291	29
Home equity	314	42	241	5
Other consumer	66	1	51	1
	$ 1,299	$ 133	$ 1,608	$ 37
Non-accrual status or 90 days past due:				
Commercial	$ 71	$ 23	$ 17	$ 2
Investor real estate	159	24	75	16
Residential first mortgage	222	25	178	1
Home equity	26	3	17	1
	478	75	287	20
	$ 1,777	$ 208	$ 1,895	$ 57

Note 1. All loans listed in the table above are considered impaired under applicable accounting literature.

Note 2. Netcharge-offs on commercial TDRs were approximately $47 million and $5 million for the nine months ended September 30, 2010 and 2009, respectively.

Netcharge-offs on investor real estate TDRs were approximately $34 million and $3 million for the nine months ended September 30, 2010 and 2009, respectively.

Netcharge-offs on residential first mortgage TDRs were approximately $60 million and $27 million for the nine months ended September 30, 2010 and 2009, respectively.

Netcharge-offs on home equity TDRs were approximately $30 million and $7 million for the nine months ended September 30, 2010 and 2009, respectively.

Netcharge-offs on other consumer TDRs were approximately $5 million and $2 million for the nine months ended September 30, 2010 and 2009, respectively.

If loans characterized as TDRs perform according to the restructured terms for a satisfactory period of time, the TDR designation may be removed in a new calendar year if the loan yields a market rate. A minimum of six months consecutive payments is required in order to demonstrate a performance history sufficient to remove the TDR designation. The improved performance of residential first mortgage loans which were characterized as TDRs in 2009 drove the decrease in TDR balances during 2010.

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NON-PERFORMING ASSETS

Non-performing assets are summarized as follows:

Table 7 Non-Performing Assets

	September 30 2010	December 31 2009	September 30 2009
		(Dollars in millions)	
Non-performing loans:			
Commercial and industrial	$ 502	$ 427	$ 381
Commercial real estate mortgage owner occupied	616	560	450
Commercial real estate construction owner occupied	35	50	47
Total commercial	1,153	1,037	878
Commercial investor real estate mortgage	1,347	1,203	1,184
Commercial investor real estate construction	561	1,067	992
Total investor real estate	1,908	2,270	2,176
Residential first mortgage	267	180	162
Home equity	44	1	
Total non-performing loans, excluding loans held for sale	3,372	3,488	3,216
Foreclosed properties	461	607	503
Total non-performing assets* excluding loans held for sale	3,833	4,095	3,719
Non-performing loans held for sale	393	317	380
Total non-performing assets* including loans held for sale	$ 4,226	$ 4,412	$ 4,099