

REGIONS FINANCIAL CORP  
Form 10-Q  
November 03, 2006

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

☒ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended **September 30, 2006**

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: 0-6159

Regions Financial Corporation

(Exact name of registrant as specified in its charter)

Delaware

63-0589368

(State or other jurisdiction of  
incorporation or organization)

(IRS Employer Identification Number)

417 North 20<sup>th</sup> Street  
Birmingham, Alabama

**35203**

(Address of principal executive offices)

(Zip code)

(205) 944-1300

(Registrant's telephone number, including area code)

NOT APPLICABLE

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

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

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerate filer" in Rule 12b-2 of the Exchange Act). Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

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

The number of shares outstanding of each of the issuer's classes of common stock was 456,009,893 shares of common stock, par value \$.01, outstanding as of October 31, 2006.

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REGIONS FINANCIAL CORPORATION

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### Forward Looking Statements

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

- Regions' ability to achieve the earnings expectations related to the businesses that were acquired, or that may be acquired in the future, including its announced plan to merge with AmSouth Bancorporation ("AmSouth"), which in turn depends on a variety of factors, including:
    - ◆ Regions' ability to achieve the anticipated cost savings and revenue enhancements with respect to the acquired operations, or lower than expected revenues from continuing operations;
    - ◆ the assimilation of the acquired operations to Regions' corporate culture, including the ability to instill appropriate credit practices and efficient approaches to the acquired operations;
    - ◆ the continued growth of the markets that the acquired entities serve, consistent with recent historical experience;
    - ◆ difficulties related to the integration of the businesses, including integration of information systems and retention of key personnel.
  - Regions' ability to expand into new markets and to maintain profit margins in the face of competitive pressures.
  - Regions' ability to keep pace with technological changes.
  - 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 effectively manage interest rate risk, market risk, credit risk and operational risk.
  - 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.
  - The cost and other effects of material contingencies, including litigation contingencies.
- 
- Further easing of restrictions on participants in the financial services industry, such as banks, securities brokers and dealers, investment companies and finance companies, may increase competitive pressures.
  - 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 may lead to a deterioration in credit quality, thereby increasing provisioning costs, or a reduced demand for credit, thereby reducing earning assets.
  - The occurrence of natural disasters or the threat or occurrence of war or acts of terrorism and the existence or exacerbation of general geopolitical instability and uncertainty.
  - Possible changes in trade, monetary and fiscal policies, laws, and regulations, and other activities of governments, agencies, and similar organizations, including changes in accounting standards, may have an adverse effect on business.
  - Possible changes in consumer and business spending and saving habits could affect Regions' ability to increase assets and to attract deposits.

The words "believe," "expect," "anticipate," "project," and similar expressions signify forward looking statements. Readers are cautioned not to place undue reliance on any forward looking statements made by or on behalf of Regions. Any such statement speaks only as of the date the statement was made. Regions undertakes no obligation to update or revise any forward looking statements.

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REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CONDITION

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(DOLLAR AMOUNTS IN THOUSANDS) (UNAUDITED)

|                                                                               | September 30,<br>2006 | December 31,<br>2005 | September 30,<br>2005 |
|-------------------------------------------------------------------------------|-----------------------|----------------------|-----------------------|
| <b><u>ASSETS</u></b>                                                          |                       |                      |                       |
| Cash and due from banks                                                       | \$ 2,055,137          | \$ 2,414,560         | \$2,076,344           |
| Interest-bearing deposits in other banks                                      | 38,981                | 92,098               | 89,253                |
| Securities held to maturity                                                   | 30,033                | 31,464               | 31,428                |
| Securities available for sale                                                 | 12,425,555            | 11,947,810           | 11,913,649            |
| Trading account assets                                                        | 1,438,427             | 992,082              | 814,663               |
| Loans held for sale                                                           | 1,824,687             | 1,531,664            | 2,054,012             |
| Federal funds sold and securities<br>purchased under agreements to resell     | 913,076               | 710,282              | 607,756               |
| Margin receivables                                                            | 581,558               | 527,317              | 513,339               |
| Loans                                                                         | 59,677,657            | 58,591,816           | 58,535,410            |
| Unearned income                                                               | (199,752)             | (186,903)            | (179,524)             |
| Loans, net of unearned income                                                 | 59,477,905            | 58,404,913           | 58,355,886            |
| Allowance for loan losses                                                     | (778,465)             | (783,536)            | (783,943)             |
| Net loans                                                                     | 58,699,440            | 57,621,377           | 57,571,943            |
| Premises and equipment                                                        | 1,097,616             | 1,122,289            | 1,109,922             |
| Interest receivable                                                           | 456,978               | 420,818              | 383,839               |
| Due from customers on acceptances                                             | 28,657                | 22,924               | 25,784                |
| Excess purchase price                                                         | 4,967,799             | 5,027,044            | 5,025,964             |
| Mortgage servicing rights                                                     | 407,740               | 412,008              | 397,176               |
| Other identifiable intangible assets                                          | 287,437               | 314,368              | 325,933               |
| Other assets                                                                  | 1,726,970             | 1,597,495            | 1,653,609             |
|                                                                               | <u>\$86,980,091</u>   | <u>\$84,785,600</u>  | <u>\$84,594,614</u>   |
| <b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>                            |                       |                      |                       |
| <b>Deposits:</b>                                                              |                       |                      |                       |
| Non-interest-bearing                                                          | \$12,570,051          | \$13,699,038         | \$12,606,368          |
| Interest-bearing                                                              | 49,599,494            | 46,679,329           | 46,858,807            |
| Total deposits                                                                | 62,169,545            | 60,378,367           | 59,465,175            |
| <b>Borrowed Funds:</b>                                                        |                       |                      |                       |
| <b>Short-term borrowings:</b>                                                 |                       |                      |                       |
| Federal funds purchased and securities<br>sold under agreements to repurchase | 4,943,568             | 3,928,185            | 4,679,352             |
| Other short-term borrowings                                                   | 1,368,480             | 1,038,094            | 954,462               |
| Total short-term borrowings                                                   | 6,312,048             | 4,966,279            | 5,633,814             |
| Long-term borrowings                                                          | 5,490,404             | 6,971,680            | 7,207,015             |
| Total borrowed funds                                                          | 11,802,452            | 11,937,959           | 12,840,829            |
| Bank acceptances outstanding                                                  | 28,657                | 22,924               | 25,784                |

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|                                               |              |              |              |
|-----------------------------------------------|--------------|--------------|--------------|
| Other liabilities                             | 1,936,534    | 1,832,067    | 1,617,771    |
| Total liabilities                             | 75,937,188   | 74,171,317   | 73,949,559   |
| Stockholders' Equity:                         |              |              |              |
| Common stock, par value \$.01 a share:        |              |              |              |
| Authorized 1,500,000,000 shares;              |              |              |              |
| issued, including treasury stock,             |              |              |              |
| 481,266,725; 473,756,429; and                 |              |              |              |
| 471,793,782 shares, respectively              |              |              |              |
|                                               | 4,813        | 4,738        | 4,718        |
| Surplus                                       | 7,466,180    | 7,248,855    | 7,220,396    |
| Undivided profits                             | 4,547,845    | 4,034,905    | 3,936,657    |
| Treasury stock, 26,200,072; 17,408,800; and   |              |              |              |
| 13,585,700 shares, respectively               |              |              |              |
|                                               | (888,282)    | (581,890)    | (453,235)    |
| Accumulated other comprehensive (loss) income | (87,653)     | (92,325)     | (63,481)     |
| Total Stockholders' Equity                    | 11,042,903   | 10,614,283   | 10,645,055   |
|                                               | \$86,980,091 | \$84,785,600 | \$84,594,614 |

See notes to consolidated financial statements.

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**REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA) (UNAUDITED)

|                                                                                  | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |             |
|----------------------------------------------------------------------------------|-------------------------------------|-----------|------------------------------------|-------------|
|                                                                                  | 2006                                | 2005      | 2006                               | 2005        |
| Interest Income:                                                                 |                                     |           |                                    |             |
| Interest and fees on loans                                                       | \$1,106,807                         | \$917,915 | \$ 3,147,173                       | \$2,592,864 |
| Interest on securities:                                                          |                                     |           |                                    |             |
| Taxable interest income                                                          | 143,118                             | 124,913   | 405,748                            | 372,596     |
| Tax-exempt interest income                                                       | 7,852                               | 7,408     | 23,872                             | 21,094      |
| Total Interest on Securities                                                     | 150,970                             | 132,321   | 429,620                            | 393,690     |
| Interest on loans held for sale                                                  | 45,416                              | 40,787    | 126,559                            | 111,369     |
| Interest on margin receivables                                                   | 9,767                               | 7,581     | 27,965                             | 20,890      |
| Income on federal funds sold and securities purchased under agreements to resell | 13,505                              | 6,056     | 35,568                             | 12,648      |

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|                                                            |                   |                  |                   |                  |
|------------------------------------------------------------|-------------------|------------------|-------------------|------------------|
| Interest on time deposits in other banks                   | 637               | 487              | 1,524             | 1,521            |
| Interest on trading account assets                         | 12,519            | 8,708            | 31,930            | 28,233           |
| <b>Total Interest Income</b>                               | <b>1,339,621</b>  | <b>1,113,855</b> | <b>3,800,339</b>  | <b>3,161,215</b> |
| <b>Interest Expense:</b>                                   |                   |                  |                   |                  |
| Interest on deposits                                       | 411,178           | 270,136          | 1,082,912         | 711,841          |
| Interest on short-term borrowings                          | 66,315            | 42,957           | 172,513           | 119,866          |
| Interest on long-term borrowings                           | 84,429            | 83,339           | 261,953           | 234,802          |
| <b>Total Interest Expense</b>                              | <b>561,922</b>    | <b>396,432</b>   | <b>1,517,378</b>  | <b>1,066,509</b> |
| Net Interest Income                                        | 777,699           | 717,423          | 2,282,961         | 2,094,706        |
| Provision for loan losses                                  | 25,000            | 62,500           | 82,500            | 125,000          |
| <b>Net Interest Income After Provision for Loan Losses</b> | <b>752,699</b>    | <b>654,923</b>   | <b>2,200,461</b>  | <b>1,969,706</b> |
| <b>Non-Interest Income:</b>                                |                   |                  |                   |                  |
| Brokerage and investment banking                           | 144,093           | 131,738          | 469,751           | 408,407          |
| Trust department income                                    | 36,366            | 33,673           | 106,651           | 96,919           |
| Service charges on deposit accounts                        | 150,078           | 132,924          | 425,879           | 388,396          |
| Mortgage servicing and origination fees                    | 33,296            | 35,284           | 100,264           | 111,653          |
| Securities gains (losses)                                  | 8,104             | (20,717)         | 8,143             | (1,283)          |
| Other                                                      | 94,012            | 137,410          | 316,089           | 386,555          |
| <b>Total Non-Interest Income</b>                           | <b>465,949</b>    | <b>450,312</b>   | <b>1,426,777</b>  | <b>1,390,647</b> |
| <b>Non-Interest Expense:</b>                               |                   |                  |                   |                  |
| Salaries and employee benefits                             | 413,719           | 437,951          | 1,302,202         | 1,302,052        |
| Net occupancy expense                                      | 54,012            | 56,596           | 167,672           | 167,515          |
| Furniture and equipment expense                            | 33,838            | 34,104           | 101,863           | 98,605           |
| Other                                                      | 213,024           | 212,472          | 625,463           | 724,748          |
| <b>Total Non-Interest Expense</b>                          | <b>714,593</b>    | <b>741,123</b>   | <b>2,197,200</b>  | <b>2,292,920</b> |
| <b>Income Before Income Taxes</b>                          | <b>504,055</b>    | <b>364,112</b>   | <b>1,430,038</b>  | <b>1,067,433</b> |
| Applicable income taxes                                    | 152,398           | 107,556          | 438,444           | 320,885          |
| <b>Net Income</b>                                          | <b>\$ 351,657</b> | <b>\$256,556</b> | <b>\$ 991,594</b> | <b>\$746,548</b> |
| <b>Average number of shares outstanding</b>                |                   |                  |                   |                  |
| Average number of shares outstanding                       | 454,441           | 459,563          | 455,463           | 462,512          |
| Average number of shares outstanding-diluted               | 458,903           | 464,250          | 460,018           | 467,710          |
| <b>Per share:</b>                                          |                   |                  |                   |                  |
| Net income                                                 | \$0.77            | \$0.56           | \$2.18            | \$1.61           |
| Net income-diluted                                         | \$0.77            | \$0.55           | \$2.16            | \$1.60           |
| Cash dividends declared                                    | \$0.35            | \$0.34           | \$1.05            | \$1.02           |

See notes to consolidated financial statements.

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REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(AMOUNTS IN THOUSANDS) (UNAUDITED)

|                                                                                                             | Common<br>Stock | Surplus     | Undivided<br>Profits | Treasury<br>Stock | Accumulated<br>Other<br>Comprehensive<br>Loss | Total        |
|-------------------------------------------------------------------------------------------------------------|-----------------|-------------|----------------------|-------------------|-----------------------------------------------|--------------|
| BALANCE AT<br>JANUARY 1, 2006                                                                               | \$4,738         | \$7,248,855 | \$4,034,905          | \$(581,890)       | \$ (92,325)                                   | \$10,614,283 |
| Comprehensive Income:                                                                                       |                 |             |                      |                   |                                               |              |
| Net income                                                                                                  |                 |             | 991,594              |                   |                                               | 991,594      |
| Unrealized loss on<br>available for sale<br>securities,<br>net of tax and<br>reclassification<br>adjustment |                 |             |                      |                   | (3,467)                                       | (3,467)      |
| Other comprehensive<br>gain from derivatives,<br>net of tax<br>and reclassification<br>adjustment           |                 |             |                      |                   | 8,139                                         | 8,139        |
| Comprehensive income*                                                                                       |                 |             | 991,594              |                   | 4,672                                         | 996,266      |
| Cash dividends declared<br>(\$1.05 per common<br>share)                                                     |                 |             | (478,654)            |                   |                                               | (478,654)    |
| Purchase of treasury<br>stock                                                                               |                 |             |                      | (302,808)         |                                               | (302,808)    |
| Receipt of stock related<br>to settlement of lawsuit                                                        |                 |             |                      | (3,584)           |                                               | (3,584)      |
| Common stock<br>transactions:                                                                               |                 |             |                      |                   |                                               |              |
| Stock options exercised                                                                                     | 66              | 189,735     |                      |                   |                                               | 189,801      |
| Stock issued to<br>employees under<br>incentive plan, net                                                   | 9               | (4,852)     |                      |                   |                                               | (4,843)      |
|                                                                                                             |                 | 32,442      |                      |                   |                                               | 32,442       |

# Amortization of unearned restricted stock

|                    |         |             |             |             |            |              |
|--------------------|---------|-------------|-------------|-------------|------------|--------------|
| BALANCE AT         | \$4,813 | \$7,466,180 | \$4,547,845 | \$(888,282) | \$(87,653) | \$11,042,903 |
| SEPTEMBER 30, 2006 |         |             |             |             |            |              |

## Disclosure of reclassification amount:

|                                                                                                                  |         |
|------------------------------------------------------------------------------------------------------------------|---------|
| Unrealized holding gains, net of (\$650) in income taxes, on available for sale securities arising during period | \$1,826 |
|------------------------------------------------------------------------------------------------------------------|---------|

|                                                                                                          |       |
|----------------------------------------------------------------------------------------------------------|-------|
| Less: Reclassification adjustment, net of (\$2,850) in income taxes, for net gain realized in net income | 5,293 |
|----------------------------------------------------------------------------------------------------------|-------|

|                                                                          |       |
|--------------------------------------------------------------------------|-------|
| Unrealized holding gain on derivatives, net of (\$5,089) in income taxes | 8,342 |
|--------------------------------------------------------------------------|-------|

|                                                                                                         |     |
|---------------------------------------------------------------------------------------------------------|-----|
| Less: Reclassification adjustment, net of (\$109) in income taxes, for amortization of cash flow hedges | 203 |
|---------------------------------------------------------------------------------------------------------|-----|

|                                                      |         |
|------------------------------------------------------|---------|
| Comprehensive gain, net of (\$2,780) in income taxes | \$4,672 |
|------------------------------------------------------|---------|

\*Comprehensive income for the nine months ended September 30, 2005 was \$632.8 million.

\*Comprehensive income for the three months ended September 30, 2006 was \$485.3 million compared to \$174.4 million for the three months ended September 30, 2005.

See notes to consolidated financial statements.

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### REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS

(DOLLAR AMOUNTS IN THOUSANDS) (UNAUDITED)

|                       | Nine Months Ended<br>September 30, |            |
|-----------------------|------------------------------------|------------|
|                       | 2006                               | 2005       |
| Operating Activities: |                                    |            |
| Net income            | \$ 991,594                         | \$ 746,548 |

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Adjustments to reconcile net cash provided by (used in) operating activities

|                                                               |              |              |
|---------------------------------------------------------------|--------------|--------------|
| Depreciation and amortization of premises and equipment       | 90,769       | 82,234       |
| Provision for loan losses                                     | 82,500       | 125,000      |
| Net amortization of securities                                | 2,501        | 13,913       |
| Amortization of intangibles and other assets                  | 121,690      | 140,468      |
| Recapture of mortgage servicing rights                        | (11,000 )    | (14,000 )    |
| Gain on exchange of NYSE seats for NYSE publicly traded stock | (13,111 )    | -0 -         |
| Amortization of deposits and borrowings                       | 331          | 333          |
| Provision for losses on other real estate                     | 3,037        | 3,519        |
| Excess tax benefits from share-based payments                 | (19,840 )    | -0 -         |
| Deferred income tax expense                                   | 29,250       | 11,897       |
| Gain on sale of premises and equipment                        | (13,919 )    | (2,217 )     |
| Realized securities (gains) losses                            | (8 )         | 1,283        |
| (Increase) decrease in trading account assets (1)             | (424,280 )   | 114,013      |
| Increase in loans held for sale                               | (293,023 )   | (270,681 )   |
| Increase in margin receivables                                | (54,241 )    | (35,526 )    |
| Increase in interest receivable                               | (36,160 )    | (38,276 )    |
| Increase in other assets (1)                                  | (161,739 )   | (157,517 )   |
| Increase in other liabilities                                 | 85,555       | 242,151      |
| Other                                                         | 27,599       | 15,029       |
| Net Cash Provided By Operating Activities                     | 407,505      | 978,171      |
| Investing Activities:                                         |              |              |
| Net increase in loans                                         | (1,160,533 ) | (924,685 )   |
| Proceeds from sale of securities available for sale           | 384,206      | 4,313,320    |
| Proceeds from maturity of securities held to maturity         | 1,475        | 596          |
| Proceeds from maturity of securities available for sale       | 2,081,272    | 1,664,721    |
| Purchases of securities held to maturity                      | (1,793 )     | (694 )       |
| Purchases of securities available for sale                    | (2,949,635 ) | (5,494,389 ) |
| Net decrease in interest-bearing deposits in other banks      | 53,117       | 25,765       |
| Proceeds from sale of premises and equipment                  | 86,508       | 158,999      |
| Purchases of premises and equipment                           | (138,685 )   | (259,843 )   |
| Net(increase) decrease in customers' acceptance liability     | (5,733 )     | 6,198        |
| Net Cash Used By Investing Activities                         | (1,649,801 ) | (510,012 )   |
| Financing Activities:                                         |              |              |
| Net increase in deposits                                      | 1,790,847    | 797,819      |
| Net increase (decrease) in short-term borrowings              | 1,345,769    | (361,797 )   |
| Proceeds from long-term borrowings                            | 210,669      | 972,854      |
| Payments on long-term borrowings                              | (1,691,946 ) | (1,005,424 ) |
| Net increase (decrease) in bank acceptance liability          | 5,733        | (6,198 )     |
| Cash dividends                                                | (478,654 )   | (472,862 )   |

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|                                                  |             |              |
|--------------------------------------------------|-------------|--------------|
| Purchases of treasury stock                      | (306,392 )  | (423,840 )   |
| Excess tax benefits from share-based payments    | 19,840      | -0 -         |
| Proceeds from exercise of stock options          | 189,801     | 144,427      |
| Net Cash Provided (Used) By Financing Activities | 1,085,667   | (355,021 )   |
| (Decrease) Increase in Cash and Cash Equivalents | (156,629 )  | 113,138      |
| Cash and Cash Equivalents, Beginning of Period   | 3,124,842   | 2,570,962    |
| Cash and Cash Equivalents, End of Period         | \$2,968,213 | \$ 2,684,100 |

See notes to consolidated financial statements.

(1)

*In 2006, excludes effect of \$8.9 million non-cash exchange of NYSE seats for NYSE publicly traded stock.*

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

September 30, 2006

NOTE A - Basis of Presentation

The accounting and reporting policies of Regions Financial Corporation ("Regions" or the "Company"), conform with accounting principles generally accepted in the United States and with general financial services industry practices. Regions 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 intense competition from other financial institutions and is also subject to the regulations of certain government agencies and undergoes periodic examinations by those regulatory authorities.

The accompanying unaudited consolidated 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 U.S. generally accepted accounting principles. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included under Item 8 of the Annual Report on Form 10-K for the year ended December 31, 2005. It is management's opinion that all adjustments, consisting of only normal and recurring items necessary for a fair presentation, have been included. Please also refer to "Critical Accounting Policies" included in Management's Discussion and Analysis.

Certain amounts in prior periods have been reclassified to conform to the current period presentation.

NOTE B - AmSouth Merger

On May 24, 2006, the Company signed a definitive merger agreement with AmSouth Bancorporation ("AmSouth"), headquartered in Birmingham, Alabama. After completion of the transaction, AmSouth will be merged with and into

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Regions Financial Corporation. In the transaction, each share of AmSouth common stock will be converted into 0.7974 of a share of Regions common stock. The merger will be accounted for as a purchase of AmSouth for accounting and financial reporting purposes. As a result, the historical financial statements of Regions will become the historical financial statements of the combined company. On October 3, 2006, Regions and AmSouth shareholders approved the merger and on October 20, 2006, regulatory approval was received. The transaction is expected to close in the fourth quarter of 2006, subject to expiration of customary regulatory waiting periods. Additional information on the proposed merger is included on Regions' Form 8-K dated May 24, 2006, and filed May 25, 2006, and Regions' Form S-4 dated and filed July 12, 2006, and amended on August 17, 2006.

NOTE C - Earnings Per Share

The following table sets forth the computation of basic net income per share and diluted net income per share:

|                                                                             | <u>Three Months Ended September 30,</u> |                   | <u>Nine Months Ended September 30,</u> |                   |
|-----------------------------------------------------------------------------|-----------------------------------------|-------------------|----------------------------------------|-------------------|
| (in thousands, except per share amounts)                                    | 2006                                    | 2005              | 2006                                   | 2005              |
|                                                                             | <u>          </u>                       | <u>          </u> | <u>          </u>                      | <u>          </u> |
| Numerator:                                                                  |                                         |                   |                                        |                   |
| For basic net income per share and diluted net income per share, net income | <u>\$351,657</u>                        | <u>\$256,556</u>  | <u>\$991,594</u>                       | <u>\$746,548</u>  |
| Denominator:                                                                |                                         |                   |                                        |                   |
| For basic net income per share --                                           |                                         |                   |                                        |                   |
| Weighted average shares outstanding                                         | 454,441                                 | 459,563           | 455,463                                | 462,512           |
| Effect of dilutive securities --                                            |                                         |                   |                                        |                   |
| Stock options                                                               | 4,379                                   | 4,687             | 4,475                                  | 5,198             |
| Performance restricted stock                                                | 83                                      | -0-               | 80                                     | -0-               |
| For diluted net income per share                                            | <u>458,903</u>                          | <u>464,250</u>    | <u>460,018</u>                         | <u>467,710</u>    |
| Basic net income per share                                                  | \$0.77                                  | \$0.56            | \$2.18                                 | \$1.61            |
| Diluted net income per share                                                | 0.77                                    | 0.55              | 2.16                                   | 1.60              |

NOTE D - Share-Based Payments

Statement of Financial Accounting Standards No. 123 (revised 2004) (Statement 123(R)), "Share-based Payment" was adopted by the Company as of January 1, 2006. This accounting standard revises Statement of Financial Accounting Standards No. 123 (Statement 123), "Accounting for Stock-Based Compensation" by requiring that all share-based payments to employees, including grants of employee stock options, be recognized in the financial statements based on their fair values at the date of grant. See additional discussion of this new accounting standard in Note I "Recent Accounting Pronouncements."

Prior to January 1, 2006, the Company accounted for those stock-based employee compensation plans under the recognition and measurement provisions of APB Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees", and related Interpretations, as permitted by Statement 123; therefore, no stock-based employee compensation cost was recognized in the consolidated statement of income for the three and nine months ended September 30, 2005; rather, pro forma compensation cost amounts were disclosed in the notes to the consolidated financial statements. Effective January 1, 2006, the Company adopted the fair value recognition provisions of Statement 123 (R) using the modified-prospective transition method. Under that transition method, compensation cost recognized in the first three quarters of 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of Statement 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of Statement 123(R). As the modified-retrospective transition method was not selected, results for prior periods have not been restated.

The fair value of each option award is estimated on the date of grant using a Black-Scholes-Merton (BSM) option valuation model that uses the assumptions noted in the following table. Expected volatility is based on implied volatility from traded options on the Company's stock, historical volatility of the Company's stock, and other factors. Regions uses historical data to estimate option exercise and employee termination within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant and the weighted average expected life of the grant.

The weighted average fair value of options granted was \$5.39 for the three and \$4.97 for the nine months ended September 30, 2006, and \$5.12 for the three and \$4.95 for the nine months ended September 30, 2005. The fair value of each grant is estimated on the date of grant using the BSM option-pricing model with the following weighted average assumptions used for grants in 2006 and 2005:

|                                 | 2006       | 2005  |
|---------------------------------|------------|-------|
| Expected Dividend Yield         | 3.80%      | 4.20% |
| Expected Option Life (in years) | 4.0        | 5.0   |
| Expected Volatility             | 19.5%      | 21.4% |
| Risk-Free Interest Rate         | 4.57-5.04% | 4.2%  |

During the first quarter of 2006, the Company made refinements to the expected volatility and expected option life assumptions used in valuing stock option grants as part of its adoption of Statement 123 (R). Expected volatility decreased to 19.5%, based upon the consideration of historical and implied volatility measurements upon the adoption of Statement 123(R); historically, the Company considered only historical stock price changes over a specified period of time. Expected option life declined from five years to four years, based upon the decrease in contractual life on new grants from ten years (historically) to seven years.

As a result of adopting Statement 123(R) on January 1, 2006, the Company's income before taxes and net income for the quarter ended September 30, 2006, are approximately \$1.0 million and \$818,000 lower, respectively, than if it had continued to account for share-based compensation expense under APB 25. For the nine months ended September 30, 2006, the Company's income before taxes and net income are approximately \$2,765,000 and \$2,206,000 lower, as a result of adopting Statement 123 (R). Basic and diluted earnings per share were not impacted by the adoption of Statement 123(R) during the first three quarters of 2006.

Prior to the adoption of Statement 123(R), the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the statement of cash flows. Statement 123(R) requires the cash flows resulting from the tax benefits of tax deductions in excess of the compensation cost recognized for those options to be classified as financing cash flows. As a result of the adoption of Statement 123(R), Regions recognized approximately \$8,062,000 and \$19,840,000 in excess tax benefits as financing cash inflows for the three and nine months ended September 30, 2006, respectively; because the Company selected the modified-prospective transition method, 2005 cash flows are not restated.

Regions has stock option plans, adopted prior to 2006, under which stock options have been granted to certain key employees (excluding options assumed in acquisitions). Effective in May 2006 upon stockholder approval of the 2006 long term incentive plan (see description of 2006 Long-Term Incentive Plan below), the compensation committee froze the prior stock option plans, meaning that no further awards can be made under those plans. Outstanding awards under such plans will remain outstanding and subject to the existing terms and conditions of the original grant. The terms of options granted were determined by the compensation committee of the Board of Directors; however, no options could be granted after ten years from the plans' adoption, and no options could be exercised beyond ten years from the date granted. Option awards generally have three year graded vesting terms and have seven or ten year contractual terms. The option price per share of incentive stock options could not be less than the fair market value of the common stock on the date of the grant; however, the option price of non-qualified options could be less than the fair market value of the common stock on the date of the grant (see disclosure regarding acceleration of vesting on non-qualified stock options during the fourth quarter of 2005 below). The plans also permitted the granting of stock appreciation rights to holders of stock options. No stock appreciation rights were attached to options outstanding at September 30, 2006 and 2005.

Regions has long term incentive plans, adopted prior to 2006, under which stock options, performance awards, restricted stock, and other equity based awards have been granted to certain key employees. Effective in May 2006 upon stockholder approval of the 2006 long term incentive plan (see description of 2006 Long-Term Incentive Plan below), the compensation committee froze the prior long term incentive plans, meaning that no further awards can be made under those plans. Outstanding awards under such plans will remain outstanding and subject to the existing terms and conditions of the original grant. The terms of stock options granted under the long-term incentive plans were generally subject to the same terms as options granted under Regions' stock option plans discussed above. During the third quarters of 2006 and 2005, Regions granted 144,156 and 61,396 shares, respectively, as restricted stock. Grantees of restricted stock must remain employed with Regions for certain periods from the date of the grant (generally three years) in order for the shares to be released, or the grantees must meet the standards of a retiree at which time the restricted shares may be prorated and released. However, during this period the grantee is eligible to receive dividends and exercise voting privileges on such restricted shares. In the third quarter of 2006 and 2005, 223,758 and 83,896 restricted shares, respectively, were released. Total expense for restricted stock was approximately \$11,044,000 for the third quarter of 2006 and \$6,773,000 for the third quarter of 2005. Restricted stock expense totaled approximately \$32,442,000 and \$19,752,000 for the nine months ended September 30, 2006 and 2005, respectively. Restricted stock is amortized on a straight-line basis over the requisite service period, generally three years. During the first three quarters of 2006, common shares outstanding reflected a net increase of approximately 900,000 shares related to restricted stock grants and cancellations.

Regions' 2006 long term incentive plan, adopted in May 2006, provides for the granting of up to 20,000,000 shares in the form of non-qualified stock options, stock appreciation rights and shares of stock designated as restricted stock, non-stock share equivalents or share-indexed dollar equivalents in the form of performance shares or performance units, and other equity-based awards. The terms of awards granted are determined by the compensation committee of the Board of Directors; however, no awards may be granted after ten years from the plan's adoption, and no options may be exercised beyond ten years from the date granted. The option price per share of non-qualified options may not be less than the fair market value of the common stock on the date of the grant. The plan provides that 20,000,000 common share equivalents are subject to and available for distribution to recipients under the plan. Shares of restricted stock granted under the plan are assigned a higher share equivalent value because the value of a grant of restricted

stock on the date of grant is comparatively higher than the value of a stock option for the same number of underlying shares. Specifically, the plan provides that each share of restricted stock granted under the plan is assigned a share equivalent factor of 4.0, as compared to the stock option equivalent factor of 1.0. This means a maximum of 5,000,000 shares of restricted stock could be awarded under the plan, assuming no stock options were granted.

Unvested stock options as of January 1, 2006 and options granted on or after January 1, 2006 (adoption date for Statement 123(R)) are amortized into earnings on a straight-line basis over the requisite service period of the options. During the first three quarters of 2006, net shares increased approximately 6.6 million shares due to option exercises.

A reconciliation of the numbers of outstanding, vested and exercisable stock options and unvested shares of restricted stock outstanding at September 30, 2006, is presented in the following tables:

| Stock Options                      | Shares Under Option | Weighted Avg. Exercise Price | Weighted Avg. Intrinsic Value |
|------------------------------------|---------------------|------------------------------|-------------------------------|
| Outstanding (Bal. at Jan. 1, 2006) | 33,590,080          | \$27.76                      |                               |
| Granted                            | 941,403             | 35.09                        |                               |
| Exercised                          | (7,877,581)         | 26.23                        |                               |
| Canceled                           | (290,990)           | 28.51                        |                               |
| Outstanding at September 30, 2006  | 26,362,912          | 28.48                        | \$219,075,799                 |
| Vested at September 30, 2006       | 24,334,847          | 28.00                        | \$213,903,305                 |
| Exercisable at September 30, 2006  | 24,334,847          | 28.00                        | \$213,903,305                 |

| Restricted Stock                | Number of Shares | Weighted Avg. Fair Value (Grant Date) |
|---------------------------------|------------------|---------------------------------------|
| Nonvested Jan. 1, 2006          | 3,362,995        | \$31.39                               |
| Granted                         | 1,306,192        | \$34.50                               |
| Vested                          | (595,895)        | \$27.78                               |
| Forfeited                       | (244,000)        | \$31.83                               |
| Nonvested at September 30, 2006 | 3,829,292        | \$32.98                               |

As disclosed in the 2005 Form 10-K, the Company approved the acceleration of vesting of certain unvested nonqualified stock options outstanding as of December 20, 2005, and recognized approximately \$399,000 in compensation expense in conjunction with the acceleration of vesting. The decision to accelerate the vesting of the unvested nonqualified options primarily was made to reduce non-cash compensation expense that would otherwise have been recorded in Regions' financial statements in future periods, in accordance with Statement 123(R), and also in connection with restructuring change of control agreements for certain employees. The expense that otherwise would have been recorded in future periods, absent the accelerated vesting, totaled approximately \$14.7 million (pre-tax).

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Prior to the adoption of Statement 123 (R) on January 1, 2006, Statement 123 allowed for the choice of continuing to follow APB 25, and the related interpretations, or selecting the fair value method of expense recognition as described in Statement 123. The Company elected to follow APB 25 in accounting for its employee stock options in prior periods. Pro forma net income and net income per share data is presented below for the three months and nine months ended September 30, 2005, as if the fair-value method had been applied in measuring compensation costs (Note: pro forma amounts for the three months and nine months ended September 30, 2006 are not applicable based upon the adoption of Statement 123(R) during the first quarter of 2006):

|                                                                                                                          | Three Months Ended<br>September 30,<br>2005 | Nine Months Ended<br>September 30,<br>2005 |
|--------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|--------------------------------------------|
| (in thousands, except per share amounts)                                                                                 |                                             |                                            |
| Net income                                                                                                               | \$256,556                                   | \$746,548                                  |
| Add: Stock-based compensation expense<br>included in net income, net of related<br>tax effects                           | 4,402                                       | 12,839                                     |
| Less: Total stock-based compensation<br>expense based on fair value method for<br>all awards, net of related tax effects | (7,566)                                     | (22,470)                                   |
| Pro forma net income                                                                                                     | \$253,392                                   | \$736,917                                  |

Per share:

|                              |        |        |
|------------------------------|--------|--------|
| Net income                   | \$0.56 | \$1.61 |
| Net income-diluted           | 0.55   | 1.60   |
| Pro forma net income         | 0.55   | 1.59   |
| Pro forma net income-diluted | 0.55   | 1.58   |

NOTE E - Business Segment Information

Regions' segment information is presented based on Regions' primary segments of business. Each segment is a strategic business unit that serves specific needs of Regions' customers. The Company's primary segment is community banking. Community banking represents the Company's branch banking functions and has separate management that is responsible for the operation of that business unit. In addition, Regions has designated as distinct reportable segments the activities of its treasury, mortgage banking, investment banking/brokerage/trust, and insurance divisions. The treasury division includes the Company's bond portfolio, mortgage lending portfolio, and other wholesale activities. Mortgage banking consists of origination and servicing functions of Regions' mortgage operations. Investment banking includes trust activities and all brokerage and investment activities associated with Morgan Keegan. Insurance includes all business associated with commercial insurance, in addition to credit life products sold to consumer customers. The reportable segment designated "Other" includes activity of Regions' indirect consumer lending division and the parent company, including eliminations. Prior period amounts have been restated to reflect changes in methodology.

The accounting policies used by each reportable segment are the same as those discussed in Note 1 to the consolidated financial statements included under Item 8 of the Annual Report on Form 10-K. The following table presents financial

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information for each reportable segment.

Nine months ended September 30, 2006

| (in thousands)            | Total Banking     |              |              |                  |
|---------------------------|-------------------|--------------|--------------|------------------|
|                           | Community Banking | Treasury     | Combined     | Mortgage Banking |
| Net interest income       | \$ 1,996,813      | \$ 215,205   | \$ 2,212,018 | \$ 54,709        |
| Provision for loan losses | 76,869            | 5,537        | 82,406       | 41               |
| Non-interest income       | 523,914           | 9,072        | 532,986      | 221,441          |
| Non-interest expense      | 1,266,943         | 67,807       | 1,334,750    | 243,973          |
| Income taxes (benefit)    | 442,328           | 56,600       | 498,928      | 11,721           |
| Net income (loss)         | \$ 734,587        | \$ 94,333    | \$ 828,920   | \$ 20,415        |
| Average assets            | \$48,669,422      | \$28,544,738 | \$77,214,160 | \$3,111,171      |

| (in thousands)            | Investment Banking/<br>Brokerage/<br>Trust | Insurance | Other       | Total Company |
|---------------------------|--------------------------------------------|-----------|-------------|---------------|
|                           |                                            |           |             |               |
| Net interest income       | \$ 37,508                                  | \$ 4,176  | \$ (25,450) | \$ 2,282,961  |
| Provision for loan losses | -0-                                        | -0-       | 53          | 82,500        |
| Non-interest income       | 621,635                                    | 64,150    | (13,435)    | 1,426,777     |
| Non-interest expense      | 495,606                                    | 47,871    | 75,000      | 2,197,200     |
| Income taxes (benefit)    | 59,389                                     | 8,023     | (139,617)   | 438,444       |
| Net income (loss)         | \$ 104,148                                 | \$ 12,432 | \$ 25,679   | \$ 991,594    |
| Average assets            | \$3,188,346                                | \$202,616 | \$2,386,052 | \$86,102,345  |

Nine months ended September 30, 2005

| (in thousands)            | Total Banking     |            |              |                  |
|---------------------------|-------------------|------------|--------------|------------------|
|                           | Community Banking | Treasury   | Combined     | Mortgage Banking |
| Net interest income       | \$ 1,852,277      | \$ 229,710 | \$ 2,081,987 | \$ 41,124        |
| Provision for loan losses | 116,876           | 4,985      | 121,861      | 40               |

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|                        |           |        |           |         |
|------------------------|-----------|--------|-----------|---------|
| Non-interest income    | 454,867   | (333)  | 454,534   | 307,052 |
| Non-interest expense   | 1,287,428 | 46,159 | 1,333,587 | 275,011 |
| Income taxes (benefit) | 338,413   | 66,837 | 405,250   | 28,713  |

|                   |            |            |            |           |
|-------------------|------------|------------|------------|-----------|
| Net income (loss) | \$ 564,427 | \$ 111,396 | \$ 675,823 | \$ 44,412 |
|-------------------|------------|------------|------------|-----------|

|                                  |              |              |              |             |
|----------------------------------|--------------|--------------|--------------|-------------|
| Average assets<br>(in thousands) | \$49,894,969 | \$23,862,816 | \$73,757,785 | \$3,280,910 |
|----------------------------------|--------------|--------------|--------------|-------------|

|                           | Investment<br>Banking/<br>Brokerage/<br>Trust | Insurance | Other       | Total<br>Company |
|---------------------------|-----------------------------------------------|-----------|-------------|------------------|
| Net interest income       | \$ 22,118                                     | \$ 2,309  | \$ (52,832) | \$ 2,094,706     |
| Provision for loan losses | -0-                                           | -0-       | 3,099       | 125,000          |
| Non-interest income       | 536,912                                       | 61,644    | 30,505      | 1,390,647        |
| Non-interest expense      | 440,210                                       | 44,378    | 199,734     | 2,292,920        |
| Income taxes (benefit)    | 44,076                                        | 6,902     | (164,056)   | 320,885          |

|                   |           |           |             |            |
|-------------------|-----------|-----------|-------------|------------|
| Net income (loss) | \$ 74,744 | \$ 12,673 | \$ (61,104) | \$ 746,548 |
|-------------------|-----------|-----------|-------------|------------|

|                |             |           |             |              |
|----------------|-------------|-----------|-------------|--------------|
| Average assets | \$2,725,389 | \$170,025 | \$5,146,355 | \$85,080,464 |
|----------------|-------------|-----------|-------------|--------------|

Three months ended September 30, 2006

|                           | Total Banking        |              |              |                     |
|---------------------------|----------------------|--------------|--------------|---------------------|
| (in thousands)            | Community<br>Banking | Treasury     | Combined     | Mortgage<br>Banking |
| Net interest income       | \$ 672,419           | \$ 59,287    | \$ 731,706   | \$ 18,068           |
| Provision for loan losses | 19,409               | 5,537        | 24,946       | 41                  |
| Non-interest income       | 183,772              | 8,404        | 192,176      | 66,480              |
| Non-interest expense      | 425,419              | 14,854       | 440,273      | 88,892              |
| Income taxes              | 154,601              | 17,738       | 172,339      | (1,900)             |
| Net income                | \$ 256,762           | \$ 29,562    | \$ 286,324   | \$ (2,485)          |
| Average assets            | \$49,211,274         | \$29,596,725 | \$78,807,999 | \$3,175,781         |

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(in thousands)

|                           | Investment<br>Banking/<br>Brokerage/<br>Trust | Insurance | Other       | Total<br>Company |
|---------------------------|-----------------------------------------------|-----------|-------------|------------------|
| Net interest income       | \$ 14,755                                     | \$ 1,546  | \$ 11,624   | \$ 777,699       |
| Provision for loan losses | -0-                                           | -0-       | 13          | 25,000           |
| Non-interest income       | 193,796                                       | 21,790    | (8,293)     | 465,949          |
| Non-interest expense      | 160,679                                       | 16,303    | 8,446       | 714,593          |
| Income taxes              | 17,251                                        | 2,690     | (37,982)    | 152,398          |
| Net income                | \$ 30,621                                     | \$ 4,343  | \$ 32,854   | \$ 351,657       |
| Average assets            | \$3,282,818                                   | \$221,025 | \$1,488,199 | \$86,975,822     |

Three months ended September 30, 2005

|                           | Total Banking        |              |              |                     |
|---------------------------|----------------------|--------------|--------------|---------------------|
| (in thousands)            | Community<br>Banking | Treasury     | Combined     | Mortgage<br>Banking |
| Net interest income       | \$ 651,994           | \$ 74,441    | \$ 726,435   | \$ 19,193           |
| Provision for loan losses | 55,991               | 4,985        | 60,976       | 40                  |
| Non-interest income       | 154,714              | 20,113       | 174,827      | 118,549             |
| Non-interest expense      | 438,154              | 23,183       | 461,337      | 70,708              |
| Income taxes              | 117,184              | 24,895       | 142,079      | 25,879              |
| Net income                | \$ 195,379           | \$ 41,491    | \$ 236,870   | \$ 41,115           |
| Average assets            | \$50,334,945         | \$24,755,890 | \$75,090,835 | \$3,260,563         |

(in thousands)

|                           | Investment<br>Banking/<br>Brokerage/<br>Trust | Insurance | Other      | Total<br>Company |
|---------------------------|-----------------------------------------------|-----------|------------|------------------|
| Net interest income       | \$ 6,795                                      | \$ 934    | \$(35,934) | \$ 717,423       |
| Provision for loan losses | -0-                                           | -0-       | 1,484      | 62,500           |
| Non-interest income       | 176,484                                       | 20,395    | (39,943)   | 450,312          |
| Non-interest expense      | 145,276                                       | 15,139    | 48,663     | 741,123          |

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|                |             |           |             |              |
|----------------|-------------|-----------|-------------|--------------|
| Income taxes   | 13,945      | 2,133     | (76,480)    | 107,556      |
| Net income     | \$ 24,058   | \$ 4,057  | \$(49,544)  | \$ 256,556   |
| Average assets | \$2,811,110 | \$177,838 | \$4,324,553 | \$85,664,899 |

NOTE F - Commitments and Contingencies

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 are also issued, which commit Regions to make payments on behalf of customers if certain specified future events occur. Historically, a large percentage of standby letters of credit also expire without being funded.

Both loan commitments and standby letters of credit have credit risk essentially the same as that involved in extending loans to customers and are subject to normal credit approval procedures and policies. Collateral is obtained based on management's assessment of the customer's credit.

Loan commitments totaled \$22.6 billion at September 30, 2006, and \$18.5 billion at September 30, 2005. Standby letters of credit were \$3.7 billion at September 30, 2006, and \$3.1 billion at September 30, 2005. Commitments under commercial letters of credit used to facilitate customers' trade transactions were \$47.9 million at September 30, 2006, and \$63.1 million at September 30, 2005.

The Company and its affiliates are subject to litigation and claims arising out of the normal course of business. 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 of the opinion that the outcome of pending and threatened litigation would not have a material effect on Regions' consolidated financial position or results of operations.

NOTE G - Derivative Financial Instruments

Regions maintains positions in derivative financial instruments to manage interest rate risk, to facilitate asset/liability management strategies, and to serve the risk management needs of customers. The most common derivative instruments are forward rate agreements, interest rate swaps, credit default swaps, interest rate floors and put and call options. For those derivative contracts that qualify for hedge accounting, according to Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", Regions designates the hedging instrument as either a cash flow or fair value hedge. The accounting policies associated with derivative financial instruments are discussed further in Note 1 to the consolidated financial statements included under Item 8 of the Annual Report on Form 10-K.

Regions utilizes certain derivative instruments to hedge the interest cash flows of certain variable-rate loans and certain debt instruments. Regions reported a \$3.7 million gain in accumulated other comprehensive income related to cash flow hedges of variable-rate loans at September 30, 2006. To the extent that the hedge of future cash flows is deemed effective, changes in the fair value of the derivative are recognized as a component of other comprehensive

income in stockholders' equity. To the extent that the hedge of future cash flows is deemed ineffective, changes in the fair value of the derivative are recognized in earnings as a component of other non-interest expense. For the nine months ended September 30, 2006, there was no gain or loss related to hedge ineffectiveness recognized in other non-interest expense attributable to cash flow hedges on variable-rate loans. In addition, Regions also reported a \$1.8 million accumulated loss at September 30, 2006 related to discontinued cash flow hedges of debt instruments. Approximately \$104,000 was amortized into expense during the third quarter of 2006 and approximately \$313,000 was amortized into expense during the nine months ended September 30, 2006. The remaining \$1.8 million of accumulated other comprehensive income will be amortized into earnings through 2011. During the second quarter of 2006, Regions purchased \$2 billion in notional interest rate floors to hedge interest cash flows on variable rate loans against adverse interest rate changes. Changes in the fair value of the floors are expected to be perfectly effective in offsetting the variability in expected future cash flows attributable to fluctuations in LIBOR interest rates below the interest rate floor's strike level. \$4.3 million has been recorded in other comprehensive income as of September 30, 2006, representing the change in fair value at September 30, 2006. There was no hedge ineffectiveness recognized in earnings during the third quarter of 2006.

Regions hedges the changes in the fair value of assets using forward contracts, which represent commitments to sell money market instruments at a future date at a specified price or yield. The contracts are utilized by the Company to hedge interest rate risk positions associated with the origination of mortgage loans held for sale. The Company is subject to the market risk associated with changes in the value of the underlying financial instrument, as well as the risk that the other party will fail to perform. A net gain of approximately \$400,000, including approximately \$38,000 of loss on hedge ineffectiveness, was recognized for the nine months ended September 30, 2006 related to these hedging instruments. The gross amount of forward contracts totaled \$734.0 million at September 30, 2006.

Regions has also entered into interest rate swap agreements converting a portion of its fixed rate long-term debt to floating-rate. The fair values of the derivative instruments used in these fair value hedges are included in other assets on the statements of financial condition. For the nine months ended September 30, 2006, there was ineffectiveness of approximately \$121,000 in gains recorded in earnings related to these fair value hedges. No gains or losses were recognized as of September 30, 2006 related to components of derivative instruments that were excluded from the assessment of hedge effectiveness.

In prior years, Union Planters, acquired by Regions in July 2004, issued letters of credit to facilitate business in its factored receivables division. Certain of these assets were sold in 2005; however, the letters of credit remained with Regions. As part of this transaction, Regions has a credit default swap as default protection related to the outstanding letters of credit, which has a current notional value of \$20 million. At September 30, 2006, the estimated fair value of this instrument is approximately \$156,000. Also, Regions has two \$29.3 million notional credit default swaps, which hedge default risk associated with an interest rate swap agreement entered into with a municipality and an offsetting interest rate swap agreement with a counterparty.

The Company also maintains a derivatives trading portfolio of interest rate swaps, option contracts and futures and forward commitments used to meet the needs of its customers. The portfolio is used to generate trading profit and help clients manage interest rate risk. The Company is subject to the risk that a counterparty will fail to perform. These trading derivatives are recorded in other assets and other liabilities. The net fair value of the derivatives in the trading portfolio at September 30, 2006, was an asset of \$15.3 million.

Foreign currency contracts involve the exchange of one currency for another on a specified date and at a specified rate. These contracts are executed on behalf of the Company's customers and are used to manage fluctuations in foreign exchange rates. The notional amount of forward foreign exchange contracts totaled \$79 million at September 30, 2006, and \$70 million at September 30, 2005. The Company is subject to the risk that another party will fail to perform.

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In the normal course of business, Morgan Keegan enters into underwriting and forward and future commitments. At September 30, 2006, the contract amount of future contracts to purchase and sell U.S. Government and municipal securities was \$58 million and \$71 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.

Additionally, in the normal course of business, Morgan Keegan enters into transactions for delayed delivery, to-be-announced securities, which are recorded on the consolidated statement of financial condition at fair value. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from unfavorable changes in interest rates or the market values of the securities underlying the instruments. The credit risk associated with these contracts is typically limited to the cost of replacing all contracts on which the Company has recorded an unrealized gain. For exchange-traded contracts, the clearing organization acts as the counterparty to specific transactions and, therefore, bears the risk of delivery to and from counterparties.

Regions' derivative financial instruments are summarized as follows:

Other Than Trading Derivatives

As of September 30, 2006

| (dollar amounts in millions) | Notional<br>Amount | Fair Value | Receive | Pay   | Average<br>Maturity<br>in Years |
|------------------------------|--------------------|------------|---------|-------|---------------------------------|
| Forward sale commitments     | \$734              | \$ (3)     |         |       | 0.1                             |
| Credit default swaps         | 20                 | -0-        |         |       | 1.5                             |
| Interest rate swaps          | 6,210              | 34         | 6.35%   | 6.85% | 3.4                             |
| Interest rate options        | 2,185              | -0-        |         |       | 4.3                             |
| Total                        | \$9,149            | \$ 31      |         |       |                                 |

As of September 30, 2005

| (dollar amounts in millions)     | Notional<br>Amount | Fair Value | Receive | Pay   | Average<br>Maturity<br>in Years |
|----------------------------------|--------------------|------------|---------|-------|---------------------------------|
| Forward sale commitments         | \$834              | \$ -0-     |         |       | 0.1                             |
| Mortgage-backed security options | 40                 | -0-        |         |       | 0.2                             |
| Credit default swaps             | 75                 | 1          |         |       |                                 |
| Interest rate swaps              | 4,298              | 26         | 4.88%   | 4.15% | 5.9                             |
| Total                            | \$5,247            | \$ 27      |         |       |                                 |

Derivative Financial Instruments

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As of September 30,

|                                     | 2006                           |          |                        | 2005                           |          |                        |
|-------------------------------------|--------------------------------|----------|------------------------|--------------------------------|----------|------------------------|
|                                     | Contract or Notional<br>Amount |          |                        | Contract or Notional<br>Amount |          |                        |
|                                     | Other<br>Than<br>Trading       | Trading  | Credit Risk<br>Amount* | Other<br>Than<br>Trading       | Trading  | Credit Risk<br>Amount* |
| (in millions)                       |                                |          |                        |                                |          |                        |
| Interest rate swaps                 | \$ 6,210                       | \$14,377 | \$ 12                  | \$ 4,298                       | \$8,573  | \$ -0-                 |
| Interest rate options               | 2,185                          | 3,307    | -0-                    | -0-                            | 928      | -0-                    |
| Credit default swaps                | 20                             | 59       | -0-                    | 75                             | 60       | -0-                    |
| Futures and forward<br>commitments  | 734                            | 4,947    | -0-                    | 834                            | 9,069    | -0-                    |
| Mortgage-backed<br>security options | -0-                            | -0-      | -0-                    | 40                             | -0-      | -0-                    |
| Foreign exchange<br>forwards        | -0-                            | 79       | -0-                    | -0-                            | 70       | -0-                    |
| Total                               | \$ 9,149                       | \$22,769 | \$ 12                  | \$ 5,247                       | \$18,700 | \$ -0-                 |

The following table is a summary of Regions' derivative financial instruments as of June 30, 2006 and 2005, and is presented for comparison purposes.

Derivative Financial Instruments

As of June 30,

|                                     | 2006                           |          |                        | 2005                           |         |                        |
|-------------------------------------|--------------------------------|----------|------------------------|--------------------------------|---------|------------------------|
|                                     | Contract or Notional<br>Amount |          |                        | Contract or Notional<br>Amount |         |                        |
|                                     | Other<br>Than<br>Trading       | Trading  | Credit Risk<br>Amount* | Other<br>Than<br>Trading       | Trading | Credit Risk<br>Amount* |
| (in millions)                       |                                |          |                        |                                |         |                        |
| Interest rate swaps                 | \$ 5,060                       | \$13,971 | \$ 22                  | \$ 4,548                       | \$8,010 | \$ -0-                 |
| Interest rate options               | 2,778                          | 1,726    | -0-                    | -0-                            | 1,113   | -0-                    |
| Credit default swaps                | 75                             | 59       | -0-                    | 75                             | 60      | -0-                    |
| Futures and forward<br>commitments  | 1,021                          | 8,115    | -0-                    | 1,035                          | 7,495   | -0-                    |
| Mortgage-backed<br>security options | -0-                            | -0-      | -0-                    | 25                             | -0-     | -0-                    |
| Foreign exchange                    |                                |          |                        |                                |         |                        |

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|          |          |          |       |          |          |        |
|----------|----------|----------|-------|----------|----------|--------|
| forwards | -0-      | 77       | -0-   | -0-      | 16       | -0-    |
| Total    | \$ 8,934 | \$23,948 | \$ 22 | \$ 5,683 | \$16,694 | \$ -0- |

\*Credit Risk Amount is defined as all positive exposures not collateralized with cash on deposit. Any credit risk arising under option contracts is combined with swaps to reflect netting agreements.

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**NOTE H - Pension and Postretirement Benefits**

The following table provides the net pension cost and postretirement benefit cost recognized for the nine months ended September 30, 2006 and 2005:

| (in thousands)                 | Pension Cost                    |           | Postretirement Benefit Cost     |          |
|--------------------------------|---------------------------------|-----------|---------------------------------|----------|
|                                | Nine Months Ended September 30, |           | Nine Months Ended September 30, |          |
|                                | 2006                            | 2005      | 2006                            | 2005     |
| Service cost                   | \$ 14,332                       | \$ 12,453 | \$ 299                          | \$ 341   |
| Interest cost                  | 22,432                          | 19,554    | 1,602                           | 1,492    |
| Expected return on plan assets | (29,539)                        | (23,314)  | (185)                           | (228)    |
| Net amortization               | 11,264                          | 9,102     | (136)                           | 123      |
| Net periodic pension expense   | \$18,489                        | \$ 17,795 | \$1,580                         | \$ 1,728 |

The following table provides the net pension cost and postretirement benefit cost recognized for the three months ended September 30, 2006 and 2005:

| (in thousands)                 | Pension Cost                     |          | Postretirement Benefit Cost      |        |
|--------------------------------|----------------------------------|----------|----------------------------------|--------|
|                                | Three Months Ended September 30, |          | Three Months Ended September 30, |        |
|                                | 2006                             | 2005     | 2006                             | 2005   |
| Service cost                   | \$4,830                          | \$ 4,139 | \$100                            | \$ 110 |
| Interest cost                  | 7,560                            | 6,498    | 533                              | 479    |
| Expected return on plan assets | (9,955)                          | (7,748)  | (62)                             | (74)   |
| Net amortization               | 3,796                            | 3,025    | (45)                             | 40     |
| Net periodic pension expense   | \$6,231                          | \$ 5,914 | \$526                            | \$ 555 |

**NOTE I - Recent Accounting Pronouncements**

In November 2005, the FASB issued FASB Staff Position Statement of Financial Accounting Standards 115-1 and 124-1 ("FSP 115-1") which codified existing guidance addressing the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss.

The FSP is effective beginning in 2006. Regions has considered this FSP in its quarterly evaluation of other-than-temporary impairment.

On June 1, 2005, the FASB issued Statement No. 154, "Accounting Changes and Error Corrections" ("Statement 154"), a replacement of Accounting Principles Board Opinion No. 20, "Accounting Changes," and Statement of Financial Accounting Standards No. 3, "Reporting Accounting Changes in Interim Financial Statements". The Statement applies to all voluntary changes in accounting principle, and changes the requirements for accounting for and reporting of a change in accounting principle. In the absence of specific transition requirements to the contrary in the adoption of an accounting principle, Statement 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable for comparability and consistency of financial information between periods. Statement 154 is effective for accounting changes and corrections of errors made in fiscal years beginning in 2006.

On March 17, 2006, the FASB issued Statement No. 156, ("Statement 156") "Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities."" The Statement requires that all servicing assets and liabilities be initially measured at fair value and allows for two alternatives in the subsequent accounting for servicing assets and liabilities: the amortization method and the fair value method. The amortization method requires that the servicing assets and liabilities be amortized over the remaining estimated lives of the serviced assets with impairment testing to be performed periodically. The fair value method requires the servicing assets and liabilities to be measured at fair value each period with an offset to income. This Statement is to be adopted in the first fiscal year that begins after September 15, 2006 and early adoption is permitted. An entity can elect the fair value method at the beginning of any fiscal year provided that interim financial statements have not been issued. However, once the fair value election is made, an entity cannot revert back to the amortization method. Regions is currently reviewing the potential impact of this Statement, as well as the accounting alternatives available.

On July 13, 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("Interpretation 48"), an interpretation of Statement 109. The interpretation requires that only benefits from tax positions that are more-likely-than-not of being sustained upon examination should be recognized in the financial statements. These benefits would be recorded at amounts considered to be the maximum amounts more-likely-than-not of being sustained. At the time these positions become more-likely-than-not to be disallowed, their recognition would be reversed. Regions is currently reviewing the potential impact of this interpretation; any cumulative effect associated with the allocation of the provisions of the interpretation will be reported as a change in accounting principle in the period in which the interpretation is adopted. Interpretation 48 is effective as of the beginning of the first annual period beginning after December 15, 2006.

On July 13, 2006, the FASB issued FASB Staff Position Statement of Financial Accounting Standards 13-2, "Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction" ("FSP 13-2"), which addresses how a change or projected change in the timing of cash flows relating to income taxes generated by a leveraged lease transaction affects the accounting by a lessor for that lease. This FSP requires the projected timing of income tax cash flows generated by a leveraged lease transaction to be reviewed annually or more frequently if changes in circumstances indicate that a change in timing has occurred or is projected to occur. If the projected timing of the income tax cash flows is revised during the lease term, the rate of return and the adoption of income shall be recalculated from the inception of the lease as provided in FASB Statement No. 13, "Accounting for Leases." FSP 13-2 is effective for fiscal years beginning after December 15, 2006 and the cumulative effect of applying the provisions of this FSP shall be reported as an adjustment to the beginning balance of retained earnings. Regions is the lessor in two leveraged lease transactions and is currently reviewing the potential impact of this FSP.

On September 15, 2006 the FASB issued, FASB Statement No. 157 on fair value measurement. The standard provides guidance for using fair value to measure assets and liabilities. The standard also responds to investors' requests for

expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. Under the standard, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. It clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, the standard establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity's own data. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. Statement 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Early adoption is permitted. Regions is currently reviewing the potential impact of this statement.

On September 29, 2006 the FASB issued, FASB Statement No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." This statement would require that an entity recognize in its statement of financial position the overfunded or underfunded status of a defined benefit postretirement plan measured as the difference between the fair value of plan assets and the benefit obligation. For a pension plan, the benefit obligation would be the projected benefit obligation; for any other postretirement plan, the benefit obligation would be the accumulated benefit obligation. In addition, entities would be required to recognize as a component of other comprehensive income, net of tax, the actuarial gains and losses and the prior service costs and credits that arise during the period but are not recognized as components of net periodic benefit cost. These amounts would be adjusted as they are amortized into income as components of net periodic benefit costs in subsequent periods. These requirements are effective for fiscal years ending after December 15, 2006 and should be applied retrospectively. The final requirement of this statement is that the defined benefit plan assets and defined benefit plan obligations be measured as of the date of the entity's statement of financial position as opposed to a date not to exceed three months prior to the date of an entity's statement of financial position as in current practice. This requirement is effective for the first fiscal year beginning after December 15, 2006, but can be adopted earlier. Regions is currently reviewing the potential impact of this statement.

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Table of Contents

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

INTRODUCTION

The following discussion and financial information is presented to aid in understanding Regions Financial Corporation's ("Regions" or "the Company") financial position and results of operations. The emphasis of this discussion will be on the nine and three months ended September 30, 2006, as compared to the nine and three months ended September 30, 2005, and the three months ended June 30, 2006.

CORPORATE PROFILE

Regions' primary business is providing traditional commercial and retail banking services to customers throughout the South, Midwest and Texas. Regions' principal banking subsidiary, Regions Bank, operates as an Alabama state-chartered bank with branch offices in Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, South Carolina, Tennessee, Texas and Virginia.

In addition to providing traditional commercial and retail banking services, Regions provides other financial services in the fields of investment banking, asset management, trust, mutual funds, securities brokerage, mortgage banking,

insurance, leasing, and other specialty financing. Regions provides investment banking and brokerage services from over 300 offices of Morgan Keegan & Company, Inc. ("Morgan Keegan"), one of the largest investment firms based in the South. Regions' mortgage banking operations, Regions Mortgage (a division of Regions Bank) and EquiFirst Corporation ("EquiFirst"), provide residential mortgage loan origination and servicing activities for customers. Regions Mortgage services approximately \$36.0 billion in mortgage loans. Regions provides full-line insurance brokerage services, primarily through Rebsamen Insurance, Inc., one of the 50 largest insurance brokers in the country.

Regions' profitability, like that of many other financial institutions, is dependent on its ability to generate revenue from net interest income and non-interest income sources. Net interest income is the difference between the interest income Regions receives on 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 and the interest rate spread it earns. Non-interest income includes fees from service charges on deposit accounts, trust and securities brokerage activities, mortgage origination and servicing, insurance and other customer services which Regions provides.

Results of operations are also affected by the provision for loan losses and non-interest expenses such as salaries and employee benefits, occupancy and other operating expenses, including income taxes.

Economic conditions, competition and the monetary and fiscal policies of the Federal government in general, significantly affect financial institutions, including Regions. Lending and deposit activities and fee income generation are influenced by the level of business spending and investment, consumer income, spending and savings, capital market activities, competition among financial institutions, customer preferences, interest rate conditions and prevailing market rates on competing products in Regions' primary market areas.

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

The Company's principal market areas are located in the states of Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, South Carolina, Tennessee, Texas and Virginia. Morgan Keegan also operates offices in Massachusetts and New York.

### THIRD QUARTER HIGHLIGHTS

Regions reported record net income of \$.77 per diluted share in the third quarter of 2006, compared to \$.55 per diluted share for the third quarter of 2005 and \$.75 per diluted share for the second quarter of 2006. Primary drivers of the record third quarter 2006 net income were increased net interest income, reduced expenses and lower credit-related costs.

Net interest income for the third quarter of 2006 was \$777.7 million, compared to \$717.4 million in the third quarter of 2005 and \$762.5 million in the second quarter of 2006. The taxable equivalent net interest margin (annualized) for the third quarter of 2006 was 4.21%, compared to 3.93% in the third quarter of 2005 and 4.24% in the second quarter of 2006. The increase in the net interest margin over the last year was due primarily to favorable balance sheet positioning in a rising rate environment, combined with a favorable shift in the mix of earning assets and interest-bearing liabilities. In the third quarter of 2006, rates on interest-bearing liabilities increased faster than rates on interest-earning assets, resulting in a 3 basis point linked-quarter decline in the interest margin.

The banking unit produced good balance sheet growth during the third quarter of 2006, which contributed to the increase in net interest income. Loan growth of \$347.3 million, linked quarter, was driven primarily by commercial and construction lending, partially offset by a decline in other real estate loans and consumer lines of credit. Deposits

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increased by \$764.7 million, linked quarter, driven by an increase in certificates of deposits and money market deposits, partially offset by declines in interest-free and low-cost deposits.

Morgan Keegan's revenues were \$230.5 million in the third quarter of 2006, compared to \$199.4 million in the third quarter of 2005 and \$238.7 million in the second quarter of 2006. The slight decline in revenues during the third quarter of 2006 was primarily related to linked-quarter seasonality and less investment banking activity.

Net charge-offs totaled \$24.3 million, or 0.16%, of average loans, annualized, in the third quarter of 2006, compared to 0.25% for the third quarter of 2005 and 0.21% in the second quarter of 2006. On a linked-quarter basis, non-performing assets decreased \$7.9 million to \$312.0 million at September 30, 2006.

The provision for loan losses totaled \$25.0 million in the third quarter of 2006 compared to \$62.5 million during the same period of 2005 and \$30.0 million during the second quarter of 2006. The allowance for loan losses at September 30, 2006, was 1.31% of total loans, net of unearned income, compared to 1.34% at September 30, 2005 and 1.32% at June 30, 2006.

Non-interest income, excluding securities gains and losses, decreased \$13.2 million compared to the third quarter of 2005, primarily due to decreases in gains on sale of mortgage loans, partially offset by increases in brokerage and investment banking and service charges on deposit accounts. Non-interest income, excluding securities gains and losses, decreased \$32.8 million on a linked-quarter comparison, primarily due to declines in gains on sale of mortgage loans and brokerage and investment banking, partially offset by increases in service charges on deposit accounts. Brokerage and investment banking revenues totaled \$144.1 million in the third quarter of 2006, compared to \$131.7 million in the third quarter of 2005 and \$158.9 million in the second quarter of 2006. Trust fees totaled \$36.4 million in the third quarter of 2006, compared to \$33.7 million in the same period in 2005 and \$35.7 million in the second quarter of 2006. Regions' mortgage servicing and origination fees totaled \$33.3 million in the third quarter 2006, compared to \$35.3 million in the third quarter of 2005 and \$34.3 million in the second quarter of 2006. Gains on the sale of mortgage loans decreased 90% from the third quarter of 2005 and 75% linked quarter, due to lower premium levels in the market and increased early payment defaults on non-conforming mortgages. Gains from sales of securities totaled \$8.1 million in the third quarter of 2006, compared to losses of \$20.7 million in the third quarter of last year.

Total non-interest expense decreased \$26.5 million compared to third quarter 2005 and \$11.9 million on a linked-quarter comparison. Regions recognized \$8.0 million of impairment in the value of mortgage servicing rights ("MSR") during the third quarter of 2006, which is included in other non-interest expense. Total non-interest expenses, excluding merger-related and other charges, mortgage servicing rights impairment/recapture and loss on early extinguishment of debt securities, decreased \$14.2 million compared to the third quarter of 2005, primarily due to declines in salaries and benefits expense and amortization of mortgage servicing rights, and decreased \$30.5 million on a linked-quarter comparison, due primarily to a decrease in salaries and employee benefits.

### CRITICAL ACCOUNTING POLICIES

In preparing financial information, management is required to make significant estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses for the periods shown. The accounting principles followed by Regions and the methods of applying these principles conform with U.S. generally accepted accounting principles and general banking practices. Estimates and assumptions most significant to Regions are related primarily to allowance for loan losses, intangibles, and income taxes and are summarized in the following discussion and the Notes to the consolidated financial statements included under Item 8 of the Annual Report on Form 10-K.

#### Allowance for Loan Losses

Management's determination of the adequacy of the allowance for loan losses, which is based on the factors and risk identification procedures discussed in the following pages, requires the use of judgments and estimates 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 loan losses to be increased or decreased in future periods. For example, management has used judgments and estimates in its determination of the adequacy of the allowance for loan losses related to the impact of Hurricane Katrina. The availability of additional or different information affecting customers in the Katrina-impacted areas could cause the allowance for loan losses to be increased or decreased in future periods. In addition, bank regulatory agencies, as part of their examination process, may require that additions be made to the allowance for loan losses based on their judgments and estimates.

#### Intangible Assets

Regions' intangible assets consist primarily of excess of cost over the fair value of net assets of acquired businesses (excess purchase price), other identifiable intangible assets (primarily core deposit intangibles) and amounts capitalized for the right to service mortgage loans.

Regions' excess purchase price (the amount in excess of the fair value of net assets acquired) is tested for impairment annually, or more often if events or circumstances indicate impairment may exist. Adverse changes in the economic environment, operations of acquired business units or other factors could result in a decline in implied fair value of excess purchase price. If the implied fair value is less than the carrying amount, a loss would be recognized to reduce the carrying amount to implied fair value.

Other identifiable intangible assets, primarily core deposits intangibles, are reviewed at least annually for events or circumstances which could impact the recoverability of the intangible asset, such as loss of core deposits, increased competition or adverse changes in the economy. To the extent an other identifiable intangible asset is deemed unrecoverable, an impairment loss would be recorded to reduce the carrying amount to the fair value.

For purposes of evaluating mortgage servicing impairment, Regions must value its mortgage servicing rights. Mortgage servicing rights do not trade in an active market with readily observable market prices. Although sales of mortgage servicing rights do occur, the exact terms and conditions of sales may not be readily available. As a result, Regions stratifies its mortgage servicing portfolio on the basis of certain risk characteristics including loan type and contractual note rate and values its mortgage servicing rights using discounted cash flow modeling techniques, which require management to make estimates regarding future net servicing cash flows, taking into consideration actual and expected mortgage loan prepayment rates and discount rates. Changes in interest rates, prepayment speeds or other factors could result in impairment of the servicing asset and a charge against earnings to reduce the recorded carrying amount. Based on a hypothetical sensitivity analysis, Regions estimates that a reduction in the primary mortgage market rates would reduce the September 30, 2006, fair value of mortgage servicing rights by 5% in the case of a hypothetical 25 basis point reduction and 12% for a 50 basis point reduction.

#### Income Taxes

Management's determination of the realization of the deferred tax asset is based upon management's judgment of various future events and uncertainties, including the timing and amount of future income earned by certain subsidiaries and the implementation of various tax plans to maximize realization of the deferred tax asset. Management believes that the subsidiaries will generate sufficient operating earnings to realize the deferred tax benefits. Regions' 1998 to 2005 consolidated federal income tax returns are open for examination. From time to time Regions engages in business plans that may also have an effect on its tax liabilities. While Regions has obtained the opinion of advisors that the tax aspects of these plans should prevail, examination of Regions' income tax returns or changes in tax law may impact these plans and resulting provisions for income taxes. For example, as a result of normal examinations of Regions' income tax returns, Regions has received notices of proposed adjustments relating to taxes due for certain years. Regions believes that adequate provisions for income taxes have been recorded and intends

to vigorously contest the proposed adjustments. To the extent, however, that final resolution of the proposed adjustments results in significantly different conclusions from Regions' current assessment of the proposed adjustments, Regions' effective tax rate in any given financial reporting period may be materially different from its current effective tax rate.

## TOTAL ASSETS

Regions' total assets at September 30, 2006, were \$87.0 billion, compared to \$84.6 billion at September 30, 2005 and \$84.8 billion at December 31, 2005. The increase in total assets resulted primarily from increases in loans and securities.

## LOANS AND ALLOWANCE FOR LOAN LOSSES

### LOAN PORTFOLIO

Regions' primary investment is loans. At September 30, 2006, loans represented 78% of Regions' earning assets.

The following table presents the distribution of Regions' loan portfolio.

| Loan Portfolio<br>(period end data) |                       |                      |                       |
|-------------------------------------|-----------------------|----------------------|-----------------------|
| (in thousands)                      | September 30,<br>2006 | December 31,<br>2005 | September 30,<br>2005 |
| Commercial                          | \$16,215,004          | \$14,979,811         | \$15,026,107          |
| Residential mortgages               | 13,021,800            | 12,678,332           | 11,950,831            |
| Other real estate loans             | 12,305,245            | 13,745,201           | 14,328,521            |
| Construction                        | 8,731,614             | 7,363,353            | 7,306,720             |
| Branch installment                  | 1,550,031             | 1,625,929            | 1,679,996             |
| Indirect installment                | 1,324,017             | 1,353,929            | 1,415,764             |
| Consumer lines of credit            | 5,358,806             | 5,786,770            | 5,764,722             |
| Student loans                       | 971,388               | 871,588              | 883,225               |
|                                     | <u>\$59,477,905</u>   | <u>\$58,404,913</u>  | <u>\$58,355,886</u>   |

Total loans at September 30, 2006, increased approximately 2% from September 30, 2005 and year-end 2005 total loans. The strongest categories of growth in the loan portfolio have been in commercial and construction loans, partially offset by a decrease in other real estate loans and consumer lines of credit. The average yield on loans during the third quarter of 2006 was 7.59%, compared to 6.38% during the third quarter of 2005 and 7.35% during the second quarter of 2006. The increase in average yield corresponds with the rising interest rate environment during 2005 and 2006.

## ALLOWANCE FOR LOAN LOSSES

Every loan carries some degree of credit risk. This risk is reflected in the consolidated financial statements by the allowance for loan losses, the amount of loans charged off and the provision for loan losses charged to operating expense. It is Regions' policy that when a loss is identified, it is charged against the allowance for loan losses in the current period. The policy regarding recognition of losses requires immediate recognition of a loss if significant doubt exists as to principal repayment.

Regions' provision for loan losses is a reflection of actual losses experienced during the period and management's judgment as to the adequacy of the allowance for loan losses. Some of the factors considered by management in determining the amount of the provision and resulting allowance include: (1) detailed reviews of individual loans; (2) gross and net loan charge-offs in the current period; (3) the current level of the allowance in relation to total loans and to historical loss levels; (4) past due and non-accruing loans; (5) collateral values of properties securing loans; (6) the composition of the loan portfolio (types of loans) and risk profiles; and (7) management's analysis of economic conditions and the resulting impact on Regions' loan portfolio.

A coordinated effort is undertaken to identify credit losses in the loan portfolio for management purposes and to establish the loan loss provision and resulting allowance for accounting purposes. A regular, formal and ongoing loan review is conducted to identify loans with unusual risks or possible losses. Credit administration and internal audit are jointly responsible for this review, which tests the accuracy of loan gradings assigned at the individual banking offices, reviews significant portfolio segments for early identification of problems or potential problems, and tests for compliance with laws, regulations, and internal policies and procedures. This process provides information that helps in assessing the quality of the portfolio, assists in the prompt identification of problems and potential problems, and aids in deciding if a loan represents a probable loss that should be recognized or a risk for which an allowance should be maintained.

If it is determined that payment of interest on a loan is questionable, it is Regions' policy to classify the loan as non-accrual and reverse interest previously accrued and uncollected on the loan against interest income. Interest on such loans is thereafter recorded on a "cash basis" and is included in earnings only when actually received in cash and when full payment of principal is no longer doubtful.

Although it is Regions' policy to immediately charge off as a loss all loan amounts judged to be uncollectible, historical experience indicates that certain losses exist in the loan portfolio that have not been specifically identified. To anticipate and provide for these unidentifiable losses, the allowance for loan losses is established by charging the provision for loan loss expense against current earnings. No portion of the resulting allowance is in any way allocated or restricted to any individual loan or group of loans. The entire allowance is available to absorb losses from any and all loans.

Regions determines its allowance for loan losses in accordance with Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan-an Amendment of FASB Statements No. 5 and 15" and Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies." In determining the amount of the allowance for loan losses, management uses information from its ongoing loan review process to stratify the loan portfolio into loan pools with common risk characteristics. The higher-risk-graded loans in the portfolio are assigned estimated amounts of loss based on several factors, including current and historical loss experience of each higher-risk category, regulatory guidelines for losses in each higher-risk category and management's judgment of economic conditions and the resulting impact on the higher-risk-graded loans. All loans deemed to be impaired, which include all non-accrual loans greater than \$1 million, excluding loans to individuals, are evaluated individually. Impaired

loans totaled approximately \$41 million at September 30, 2006 and \$45 million at June 30, 2006. The vast majority of Regions' impaired loans are dependent upon collateral for repayment. For these loans, impairment is measured by evaluating collateral value as compared to the current investment in the loan. For all other loans, Regions compares the amount of estimated discounted cash flows to the investment in the loan. In the event a particular loan's collateral value or discounted cash flows are not sufficient to support the collection of the investment in the loan, the loan is specifically considered in the determination of the allowance for loan losses or a charge is immediately taken against the allowance for loan losses. The percentage of the allowance for loan losses related to the higher-risk loans was approximately 27% at September 30, 2006, compared to approximately 29% at June 30, 2006. Higher-risk loans, which include impaired loans, consist of loans classified as OLEM (other loans especially mentioned) and below and loans in other loan categories that are significantly past due.

In addition to establishing allowance levels for specifically identified higher-risk-graded loans, management determines allowance levels for all other loans in the portfolio for which historical experience indicates that certain losses exist. These loans are categorized by loan type and assigned estimated amounts of loss based on several factors, including current and historical loss experience of each loan type and management's judgment of economic conditions and the resulting impact on each category of loans. The percentage of the allowance for loan losses related to all other loans in the portfolio for which historical experience indicates that certain losses exist was approximately 73% of Regions' allowance for loan losses at September 30, 2006 and 71% at June 30, 2006. The amount of the allowance related to these loans is combined with the amount of the allowance related to the higher-risk-graded loans to evaluate the overall level of the allowance for loan losses.

During the third quarter of 2005, Hurricane Katrina struck the Gulf Coast (mainly impacting Louisiana, Mississippi, and Alabama) as a Category 3 hurricane, causing significant flood and wind damage and loss of life, property, power, and income. At September 30, 2006, Regions had loans of approximately \$918.7 million (\$401 million in commercial real estate loans, \$213 million in commercial and industrial loans, \$137 million in consumer loans, and \$167 million in mortgage loans) in the most significantly impacted areas. Approximately 51% of the consumer loans are home equity lines of credit. As part of its ongoing evaluation process at September 30, 2006, Regions has identified approximately \$56 million in allowance for loan losses related to this portion of its loan portfolio. The Company recognized net charge-offs of approximately \$1.4 million during the third quarter of 2006 (\$205,000 for commercial loans, \$804,000 for mortgage loans and \$372,000 for consumer/retail loans) for loans in Hurricane Katrina-affected areas.

Management considers the current level of allowance for loan losses adequate to absorb probable losses on loans in the portfolio. Management's determination of the adequacy of the allowance for loan 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 loan losses to be increased or decreased in future periods. The amount of the allowance for loan losses related to the Hurricane Katrina impacted portfolio may change in the future as additional or different information affecting customers in the Katrina-impacted areas is obtained. Changes in (1) risk assessments of individual loans in this area, (2) collateral values of properties securing loans in this area, (3) levels of past due and non-accruing loans in this area, (4) economic conditions in the Hurricane Katrina impacted area and (5) other factors, could result in changes in Regions' allowance for loan losses in the future. In addition, bank regulatory agencies, as part of their examination process, may require that additions be made to the allowance for loan losses based on their judgments and estimates.

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

| (dollar amounts in thousands)  | Nine Months Ended     |                       |
|--------------------------------|-----------------------|-----------------------|
|                                | September 30,<br>2006 | September 30,<br>2005 |
| Balance at beginning of period | \$783,536             | \$754,721             |
| Loans charged-off:             |                       |                       |
| Commercial                     | 84,167                | 85,094                |
| Real estate                    | 29,019                | 33,748                |
| Installment                    | 25,628                | 36,092                |
| Total                          | 138,814               | 154,934               |
| Recoveries:                    |                       |                       |

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|                                   |           |           |
|-----------------------------------|-----------|-----------|
| Commercial                        | 32,067    | 33,000    |
| Real estate                       | 5,574     | 6,068     |
| Installment                       | 17,381    | 20,088    |
| Total                             | 55,022    | 59,156    |
| Net loans charged off:            |           |           |
| Commercial                        | 52,100    | 52,094    |
| Real estate                       | 23,445    | 27,680    |
| Installment                       | 8,247     | 16,004    |
| Total                             | 83,792    | 95,778    |
| Allowance allocated to loans sold | 3,779     | -0-       |
| Provision charged to expense      | 82,500    | 125,000   |
| Balance at end of period          | \$778,465 | \$783,943 |

Average loans outstanding:

|             |              |              |
|-------------|--------------|--------------|
| Commercial  | \$15,305,034 | \$15,061,473 |
| Real estate | 34,416,682   | 33,815,101   |
| Installment | 8,879,274    | 9,110,467    |
| Total       | \$58,600,990 | \$57,987,041 |

Net charge-offs as percent of average loans outstanding (annualized):

|             |      |      |
|-------------|------|------|
| Commercial  | .46% | .46% |
| Real estate | .09% | .11% |
| Installment | .12% | .23% |
| Total       | .19% | .22% |

Net loan losses as a percentage of average loans (annualized) were 0.16% in the third quarter of 2006, compared to 0.25% in the third quarter 2005 and 0.21% in the second quarter of 2006. At September 30, 2006, the allowance for loan losses was 1.31% of loans, compared to 1.34% at September 30, 2005 and 1.34% at December 31, 2005. The allowance for loan losses as a percentage of non-performing loans was 315% at September 30, 2006, compared to 205% at September 30, 2005, and 229% at December 31, 2005.

NON-PERFORMING ASSETS

Non-performing assets are summarized as follows:

|                               |                       |                  |                      |                       |
|-------------------------------|-----------------------|------------------|----------------------|-----------------------|
| (dollar amounts in thousands) | September 30,<br>2006 | June 30,<br>2006 | December 31,<br>2005 | September 30,<br>2005 |
| Non-performing loans:         |                       |                  |                      |                       |
| Non-accruing loans            | \$246,728             | \$264,284        | \$341,177            | \$382,858             |
| Renegotiated loans            | 103                   | 107              | 241                  | 244                   |

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|                             |           |           |           |           |
|-----------------------------|-----------|-----------|-----------|-----------|
| Total non-performing loans  | \$246,831 | \$264,391 | \$341,418 | \$383,102 |
| Other real estate           | 65,190    | 55,495    | 65,459    | 57,418    |
| Total non-performing assets | \$312,021 | \$319,886 | \$406,877 | \$440,520 |

Non-performing assets as a  
percentage of loans and  
other real estate

0.52%                      0.54%                      0.70%                      0.75%

|                                |          |          |          |          |
|--------------------------------|----------|----------|----------|----------|
| Loans past due 90 days or more | \$78,785 | \$78,096 | \$87,523 | \$74,246 |
|--------------------------------|----------|----------|----------|----------|

Non-accruing loans at September 30, 2006 decreased \$136.1 million from September 30, 2005 levels, due primarily to the disposition of a single large commercial credit during the fourth quarter of 2005 and the sale of non-performing residential mortgage loans in the second quarter of 2006, and decreased \$94.4 million from year-end 2005 levels, due primarily to the above-noted sale of non-performing residential mortgage loans during the second quarter of 2006. At September 30, 2006, real estate loans comprised \$152.1 million (\$110.8 million in residential) of total non-accruing loans, with commercial loans accounting for \$64.7 million and consumer loans accounting for the remaining \$29.9 million. Loans past due 90 days or more increased \$4.5 million compared to September 30, 2005, due primarily to increased delinquencies in the consumer loan portfolio and decreased \$8.7 million from year-end 2005 levels, due primarily to the sale of past due residential mortgage loans in the second quarter of 2006. Renegotiated loans decreased \$141,000 compared to September 30, 2005 and \$138,000 from year-end 2005 levels. Other real estate increased \$7.8 million from September 30, 2005 due primarily to additional loans moving through the foreclosure process.

During the fourth quarter of 2005, in an effort to provide disaster relief to certain customers in Alabama, Louisiana and Mississippi that were most severely affected by Hurricane Katrina, Regions approved an automatic 90-day extension for qualifying loans (required to be current on payments). Under this 90-day deferral program, no scheduled payments were due, interest continued to accrue, deferrals could be extended in certain hardship scenarios, and in some cases, extensions of loan terms were approved. This deferral program has not resulted in any significant increases in non-performing loans within Regions' loan portfolio to date.

## INTEREST-BEARING DEPOSITS IN OTHER BANKS

Interest-bearing deposits in other banks are used primarily as temporary investments and generally have short-term maturities. At September 30, 2006, this category of earning asset totaled \$39.0 million compared to \$89.3 million at September 30, 2005 and \$92.1 million at December 31, 2005.

## SECURITIES

The following table shows the carrying values of securities as follows:

| (in thousands)               | September 30,<br>2006 | December 31,<br>2005 | September 30,<br>2005 |
|------------------------------|-----------------------|----------------------|-----------------------|
| Securities held to maturity: |                       |                      |                       |
| U.S. Treasury securities     | \$ 21,960             | \$ 23,711            | \$ 23,414             |
| Federal agency securities    | 8,073                 | 7,753                | 8,014                 |

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|                                                  |              |              |              |
|--------------------------------------------------|--------------|--------------|--------------|
| Total                                            | \$ 30,033    | \$ 31,464    | \$ 31,428    |
| Securities available for sale:                   |              |              |              |
| U.S. Treasury securities                         | \$ 228,088   | \$ 238,726   | \$ 242,288   |
| Federal agency securities                        | 3,767,052    | 3,145,983    | 3,104,605    |
| Obligations of states and political subdivisions | 398,937      | 447,195      | 482,440      |
| Mortgage-backed securities                       | 7,305,529    | 7,427,886    | 7,392,669    |
| Other securities                                 | 411,190      | 108,163      | 121,126      |
| Equity securities                                | 314,759      | 579,857      | 570,521      |
| Total                                            | \$12,425,555 | \$11,947,810 | \$11,913,649 |

Total securities at September 30, 2006, increased approximately 4% from September 30, 2005 and from year-end 2005 levels, due primarily to the purchase of agency securities for balance sheet management purposes. Securities available for sale are an important tool used to manage interest rate sensitivity and provide a primary source of liquidity for the Company (see INTEREST RATE SENSITIVITY, *Exposure to Interest Rate Movements* and LIQUIDITY).

#### TRADING ACCOUNT ASSETS

Trading account assets increased \$623.8 million compared to September 30, 2005 and \$446.3 million compared to year-end 2005, due primarily to increases in government and other securities, partially offset by a decrease in agency securities. Trading account assets are held for the purpose of selling at a profit and are carried at market value.

#### LOANS HELD FOR SALE

Loans held for sale decreased \$229.3 million compared to September 30, 2005, due primarily to reduced residential conforming mortgage loan production in the third quarter of 2006. Since year-end, loans held for sale increased \$293.0 million primarily due to increased residential mortgage loan production at Equifirst.

#### MARGIN RECEIVABLES

Margin receivables at September 30, 2006, totaled \$581.6 million, compared to \$513.3 million at September 30, 2005, and \$527.3 million at December 31, 2005. Margin receivables represent funds advanced to brokerage customers for the purchase of securities that are secured by certain marketable securities held in the customer's brokerage account. The risk of loss from these receivables is minimized by requiring that customers maintain marketable securities in the brokerage account which have a fair market value substantially in excess of the funds advanced to the customer. Fluctuations in these balances are caused by trends in general market conditions, volatility in equity retail products, and investor sentiment toward economic stability.

#### PREMISES AND EQUIPMENT

Premises and equipment at September 30, 2006, decreased by \$12.3 million compared to the same quarter in 2005 and decreased \$24.7 million from December 31, 2005. These fluctuations resulted from additions of premises and equipment related to new branches, offset by ongoing depreciation and amortization, and sales of properties in 2006.

#### EXCESS PURCHASE PRICE

Excess purchase price at September 30, 2006, totaled \$5.0 billion compared to \$5.0 billion at September 30, 2005 and \$5.0 billion at December 31, 2005. A significant portion of this balance consists of excess purchase price added in

connection with the 2004 acquisition of Union Planters Corporation ("Union Planters").

## MORTGAGE SERVICING RIGHTS

Mortgage servicing rights at September 30, 2006, increased \$10.6 million compared to September 30, 2005, primarily due to capitalization of servicing rights and net recapture of previous impairment, partially offset by amortization of previously capitalized servicing rights. Net recapture of previously recorded impairment over the last year has resulted from the rising mortgage rate environment and related declines in prepayment speed assumptions. During the third quarter of 2006, Regions recorded impairment of mortgage servicing rights of \$8.0 million due to declining interest rates and corresponding increases in prepayment speed assumptions. At September 30, 2006, mortgage servicing rights totaled \$407.7 million.

## OTHER IDENTIFIABLE INTANGIBLE ASSETS

Other identifiable intangible assets at September 30, 2006, totaled \$287.4 million compared to \$325.9 million at September 30, 2005 and \$314.4 million at year-end 2005. The decreases from the third quarter of 2005 and fourth quarter 2005 are related to amortization of other identifiable intangible assets.

## OTHER ASSETS

Other assets increased \$73.4 million compared to September 30, 2005, and \$129.5 million since year-end 2005. The increase from third quarter 2005 was primarily the result of increases in deferred tax assets, customer derivatives and overdrafts, partially offset by decreases in prepaid expenses and trading receivables due from customers. The increase from fourth quarter 2005 was primarily related to increases in accounts receivables as well as overdrafts and customer derivatives due to increased business activities.

## LIQUIDITY

### GENERAL

Liquidity is an important factor in the financial condition of Regions and affects Regions' ability to meet the borrowing needs and deposit withdrawal requirements of its customers. Assets, consisting principally of loans and securities, are funded by customer deposits, purchased funds, borrowed funds and stockholders' equity.

The securities portfolio is one of Regions' primary sources of liquidity. Maturities of securities provide a constant flow of funds available for cash needs. Maturities in the loan portfolio also provide a steady flow of funds. Additional funds are provided from payments on consumer loans and one-to-four family residential mortgage loans. Historically, Regions' high levels of earnings have also contributed to cash flow. In addition, liquidity needs can be met by the purchase of funds in state and national money markets. Regions' liquidity also continues to be enhanced by a relatively stable deposit base.

The loan to deposit ratio at September 30, 2006, was 95.67%, compared to 98.13% at September 30, 2005 and 96.73% at December 31, 2005.

In April 2005, Regions filed a universal shelf registration statement that allows the company to issue up to \$2 billion of various debt and equity securities at market rates for future funding and liquidity needs. During the third quarter of 2005, Regions issued \$750 million of senior debt notes (\$400 million of 3-year floating rate notes and \$350 million of 3-year fixed rate notes) under the above universal shelf registration statement.

Regions also has the ability to obtain additional Federal Home Loan Bank ("FHLB") advances subject to collateral requirements and other limitations. The FHLB has been and is expected to continue to be a reliable and economical

source of funding and can be used to fund debt maturities as well as other obligations.

In addition, Regions Bank has the requisite agreements in place to issue and sell up to \$5 billion of its bank notes to institutional investors through placement agents. The issuance of additional bank notes could provide a significant source of liquidity and funding to meet future needs.

Morgan Keegan maintains certain lines of credit with unaffiliated banks to manage liquidity in the ordinary course of business.

## RATINGS

The table below reflects the most recent debt ratings of Regions Financial Corporation and Regions Bank by Standard & Poor's Corporation, Moody's Investors Service, Fitch IBCA and Dominion Bond Rating Service:

|                                    | S&P  | Moody's | Fitch | Dominion |
|------------------------------------|------|---------|-------|----------|
| Regions Financial Corporation:     |      |         |       |          |
| Senior notes                       | A    | A1      | A+    | AH       |
| Subordinated notes                 | A-   | A2      | A     | A        |
| Trust preferred securities         | BBB+ | A2      | A     | A        |
| Regions Bank:                      |      |         |       |          |
| Short-term certificates of deposit | A-1  | P-1     | F1+   | R-1M     |
| Short-term debt                    | A-1  | P-1     | F1+   | R-1M     |
| Long-term certificates of deposit  | A+   | Aa3     | AA-   | AAL      |
| Long-term debt                     | A+   | Aa3     | A+    | AAL      |

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

## DEPOSITS

Regions competes with other banking and financial services companies for a share of the deposit market. Regions' ability to compete in the deposit market depends heavily on how effectively the Company meets customers' needs. Regions employs both traditional and non-traditional means to meet customers' needs and enhance competitiveness. The traditional means include providing well-designed products, providing a high level of customer service, providing attractive pricing and expanding the traditional branch network to provide convenient branch locations for customers throughout the South, Midwest and Texas. Regions also employs non-traditional approaches to enhance its competitiveness. These include providing centralized, high quality telephone banking services and alternative product delivery channels like Internet banking.

Total deposits at September 30, 2006, increased approximately 5% compared to September 30, 2005, and approximately 3% compared to year-end 2005 levels. The increase in deposits was due primarily to increases in certificates of deposits and money market accounts, partially offset by a decrease in interest bearing checking accounts and interest-free deposits. The increase in certificates of deposit has resulted from customer preferences for longer-term, higher-rate deposit products in a rising interest rate environment. During the third quarter of 2006, Regions featured a money market account sales campaign that generated approximately \$1.5 billion of deposits. Increases in community banking deposits during the last year have been partially offset by declines in wholesale deposits, due to decreased reliance on this funding source.

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The following table presents the average rates paid on deposits by category for the nine months ended September 30, 2006 and 2005 (annualized):

|                                              | Average Rates Paid    |                       |
|----------------------------------------------|-----------------------|-----------------------|
|                                              | September 30,<br>2006 | September 30,<br>2005 |
| Interest-bearing transaction accounts        | 2.12%                 | 1.80%                 |
| Savings accounts                             | 0.40                  | 0.24                  |
| Money market savings accounts                | 2.30                  | 1.15                  |
| Certificates of deposit of \$100,000 or more | 4.33                  | 3.02                  |
| Other interest-bearing deposits              | 3.94                  | 2.88                  |
| Total interest-bearing deposits              | 3.01%                 | 1.99%                 |

The following table presents the average amounts of deposits outstanding by category for the nine months ended September 30, 2006 and 2005:

| (in thousands)                               | Average Amounts Outstanding             |               |
|----------------------------------------------|-----------------------------------------|---------------|
|                                              | Nine months ended September 30,<br>2006 | 2005          |
| Non-interest-bearing demand deposits         | \$12,762,560                            | \$ 11,916,065 |
| Interest-bearing transaction accounts        | 2,114,741                               | 2,989,863     |
| Savings accounts                             | 3,081,155                               | 2,909,527     |
| Money market savings accounts                | 19,926,572                              | 18,881,938    |
| Certificates of deposit of \$100,000 or more | 7,780,404                               | 8,108,808     |
| Other interest-bearing deposits              | 15,133,773                              | 14,858,823    |
| Total interest-bearing deposits              | 48,036,645                              | 47,748,959    |
| Total deposits                               | \$60,799,205                            | \$59,665,024  |

## BORROWINGS

Following is a summary of short-term borrowings:

| (in thousands)                                 | September 30,<br>2006 | December 31,<br>2005 | September 30,<br>2005 |
|------------------------------------------------|-----------------------|----------------------|-----------------------|
| Federal funds purchased                        | \$ 1,512,420          | \$1,195,790          | \$1,921,552           |
| Securities sold under agreements to repurchase | 3,431,148             | 2,732,395            | 2,757,800             |
| Notes payable to unaffiliated banks            | 115,400               | 129,700              | 109,700               |
| Federal Home Loan Bank borrowing               | 350,000               | -0-                  | -0-                   |
| Due to brokerage customers                     | 464,143               | 547,666              | 487,675               |
| Other short-term borrowings                    | 438,937               | 360,728              | 357,087               |
| Total                                          | \$6,312,048           | \$4,966,279          | \$5,633,814           |

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Net federal funds purchased and security repurchase agreements totaled \$4.0 billion at September 30, 2006, compared to \$4.1 billion at September 30, 2005, and \$3.2 billion at year-end 2005. The level of federal funds and security repurchase agreements can fluctuate significantly on a day-to-day basis, depending on funding needs and which sources of funds are used to satisfy those needs. During the first nine months of 2006, net funds purchased averaged \$3.5 billion compared to \$4.0 billion for the same period in 2005. Other short-term borrowings increased \$81.9 million since September 30, 2005, due primarily to increases in short sale liabilities, partially offset by decreases in broker margin calls (included in "Other short-term borrowings" in the preceding table above).

Long-term borrowings are summarized as follows:

| (in thousands)                          | September 30,<br>2006 | December 31,<br>2005 | September 30,<br>2005 |
|-----------------------------------------|-----------------------|----------------------|-----------------------|
| 6.375% subordinated notes due 2012      | \$ 600,000            | \$ 600,000           | \$ 600,000            |
| 7.00% subordinated notes due 2011       | 500,000               | 500,000              | 500,000               |
| 7.75% subordinated notes due 2024       | 100,000               | 100,000              | 100,000               |
| 6.75% subordinated notes due 2005       | -0-                   | -0-                  | 100,323               |
| 6.50% subordinated notes due 2018       | 312,909               | 313,779              | 315,303               |
| 7.75% subordinated notes due 2011       | 548,830               | 557,156              | 559,922               |
| 4.50% senior notes due 2008             | 350,000               | 350,000              | 350,000               |
| Floating rate senior notes due 2008     | 400,000               | 400,000              | 400,000               |
| Senior holding company notes due 2010   | 488,709               | 486,668              | 485,990               |
| Senior bank notes                       | 1,004,947             | 1,010,182            | 1,010,076             |
| Federal Home Loan Bank structured notes | 285,000               | 1,035,000            | 1,035,000             |
| Federal Home Loan Bank advances         | 422,288               | 837,300              | 941,923               |
| 8.00% junior subordinated notes         | 3,093                 | 300,640              | 299,485               |
| 8.20% junior subordinated notes         | 222,881               | 223,503              | 223,710               |
| Mark-to-market on hedged long-term debt | (2,746)               | 10,121               | 33,883                |
| Other long-term debt                    | 254,493               | 247,331              | 251,400               |
| <b>Total</b>                            | <b>\$5,490,404</b>    | <b>\$6,971,680</b>   | <b>\$7,207,015</b>    |

Long-term borrowings have decreased \$1.7 billion since September 30, 2005, due primarily to prepayments and maturities on FHLB notes and advances and early extinguishment of junior subordinated notes resulting from the call of trust preferred securities. The decrease of \$1.5 billion since year-end 2005 was due primarily to the call of trust preferred securities during the first quarter of 2006 and the resulting early extinguishment of approximately \$300 million in junior subordinated notes, as well as the decrease in Federal Home Loan Bank borrowings.

### OTHER LIABILITIES

Other liabilities increased \$318.8 million compared to September 30, 2005, due primarily to increases in accrued interest, accrued income taxes and customer derivatives. Compared to December 31, 2005, other liabilities increased \$104.5 million primarily related to increases in trading security obligations to customers and customer derivatives due to increased business activities.

### STOCKHOLDERS' EQUITY

Stockholders' equity was \$11.0 billion at September 30, 2006, compared to \$10.6 billion at September 30, 2005 and \$10.6 billion at December 31, 2005. Accumulated other comprehensive loss totaled \$87.7 million at September 30, 2006, compared to \$63.5 million at September 30, 2005 and of \$92.3 million at year-end 2005. Fluctuations in accumulated other comprehensive income/loss primarily relate to changes in the carrying value of available for sale securities.

Regions' ratio of equity to total assets was 12.70% at September 30, 2006, compared to 12.58% at September 30, 2005 and 12.52% at December 31, 2005. Regions' ratio of tangible equity to tangible assets was 7.08% at September 30, 2006, compared to 6.68% at September 30, 2005 and 6.64% at December 31, 2005.

At September 30, 2006, Regions had 18.9 million common shares available for repurchase through open market transactions under existing share repurchase authorizations. During the third quarter of 2006, the Company repurchased 1.4 million common shares at a cost of \$51.1 million. For the nine months ended September 30, 2006, Regions has repurchased 8.7 million common shares at a cost of \$302.8 million.

The Board of Directors declared a \$.35 cash dividend for the third quarter of 2006, compared to a \$.34 cash dividend declared for the third quarter of 2005 and \$.35 for second quarter 2006.

## REGULATORY CAPITAL REQUIREMENTS

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

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

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

The banking regulatory agencies also have adopted regulations that supplement the risk-based guidelines to include a minimum ratio of 3% of Tier 1 capital to average assets less goodwill (the "leverage ratio").

Depending upon the risk profile of the institution and other factors, the regulatory agencies may require a leverage ratio of 1% to 2% above the minimum 3% level.

The following chart summarizes the applicable bank regulatory capital requirements. Regions' capital ratios at September 30, 2006 and 2005, substantially exceeded all regulatory requirements.

|             | Well        |               |               |
|-------------|-------------|---------------|---------------|
| Minimum     | Capitalized | Regions at    | Regions at    |
| Regulatory  | Regulatory  | September 30, | September 30, |
| Requirement | Requirement | 2006          | 2005          |
|             |             |               |               |

|                                                  |       |       |       |       |
|--------------------------------------------------|-------|-------|-------|-------|
| Tier 1 capital to risk-adjusted assets           | 4.00% | 6.00% | 8.92% | 8.69% |
| Total risk-based capital to risk-adjusted assets | 8.00  | 10.00 | 12.57 | 12.90 |
| Tier 1 leverage ratio                            | 3.00  | 5.00  | 7.68  | 7.36  |

## OPERATING RESULTS

For the first nine months of 2006, net income totaled \$991.6 million (\$2.16 per diluted share), compared to \$746.5 million (\$1.60 per diluted share) for the same period in 2005. For the third quarter of 2006, net income totaled \$351.7 million (\$0.77 per diluted share), compared to \$256.6 million (\$0.55 per diluted share) for the third quarter of 2005 and \$345.3 million (\$0.75 per diluted share) in the second quarter of 2006.

Annualized return on average stockholders' equity for the nine months ended September 30, 2006 was 12.34%, compared to 9.31% for the same period in 2005. Annualized return on average assets for the nine months ended September 30, 2006 was 1.54%, compared to 1.17% for the same period in 2005.

Annualized return on average tangible stockholders' equity was 24.35% for the nine months ended September 30, 2006, compared to 18.63% for the same period in 2005.

## NET INTEREST INCOME

The following table presents a summary of net interest income for the quarters ended September 30, 2006, June 30, 2006, and September 30, 2005.

|                                          |                       |                  |                       |
|------------------------------------------|-----------------------|------------------|-----------------------|
| (dollar amounts in thousands)            | September 30,<br>2006 | June 30,<br>2006 | September 30,<br>2005 |
| Interest income                          | \$1,339,621           | \$1,264,986      | \$1,113,855           |
| Interest expense                         | 561,922               | 502,451          | 396,432               |
| Net interest income                      | 777,699               | 762,535          | 717,423               |
| Tax equivalent adjustment                | 28,561                | 28,733           | 22,393                |
| Net interest income (taxable equivalent) | \$ 806,260            | \$ 791,268       | \$ 739,816            |
| Net interest margin (taxable equivalent) | 4.21%                 | 4.24%            | 3.93%                 |

For the third quarter of 2006, net interest income (taxable equivalent basis) increased \$66.4 million, or 9%, compared to the third quarter of 2005, due to improved spreads and growth in earning assets. The net yield on interest earning assets (taxable equivalent basis) was 4.21% in the third quarter of 2006, compared to 3.93% during the third quarter of 2005. The increase in the net interest margin was due primarily to favorable balance sheet positioning in a rising interest rate environment over the last year; Regions, being in an asset sensitive balance sheet position, benefited from rising interest rates, as increases in asset yields outpaced increases in interest-bearing liability costs. The yield on interest earning assets increased 111 basis points and the rate on interest bearing liabilities increased 107 basis points, compared to the third quarter of 2005. A favorable shift in the mix of earning assets and interest bearing liabilities benefited the interest margin over the last year.

From a linked-quarter perspective, net interest income (taxable equivalent basis) increased \$15.0 million, due

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primarily to modest earning asset growth, partially offset by reduced spreads. The net yield on interest earning assets (taxable equivalent basis) was 4.21% in the third quarter of 2006, compared to 4.24% in the second quarter of 2006. The yield on interest-earning assets increased 21 basis points, while the rate on interest-bearing liabilities increased 29 basis points.

### Analysis of Changes in Net Interest Income

| (in thousands)                  | Nine Months Ended September 30, |            |           |
|---------------------------------|---------------------------------|------------|-----------|
|                                 | 2006 over 2005                  |            |           |
|                                 | Volume                          | Yield/Rate | Total     |
| Increase (decrease) in:         |                                 |            |           |
| Interest income on:             |                                 |            |           |
| Loans                           | \$ 27,729                       | \$526,580  | \$554,309 |
| Federal funds sold              | 9,204                           | 13,716     | 22,920    |
| Taxable securities              | (10,972)                        | 44,124     | 33,152    |
| Non-taxable securities          | (4,763)                         | 7,541      | 2,778     |
| Other earning assets            | 5,551                           | 20,414     | 25,965    |
| Total                           | 26,749                          | 612,375    | 639,124   |
| Interest expense on:            |                                 |            |           |
| Savings deposits                | 329                             | 3,646      | 3,975     |
| Other interest-bearing deposits | 1,833                           | 365,263    | 367,096   |
| Borrowed funds                  | (31,482)                        | 111,279    | 79,797    |
| Total                           | (29,320)                        | 480,188    | 450,868   |
| Increase in net interest income | \$ 56,069                       | \$132,187  | \$188,256 |

Note: The change in interest due to both rate and volume has been allocated to change due to volume and change due to rate in proportion to the absolute dollar amounts of the change in each.

### MARKET RISK

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, exchange rates, commodity prices, equity prices, or the credit quality of debt securities.

#### INTEREST RATE SENSITIVITY

Regions' primary market risk is interest rate risk, including uncertainty with respect to absolute interest rate levels as well as uncertainty with respect to relative interest rate levels which impact both the shape and the slope of the various yield curves affecting the financial products and services that the Company offers. To quantify this risk, Regions measures the change in its net interest income in various interest rate scenarios as compared to a base case scenario. Net interest income sensitivity (as measured over 12 months) is a useful short-term indicator of Regions' interest rate risk.

## Sensitivity Measurement

. Financial simulation models are Regions' primary tools used to measure interest rate exposure. Using a wide range of hypothetical deterministic and stochastic simulations, these tools provide management with extensive information on the potential impact to net interest income caused by changes in interest rates.

These models are structured to simulate cash flows and accrual characteristics of Regions' balance sheet. Assumptions are made about the direction and volatility of interest rates, the slope of the yield curve, and about the changing composition of the balance sheet that result from both strategic plans and from customer behavior. Among the assumptions are expectations of balance sheet growth and composition, the pricing and maturity characteristics of existing business and the characteristics of future business. Interest rate related risks are expressly considered, such as pricing spreads, the lag time in pricing administered rate accounts, prepayments and other option risks. Regions considers these factors, as well as the degree of certainty or uncertainty surrounding their future behavior.

Financial derivative instruments are used to mitigate the risk of changes in the values of selected assets and liabilities resulting from changes in interest rates. The effect of these hedges is included in the simulations of net interest income.

The primary objectives of asset/liability management at Regions are balance sheet coordination and the management of interest rate risk in achieving reasonable and stable net interest income throughout various interest rate cycles. A standard set of alternate interest rate scenarios is compared to the results of the base case scenario to determine the extent of potential fluctuations and to establish exposure limits. The standard set of interest rate scenarios includes the traditional instantaneous parallel rate shifts of plus and minus 100 and 200 basis points. In addition, Regions includes simulations of gradual interest rate movements that may more realistically mimic potential interest rate movements. Gradual scenarios could include curve steepening, flattening, and parallel movements of various magnitudes phased in over a 6-month period.

## Exposure to Interest Rate Movements.

Based on the foregoing discussion, management has estimated the potential effect of shifts in interest rates on net interest income. As of September 30, 2006, Regions maintains an asset sensitive position to gradual rate shifts of plus or minus 100 and 200 basis points. The following table demonstrates the expected effect that a gradual (over six months beginning at September 30, 2006 and 2005) parallel interest rate shift would have on Regions' annual net interest income. Results of the same analysis for the comparable period for 2005 are presented for comparison purposes.

| Gradual<br>Change in<br>Interest Rates<br><br>(in basis points) | September 30, 2006                     |                                       | September 30, 2005                     |                                       |
|-----------------------------------------------------------------|----------------------------------------|---------------------------------------|----------------------------------------|---------------------------------------|
|                                                                 | \$ Change in<br>Net Interest<br>Income | % Change in<br>Net Interest<br>Income | \$ Change in<br>Net Interest<br>Income | % Change in<br>Net Interest<br>Income |
|                                                                 | (dollar amounts in thousands)          |                                       |                                        |                                       |
| +200                                                            | \$ 96,000                              | 3.2%                                  | \$ 152,000                             | 5.4%                                  |
| +100                                                            | 48,000                                 | 1.6                                   | 80,000                                 | 2.9                                   |
| -100                                                            | (26,000)                               | (1.0)                                 | (88,000)                               | (3.2)                                 |
| -200                                                            | (53,000)                               | (1.8)                                 | (211,000)                              | (7.5)                                 |

As of September 30, 2006, Regions maintains an asset sensitive position to instantaneous rate shifts of plus or minus 100 and 200 basis points. The following table demonstrates the expected effect that an instantaneous parallel rate shift would have on Regions' annual net interest income. Results of the same analysis for the comparable period of 2005

are presented for comparison purposes.

| Instantaneous<br>Change in<br>Interest Rates<br><br>(in basis points) | September 30, 2006                     |                                       | September 30, 2005                     |                                       |
|-----------------------------------------------------------------------|----------------------------------------|---------------------------------------|----------------------------------------|---------------------------------------|
|                                                                       | \$ Change in<br>Net Interest<br>Income | % Change in<br>Net Interest<br>Income | \$ Change in<br>Net Interest<br>Income | % Change in<br>Net Interest<br>Income |
|                                                                       |                                        |                                       |                                        |                                       |
|                                                                       | (dollar amounts in thousands)          |                                       |                                        |                                       |
| +200                                                                  | \$ 106,000                             | 3.6%                                  | \$ 142,000                             | 5.1%                                  |
| +100                                                                  | 56,000                                 | 1.9                                   | 80,000                                 | 2.9                                   |
| -100                                                                  | (28,000)                               | (1.0)                                 | (75,000)                               | (2.7)                                 |
| -200                                                                  | (73,000)                               | (2.4)                                 | (229,000)                              | (8.2)                                 |

## DERIVATIVES

Regions uses financial derivative instruments for management of interest rate sensitivity. The Asset and Liability Committee in its oversight role for the management of interest rate sensitivity approves the use of derivatives in balance sheet hedging strategies. The most common derivatives the Company employs are interest rate swaps, interest rate options, forward sale commitments, interest rate and foreign exchange forward contracts and credit default swaps.

Interest rate swaps are contractual agreements typically entered into to exchange fixed for variable streams of interest payments. The notional principal is not exchanged but is used as a reference for the size of the interest payments. Interest rate options are contracts that allow the buyer to purchase or sell a financial instrument at a pre-determined price and time. Forward sale commitments are contractual obligations to sell money market instruments at a future date for an already agreed upon price. Foreign exchange forwards are contractual agreements to receive or deliver a foreign currency at an agreed upon future date and price. Credit default swaps are contractual agreements between counterparties whereby one party pays the other at a fixed periodic rate for the specified life of the agreement. The other party makes no payments unless a specified credit event occurs. Credit events are typically defined to include a material default, bankruptcy or debt restructuring for a specified reference asset. If such a credit event occurs, the party makes a payment to the first party, and the swap then terminates.

Regions has made use of interest rate swaps and interest rate options to modify the interest rate characteristics of designated assets and liabilities. Regions also uses derivatives to manage interest rate and pricing risk associated with its mortgage origination business. Futures contracts and forward sales commitments are used to protect the value of the loan pipeline and loans held for sale from adverse changes in interest rates. In the period of time that elapses between the origination and sale of mortgage loans, changes in interest rates have the potential to cause a decline in the value of the loans in this held for sale portfolio. Futures and forward sale commitment positions are used to protect the Company from the risk of such adverse changes. The change in value of the hedging contracts is expected to be highly effective in offsetting the change in value of specific assets and liabilities over the life of the hedge relationship.

Regions also uses derivatives to meet the needs of its customers. Interest rate swaps, interest rate options, futures and forward commitments and foreign exchange forwards are the most common derivatives sold to customers. Positions with similar characteristics are used to offset the market risk and minimize income statement volatility associated with this portfolio. Instruments used to service customers are entered into the trading account, with changes in value recorded in the income statement.

The objective of Regions' hedging strategies is to mitigate the impact of interest rate changes, from an economic and accounting perspective, on net interest income and the net present value of Regions' balance sheet items. The overall

effectiveness of these hedging strategies is subject to market conditions, the quality of Regions' execution, the accuracy of its asset valuation assumptions, counterparty credit risk and changes in interest rates. As a result, Regions' hedging strategies may be ineffective in mitigating the impact of interest rate changes on its earnings.

#### BROKERAGE AND MARKET MAKING ACTIVITY

Morgan Keegan's business activities expose it to market risk, including its securities inventory positions and securities held for investment.

Morgan Keegan trades for its own account in corporate and tax-exempt securities and U.S. government, agency and guaranteed securities. Most of these transactions are entered into to facilitate the execution of customers' orders to buy or sell these securities. In addition, it trades certain equity securities in order to "make a market" in these securities. Morgan Keegan's trading activities require the commitment of capital. All principal transactions place the subsidiary's capital at risk. Profits and losses are dependent upon the skills of employees and market fluctuations. In some cases, in order to mitigate the risks of carrying inventory, Morgan Keegan enters into a low level of activity involving U.S. Treasury note futures.

Morgan Keegan, as part of its normal brokerage activities, assumes short positions on securities. The establishment of short positions exposes Morgan Keegan to off-balance sheet risk in the event that prices increase, as it may be obligated to cover such positions at a loss. Morgan Keegan manages its exposure to these instruments by entering into offsetting or other positions in a variety of financial instruments.

Morgan Keegan will occasionally economically hedge a portion of its long proprietary inventory position through the use of short positions in financial future contracts, which are included in securities sold, not yet purchased at market value. At September 30, 2006, Morgan Keegan had \$30 million in outstanding futures contracts. The contract amounts do not necessarily represent future cash requirements.

In the normal course of business, Morgan Keegan enters into underwriting and forward and future commitments. At September 30, 2006, the contract amounts of futures contracts were \$58 million to purchase and \$71 million to sell U.S. Government and municipal securities. Morgan Keegan 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 Regions' consolidated 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. Regions' exposure to market risk is determined by a number of factors, including the size, composition and diversification of positions held, the absolute and relative levels of interest rates, and market volatility.

Additionally, in the normal course of business, Morgan Keegan enters into transactions for delayed delivery, to-be-announced securities which are recorded on the consolidated statement of financial condition at fair value. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from unfavorable changes in interest rates or the market values of the securities underlying the instruments. The credit risk associated with these contracts is typically limited to the cost of replacing all contracts on which the Company has recorded an unrealized gain. For exchange-traded contracts, the clearing organization acts as the counterparty to specific transactions and, therefore, bears the risk of delivery to and from counterparties.

Interest rate risk at Morgan Keegan arises from the exposure of holding interest-sensitive financial instruments such as government, corporate and municipal bonds and certain preferred equities. Morgan Keegan manages its exposure to interest rate risk by setting and monitoring limits and, where feasible, hedging with offsetting positions in securities with similar interest rate risk characteristics. Securities inventories are marked to market, and accordingly there are no unrecorded gains or losses in value. While a significant portion of the securities inventories have contractual maturities in excess of five years, these inventories, on average, turn over in excess of twelve times per year.

Accordingly, the exposure to interest rate risk inherent in Morgan Keegan's securities inventories is less than that of similar financial instruments held by firms in other industries. Morgan Keegan's equity securities inventories are exposed to risk of loss in the event of unfavorable price movements. The equity securities inventories are marked to market and there are no unrecorded gains or losses.

Morgan Keegan is also subject to credit risk arising from non-performance by trading counterparties, customers, and issuers of debt securities owned. This risk is managed by imposing and monitoring position limits, monitoring trading counterparties, reviewing security concentrations, holding and marking to market collateral and conducting business through clearing organizations that guarantee performance. Morgan Keegan regularly participates as an agent in the trading of some derivative securities for its customers; however, this activity does not involve Morgan Keegan acquiring a position or commitment in these products and this trading is not a significant portion of Morgan Keegan's business.

To manage trading risks arising from interest rate and equity price risks, Regions uses a Value at Risk ("VAR") model to measure the potential fair value the Company could lose on its trading positions given a specified statistical confidence level and time-to-liquidate time horizon. Regions assesses market risk at a 99% confidence level over a one-day holding period. Regions' primary VAR model is based upon a variance-covariance approach with delta-gamma approximations for non-linear securities.

The end-of-period VAR was approximately \$819,000 as of September 30, 2006, and approximately \$400,000 as of June 30, 2006. Maximum daily VAR utilization during the third quarter of 2006 was \$908,000, compared to \$814,000 during the second quarter of 2006, and average daily VAR was \$579,000 during the third quarter of 2006, compared to \$555,000 during the second quarter of 2006.

#### PROVISION FOR LOAN LOSSES

The provision for loan losses is used to establish the allowance for loan losses. Actual loan losses, net of recoveries, are charged directly to the allowance. The expense recorded each period is a reflection of management's judgment as to the adequacy of the allowance. The provision for loan losses was \$82.5 million, or 0.19% (annualized), of average loans in the first nine months of 2006 compared to \$125.0 million, or 0.29% (annualized), of average loans in the first nine months of 2005. The provision for loan losses was \$25.0 million, or 0.17% (annualized), of average loans in the third quarter of 2006, compared to \$62.5 million or 0.43% (annualized) of average loans in the third quarter of 2005 and \$30.0 million, or 0.21% (annualized), in the second quarter of 2006.

The provision for loan losses recorded in the third quarter of 2006 was based on management's assessment of inherent losses associated with the loan portfolio and management's evaluation of current economic factors, including the impact of Hurricane Katrina (see "ALLOWANCE FOR LOAN LOSSES"). The increased provision for loan losses in the third quarter of 2005 was primarily related to the estimated impact of Hurricane Katrina on Regions' loan portfolio.

#### NON-INTEREST INCOME

The following table presents a summary of non-interest income for the quarters ended September 30, 2006, June 30, 2006, and September 30, 2005.

| (in thousands)                   | September 30,<br>2006 | June 30,<br>2006 | September 30,<br>2005 |
|----------------------------------|-----------------------|------------------|-----------------------|
| Brokerage and investment banking | \$144,093             | \$158,865        | \$131,738             |
| Trust department income          | 36,366                | 35,730           | 33,673                |

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|                                         |                  |                  |                  |
|-----------------------------------------|------------------|------------------|------------------|
| Service charges on deposit accounts     | 150,078          | 147,272          | 132,924          |
| Mortgage servicing and origination fees | 33,296           | 34,270           | 35,284           |
| Securities gains (losses), net          | 8,104            | 28               | (20,717)         |
| Insurance premiums and commissions      | 21,330           | 21,267           | 19,827           |
| Gain on sale of mortgage loans          | 6,155            | 24,255           | 60,620           |
| Derivative income                       | 9,595            | 9,122            | 7,388            |
| SOI and Capital Factors                 | -0-              | -0-              | 4,002            |
| Other                                   | 56,932           | 59,902           | 45,573           |
| Total non-interest income               | <u>\$465,949</u> | <u>\$490,711</u> | <u>\$450,312</u> |

Total non-interest income (excluding securities transactions) increased \$26.7 million, or 2% in the first nine months of 2006 compared to the same period of 2005, due primarily to increases in brokerage and investment banking revenues, service charges on deposit accounts and trust fees, and decreased \$32.8 million, or 7%, compared to the second quarter of 2006, due primarily to decreases in brokerage and investment banking revenues and gains on the sale of mortgage loans.

### BROKERAGE AND INVESTMENT BANKING

Brokerage and investment banking income increased \$12.4 million compared to the third quarter of 2005, due primarily to increased private client revenues and investment advisory fees, and decreased \$14.8 million linked-quarter, due primarily to linked-quarter seasonality and less investment banking activity.

The following table shows the breakout of revenue by division contributed by Morgan Keegan for the three months ended September 30, 2006 and June 30, 2006, and the nine months ended September 30, 2006 and 2005.

#### Morgan Keegan

#### Breakout of Revenue by Division

| (dollar amounts in thousands)          | Private Client | Fixed-income Capital Markets | Equity Capital Markets | Regions MK Trust | Investment Advisory | Interest & Other |
|----------------------------------------|----------------|------------------------------|------------------------|------------------|---------------------|------------------|
| Three months ended September 30, 2006: |                |                              |                        |                  |                     |                  |
| \$ amount of revenue                   | \$ 67,271      | \$43,292                     | \$18,094               | \$29,967         | \$37,003            | \$34,889         |
| % of gross revenue                     | 29.2%          | 18.8%                        | 7.8%                   | 13.0%            | 16.1%               | 15.1%            |
| Three months ended June 30, 2006:      |                |                              |                        |                  |                     |                  |
| \$ amount of revenue                   | \$ 69,975      | \$50,484                     | \$24,366               | \$29,016         | \$36,076            | \$28,811         |
| % of gross revenue                     | 29.3%          | 21.1%                        | 10.2%                  | 12.2%            | 15.1%               | 12.1%            |
| Nine months ended September 30, 2006:  |                |                              |                        |                  |                     |                  |
| \$ amount of revenue                   | \$215,329      | \$136,509                    | \$70,460               | \$87,029         | \$105,380           | \$106,485        |
| % of gross revenue                     | 29.9%          | 18.9%                        | 9.8%                   | 12.0%            | 14.6%               | 14.8%            |

Nine months ended  
September 30, 2005:

|                      |           |           |          |          |          |          |
|----------------------|-----------|-----------|----------|----------|----------|----------|
| \$ amount of revenue | \$184,707 | \$118,211 | \$65,518 | \$78,538 | \$89,915 | \$62,337 |
| % of gross revenue   | 30.8%     | 19.7%     | 10.9%    | 13.1%    | 15.0%    | 10.4%    |

The following table shows the components of revenue contributed by Morgan Keegan for the three months ended September 30, 2006, June 30, 2006, and September 30, 2005.

**Morgan Keegan**  
**Summary Income Statement**

| (dollar amounts in thousands) | Three Months<br>Ended<br>Sept. 30, 2006 | Three Months<br>Ended<br>June 30, 2006 | Three Months<br>Ended<br>Sept. 30, 2005 | % Change from<br>June 30, 2006 | % Change from<br>Sept. 30, 2005 |
|-------------------------------|-----------------------------------------|----------------------------------------|-----------------------------------------|--------------------------------|---------------------------------|
| <b>Revenues:</b>              |                                         |                                        |                                         |                                |                                 |
| Commissions                   | \$56,194                                | \$56,960                               | \$50,197                                | (1.3)%                         | 11.9%                           |
| Principal transactions        | 38,381                                  | 32,996                                 | 33,696                                  | 16.3                           | 13.9                            |
| Investment banking            | 25,767                                  | 41,623                                 | 26,919                                  | (38.1)                         | (4.3)                           |
| Interest                      | 36,721                                  | 32,511                                 | 22,900                                  | 12.9                           | 60.4                            |
| Trust fees and services       | 29,966                                  | 29,014                                 | 27,475                                  | 3.3                            | 9.1                             |
| Investment advisory           | 35,425                                  | 36,151                                 | 30,006                                  | (2.0)                          | 18.1                            |
| Other                         | 8,063                                   | 9,473                                  | 8,191                                   | (14.9)                         | (1.6)                           |
| Total revenues                | 230,517                                 | 238,728                                | 199,384                                 | (3.4)                          | 15.6                            |
| <b>Expenses:</b>              |                                         |                                        |                                         |                                |                                 |
| Interest expense              | 21,966                                  | 21,999                                 | 16,105                                  | (0.2)                          | 36.4                            |
| Non-interest expense          | 160,679                                 | 165,568                                | 145,276                                 | (3.0)                          | 10.6                            |
| Total expenses                | 182,645                                 | 187,567                                | 161,381                                 | (2.6)                          | 13.2                            |
| Income before income taxes    | 47,872                                  | 51,161                                 | 38,003                                  | (6.4)                          | 26.0                            |
| Income taxes                  | 17,251                                  | 18,442                                 | 13,945                                  | (6.5)                          | 23.7                            |
| Net income                    | \$30,621                                | \$32,719                               | \$24,058                                | (6.4)%                         | 27.3%                           |

**TRUST INCOME**

Trust department income for the first nine months of 2006 increased \$9.7 million, or 10%, and increased \$2.7 million, or 8%, for the third quarter of 2006, compared to the same periods of 2005, primarily due to an increase in managed assets, mutual fund revenues and other trust fees. Linked-quarter, trust income increased \$636,000 primarily due to an

increase in managed assets.

### SERVICE CHARGES ON DEPOSIT ACCOUNTS

Service charges on deposit accounts increased \$37.5 million, or 10%, in the first nine months of 2006 and increased \$17.2 million or 13% in the third quarter of 2006, compared to the same periods in 2005, due primarily to revised fee schedules. On a linked-quarter comparison, service charges on deposit accounts increased \$2.8 million, or 2%, attributable primarily to increased NSF fees.

### MORTGAGE SERVICING AND ORIGINATION FEES

The primary source of this category of income is Regions' mortgage banking operations, Regions Mortgage (a division of Regions Bank) and EquiFirst. Regions Mortgage's primary business and source of income is the origination and servicing of conforming mortgage loans for long-term investors. EquiFirst typically originates non-conforming mortgage loans which are sold to third-party investors with servicing released. Net gains and losses related to the sale of mortgage loans are included in other non-interest income.

For the first nine months of 2006, mortgage servicing and origination fees decreased \$11.4 million, or 10%, and decreased \$2.0 million, or 6%, in the third quarter of 2006, compared to the same periods of 2005, due to a decline in servicing volume and a reduction in mortgage loan origination volumes resulting from a rising mortgage rate environment. Linked-quarter, mortgage servicing and origination fees decreased \$974,000, or 3%, due primarily to decreased production volumes and a slightly lower servicing portfolio. Single-family mortgage production was \$4.0 billion in the third quarter of 2006, compared to \$4.2 billion in the third quarter of 2005 and \$4.4 billion in the second quarter of 2006. The mortgage operation's servicing portfolio totaled \$36.0 billion at September 30, 2006, compared to \$37.8 billion at September 30, 2005 and \$36.4 billion at June 30, 2006.

A summary of mortgage servicing rights is presented as follows. The balances shown represent the original amounts capitalized, less accumulated amortization and valuation allowance, for the right to service mortgage loans that are owned by other investors. Additionally, \$3.7 million in permanent impairment of servicing assets was recognized during the second quarter of 2006 (see the tables below) for previously recognized impairment amounts deemed to be unrecoverable. The carrying values of mortgage servicing rights are affected by various factors, including prepayments of the underlying mortgages. A significant change in prepayments of mortgages in the servicing portfolio could result in significant changes in the valuation allowance, thus creating volatility in the carrying amount of mortgage servicing rights.

| (dollar amounts in thousands) | Nine Months Ended     |                       |
|-------------------------------|-----------------------|-----------------------|
|                               | September 30,<br>2006 | September 30,<br>2005 |
| Balance at beginning of year  | \$441,508             | \$458,053             |
| Additions                     | 36,757                | 57,247                |
| Sales                         | (1,247)               | (4,007)               |
| Permanent impairment          | (3,719)               | -0-                   |
| Amortization                  | (51,158)              | (66,617)              |
|                               | 422,141               | 444,676               |
| Valuation allowance           | (14,401)              | (47,500)              |
| Balance at end of period      | \$407,740             | \$397,176             |

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The changes in the valuation allowance for mortgage servicing assets for the nine months ended September 30, 2006 and 2005 were as follows:

| (in thousands)                                     | Nine Months Ended     |                       |
|----------------------------------------------------|-----------------------|-----------------------|
|                                                    | September 30,<br>2006 | September 30,<br>2005 |
| Balance at beginning of the year                   | \$29,500              | \$61,500              |
| Permanent impairment                               | (3,719)               | -0-                   |
| Release of impairment - sale of MSRs               | (380)                 | -0-                   |
| (Recapture of) provisions for impairment valuation | (11,000)              | (14,000)              |
| Balance at end of the period                       | \$14,401              | \$47,500              |

### SECURITIES GAINS/LOSSES

Securities gains for the first nine months of 2006 totaled \$8.1 million, compared to losses of \$1.3 million for the same period of 2005. Gains during the third quarter of 2006 totaled \$8.1 million, compared to losses of \$20.7 million in the third quarter of 2005. Securities gains/losses primarily relate to the sale of agency and mortgage-related securities in conjunction with balance sheet management activities.

### OTHER INCOME

The components of other income consist mainly of fees and commissions, insurance premiums, customer derivative fees and gains related to the sale of mortgage loans. Other non-interest income decreased \$70.5 million for the first nine months of 2006 and \$43.4 million for the third quarter, respectively, in comparison with similar periods in 2005, due primarily to lower gains on the sale of mortgage loans attributable to reduced market premiums and increased early payment defaults on non-conforming mortgages. Other non-interest income decreased \$20.5 million linked-quarter, as a result of lower gains on the sale of mortgage loans attributable to reduced market premiums and increased early payment defaults on non-conforming mortgages.

### NON-INTEREST EXPENSE

The following table presents a summary of non-interest expense for the quarters ended September 30, 2006, June 30, 2006, and September 30, 2005.

| (in thousands)                              | September 30,<br>2006 | June 30,<br>2006 | September 30,<br>2005 |
|---------------------------------------------|-----------------------|------------------|-----------------------|
| Salaries and employee benefits              | \$413,719             | \$441,475        | \$437,951             |
| Net occupancy expense                       | 54,012                | 53,772           | 56,596                |
| Furniture and equipment expense             | 33,838                | 33,942           | 34,104                |
| (Recapture) impairment of MSRs              | 8,000                 | (10,000)         | (32,000)              |
| (Gain) loss on early extinguishment of debt | (547)                 | (1,089)          | 10,878                |
| Other                                       | 205,571               | 208,413          | 233,594               |
| Total non-interest expense                  | \$714,593             | \$726,513        | \$741,123             |

Total non-interest expense decreased \$95.7 million, or 4%, in the first nine months of 2006 and \$26.5 million, or 4%, in the third quarter of 2006, compared to similar periods in 2005, due primarily to the realization of merger-related cost savings, continuing efficiency initiatives, and the absence of merger-related and other charges during 2006. From a linked-quarter perspective, non-interest expenses decreased by \$11.9 million, due primarily to continuing efficiency initiatives and reductions in salary and benefits expense.

Regions incurred merger-related expenses throughout 2005 in connection with the integration of Regions and Union Planters. The following tables reflect the impact of merger-related and other charges affecting the components of non-interest expense for the quarters ended September 30, 2006, June 30, 2006, and September 30, 2005. As is noted below, there were no merger-related and other charges in the first three quarters of 2006; however, tables for these periods are provided for comparability with 2005 information presented. Included in merger-related and other charges is the recapture and impairment of mortgage servicing rights, gain/loss on early extinguishment of debt, storm-related costs and merger and other charges. The following tables show the impact on the major non-interest expense components by applying non-GAAP adjustments to the non-interest expense categories as reported in accordance with GAAP, more specifically, by excluding merger-related and other expenses, as defined above. Management believes that consideration of the below non-GAAP financial measures in conjunction with their GAAP counterparts assist the reader in making period to period comparisons and in evaluating trends in non-interest expense. For further discussion of non-interest expense, refer to the discussion of each component following the tables presented.

Three months ended September 30, 2006

Less non-GAAP  
Adjustments for  
Merger-Related

| (in thousands)                       | As Reported<br>(GAAP) | and<br>Other Charges | As Adjusted<br>(Non-GAAP) |
|--------------------------------------|-----------------------|----------------------|---------------------------|
| Salaries and employee benefits       | \$ 413,719            | \$ -0-               | \$ 413,719                |
| Net occupancy expense                | 54,012                | -0-                  | 54,012                    |
| Furniture and equipment expense      | 33,838                | -0-                  | 33,838                    |
| Impairment of MSRs                   | 8,000                 | 8,000                | -0-                       |
| Gain on early extinguishment of debt | (547)                 | (547)                | -0-                       |
| Other                                | 205,571               | -0-                  | 205,571                   |
| <b>Total</b>                         | <b>\$ 714,593</b>     | <b>\$7,453</b>       | <b>\$ 707,140</b>         |

Three months ended June 30, 2006

Less non-GAAP  
Adjustments for  
Merger-Related

| (in thousands)                  | As Reported<br>(GAAP) | and<br>Other Charges | As Adjusted<br>(Non-GAAP) |
|---------------------------------|-----------------------|----------------------|---------------------------|
| Salaries and employee benefits  | \$ 441,475            | \$ -0-               | \$ 441,475                |
| Net occupancy expense           | 53,772                | -0-                  | 53,772                    |
| Furniture and equipment expense | 33,942                | -0-                  | 33,942                    |

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|                                      |                   |                   |                   |
|--------------------------------------|-------------------|-------------------|-------------------|
| Recapture of MSR                     | (10,000)          | (10,000)          | -0-               |
| Gain on early extinguishment of debt | (1,089)           | (1,089)           | -0-               |
| Other                                | 208,413           | -0-               | 208,413           |
| <b>Total</b>                         | <b>\$ 726,513</b> | <b>\$(11,089)</b> | <b>\$ 737,602</b> |

Three months ended September 30, 2005

Less non-GAAP  
Adjustments for  
Merger-Related

| (in thousands)                       | As Reported<br>(GAAP) | and<br>Other Charges | As Adjusted<br>(Non-GAAP) |
|--------------------------------------|-----------------------|----------------------|---------------------------|
| Salaries and employee benefits       | \$ 437,951            | \$ 19,306            | \$ 418,645                |
| Net occupancy expense                | 56,596                | 3,022                | 53,574                    |
| Furniture and equipment expense      | 34,104                | 77                   | 34,027                    |
| Recapture of MSR                     | (32,000)              | (32,000)             | -0-                       |
| Loss on early extinguishment of debt | 10,878                | 10,878               | -0-                       |
| Other                                | 233,594               | 18,470               | 215,124                   |
| <b>Total</b>                         | <b>\$741,123</b>      | <b>\$ 19,753</b>     | <b>\$ 721,370</b>         |

## SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits increased only \$150,000 in the first nine months of 2006 and decreased \$24.2 million, or 6%, in the third quarter of 2006, as compared to the same periods in 2005, primarily due to reduced headcounts, lower group insurance expense, realization of merger-related cost savings, continuing efficiency initiatives and the absence of merger-related and other expenses during 2006. From a linked-quarter perspective, salaries and employee benefits decreased \$27.8 million, primarily resulting from a reduction in headcount, a decline in group insurance costs and reduced commission expense related to lower fee based revenue production. As of September 30, 2006, Regions had 24,277 full-time equivalent employees.

## NET OCCUPANCY EXPENSE

Net occupancy expense includes rents, depreciation and amortization, utilities, maintenance, insurance, taxes and other expenses of premises occupied by Regions and its affiliates. Regions' affiliates operate banking offices in Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, South Carolina, Tennessee, Texas and Virginia.

Net occupancy expense increased only \$157,000 in the first nine months of 2006 over the first nine months of 2005. Net occupancy expense in the third quarter of 2006 decreased \$2.6 million compared to third quarter of 2005 and increased \$240,000 linked-quarter, due primarily to the realization of merger-cost savings, continuing efficiency initiatives, insurance proceeds from storm related expenses, partially offset by additional expense of new branch offices.

## FURNITURE AND EQUIPMENT EXPENSE

Furniture and equipment expense during the first nine months of 2006 increased \$3.3 million, or 3% compared to the same period in 2005, due primarily to increased depreciation expense related to new equipment. Furniture and equipment expense for the third quarter of 2006 decreased \$266,000 compared to the same period last year, and decreased \$104,000 from a linked-quarter perspective.

#### IMPAIRMENT (RECAPTURE) OF MORTGAGE SERVICING RIGHTS

During the third quarter of 2006, Regions recorded impairment of mortgage servicing rights of \$8.0 million due to declining interest rates and corresponding increases in prepayment speed assumptions of serviced mortgages. In the third quarter of 2005, Regions recorded recapture of mortgage servicing rights of \$32.0 million due to increasing interest rates and corresponding decreases in prepayment speed assumptions of serviced mortgages. In the second quarter of 2006, Regions recorded recapture of mortgage servicing rights of \$10.0 million. On a year-to-date comparison, Regions has recorded a net recapture of \$11.0 million in 2006, compared to \$14.0 million in 2005, of previously recorded impairment of mortgage servicing rights. Impairment/recapture can fluctuate with significant volatility from quarter to quarter depending upon changes in the interest rate environment.

#### EARLY EXTINGUISHMENT OF DEBT

Gains on early extinguishment of debt totaled \$547,000 in the third quarter of 2006, related to the call of FHLB advances. In the third quarter of 2005, a loss of \$10.9 million was recorded from early extinguishment of \$600 million of FHLB advances. In the first quarter of 2006, a \$8.2 million loss was recognized on the early extinguishment of debt related to the call of trust preferred securities, resulting in the prepayment of underlying junior subordinated debt.

#### OTHER EXPENSES

The significant components of other expense include other non-credit losses, amortization, outside computer expense and other outside services. Other non-interest expense decreased \$97.9 million for the nine months ended September 30, 2006, and \$28.0 million for the quarter ended September 30, 2006, compared to the same periods in 2005, due primarily to decreases in amortization and professional fees, as well as merger-related cost savings and continuing efficiency initiatives in 2006. Linked-quarter, other non-interest expense decreased \$2.8 million, primarily related to decreases in travel and entertainment, postage and professional fees, as well as continuing efficiency initiatives.

#### APPLICABLE INCOME TAXES

Regions' provision for income taxes for the first nine months of 2006 increased \$117.6 million compared to the first nine months of 2005 primarily due to increased consolidated earnings. The third quarter 2006 provision for income taxes increased \$44.8 million compared to the third quarter of 2005. Regions effective tax rate for the first nine months of 2006 was 30.7% compared to 30.1% in the first nine months of 2005.

From time to time Regions engages in business plans that may also have an effect on its tax liabilities. While Regions has obtained the opinion of advisors that the tax aspects of these strategies should prevail, examination of Regions' income tax returns or changes in tax law may impact the tax benefits of these plans.

Periodically, Regions invests in pass-through investment vehicles that generate tax credits, principally low-income housing credits and non-conventional fuel source credits, which directly reduce Regions' federal income tax liability. Congress has legislated these tax credit programs to encourage capital inflows to these investment vehicles. The amount of tax benefit recognized from these tax credits was \$19.9 million in the first nine months of 2006 compared to \$31.1 million in the first nine months of 2005. The tax benefit recognized in the third quarter of 2006 was \$7.3 million compared to \$10.4 million in the third quarter of 2005.

During the fourth quarter of 2000, Regions recapitalized a mortgage-related subsidiary by raising Tier 2 capital, which resulted in a reduction in taxable income of that subsidiary attributable to Regions. The reduction in the taxable income of this subsidiary attributable to Regions is expected to result in a lower effective tax rate applicable to the consolidated taxable income before taxes of Regions for future periods. The impact on Regions' effective tax rate applicable to consolidated income before taxes of the reduction in the subsidiary's taxable income attributable to Regions will, however, depend on a number of factors, including, but not limited to, the amount of assets in the subsidiary, the yield of the assets in the subsidiary, the cost of funding the subsidiary, possible loan losses in the subsidiary, the level of expenses of the subsidiary, the level of income attributable to obligations of states and political subdivisions, and various other factors. The amount of federal and state tax benefits recognized related to the recapitalized subsidiary was \$49.6 million in the first nine months of 2006 (\$40.9 million federal) compared to \$39.5 million in the first nine months of 2005 (\$30.6 million federal). For the third quarter of 2006, the amount of federal and state tax benefits recognized was \$17.7 million (\$14.6 million federal) compared to \$14.5 million in the third quarter of 2005 (\$10.8 million federal).

Regions has segregated a portion of its investment securities and intellectual property into separate legal entities in order to, among other business purposes, protect such intangible assets from inappropriate claims of Regions' creditors, and to maximize the return on such assets by the professional and focused management thereof. Regions has recognized state tax benefits related to these legal entities of \$28.8 million in the first nine months of 2006 compared to \$19.4 million in the first nine months of 2005. For the third quarter of 2006, \$9.0 million of state tax benefit was recognized compared to \$6.9 million in the third quarter of 2005.

Regions' federal and state income tax returns for the years 1998 through 2005 are open for review and examination by governmental authorities. In the normal course of these examinations, Regions is subject to challenges from governmental authorities regarding amounts of taxes due. Regions has received notices of proposed adjustments relating to taxes due for the years 1999 through 2003, which includes proposed adjustments relating to an increase in taxable income of the mortgage-related subsidiary discussed above. Regions believes adequate provision for income taxes has been recorded for all years open for review and intends to vigorously contest the proposed adjustments. To the extent that final resolution of the proposed adjustments results in significantly different conclusions from Regions' current assessment of the proposed adjustments, Regions' effective tax rate in any given financial reporting period may be materially different from its current effective tax rate.

Management's determination of the realization of the deferred tax asset is based upon management's judgment of various future events and uncertainties, including the timing, nature and amount of future income earned by certain subsidiaries and the implementation of various plans to maximize realization of the deferred tax asset. Management believes that the subsidiaries will generate sufficient operating earnings to realize the deferred tax benefits. However, management does not believe that it is more likely than not to realize all of its state net operating loss carryforwards. Accordingly, it has set up a valuation allowance in the amount of \$15.0 million against such benefits as of the third quarter of 2006 compared to \$12.3 million in the third quarter of 2005. A valuation allowance against the benefits of capital loss carryforwards in the amount of \$55.2 million as of the third quarter of 2005 has been reduced to \$0 as of the third quarter of 2006. The FHLB of Cincinnati, in accordance with its Capital Plan, exercised its right to repurchase Regions' excess capital stock balance during the second quarter of 2006, which resulted in a capital loss carryforward reduction and corresponding reduction to the valuation allowance in the amount of \$35.5 million. Furthermore, in the third quarter of 2006, it was determined that additional capital gains were utilized on the 2005 consolidated tax return thus reducing the capital loss carryforward and corresponding valuation allowance in the amount of \$19.7 million.

Item 3. Qualitative and Quantitative Disclosures about Market Risk

Reference is made to pages 45 through 49 'Market Risk' included in Management's Discussion and Analysis.

Item 4. Controls and Procedures

Based on an evaluation, as of the end of the period covered by this Form 10-Q, under the supervision and with the participation of Regions' management, including its Chief Executive Officer and Chief Financial Officer, the Chief Executive Officer and Chief Financial Officer have concluded that Regions' disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) are effective. As of the end of the period covered by this report, there have been no changes in Regions' internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, Regions' internal control over financial reporting.

## PART II. OTHER INFORMATION

Item 1A. Risk Factors

Please refer to the section above at the beginning of Part I captioned "Forward Looking Statements" for a discussion of the risk factors applicable to Regions.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Information concerning Regions' repurchases of its outstanding common stock during the three month period ended September 30, 2006, is set forth in the following table:

| Issuer Purchases of Equity Securities     |                                        |                                    |                                                                                              |                                                                                                               |
|-------------------------------------------|----------------------------------------|------------------------------------|----------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|
| Period                                    | Total Number<br>of Shares<br>Purchased | Average Price<br>Paid Per<br>Share | Total Number of<br>Shares Purchased<br>As Part of Publicly<br>Announced Plans<br>or Programs | Maximum Number<br>of Shares that May<br>Yet Be Purchased<br>Under the Plans<br>or Programs <sup>(1) (2)</sup> |
| July 1, 2006 -<br>July 31, 2006           | 900,000                                | \$34.76                            | 900,000                                                                                      | 19,439,313                                                                                                    |
| August 1, 2006 -<br>August 31, 2006       | 540,000                                | \$36.63                            | 540,000                                                                                      | 18,899,313                                                                                                    |
| September 1, 2006 -<br>September 30, 2006 | 0                                      | \$0.00                             | 0                                                                                            | 18,899,313                                                                                                    |
| Total                                     | 1,440,000                              |                                    | 1,440,000                                                                                    |                                                                                                               |

(1)

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On July 15, 2004, Regions' Board of Directors assessed the pre-merger repurchase authorizations of both Regions and Union Planters and authorized the repurchase of up to 20.0 million shares of Regions' \$.01 par value common stock through open market transactions.

(2)

On October 20, 2005, Regions' Board of Directors assessed the repurchase authorizations of Regions and authorized the repurchase of an additional 25.0 million shares of Regions' \$.01 par value common stock through open market transactions.

Item 6. Exhibits

| Exhibit No. | Description                                                                                                                                                                                                                                                                                                                       |
|-------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.1        | Form of memorandum distributed commencing September 6, 2006, to participants in the Regions Career Award Program, incorporated by reference to exhibit 99.1 to Form 8-K dated September 6, 2006 and filed by the registrant on September 11, 2006.                                                                                |
| 10.2        | Form of memorandum distributed commencing September 6, 2006, to certain Regions executive officers with change of control agreements (or change of control provisions in employment agreements), incorporated by reference to exhibit 99.1 to Form 8-K dated September 6, 2006 and filed by the registrant on September 11, 2006. |
| 31.1        | Certification of chief executive officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.                                                                                                                                                                                                                               |
| 31.2        | Certification of chief financial officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.                                                                                                                                                                                                                               |
| 32          | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                           |

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by undersigned thereunto duly authorized.

Regions  
Financial  
Corporation

DATE: November 3, 2006

/s/ Ronald  
C. Jackson

Ronald C. Jackson  
Senior Vice President and Comptroller  
(Chief Accounting Officer and  
Duly Authorized Officer)