

Edgar Filing: American Assets Trust, Inc. - Form 10-Q

American Assets Trust, Inc.

Form 10-Q

May 03, 2019

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2019-03-31 0001500217 aat:AmericanAssetsTrustL.P.Member aat:TermLoanBMember 2018-01-09 2018-01-09
0001500217 aat:AmericanAssetsTrustL.P.Member us-gaap:RevolvingCreditFacilityMember
aat:SecondAmendedandRestatedCreditFacilityMember us-gaap:LineOfCreditMember
us-gaap:LondonInterbankOfferedRateLIBORMember 2018-01-09 2018-01-09 0001500217
aat:AmericanAssetsTrustL.P.Member aat:TermLoanAMember us-gaap:UnsecuredDebtMember 2019-01-09
0001500217 aat:AmericanAssetsTrustL.P.Member us-gaap:ForwardContractsMember 2014-08-19 2014-08-19
0001500217 aat:TermLoanAMember us-gaap:UnsecuredDebtMember aat:FederalFundsRateMember 2019-01-09
2019-01-09 0001500217 aat:SecondAmendedandRestatedCreditFacilityMember us-gaap:UnsecuredDebtMember
us-gaap:LondonInterbankOfferedRateLIBORMember 2018-01-09 2018-01-09 0001500217 aat:TermLoanAMember
us-gaap:UnsecuredDebtMember us-gaap:EurodollarMember 2019-01-09 2019-01-09 0001500217
aat:AmericanAssetsTrustL.P.Member aat:TermLoanCMember 2018-01-09 2018-01-09 0001500217

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aat:AmericanAssetsTrustL.P.Member srt:MinimumMember aat:TermLoanCMember us-gaap:BaseRateMember 2018-01-09 2018-01-09 0001500217 aat:AmericanAssetsTrustL.P.Member aat:TermLoanCMember us-gaap:UnsecuredDebtMember us-gaap:BaseRateMember 2018-01-09 2018-01-09 0001500217 aat:TermLoanCMember us-gaap:UnsecuredDebtMember us-gaap:EurodollarMember 2018-01-09 2018-01-09 0001500217 aat:TermLoanBMember us-gaap:UnsecuredDebtMember us-gaap:EurodollarMember 2016-03-01 2016-03-01 0001500217 aat:SecondAmendedandRestatedCreditFacilityMember us-gaap:LineOfCreditMember us-gaap:BaseRateMember 2018-01-09 2018-01-09 0001500217 aat:AmericanAssetsTrustL.P.Member srt:MaximumMember aat:TermLoanCMember us-gaap:BaseRateMember 2018-01-09 2018-01-09 0001500217 aat:TermLoanCMember us-gaap:UnsecuredDebtMember aat:FederalFundsRateMember 2018-01-09 2018-01-09 0001500217 aat:AmericanAssetsTrustL.P.Member aat:TermLoanCMember us-gaap:UnsecuredDebtMember us-gaap:LondonInterbankOfferedRateLIBORMember 2018-01-09 2018-01-09 0001500217 aat:AmericanAssetsTrustL.P.Member srt:MinimumMember aat:TermLoanCMember us-gaap:UnsecuredDebtMember us-gaap:LondonInterbankOfferedRateLIBORMember 2018-01-09 2018-01-09 0001500217 aat:TermLoanBMember us-gaap:UnsecuredDebtMember aat:FederalFundsRateMember 2018-01-09 2018-01-09 0001500217 aat:AmericanAssetsTrustL.P.Member srt:MaximumMember aat:TermLoanCMember us-gaap:UnsecuredDebtMember us-gaap:LondonInterbankOfferedRateLIBORMember 2018-01-09 2018-01-09 0001500217 aat:AmericanAssetsTrustL.P.Member us-gaap:CommonStockMember 2019-01-01 2019-03-31 0001500217 aat:AmericanAssetsTrustL.P.Member aat:OperatingPartnershipUnitsMember 2019-01-01 2019-03-31 0001500217 us-gaap:SubsequentEventMember aat:AtMarketEquityProgramMember 2019-04-02 2019-04-02 0001500217 aat:AtMarketEquityProgramMember 2018-03-02 2018-03-02 0001500217 aat:AtMarketEquityProgramMember 2019-03-31 0001500217 aat:AtMarketEquityProgramMember 2015-05-27 0001500217 aat:AtMarketEquityProgramMember 2015-05-27 2015-05-27 0001500217 aat:OtherOfferingCostsMember aat:AtMarketEquityProgramMember 2019-01-01 2019-03-31 0001500217 aat:AtMarketEquityProgramMember 2019-01-01 2019-03-31 0001500217 aat:CommissionsMember aat:AtMarketEquityProgramMember 2019-01-01 2019-03-31 0001500217 us-gaap:RestrictedStockUnitsRSUMember 2019-01-01 2019-03-31 0001500217 us-gaap:RestrictedStockUnitsRSUMember 2019-03-31 0001500217 us-gaap:RestrictedStockUnitsRSUMember 2018-12-31 0001500217 aat:OperatingPartnershipUnitsMember 2019-01-01 2019-03-31 0001500217 aat:OperatingPartnershipUnitsMember 2018-01-01 2018-03-31 0001500217 aat:OutriggerHotelsAndResortsMember 2019-01-01 2019-03-31 0001500217 aat:WbwHotelLesseeLlcMember 2019-01-01 2019-03-31 0001500217 aat:TotalRevenuesMember aat:OfficeSegmentMember 2019-01-01 2019-03-31 0001500217 aat:FutureTimePeriodAfterMember aat:WbwHotelLesseeLlcMember 2019-03-31 0001500217 aat:WaikikiBeachWalkRetailMember 2019-01-01 2019-03-31 0001500217 aat:FutureTimePeriodPriorMember aat:WbwHotelLesseeLlcMember 2019-03-31 0001500217 aat:TotalRevenuesMember aat:RetailSegmentMember 2019-01-01 2019-03-31 0001500217 srt:MaximumMember aat:OutriggerHotelsAndResortsMember 2019-01-01 2019-03-31 0001500217 srt:MinimumMember aat:DelMonteCenterAffiliatesMember 2019-01-01 2019-03-31 0001500217 srt:MaximumMember aat:DelMonteCenterAffiliatesMember 2019-01-01 2019-03-31 0001500217 aat:FutureYearPeriodTwoMember aat:OutriggerHotelsAndResortsMember 2019-01-01 2019-03-31 0001500217 aat:FutureYearPeriodFourMember aat:OutriggerHotelsAndResortsMember 2019-01-01 2019-03-31 0001500217 aat:FutureYearPeriodThreeMember aat:OutriggerHotelsAndResortsMember 2019-01-01 2019-03-31 0001500217 aat:FutureYearPeriodOneMember aat:OutriggerHotelsAndResortsMember 2019-01-01 2019-03-31 0001500217 aat:LandMarkAtOneMarketMember 2019-01-01 2019-03-31 0001500217 srt:MaximumMember 2019-01-01 2019-03-31 0001500217 aat:LandMarkAtOneMarketMember 2019-03-31 0001500217 srt:MinimumMember 2019-01-01 2019-03-31 0001500217 aat:MultifamilySegmentMember 2018-01-01 2018-03-31 0001500217 aat:OfficeSegmentMember 2019-01-01 2019-03-31 0001500217 aat:RetailSegmentMember 2018-01-01 2018-03-31 0001500217 aat:MixedUseSegmentMember 2019-01-01 2019-03-31 0001500217 aat:OfficeSegmentMember 2018-01-01 2018-03-31 0001500217 aat:MultifamilySegmentMember 2019-01-01 2019-03-31 0001500217 aat:RetailSegmentMember 2019-01-01 2019-03-31 0001500217 aat:MixedUseSegmentMember 2018-01-01 2018-03-31 0001500217 aat:WBWCHPLLCMember 2018-01-01 2018-03-31 0001500217 aat:AAIAviationInc.Member us-gaap:BoardOfDirectorsChairmanMember 2018-01-01 2018-03-31 0001500217 aat:InsuranceCompanyoftheWestIncMember us-gaap:BoardOfDirectorsChairmanMember 2017-07-01 0001500217 aat:AmericanAssetsInc.Member us-gaap:BoardOfDirectorsChairmanMember us-gaap:ScenarioForecastMember

2019-01-01 2019-12-31 0001500217 aat:AAIAviationInc.Member us-gaap:BoardOfDirectorsChairmanMember
2019-01-01 2019-03-31 0001500217 aat:WBWCHPLLCMember 2019-01-01 2019-03-31 0001500217
aat:AmericanAssetsInc.Member us-gaap:BoardOfDirectorsChairmanMember 2019-03-31 0001500217
aat:MixedUseSegmentMember 2018-12-31 0001500217 aat:OfficeSegmentMember 2018-12-31 0001500217
aat:MultifamilySegmentMember 2018-12-31 0001500217 aat:RetailSegmentMember 2018-12-31 0001500217
aat:MixedUseSegmentMember 2019-03-31 0001500217 aat:OfficeSegmentMember 2019-03-31 0001500217
aat:MultifamilySegmentMember 2019-03-31 0001500217 aat:RetailSegmentMember 2019-03-31 aat:Segment
aat:Room iso4217:USD xbrli:shares xbrli:shares xbrli:pure aat:Extension_Option iso4217:USD aat:Property
aat:Employee utreg:M aat:Agent

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549

FORM 10-Q

^x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2019

or

^o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

AMERICAN ASSETS TRUST, INC.

(Exact Name of Registrant as Specified in its Charter)

Commission file number: 001-35030

AMERICAN ASSETS TRUST, L.P.

(Exact Name of Registrant as Specified in its Charter)

Commission file number: 333-202342-01

Maryland (American Assets Trust, Inc.)

27-3338708 (American Assets Trust, Inc.)

Maryland (American Assets Trust, L.P.)

27-3338894 (American Assets Trust, L.P.)

(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

11455 El Camino Real, Suite 200,

San Diego, California

(Address of Principal Executive Offices)

92130

(Zip Code)

(858) 350-2600

(Registrant's Telephone Number, Including Area Code)

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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.

American Assets Trust, Inc. ☒ Yes ☐ No

American Assets Trust, L.P. ☒ Yes ☐ No

(American Assets Trust, L.P. became subject to filing requirements under Section 13 of the Securities Exchange Act of 1934, as amended, upon effectiveness of its Registration Statement on Form S-3 on February 6, 2015 and has filed all required reports subsequent to that date.)

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files).

American Assets Trust, Inc. ☒ Yes ☐ No

American Assets Trust, L.P. ☒ Yes ☐ No

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

American Assets Trust, Inc.

Large Accelerated Filer ☒ Accelerated Filer ☐

Non-Accelerated Filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

Emerging growth company ☐

American Assets Trust, L.P.

Large Accelerated Filer ☐ Accelerated Filer ☐

Non-Accelerated Filer ☒ (Do not check if a smaller reporting company) Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

American Assets Trust, Inc. ☐ Yes ☒ No

American Assets Trust, L.P. ☐ Yes ☒ No

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

| <u>Name of Registrant</u> | <u>Title of each class</u> | <u>Trading Symbol</u> | <u>Name of each exchange on which registered</u> |
|-----------------------------|--|-----------------------|--|
| American Assets Trust, Inc. | Common Stock, par value \$0.01 per share | AAT | New York Stock Exchange |
| American Assets Trust, L.P. | None | None | None |

American Assets Trust, Inc. had 48,006,276 shares of common stock, par value \$0.01 per share, outstanding as of May 3, 2019.

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EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the quarter ended March 31, 2019 of American Assets Trust, Inc., a Maryland corporation, and American Assets Trust, L.P., a Maryland limited partnership, of which American Assets Trust, Inc. is the parent company and sole general partner. Unless otherwise indicated or unless the context requires otherwise, all references in this report to “we,” “us,” “our” or “the company” refer to American Assets Trust, Inc. together with its consolidated subsidiaries, including American Assets Trust, L.P. Unless otherwise indicated or unless the context requires otherwise, all references in this report to “our Operating Partnership” or “the Operating Partnership” refer to American Assets Trust, L.P. together with its consolidated subsidiaries.

American Assets Trust, Inc. operates as a real estate investment trust, or REIT, and is the sole general partner of the Operating Partnership. As of March 31, 2019, American Assets Trust, Inc. owned an approximate 73.3% partnership interest in the Operating Partnership. The remaining 26.7% partnership interests are owned by non-affiliated investors and certain of our directors and executive officers. As the sole general partner of the Operating Partnership, American Assets Trust, Inc. has full, exclusive and complete authority and control over the Operating Partnership’s day-to-day management and business, can cause it to enter into certain major transactions, including acquisitions, dispositions and refinancings, and can cause changes in its line of business, capital structure and distribution policies.

The company believes that combining the quarterly reports on Form 10-Q of American Assets Trust, Inc. and the Operating Partnership into a single report will result in the following benefits:

- better reflects how management and the analyst community view the business as a single operating unit;
- enhance investors' understanding of American Assets Trust, Inc. and the Operating Partnership by enabling them to view the business as a whole and in the same manner as management;
- greater efficiency for American Assets Trust, Inc. and the Operating Partnership and resulting savings in time, effort and expense; and
- greater efficiency for investors by reducing duplicative disclosure by providing a single document for their review.

Management operates American Assets Trust, Inc. and the Operating Partnership as one enterprise. The management of American Assets Trust, Inc. and the Operating Partnership are the same.

There are a few differences between American Assets Trust, Inc. and the Operating Partnership, which are reflected in the disclosures in this report. We believe it is important to understand the differences between American Assets Trust, Inc. and the Operating Partnership in the context of how American Assets Trust, Inc. and the Operating Partnership operate as an interrelated consolidated company. American Assets Trust, Inc. is a REIT, whose only material asset is its ownership of partnership interests of the Operating Partnership. As a result, American Assets Trust, Inc. does not conduct business itself, other than acting as the sole general partner of the Operating Partnership, issuing public equity from time to time and guaranteeing certain debt of the Operating Partnership. American Assets Trust, Inc. itself does not hold any indebtedness. The Operating Partnership holds substantially all the assets of the company, directly or indirectly holds the ownership interests in the company’s real estate ventures, conducts the operations of the business and is structured as a partnership with no publicly-traded equity. Except for net proceeds from public equity issuances by American Assets Trust, Inc., which are generally contributed to the Operating Partnership in exchange for partnership units, the Operating Partnership generates the capital required by the company’s business through the Operating Partnership’s operations, by the Operating Partnership’s direct or indirect incurrence of indebtedness or through the issuance of operating partnership units.

Noncontrolling interests and stockholders’ equity and partners’ capital are the main areas of difference between the consolidated financial statements of American Assets Trust, Inc. and those of American Assets Trust, L.P. The partnership interests in the Operating Partnership that are not owned by American Assets Trust, Inc. are accounted for

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as partners' capital in the Operating Partnership's financial statements and as noncontrolling interests in American Assets Trust, Inc.'s financial statements. To help investors understand the significant differences between the company and the Operating Partnership, this report presents the following separate sections for each of American Assets Trust, Inc. and the Operating Partnership:

• consolidated financial statements;

• the following notes to the consolidated financial statements:

Debt;

Equity/Partners' Capital; and

Earnings Per Share/Unit; and

Liquidity and Capital Resources in Management's Discussion and Analysis of Financial Condition and Results of Operations.

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This report also includes separate Item 4. Controls and Procedures sections and separate Exhibit 31 and 32 certifications for each of American Assets Trust, Inc. and the Operating Partnership in order to establish that the Chief Executive Officer and the Chief Financial Officer of American Assets Trust, Inc. have made the requisite certifications and American Assets Trust, Inc. and the Operating Partnership are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934 and 18 U.S.C. §1350.

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**AMERICAN ASSETS TRUST, INC. AND AMERICAN ASSETS TRUST, L.P.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2019**

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American Assets Trust, Inc.
Consolidated Balance Sheets
(In Thousands, Except Share Data)

| | March 31, 2019 (unaudited) | December 31, 2018 |
|--|----------------------------------|----------------------|
| ASSETS | | |
| Real estate, at cost | | |
| Operating real estate | \$2,569,407 | \$2,549,571 |
| Construction in progress | 77,094 | 71,228 |
| Held for development | 9,392 | 9,392 |
| | 2,655,893 | 2,630,191 |
| Accumulated depreciation | (609,020) | (590,338) |
| Net real estate | 2,046,873 | 2,039,853 |
| Cash and cash equivalents | 54,538 | 47,956 |
| Restricted cash | 9,777 | 9,316 |
| Accounts receivable, net | 9,137 | 9,289 |
| Deferred rent receivables, net | 40,554 | 39,815 |
| Other assets, net | 56,169 | 52,021 |
| TOTAL ASSETS | \$2,217,048 | \$2,198,250 |
| LIABILITIES AND EQUITY | | |
| LIABILITIES: | | |
| Secured notes payable, net | \$162,688 | \$182,572 |
| Unsecured notes payable, net | 1,045,709 | 1,045,863 |
| Unsecured line of credit, net | 86,438 | 62,337 |
| Accounts payable and accrued expenses | 53,683 | 46,616 |
| Security deposits payable | 7,579 | 8,844 |
| Other liabilities and deferred credits, net | 55,618 | 49,547 |
| Total liabilities | 1,411,715 | 1,395,779 |
| Commitments and contingencies (Note 11) | | |
| EQUITY: | | |
| American Assets Trust, Inc. stockholders' equity | | |
| Common stock, \$0.01 par value, 490,000,000 shares authorized, 47,486,894 and 47,335,409 shares issued and outstanding at March 31, 2019 and December 31, 2018, respectively | 475 | 474 |
| Additional paid-in capital | 928,792 | 920,661 |
| Accumulated dividends in excess of net income | (130,841) | (128,778) |
| Accumulated other comprehensive income | 8,825 | 10,620 |
| Total American Assets Trust, Inc. stockholders' equity | 807,251 | 802,977 |
| Noncontrolling interests | (1,918) | (506) |
| Total equity | 805,333 | 802,471 |
| TOTAL LIABILITIES AND EQUITY | \$2,217,048 | \$2,198,250 |

The accompanying notes are an integral part of these consolidated financial statements.

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American Assets Trust, Inc.
Consolidated Statements of Comprehensive Income
(Unaudited)
(In Thousands, Except Shares and Per Share Data)

| | Three Months Ended March 31, | |
|---|---|-------------|
| | 2019 | 2018 |
| REVENUE: | | |
| Rental income | \$76,831 | \$ 76,201 |
| Other property income | 8,488 | 4,531 |
| Total revenue | 85,319 | 80,732 |
| EXPENSES: | | |
| Rental expenses | 20,796 | 20,420 |
| Real estate taxes | 9,046 | 8,546 |
| General and administrative | 6,073 | 5,567 |
| Depreciation and amortization | 20,583 | 33,279 |
| Total operating expenses | 56,498 | 67,812 |
| OPERATING INCOME | 28,821 | 12,920 |
| Interest expense | (13,349) | (13,820) |
| Other (expense) income, net | (229) | 209 |
| NET INCOME (LOSS) | 15,243 | (691) |
| Net (income) loss attributable to restricted shares | (93) | 72 |
| Net (income) loss attributable to unitholders in the Operating Partnership | (4,055) | 166 |
| NET INCOME (LOSS) ATTRIBUTABLE TO AMERICAN ASSETS TRUST, INC. STOCKHOLDERS | \$11,095 | \$ (453) |
| EARNINGS (LOSS) PER COMMON SHARE | | |
| Earnings (loss) per common share, basic | \$0.24 | \$ (0.01) |
| Weighted average shares of common stock outstanding - basic | 47,004,463 | 46,935,820 |
| Earnings (loss) per common share, diluted | \$0.24 | \$ (0.01) |
| Weighted average shares of common stock outstanding - diluted | 64,182,073 | 46,935,820 |
| DIVIDENDS DECLARED PER COMMON SHARE | \$0.28 | \$ 0.27 |
| COMPREHENSIVE INCOME | | |
| Net income (loss) | \$15,243 | \$ (691) |
| Other comprehensive (loss) income - unrealized (loss) income on swap derivative during the period | (2,132) | 2,861 |
| Reclassification of amortization of forward-starting swap included in interest expense | (320) | (320) |
| Comprehensive income | 12,791 | 1,850 |
| Comprehensive income attributable to non-controlling interest | (3,398) | (502) |
| Comprehensive income attributable to American Assets Trust, Inc. | \$9,393 | \$ 1,348 |

The accompanying notes are an integral part of these consolidated financial statements.

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American Assets Trust, Inc.
Consolidated Statement of Equity
(Unaudited)
(In Thousands, Except Share Data)

| | American Assets Trust, Inc. Stockholders' Equity | | | | | Noncontrolling | |
|--|--|---------------|------------------|--------------------|------------------|--------------------|-------------------|
| | Common Shares | | Additional | Accumulated | Accumulated | Interests - | |
| | Shares | Amount | Paid-in | Dividends in | Other | Unitholders in the | Total |
| | | | Capital | Excess of Net | Comprehensive | Operating | |
| | | | | Income | Income (Loss) | Partnership | |
| Balance at December 31, 2018 | 47,335,409 | \$ 474 | \$920,661 | \$(128,778) | \$ 10,620 | \$ (506) | \$ 802,471 |
| Net income | — | — | — | 11,188 | — | 4,055 | 15,243 |
| Common shares issued | 162,531 | 1 | 7,033 | — | — | — | 7,034 |
| Forfeiture of restricted stock | (11,046) | — | — | — | — | — | — |
| Dividends declared and paid | — | — | — | (13,251) | — | (4,810) | (18,061) |
| Stock-based compensation | — | — | 1,098 | — | — | — | 1,098 |
| Other comprehensive income - change in value of interest rate swaps | — | — | — | — | (1,561) | (571) | (2,132) |
| Reclassification of amortization of forward-starting swap included in interest expense | — | — | — | — | (234) | (86) | (320) |
| Balance at March 31, 2019 | 47,486,894 | \$ 475 | \$928,792 | \$(130,841) | \$ 8,825 | \$ (1,918) | \$ 805,333 |
| | American Assets Trust, Inc. Stockholders' Equity | | | | | Noncontrolling | |
| | Common Shares | | Additional | Accumulated | Accumulated | Interests - | |
| | Shares | Amount | Paid-in | Dividends in | Other | Unitholders in the | Total |
| | | | Capital | Excess of Net | Comprehensive | Operating | |
| | | | | Income | Income (Loss) | Partnership | |
| Balance at December 31, 2017 | 47,204,588 | \$ 473 | \$919,066 | \$(97,280) | \$ 11,451 | \$ 10,434 | \$ 844,144 |
| Net loss | — | — | — | (525) | — | (166) | (691) |
| Forfeiture of restricted stock | (1,104) | — | — | — | — | — | — |
| Dividends declared and paid | — | — | — | (12,745) | — | (4,643) | (17,388) |
| Stock-based compensation | — | — | 727 | — | — | — | 727 |
| Other comprehensive income - change in value of interest rate swaps | — | — | — | — | 2,107 | 754 | 2,861 |
| Reclassification of amortization of forward-starting swap included in interest expense | — | — | — | — | (234) | (86) | (320) |
| Balance at March 31, 2018 | 47,203,484 | \$ 473 | \$919,793 | \$(110,550) | \$ 13,324 | \$ 6,293 | \$ 829,333 |

The accompanying notes are an integral part of these consolidated financial statements.

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American Assets Trust, Inc.
Consolidated Statements of Cash Flows
(Unaudited)
(In Thousands)

| | Three Months Ended March 31, | |
|--|---|------------------|
| | 2019 | 2018 |
| OPERATING ACTIVITIES | | |
| Net income (loss) | \$15,243 | \$(691) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Deferred rent revenue and amortization of lease intangibles | (1,111) | 47 |
| Depreciation and amortization | 20,583 | 33,279 |
| Amortization of debt issuance costs and debt fair value adjustments | 368 | 446 |
| Stock-based compensation expense | 1,098 | 727 |
| Lease termination income | (4,518) | — |
| Other noncash interest expense | (320) | (320) |
| Other, net | 678 | 2,031 |
| Changes in operating assets and liabilities | | |
| Change in accounts receivable | 466 | 577 |
| Change in other assets | 45 | (337) |
| Change in accounts payable and accrued expenses | 7,150 | 5,434 |
| Change in security deposits payable | (1,265) | 2,113 |
| Change in other liabilities and deferred credits | (1,586) | 666 |
| Net cash provided by operating activities | 36,831 | 43,972 |
| INVESTING ACTIVITIES | | |
| Capital expenditures | (20,932) | (10,138) |
| Leasing commissions | (1,505) | (1,227) |
| Net cash used in investing activities | (22,437) | (11,365) |
| FINANCING ACTIVITIES | | |
| Repayment of secured notes payable | (19,909) | (74,116) |
| Proceeds from unsecured line of credit | 24,000 | 35,000 |
| Debt issuance costs | (415) | (2,656) |
| Proceeds from issuance of common stock, net | 7,034 | (176) |
| Dividends paid to common stock and unitholders | (18,061) | (17,388) |
| Net cash used in financing activities | (7,351) | (59,336) |
| Net increase (decrease) in cash and cash equivalents | 7,043 | (26,729) |
| Cash, cash equivalents and restricted cash, beginning of period | 57,272 | 91,954 |
| Cash, cash equivalents and restricted cash, end of period | \$64,315 | \$65,225 |

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets that sum to the total of the same amounts shown in the consolidated statement of cash flows:

| | Three Months Ended March 31, | |
|--|---|-------------|
| | 2019 | 2018 |
| Cash and cash equivalents | \$54,538 | \$55,336 |
| Restricted cash | 9,777 | 9,889 |
| Total cash, cash equivalents and restricted cash shown in the consolidated statement of cash flows | \$64,315 | \$65,225 |

The accompanying notes are an integral part of these consolidated financial statements.

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American Assets Trust, L.P.
Consolidated Balance Sheets
(In Thousands, Except Unit Data)

| | March 31, 2019 (unaudited) | December 31, 2018 |
|--|----------------------------------|----------------------|
| ASSETS | | |
| Real estate, at cost | | |
| Operating real estate | \$2,569,407 | \$2,549,571 |
| Construction in progress | 77,094 | 71,228 |
| Held for development | 9,392 | 9,392 |
| | 2,655,893 | 2,630,191 |
| Accumulated depreciation | (609,020) | (590,338) |
| Net real estate | 2,046,873 | 2,039,853 |
| Cash and cash equivalents | 54,538 | 47,956 |
| Restricted cash | 9,777 | 9,316 |
| Accounts receivable, net | 9,137 | 9,289 |
| Deferred rent receivables, net | 40,554 | 39,815 |
| Other assets, net | 56,169 | 52,021 |
| TOTAL ASSETS | \$2,217,048 | \$2,198,250 |
| LIABILITIES AND CAPITAL | | |
| LIABILITIES: | | |
| Secured notes payable, net | \$162,688 | \$182,572 |
| Unsecured notes payable, net | 1,045,709 | 1,045,863 |
| Unsecured line of credit, net | 86,438 | 62,337 |
| Accounts payable and accrued expenses | 53,683 | 46,616 |
| Security deposits payable | 7,579 | 8,844 |
| Other liabilities and deferred credits | 55,618 | 49,547 |
| Total liabilities | 1,411,715 | 1,395,779 |
| Commitments and contingencies (Note 11) | | |
| CAPITAL: | | |
| Limited partners' capital, 17,177,608 and 17,177,608 units issued and outstanding as of March 31, 2019 and December 31, 2018, respectively | (5,232) | (4,477) |
| General partner's capital, 47,486,894 and 47,335,409 units issued and outstanding as of March 31, 2019 and December 31, 2018, respectively | 798,426 | 792,357 |
| Accumulated other comprehensive income | 12,139 | 14,591 |
| Total capital | 805,333 | 802,471 |
| TOTAL LIABILITIES AND CAPITAL | \$2,217,048 | \$2,198,250 |

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**American Assets Trust, L.P.****Consolidated Statements of Comprehensive Income****(Unaudited)****(In Thousands, Except Shares and Per Unit Data)**

| | Three Months Ended March 31, | |
|---|---|-------------|
| | 2019 | 2018 |
| REVENUE: | | |
| Rental income | \$76,831 | \$ 76,201 |
| Other property income | 8,488 | 4,531 |
| Total revenue | 85,319 | 80,732 |
| EXPENSES: | | |
| Rental expenses | 20,796 | 20,420 |
| Real estate taxes | 9,046 | 8,546 |
| General and administrative | 6,073 | 5,567 |
| Depreciation and amortization | 20,583 | 33,279 |
| Total operating expenses | 56,498 | 67,812 |
| OPERATING INCOME | 28,821 | 12,920 |
| Interest expense | (13,349) | (13,820) |
| Other (expense) income, net | (229) | 209 |
| NET INCOME (LOSS) | 15,243 | (691) |
| Net income (loss) attributable to restricted shares | (93) | 72 |
| NET INCOME (LOSS) ATTRIBUTABLE TO AMERICAN ASSETS TRUST, L.P. | \$15,150 | \$ (619) |
| EARNINGS (LOSS) PER UNIT - BASIC | | |
| Earnings (loss) per unit, basic | \$0.24 | \$ (0.01) |
| Weighted average units outstanding - basic | 64,182,073 | 64,130,800 |
| EARNINGS (LOSS) PER UNIT - DILUTED | | |
| Earnings (loss) per unit, diluted | \$0.24 | \$ (0.01) |
| Weighted average units outstanding - diluted | 64,182,073 | 64,130,800 |
| DISTRIBUTIONS PER UNIT | \$0.28 | \$ 0.27 |
| COMPREHENSIVE INCOME | | |
| Net income (loss) | \$15,243 | \$ (691) |
| Other comprehensive income (loss) - unrealized income (loss) on swap derivative during the period | (2,132) | 2,861 |
| Reclassification of amortization of forward-starting swap included in interest expense | (320) | (320) |
| Comprehensive income | 12,791 | 1,850 |
| Comprehensive income attributable to Limited Partners | (3,398) | (502) |
| Comprehensive income attributable to General Partner | \$9,393 | \$ 1,348 |

The accompanying notes are an integral part of these consolidated financial statements.

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American Assets Trust, L.P.
Consolidated Statement of Partners' Capital
(Unaudited)
(In Thousands, Except Unit Data)

| | Limited Partners' Capital (1) | | General Partner's Capital (2) | | Accumulated Other Comprehensive Income (Loss) | Total Capital |
|--|----------------------------------|--------------------|-------------------------------|-------------------|--|-------------------|
| | Units | Amount | Units | Amount | | |
| Balance at December 31, 2018 | 17,177,608 | \$ (4,477) | 47,335,409 | \$ 792,357 | \$ 14,591 | \$ 802,471 |
| Net income | — | 4,055 | — | 11,188 | — | 15,243 |
| Contributions from American Assets Trust, Inc. | — | — | 162,531 | 7,034 | — | 7,034 |
| Forfeiture of restricted units | — | — | (11,046) | — | — | — |
| Distributions | — | (4,810) | — | (13,251) | — | (18,061) |
| Stock-based compensation | — | — | — | 1,098 | — | 1,098 |
| Other comprehensive income - change in value of interest rate swap | — | — | — | — | (2,132) | (2,132) |
| Reclassification of amortization of forward-starting swap included in interest expense | — | — | — | — | (320) | (320) |
| Balance at March 31, 2019 | 17,177,608 | \$ (5,232) | 47,486,894 | \$ 798,426 | \$ 12,139 | \$ 805,333 |

| | Limited Partners' Capital (1) | | General Partner's Capital (2) | | Accumulated Other Comprehensive Income (Loss) | Total Capital |
|--|----------------------------------|-----------------|-------------------------------|-------------------|--|-------------------|
| | Units | Amount | Units | Amount | | |
| Balance at December 31, 2017 | 17,194,980 | \$ 6,135 | 47,204,588 | \$ 822,259 | \$ 15,750 | \$ 844,144 |
| Net loss | — | (166) | — | (525) | — | (691) |
| Forfeiture of restricted units | — | — | (1,104) | — | — | — |
| Distributions | — | (4,643) | — | (12,745) | — | (17,388) |
| Stock-based compensation | — | — | — | 727 | — | 727 |
| Other comprehensive income - change in value of interest rate swap | — | — | — | — | 2,861 | 2,861 |
| Reclassification of amortization of forward-starting swap included in interest expense | — | — | — | — | (320) | (320) |
| Balance at March 31, 2018 | 17,194,980 | \$ 1,326 | 47,203,484 | \$ 809,716 | \$ 18,291 | \$ 829,333 |

(1) Consists of limited partnership interests held by third parties.

(2) Consists of general partnership interests held by American Assets Trust, Inc.

The accompanying notes are an integral part of these consolidated financial statements.

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American Assets Trust, L.P.
Consolidated Statements of Cash Flows
(Unaudited, In Thousands)

| | Three Months Ended March 31, | |
|--|---|------------------|
| | 2019 | 2018 |
| OPERATING ACTIVITIES | | |
| Net income (loss) | \$ 15,243 | \$(691) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Deferred rent revenue and amortization of lease intangibles | (1,111) | 47 |
| Depreciation and amortization | 20,583 | 33,279 |
| Amortization of debt issuance costs and debt fair value adjustments | 368 | 446 |
| Stock-based compensation expense | 1,098 | 727 |
| Lease termination income | (4,518) | — |
| Other noncash interest expense | (320) | (320) |
| Other, net | 678 | 2,031 |
| Changes in operating assets and liabilities | | |
| Change in accounts receivable | 466 | 577 |
| Change in other assets | 45 | (337) |
| Change in accounts payable and accrued expenses | 7,150 | 5,434 |
| Change in security deposits payable | (1,265) | 2,113 |
| Change in other liabilities and deferred credits | (1,586) | 666 |
| Net cash provided by operating activities | 36,831 | 43,972 |
| INVESTING ACTIVITIES | | |
| Capital expenditures | (20,932) | (10,138) |
| Leasing commissions | (1,505) | (1,227) |
| Net cash used in investing activities | (22,437) | (11,365) |
| FINANCING ACTIVITIES | | |
| Repayment of secured notes payable | (19,909) | (74,116) |
| Proceeds from unsecured line of credit | 24,000 | 35,000 |
| Debt issuance costs | (415) | (2,656) |
| Contributions from American Assets Trust, Inc. | 7,034 | (176) |
| Distributions | (18,061) | (17,388) |
| Net cash used in financing activities | (7,351) | (59,336) |
| Net increase (decrease) in cash and cash equivalents | 7,043 | (26,729) |
| Cash, cash equivalents and restricted cash, beginning of period | 57,272 | 91,954 |
| Cash, cash equivalents and restricted cash, end of period | \$64,315 | \$65,225 |

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets that sum to the total of the same amounts shown in the consolidated statement of cash flows:

| | Three Months Ended March 31, | |
|--|---|-------------|
| | 2019 | 2018 |
| Cash and cash equivalents | \$54,538 | \$55,336 |
| Restricted cash | 9,777 | 9,889 |
| Total cash, cash equivalents and restricted cash shown in the consolidated statement of cash flows | \$64,315 | \$65,225 |
| The accompanying notes are an integral part of these consolidated financial statements. | | |

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American Assets Trust, Inc. and American Assets Trust, L.P.

Notes to Consolidated Financial Statements

March 31, 2019

(Unaudited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business and Organization

American Assets Trust, Inc. (which may be referred to in these financial statements as the “Company,” “we,” “us,” or “our”) is a Maryland corporation formed on July 16, 2010 that did not have any operating activity until the consummation of our initial public offering on January 19, 2011. The Company is the sole general partner of American Assets Trust, L.P., a Maryland limited partnership formed on July 16, 2010 (the “Operating Partnership”). The Company’s operations are carried on through our Operating Partnership and its subsidiaries, including our taxable real estate investment trust (“REIT”) subsidiary (“TRS”). Since the formation of our Operating Partnership, the Company has controlled our Operating Partnership as its general partner and has consolidated its assets, liabilities and results of operations. We are a full service, vertically integrated, and self-administered REIT with approximately 186 employees providing substantial in-house expertise in asset management, property management, property development, leasing, tenant improvement construction, acquisitions, repositioning, redevelopment and financing.

As of March 31, 2019, we owned or had a controlling interest in 27 office, retail, multifamily and mixed-use operating properties, the operations of which we consolidate. Additionally, as of March 31, 2019, we owned land at three of our properties that we classify as held for development and/or construction in progress. A summary of the properties owned by us is as follows:

Retail

| | | |
|---------------------------|-----------------------|----------------------------|
| Carmel Country Plaza | Gateway Marketplace | Alamo Quarry Market |
| Carmel Mountain Plaza | Del Monte Center | Hassalo on Eighth - Retail |
| South Bay Marketplace | Geary Marketplace | |
| Lomas Santa Fe Plaza | The Shops at Kalakaua | |
| Solana Beach Towne Centre | Waialele Center | |

Office

| | |
|--|--------------------------|
| Torrey Reserve Campus | First & Main |
| Torrey Point | Lloyd District Portfolio |
| Solana Crossing (formerly Solana Beach Corporate Centre) | City Center Bellevue |
| The Landmark at One Market | |
| One Beach Street | |

Multifamily

| | |
|--------------------------|---------------------------------|
| Loma Palisades | Hassalo on Eighth - Residential |
| Imperial Beach Gardens | |
| Mariner's Point | |
| Santa Fe Park RV Resort | |
| Pacific Ridge Apartments | |

Mixed-Use

| |
|---|
| Waikiki Beach Walk Retail and Embassy Suites™ Hotel |
|---|

Held for Development and/or Construction in Progress

| |
|-----------------------------------|
| Solana Crossing – Land |
| Solana Beach – Highway 101 – Land |

Lloyd District Portfolio – Construction in Progress

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Table of Contents**American Assets Trust, Inc. and American Assets Trust, L.P.****Notes to Consolidated Financial Statements—(Continued)****March 31, 2019****(Unaudited)*****Basis of Presentation***

Our consolidated financial statements include the accounts of the Company, our Operating Partnership and our subsidiaries. The equity interests of other investors in our Operating Partnership are reflected as noncontrolling interests.

All significant intercompany transactions and balances are eliminated in consolidation.

The accompanying consolidated financial statements of the Company and the Operating Partnership have been prepared in accordance with the rules applicable to Form 10-Q and include all information and footnotes required for interim financial statement presentation, but do not include all disclosures required under accounting principles generally accepted in the United States (“GAAP”) for annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments, except as otherwise noted) considered necessary for a fair presentation have been included. These financial statements should be read in conjunction with the audited consolidated financial statements and notes therein included in the Company's and Operating Partnership's annual report on Form 10-K for the year ended December 31, 2018.

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that in certain circumstances affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and revenues and expenses. These estimates are prepared using our best judgment, after considering past, current and expected events and economic conditions. Actual results could differ from these estimates.

Any reference to the number of properties, number of units, square footage, employee numbers or percentages of beneficial ownership of our shares are unaudited and outside the scope of our independent registered public accounting firm's review of our financial statements in accordance with the standards of the United States Public Company Accounting Oversight Board.

Consolidated Statements of Cash Flows—Supplemental Disclosures

The following table provides supplemental disclosures related to the Consolidated Statements of Cash Flows (in thousands):

| | Three Months Ended March 31, | |
|--|---|-------------|
| | 2019 | 2018 |
| Supplemental cash flow information | | |
| Total interest costs incurred | \$ 13,534 | \$ 14,277 |
| Interest capitalized | \$ 185 | \$ 457 |
| Interest expense | \$ 13,349 | \$ 13,820 |
| Cash paid for interest, net of amounts capitalized | \$ 13,301 | \$ 14,059 |
| Cash paid for income taxes | \$ 157 | \$ 31 |
| Supplemental schedule of noncash investing and financing activities | | |
| Accounts payable and accrued liabilities for construction in progress | \$ 12,838 | \$ 5,674 |
| Accrued leasing commissions | \$ 663 | \$ 710 |
| Reduction to capital for prepaid offering costs | \$ — | \$ 176 |

Significant Accounting Policies

We describe our significant accounting policies in Note 1 to the consolidated financial statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2018. Except for the adoption of the accounting standards during the first quarter of 2019 as discussed below, there have been no changes to our significant accounting policies during the three months ended March 31, 2019.

Segment Information

Segment information is prepared on the same basis that our chief operating decision maker reviews information for operational decision-making purposes. We operate in four business segments: the acquisition, redevelopment, ownership and management of retail real estate, office real estate, multifamily real estate and mixed-use real estate. The products for our retail segment primarily include rental of retail space and other tenant services, including tenant reimbursements, parking and storage

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American Assets Trust, Inc. and American Assets Trust, L.P.

Notes to Consolidated Financial Statements—(Continued)

March 31, 2019

(Unaudited)

space rental. The products for our office segment primarily include rental of office space and other tenant services, including tenant reimbursements, parking and storage space rental. The products for our multifamily segment include rental of apartments and other tenant services. The products of our mixed-use segment include rental of retail space and other tenant services, including tenant reimbursements, parking and storage space rental and operation of a 369-room all-suite hotel.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)*, which provides the principles for the recognition, measurement, presentation and disclosure of leases. This ASU significantly changes the accounting for leases by requiring lessees to recognize assets and liabilities for leases greater than 12 months on their balance sheet. The lessor model stays substantially the same; however, there were modifications to conform lessor accounting with the lessee model, eliminate real estate specific guidance, further define certain lease and non-lease components, and change the definition of initial direct costs of leases requiring significantly more leasing related costs to be expensed upfront.

We adopted the provisions of ASU No. 2016-02 effective January 1, 2019 using the modified retrospective approach. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which allows lessors to elect a practical expedient by class of underlying assets to not separate non-lease components from the lease component if certain conditions are met. The lessor's practical expedient election would be limited to circumstances in which the non-lease components otherwise would be accounted for under the new revenue guidance and both (i) the timing and pattern of transfer are the same for the non-lease component and the related lease component and (ii) the lease component would be classified as an operating lease. The Company elected the practical expedient, which allows the Company the ability to combine the lease and non-lease components if the underlying asset meets the criteria above. Due to our election of the practical expedient approach, approximately \$7.8 million of non-lease components are combined with lease rental income. ASU 2018-11 also includes an optional transition method in addition to the existing requirements for transition to the new standard by recognizing a cumulative effect adjustment to the opening balance sheet of retained earnings in the period of adoption. Consequently, a company's reporting for the comparative periods presented in the financial statements would continue to be in accordance with previous GAAP (Topic 840). The Company elected this practical expedient as well. Further, bad debt expense, which has previously been recorded in rental expenses, has now been classified as a contra-revenue account in rental income in the Company's consolidated statements of comprehensive income.

We evaluated all leases within this scope under existing accounting standards and under the new ASU lease standard recognized approximately \$7.7 million of right-of-use assets and lease liabilities. Approximately \$0.8 million of deferred rent expense was reclassified to lease liability within the other liabilities and deferred credits, net.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. The pronouncement was issued to clarify the principles for recognizing revenue and to develop a common revenue standard and disclosure requirements for U.S. GAAP and International Financial Reporting Standards. The pronouncement is effective for reporting periods beginning after December 15, 2017. We adopted the provisions of the ASU effective January 1, 2018 using the modified retrospective approach. As discussed above, leases are specifically excluded from this and are governed by the applicable lease codification.

We evaluated the revenue recognition for all contracts within this scope under existing accounting standards and under the new revenue recognition ASU and confirmed that there were no differences in the amounts recognized or the pattern of recognition. This evaluation included revenues from the hotel portion of our mixed-use property, parking income and excise taxes charged to customers. Therefore, the adoption of this ASU did not result in an adjustment to our retained earnings on January 1, 2018.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Topics*. The pronouncement requires companies to adopt a new approach to estimating credit losses on certain types of financial instruments, such as trade and other receivables and loans. The standard requires entities to estimate a lifetime expected credit loss for most financial instruments, including trade receivables. The pronouncement is effective for fiscal years and for interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. We continue to evaluate the impact this pronouncement will have on our consolidated financial statements.

Table of Contents**American Assets Trust, Inc. and American Assets Trust, L.P.****Notes to Consolidated Financial Statements—(Continued)****March 31, 2019****(Unaudited)****NOTE 2. ACQUIRED IN-PLACE LEASES AND ABOVE/BELOW MARKET LEASES**

The following summarizes our acquired lease intangibles and leasing costs, which are included in other assets and other liabilities and deferred credits, as of March 31, 2019 and December 31, 2018 (in thousands):

| | March 31, 2019 | December 31, 2018 |
|---------------------------------------|----------------|-------------------|
| In-place leases | \$40,884 | \$40,884 |
| Accumulated amortization | (35,058) | (34,603) |
| Above market leases | 11,963 | 11,963 |
| Accumulated amortization | (11,587) | (11,445) |
| Acquired lease intangible assets, net | \$6,202 | \$6,799 |
| Below market leases | \$63,172 | \$63,172 |
| Accumulated accretion | | |

| | | December 31, 2010 | | | |
|---|----------------|------------------------|------------|------------------------|------------|
| | Notional Value | Asset Derivatives | Fair Value | Liability Derivatives | Fair Value |
| | | Balance Sheet Location | Value | Balance Sheet Location | Value |
| (In millions) | | | | | |
| Derivatives in fair value hedging relationships | | | | | |
| Interest rate swaps | \$ 9,230 | Other assets | \$ 226 | Other liabilities | \$ |
| Total | 9,230 | | 226 | | |
| Derivatives in cash flow hedging relationships | | | | | |
| Interest rate swaps | 15,680 | Other assets | 43 | Other liabilities | 127 |
| Interest rate options | 2,000 | Other assets | 5 | Other liabilities | |
| Total | 17,680 | | 48 | | 127 |
| Total derivatives designated as hedging instruments | \$ 26,910 | | \$ 274 | | \$ 127 |
| Derivatives not designated as hedging instruments | | | | | |
| Interest rate swaps | \$ 51,238 | Other assets | \$ 1,778 | Other liabilities | \$ 1,823 |
| Interest rate options | 3,883 | Other assets | 40 | Other liabilities | 29 |
| Interest rate futures and forward commitments | 34,965 | Other assets | 35 | Other liabilities | 10 |
| Other contracts | 1,331 | Other assets | 21 | Other liabilities | 19 |
| Total derivatives not designated as hedging instruments | \$ 91,417 | | \$ 1,874 | | \$ 1,881 |
| Total derivatives | \$ 118,327 | | \$ 2,148 | | \$ 2,008 |

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HEDGING DERIVATIVES

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

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

Regions enters into interest rate option contracts to protect cash flows through the maturity date of the hedging instrument on designated one-month LIBOR floating-rate loans from adverse extreme market interest rate changes. Regions purchases Eurodollar futures to hedge the variability in future cash flows based on forecasted resets of one-month LIBOR-based floating rate loans due to changes in the benchmark interest rate. Regions realized an after-tax benefit of \$17 million and \$8 million in accumulated other comprehensive income at March 31, 2011 and 2010, respectively, related to terminated cash flow hedges of loan and debt instruments which will be amortized into earnings in conjunction with the recognition of interest payments through March 2014. Regions recognized pre-tax income of \$9 million during the three months ended March 31 of both 2011 and 2010 related to the amortization of cash flow hedges of loan and debt instruments.

Regions expects to reclassify out of other comprehensive income and into earnings approximately \$105 million in pre-tax income due to the receipt or payment of interest payments on all cash flow hedges within the next twelve months. Of this amount, \$42 million relates to the amortization of discontinued cash flow hedges. The maximum length of time over which Regions is hedging its exposure to the variability in future cash flows for forecasted transactions is approximately six years as of March 31, 2011.

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

| Derivatives in Fair Value Hedging Relationships | Three Months Ended March 31, 2011 | | | | |
|---|--|-------------------------------------|--|--|--|
| | Location of Gain(Loss) Recognized in Income on Derivatives | Amount of | Hedged Items in Fair Value Hedge Relationships | Location of Gain(Loss) Recognized in Income on Related Hedged Item | Amount of Gain(Loss) Recognized in Income on Related Hedged Item |
| | | Gain(Loss) | | | |
| | | Recognized in Income on Derivatives | | | |
| | | (In millions) | | | |
| Interest rate swaps | Other non-interest expense | \$ (49) | Debt/CDs | Other non-interest expense | \$ 48 |
| Interest rate swaps | Interest expense | 51 | Debt | Interest expense | 4 |
| Total | | \$ 2 | | | \$ 52 |

| Derivatives in Cash Flow Hedging Relationships | Amount of Gain(Loss) Recognized in OCI on Derivatives (Effective Portion) (1) | Location of Gain(Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (In millions) | Amount of Gain(Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (2) | Location of Gain(Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) | Amount of Gain(Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (2) |
|--|---|--|--|---|---|
| | | | | | |
| | | | | | |
| Interest rate swaps | \$ (30) | Interest income on loans | \$ 48 | Other non-interest expense | \$ 1 |
| Forward starting swaps | 1 | Interest expense on debt | | Other non-interest expense | (1) |
| Interest rate options | (2) | Interest income on loans | 4 | Interest income on loans | |
| Eurodollar futures | 1 | Interest income on loans | (2) | Other non-interest expense | |
| Total | \$ (30) | | \$ 50 | | \$ |

(1) After-tax

(2) Pre-tax

| Three Months Ended March 31, 2010 | | | | | |
|---|--|-------------------------------------|--|--|--|
| Derivatives in Fair Value Hedging Relationships | Location of Gain(Loss) Recognized in Income on Derivatives | Amount of | Hedged Items in Fair Value Hedge Relationships | Location of Gain(Loss) Recognized in Income on Related Hedged Item | Amount of Gain(Loss) Recognized in Income on Related Hedged Item |
| | | Gain(Loss) | | | |
| | | Recognized in Income on Derivatives | | | |
| (In millions) | | | | | |
| Interest rate swaps | Other non-interest expense | \$ 52 | Debt/CDs | Other non-interest expense | \$ (67) |
| Interest rate swaps | Interest expense | 60 | Debt | Interest expense | 1 |
| Total | | \$ 112 | | | \$ (66) |

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| Derivatives in Cash Flow Hedging Relationships | Amount of Gain(Loss) Recognized in OCI on Derivatives (Effective Portion) (1) | Location of Gain(Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Amount of Gain(Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (2) | Location of Gain(Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) | Amount of Gain(Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (2) |
|--|---|--|--|---|---|
| (In millions) | | | | | |
| Interest rate swaps | \$ (14) | Interest income on loans | \$ 48 | Other non-interest expense | \$ 1 |
| Forward starting swaps | (10) | Interest expense on debt | | Other non-interest expense | |
| Interest rate options | (3) | Interest income on loans | 11 | Interest income on loans | |
| Eurodollar futures | 15 | Interest income on loans | 3 | Other non-interest expense | (4) |
| Total | \$ (12) | | \$ 62 | | \$ (3) |

(1) After-tax

(2) Pre-tax

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DERIVATIVES NOT DESIGNATED AS HEDGES

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

In the normal course of business, Morgan Keegan enters into underwriting and forward and future commitments on U.S. Government and municipal securities. As of March 31, 2011 and 2010, the total notional amount related to forward and future commitments was approximately \$389 million and \$56 million, respectively. The brokerage subsidiary typically settles its position by entering into equal but opposite contracts and, as such, the contract amounts do not necessarily represent future cash requirements. Settlement of the transactions relating to such commitments is not expected to have a material effect on the subsidiary's financial position. Transactions involving future settlement give rise to market risk, which represents the potential loss that can be caused by a change in the market value of a particular financial instrument. The exposure to market risk is determined by a number of factors, including size, composition and diversification of positions held, the absolute and relative levels of interest rates, and market volatility.

Regions enters into interest rate lock commitments, which are commitments to originate mortgage loans whereby the interest rate on the loan is determined prior to funding and the customers have locked into that interest rate. At March 31, 2011 and 2010, Regions had \$464 million and \$534 million, respectively, in total notional amount of interest rate lock commitments. Regions manages market risk on interest rate lock commitments and mortgage loans held for sale with corresponding forward sale commitments, which are recorded at fair value with changes in fair value recorded in mortgage income. As of March 31, 2011 and 2010, Regions had \$1.5 billion and \$979 million, respectively, in total absolute notional amount related to these forward rate commitments.

The following tables present the location and amount of gain or (loss) recognized in income on derivatives not designated as hedging instruments in the statement of operations for the three months ended March 31, 2011 and 2010, respectively:

| Derivatives Not Designated as Hedging Instruments | 2011 (In millions) | 2010 |
|---|-----------------------|--------|
| Brokerage income | | |
| Interest rate swaps | \$ 8 | \$ (7) |
| Interest rate options | | 1 |
| Interest rate futures and forward commitments | | (2) |
| Other contracts | 3 | |
| Total brokerage income | 11 | (8) |
| Mortgage income | | |
| Interest rate swaps | (5) | |
| Interest rate options | (28) | (18) |
| Interest rate futures and forward commitments | 2 | 24 |
| Total mortgage income | (31) | 6 |
| | \$ (20) | \$ (2) |

Credit risk, defined as all positive exposures not collateralized with cash or other assets, at March 31, 2011 and 2010, totaled approximately \$846 million and \$1.0 billion, respectively. This amount represents the net credit risk on all trading and other derivative positions held by Regions.

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CREDIT DERIVATIVES

Regions has both bought and sold credit protection in the form of participations on interest rate swaps (swap participations). These swap participations, which meet the definition of credit derivatives, were entered into in the ordinary course of business to serve the credit needs of customers. Credit derivatives, whereby Regions has purchased credit protection, entitle Regions to receive a payment from the counterparty when the customer fails to make payment on any amounts due to Regions upon early termination of the swap transaction and have maturities between 2012 and 2026. Credit derivatives whereby Regions has sold credit protection have maturities between 2011 and 2016. For contracts where Regions sold credit protection, Regions would be required to make payment to the counterparty when the customer fails to make payment on any amounts due to the counterparty upon early termination of the swap transaction. Regions bases the current status of the prepayment/performance risk on bought and sold credit derivatives on recently issued internal risk ratings consistent with the risk management practices of unfunded commitments.

Regions' maximum potential amount of future payments under these contracts is approximately \$33 million. This scenario would only occur if variable interest rates were at zero percent and all counterparties defaulted with zero recovery. The fair value of sold protection at March 31, 2011 and 2010 was immaterial. In transactions where Regions has sold credit protection, recourse to collateral associated with the original swap transaction is available to offset some or all of Regions' obligation.

CONTINGENT FEATURES

Certain of Regions' derivative instrument contracts with broker-dealers contain provisions allowing those broker-dealers to terminate the contracts in the event that Regions' and/or Regions Bank's credit rating falls below specified ratings from certain major credit rating agencies. At March 31, 2011, Moody's credit ratings for Regions and Regions Bank were below investment grade, and S&P credit ratings for Regions were below investment grade. As a result of these downgrades, certain of Regions Bank's broker-dealer counterparties could have terminated these contracts at their discretion. In lieu of terminating the contracts, Regions Bank and certain of its broker-dealer counterparties amended the contracts such that Regions Bank was required to post additional collateral in the cumulative amount of \$205 million to these counterparties.

Some of these contracts with broker-dealers still contain credit-related termination provisions and/or credit-related provisions regarding the posting of collateral. At March 31, 2011, the net fair value of such contracts containing credit-related termination provisions that were in a liability position was \$432 million, for which Regions had posted collateral of \$594 million. At March 31, 2011, the net fair value of contracts that do not contain credit-related termination provisions that were in a liability position was \$220 million for which Regions had posted collateral of \$218 million. Other derivative contracts with broker-dealers do not contain any credit-related provisions. These counterparties require complete overnight collateralization.

The aggregate fair value of all derivative instruments with any credit-risk-related contingent features that are in a liability position on March 31, 2011 and 2010, was \$493 million and \$296 million, respectively, for which Regions had posted collateral of \$654 million and \$285 million, respectively, in the normal course of business.

NOTE 11 Fair Value Measurements

Fair value guidance establishes a framework for using fair value to measure assets and liabilities and defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) as opposed to the price that would be paid to acquire the asset or received to assume the liability (an entry price). A fair value measure should reflect the assumptions that market participants would use in pricing the asset or liability, including the assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset and the risk of nonperformance. Required disclosures include stratification of balance sheet amounts measured at fair value based on inputs the Company uses to derive fair value measurements. These strata include:

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

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

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

ITEMS MEASURED AT FAIR VALUE ON A RECURRING BASIS

Trading account assets, securities available for sale, mortgage loans held for sale, mortgage servicing rights, derivative assets, trading account liabilities and derivative liabilities were recorded at fair value on a recurring basis during 2011 and 2010. Below is a description of valuation methodologies for these assets and liabilities.

Trading account assets and liabilities and securities available for sale consist of U.S. Treasuries, obligations of states and political subdivisions, mortgage-backed securities (including agency securities), other securities and equity securities.

U.S. Treasuries are valued based on quoted market prices of identical assets on active exchanges (Level 1 measurements as described above) and also using data from third-party pricing services for similar securities as applicable. Pricing from these third party services is generally based on quoted market prices of similar instruments (including matrix pricing); these valuations are Level 2 measurements.

Mortgage-backed securities are valued primarily using data from third-party pricing services for similar securities as applicable. Pricing from these third party services is generally based on quoted market prices of similar instruments (including matrix pricing); these valuations are Level 2 measurements. Where such comparable data is not available, the Company develops valuations based on assumptions that are not readily observable in the market place; these valuations are Level 3 measurements.

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

Other securities are valued based on Level 1, 2 and 3 measurements, depending on pricing methodology selected.

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

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

Mortgage servicing rights consist of residential mortgage servicing rights and are valued using an option-adjusted spread valuation approach, a Level 3 measurement. See Note 4 for information regarding the servicing of financial assets and additional details regarding the assumptions relevant to this valuation.

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Derivative assets and liabilities, which primarily consist of interest rate contracts that include futures, options and swaps, are included in other assets and other liabilities (as applicable) on the consolidated balance sheets. Interest rate swaps are predominantly traded in over-the-counter markets and, as such, values are determined using widely accepted discounted cash flow models, or Level 2 measurements. These discounted cash flow models use projections of future cash payments/receipts that are discounted at mid-market rates. The assumed cash flows are sourced from an assumed yield curve, which is consistent with industry standards and conventions. These valuations are adjusted for the unsecured credit risk at the reporting date, which considers collateral posted and the impact of master netting agreements. For options and futures contracts traded in over-the-counter markets, values are determined using discounted cash flow analyses and option pricing models based on market rates and volatilities, or Level 2 measurements. Interest rate lock commitments on loans intended for sale, treasury locks and credit derivatives are valued using option pricing models that incorporate significant unobservable inputs, and therefore are Level 3 measurements.

Regions rarely transfers assets and liabilities measured at fair value between Level 1 and Level 2 measurements. There were no such transfers during the periods ended March 31, 2011 and 2010. Trading account assets are periodically transferred to or from Level 3 valuation based on management's conclusion regarding the best method of pricing for an individual security. Such transfers are accounted for as if they occur at the beginning of a reporting period.

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The following tables present assets and liabilities measured at fair value on a recurring basis as of March 31, 2011 and December 31, 2010:

| | March 31, 2011 | | | | December 31, 2010 | | | |
|--|----------------|-----------|---------|------------------|-------------------|-----------|---------|------------------|
| | Level 1 | Level 2 | Level 3 | Total Fair Value | Level 1 | Level 2 | Level 3 | Total Fair Value |
| (In millions) | | | | | | | | |
| Trading account assets | | | | | | | | |
| U.S. Treasury securities | \$ 49 | \$ 16 | \$ | \$ 65 | \$ 157 | \$ 14 | \$ | \$ 171 |
| Obligations of states and political subdivisions | | 169 | 162 | 331 | | 190 | 165 | 355 |
| Mortgage-backed securities: | | | | | | | | |
| Residential agency | | 345 | | 345 | | 145 | | 145 |
| Residential non-agency | | 1 | | 1 | | | | |
| Commercial agency | | | 84 | 84 | | | 54 | 54 |
| Other securities | | 86 | 6 | 92 | | 58 | 10 | 68 |
| Equity securities | 366 | | | 366 | 323 | | | 323 |
| Total trading account assets | \$ 415 | \$ 617 | \$ 252 | \$ 1,284 | \$ 480 | \$ 407 | \$ 229 | \$ 1,116 |
| Securities available for sale | | | | | | | | |
| U.S. Treasury securities | \$ 89 | \$ | \$ | \$ 89 | \$ 91 | \$ | \$ | \$ 91 |
| Federal agency securities | | 16 | | 16 | | 16 | | 16 |
| Obligations of states and political subdivisions | | 14 | 17 | 31 | | 13 | 17 | 30 |
| Mortgage-backed securities: | | | | | | | | |
| Residential agency | | 23,124 | | 23,124 | | 21,845 | | 21,845 |
| Residential non-agency | | | 20 | 20 | | | 22 | 22 |
| Commercial agency | | 154 | | 154 | | 112 | | 112 |
| Commercial non-agency | | 201 | | 201 | | 100 | | 100 |
| Other debt securities | | 23 | | 23 | | 25 | | 25 |
| Equity securities (1) | 154 | | | 154 | 158 | | | 158 |
| Total securities available for sale | \$ 243 | \$ 23,532 | \$ 37 | \$ 23,812 | \$ 249 | \$ 22,111 | \$ 39 | \$ 22,399 |
| Mortgage loans held for sale | \$ | \$ 1,171 | \$ | \$ 1,171 | \$ | \$ 1,174 | \$ | \$ 1,174 |
| Mortgage servicing rights | \$ | \$ | \$ 282 | \$ 282 | \$ | \$ | \$ 267 | \$ 267 |
| Derivative assets | | | | | | | | |
| Interest rate swaps | \$ | \$ 1,615 | \$ | \$ 1,615 | \$ | \$ 2,047 | \$ | \$ 2,047 |
| Interest rate options | | 23 | 6 | 29 | | 39 | 6 | 45 |
| Interest rate futures and forward commitments | | 4 | 5 | 9 | | 29 | 6 | 35 |
| Other contracts | | 63 | | 63 | | 21 | | 21 |
| Total derivative assets (2) | \$ | \$ 1,705 | \$ 11 | \$ 1,716 | \$ | 2,136 | 12 | 2,148 |
| Trading account liabilities | | | | | | | | |
| U.S. Treasury securities | \$ | \$ 253 | \$ | \$ 253 | \$ | \$ 95 | \$ | \$ 95 |
| Mortgage-backed securities: | | | | | | | | |
| Residential agency | | 106 | | 106 | | 46 | | 46 |
| Commercial agency | | | 13 | 13 | | | 6 | 6 |
| Other securities | | 10 | 12 | 22 | | 23 | 4 | 27 |
| Equity securities | 8 | | | 8 | | | | |
| | \$ 8 | \$ 369 | \$ 25 | \$ 402 | \$ | \$ 164 | \$ 10 | \$ 174 |
| Derivative liabilities | | | | | | | | |
| Interest rate swaps | \$ | \$ 1,585 | \$ | \$ 1,585 | \$ | \$ 1,950 | \$ | \$ 1,950 |
| Interest rate options | | 21 | 1 | 22 | | 26 | 3 | 29 |
| Interest rate futures and forward commitments | | 7 | 2 | 9 | | 9 | 1 | 10 |

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| | | | | | | | | |
|----------------------------------|----|----------|------|----------|----|----------|------|----------|
| Other contracts | | 60 | | 60 | | 19 | | 19 |
| Total derivative liabilities (2) | \$ | \$ 1,673 | \$ 3 | \$ 1,676 | \$ | \$ 2,004 | \$ 4 | \$ 2,008 |

- (1) Excludes Federal Reserve Bank and Federal Home Loan Bank Stock totaling \$471 million and \$419 million, respectively, at both March 31, 2011 and December 31, 2010.
- (2) At March 31, 2011, derivatives include approximately \$800 million related to legally enforceable master netting agreements that allow the Company to settle positive and negative positions. Derivatives, net are also presented excluding cash collateral received of \$17 million and cash collateral posted of \$811 million with counterparties. At December 31, 2010, derivatives include approximately \$1.0 billion related to legally enforceable master netting agreements that allow the Company to settle positive and negative positions. Derivatives, net are also presented excluding cash collateral received of \$11 million and cash collateral posted of \$810 million with counterparties.

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

The following table illustrates a rollforward for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2011 and 2010, respectively. The tables do not reflect the change in fair value attributable to any related economic hedges the Company used to mitigate the interest rate risk associated with these assets and (liabilities).

| | Three Months Ended March 31, 2011 | | | | | | | | Net change in unrealized gains (losses) related to assets and liabilities held at March 31, 2011 |
|--|---|-------------------------|---|-----------|-----------|-------------|------------------------------|--------------------------------|--|
| | Total realized / unrealized gains or losses | | | | | | | | |
| | Balance January 1, 2011 | Included in Earnings | Included in Other Comprehensive Income (Loss) | Purchases | Issuances | Settlements | Transfers into Level 3 | Transfers out of Level 3 | Balance March 31, 2011 |
| | (In millions) | | | | | | | | |
| Level 3 Instruments Only | | | | | | | | | |
| Trading account assets: (c) | | | | | | | | | |
| Obligations of states and political subdivisions | \$ 165 | \$ (1) | \$ | \$ 6 | \$ | \$ (8) | \$ | \$ | \$ 162 |
| Commercial agency MBS | 54 | 1 | | 165 | | (137) | 1 | | 84 |
| Other securities | 10 | 5 | | 2,029 | | (2,038) | | | 6 |
| Total trading account assets (c) | 229 | 5(a) | | 2,200 | | (2,183) | 1 | | 252 |
| Securities available for sale: | | | | | | | | | |
| Obligations of states and political subdivisions | 17 | | 1 | | | (1) | | | 17 |
| Residential non-agency MBS | 22 | | | | | (2) | | | 20 |
| Total securities available for sale | 39 | | 1 | | | (3) | | | 37 |
| Mortgage servicing rights | 267 | (1)(b) | | 16 | | | | | 282 |
| Trading account liabilities: (c) | | | | | | | | | |
| U.S. Treasury securities | | | | | | | | | |
| Mortgage-backed securities: | | | | | | | | | |
| Residential agency | | | | | | | | | |
| Commercial agency | 6 | | | | | 7 | | | 13 |
| Other securities | 4 | | | (9) | | 17 | | | 12 |
| Total trading account liabilities (c) | 10 | | | (9) | | 24 | | | 25 |
| Derivatives, net: | | | | | | | | | |
| Interest rate options | 3 | 15 | | | | (13) | | | 5 |
| Interest rate futures and forward commitments | 5 | | | | | (2) | | | 3 |
| Total derivatives, net | 8 | 15(b) | | | | (15) | | | 8 |

(a) Included in brokerage, investment banking and capital markets income

(b) Included in mortgage income.

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

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| Three Months Ended March 31, 2010 | | | | | | | | | |
|--|----------------------|---|-----------|-----------|-------------|------------------------|--|------------------------|-------|
| Total realized / unrealized gains or losses | | | | | | | Net change in unrealized gains (losses) related to assets and liabilities held at March 31, 2010 | | |
| Balance January 1, 2010 | Included in Earnings | Included in Other Comprehensive Income (Loss) | Purchases | Issuances | Settlements | Transfers into Level 3 | Transfers out of Level 3 | Balance March 31, 2010 | |
| (In millions) | | | | | | | | | |
| Level 3 Instruments Only | | | | | | | | | |
| Trading account assets (c): | | | | | | | | | |
| Obligations of states and political subdivisions | \$ 171 | \$ | \$ | \$ 15 | \$ (16) | \$ | \$ | \$ 170 | \$ |
| Commercial agency MBS | 39 | | | 379 | (362) | 10 | | 66 | |
| Other securities | 4 | 6 | | 3,573 | (3,587) | 6 | | 2 | |
| Total trading account assets (c) | 214 | 6(a) | | 3,967 | (3,965) | 16 | | 238 | |
| Securities available for sale: | | | | | | | | | |
| Obligations of states and political subdivisions | 17 | | | | | | | 17 | |
| Residential non-agency MBS | 36 | | | | (10) | | | 26 | |
| Total securities available for sale | 53 | | | | (10) | | | 43 | |
| Mortgage servicing rights | 247 | 6(b) | | 17 | | | | 270 | 11(b) |
| Trading account liabilities (c): | | | | | | | | | |
| U.S. Treasury securities | | | | | | | | | |
| Mortgage-backed securities: | | | | | | | | | |
| Residential agency | | | | | | | | | |
| Commercial agency | | | | | | | | | |
| Other securities | | | | | | | | | |
| Total trading account liabilities (c) | | | | | | | | | |
| Derivatives, net: | | | | | | | | | |
| Interest rate options | | | | | | | | | |
| Interest rate futures and forward commitments | 3 | 21 | | | (16) | | | 8 | 21 |
| Total derivatives, net | 3 | 21(b) | | | (16) | | | 8 | 21(b) |

(a) Included in brokerage, investment banking and capital markets income

(b) Included in mortgage income.

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

ITEMS MEASURED AT FAIR VALUE ON A NON-RECURRING BASIS

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

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Foreclosed property and other real estate is carried in other assets at the lower of the recorded investment in the loan or fair value less estimated costs to sell the property. The fair value for foreclosed property that is based on either observable transactions of similar instruments or formally committed sale prices is classified as a Level 2 measurement. If no formally

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committed sale price is available, a professional valuation is obtained. Updated valuations are obtained on at least an annual basis. Foreclosed property exceeding established dollar thresholds are valued based on appraisals. Appraisals are performed by third-parties with appropriate professional certifications and conform to generally accepted appraisal standards as evidenced by the Uniform Standards of Professional Appraisal Practice (USPAP). Regions policies related to appraisals conform with regulations established by the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) and other regulatory guidance. Professional valuations are considered Level 2 measurements because they are based largely on observable inputs. In some instances, management may decrease the estimate of fair value below the appraised value, given trends in valuation of similar properties. These valuations are considered Level 3 measurements as management uses assumptions not observable in the market.

Loans held for sale for which the fair value option has not been elected are recorded at the lower of cost or fair value and therefore are reported at fair value on a non-recurring basis. The fair values for loans held for sale that are based on formally committed loan sale prices or valuations performed using observable inputs are classified as a Level 2 measurement. If no formally committed sales price is available, a professional valuation is obtained, consistent with the process described above for foreclosed property and other real estate. Alternatively, management may base the estimate of fair value on knowledge of pricing that the note sale market will bear, considering sales of similar properties and experience with the potential buyer. Such estimates are considered Level 3 measurements.

The following tables present the carrying value of those assets measured at fair value on a non-recurring basis as of March 31, 2011 and 2010, as well as the corresponding fair value adjustments.

| | March 31, 2011 | | | | Fair value adjustments for the three months ended March 31, 2011 |
|---|----------------|---------|--------------------------|--------|--|
| | Level 1 | Level 2 | Level 3 (In millions) | Total | |
| Loans held for sale | \$ | \$ 105 | \$ 188 | \$ 293 | \$ (107) |
| Foreclosed property and other real estate | | 99 | 165 | 264 | (40) |
| | March 31, 2010 | | | | Fair value adjustments for the three months ended March 31, 2010 |
| | Level 1 | Level 2 | Level 3 (In millions) | Total | |
| Loans held for sale | \$ | \$ 88 | \$ | \$ 88 | \$ (21) |
| Foreclosed property and other real estate | | 258 | | 258 | (45) |

FAIR VALUE OPTION

Regions elected the fair value option for FNMA or FHLMC eligible thirty-year residential mortgage loans held for sale originated on or after January 1, 2008. Additionally, Regions elected the fair value option for FNMA or FHLMC eligible fifteen-year residential mortgage loans originated on or after November 22, 2010. These elections allow for a more effective offset of the changes in fair values of the loans and the derivative instruments used to economically hedge them without the burden of complying with the requirements for hedge accounting. Regions has not elected the fair value option for other loans held for sale primarily because they are not economically hedged using derivative instruments. Fair values of mortgage loans held for sale are based on traded market prices of similar assets where available and/or discounted cash flows at market interest rates, adjusted for securitization activities that include servicing values and market conditions, and were recorded in loans held for sale in the consolidated balance sheets.

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

| | March 31, 2011 | | | December 31, 2010 | | |
|---|----------------------|----------------------------|--|----------------------|----------------------------|--|
| | Aggregate Fair Value | Aggregate Unpaid Principal | Aggregate Fair Value Less Aggregate Unpaid Principal (In millions) | Aggregate Fair Value | Aggregate Unpaid Principal | Aggregate Fair Value Less Aggregate Unpaid Principal |
| Mortgage loans held for sale, at fair value | \$ 1,171 | \$ 1,160 | \$ 11 | \$ 1,174 | \$ 1,181 | \$ (7) |

Interest income on mortgage loans held for sale is recognized based on contractual rates and is reflected in interest income on loans held for sale in the consolidated statements of operations. The following table details net gains (losses) resulting from changes in fair value of these loans which were recorded in mortgage income in the consolidated statements of operations during the three months ended March 31, 2011 and 2010, respectively. These changes in fair value are mostly offset by economic hedging activities. An immaterial portion of these amounts was attributable to changes in instrument-specific credit risk.

| | Mortgage loans held for sale, at fair value | |
|---|---|----------------|
| | March 31, 2011 | March 31, 2010 |
| | (In millions) | |
| Net gains (losses) resulting from changes in fair value | \$ 18 | \$ (2) |

FAIR VALUE OF FINANCIAL INSTRUMENTS

The methods and assumptions used by the Company in estimating fair values of financial instruments are disclosed in Regions Form 10-K for the year ended December 31, 2010. The carrying amounts and estimated fair values of the Company's financial instruments as of March 31, 2011 and December 31, 2010 are as follows:

| | March 31, 2011 | | December 31, 2010 | |
|---|-----------------|--------------------------|-------------------|--------------------------|
| | Carrying Amount | Estimated Fair Value (1) | Carrying Amount | Estimated Fair Value (1) |
| | (In millions) | | | |
| Financial assets: | | | | |
| Cash and cash equivalents | \$ 7,320 | \$ 7,320 | \$ 6,919 | \$ 6,919 |
| Trading account assets | 1,284 | 1,284 | 1,116 | 1,116 |
| Securities available for sale | 24,702 | 24,702 | 23,289 | 23,289 |
| Securities held to maturity | 22 | 23 | 24 | 26 |
| Loans held for sale | 1,552 | 1,552 | 1,485 | 1,485 |
| Loans (excluding leases), net of unearned income and allowance for loan losses (2), (3) | 76,484 | 68,381 | 77,864 | 69,775 |
| Other interest-earning assets | 1,214 | 1,214 | 1,219 | 1,219 |
| Derivatives, net | 40 | 40 | 140 | 140 |
| Financial liabilities: | | | | |
| Deposits | 96,369 | 96,639 | 94,614 | 94,883 |
| Short-term borrowings | 3,182 | 3,182 | 3,937 | 3,937 |
| Long-term borrowings | 12,197 | 12,243 | 13,190 | 13,115 |
| Loan commitments and letters of credit | 123 | 835 | 125 | 899 |

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- (1) Estimated fair values are consistent with an exit price concept. The assumptions used to estimate the fair values are intended to approximate those that a market participant would use in a hypothetical orderly transaction. In estimating fair value, the Company makes adjustments for interest rates, market liquidity and credit spreads as appropriate.
- (2) The estimated fair value of portfolio loans assumes sale of the loans to a third-party financial investor. Accordingly, the value to the Company if the loans were held to maturity is not reflected in the fair value estimate. In the current whole loan market, financial investors are generally requiring a higher rate of return than the return inherent in loans if held to maturity. The fair value discount at March 31, 2011 was \$8.1 billion or 10.6%.
- (3) Excluded from this table is the lease carrying amount of \$1.7 billion at March 31, 2011 and \$1.8 billion at December 31, 2010.

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NOTE 12 Business Segment Information

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

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

During the third quarter of 2010 and again in the first quarter of 2011, minor reclassifications were made from the Banking/Treasury segment to the Insurance segment to more appropriately present management's current view of the segments. The amounts related to first quarter 2010 below have been adjusted to conform to the 2011 presentation.

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

| | Banking/ Treasury | Investment Banking/ Brokerage/ Trust (In millions) | Insurance | Total Company |
|--|----------------------|--|-----------|------------------|
| Three months ended March 31, 2011 | | | | |
| Net interest income | \$ 847 | \$ 15 | \$ 1 | \$ 863 |
| Provision for loan losses | 482 | | | 482 |
| Non-interest income | 492 | 314 | 37 | 843 |
| Non-interest expense | 868 | 273 | 26 | 1,167 |
| Income tax expense (benefit) | (42) | 25 | 5 | (12) |
| Net income | \$ 31 | \$ 31 | \$ 7 | \$ 69 |
| Average assets | \$ 123,968 | \$ 6,726 | \$ 518 | \$ 131,212 |

| | Banking/ Treasury | Investment Banking/ Brokerage/ Trust (In millions) | Insurance | Total Company |
|--|----------------------|--|-----------|------------------|
| Three months ended March 31, 2010 | | | | |
| Net interest income | \$ 816 | \$ 14 | \$ 1 | \$ 831 |
| Provision for loan losses | 770 | | | 770 |
| Non-interest income | 480 | 297 | 35 | 812 |
| Non-interest expense | 933 | 272 | 25 | 1,230 |
| Income tax expense (benefit) | (179) | 14 | 4 | (161) |
| Net income (loss) | \$ (228) | \$ 25 | \$ 7 | \$ (196) |
| Average assets | \$ 134,001 | \$ 5,055 | \$ 509 | \$ 139,565 |

Table of Contents**NOTE 13 Commitments and Contingencies****COMMERCIAL COMMITMENTS**

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

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

| | March 31 2011 | December 31 2010 (In millions) | March 31 2010 |
|---|------------------|--------------------------------------|------------------|
| Unused commitments to extend credit | \$ 30,988 | \$ 30,828 | \$ 31,960 |
| Standby letters of credit | 2,893 | 3,014 | 4,901 |
| Commercial letters of credit | 55 | 49 | 35 |
| Liabilities associated with standby letters of credit | 45 | 54 | 109 |
| Assets associated with standby letters of credit | 43 | 51 | 106 |
| Reserve for unfunded credit commitments | 78 | 71 | 66 |

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

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

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

LEGAL

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

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Regions and certain of its affiliates have been named in class-action lawsuits filed in federal and state courts on behalf of investors who purchased shares of certain Regions Morgan Keegan Select Funds (the Funds) and shareholders of Regions. The Funds were formerly managed by Morgan Asset Management, Inc. (Morgan Asset Management). Morgan Asset Management no longer manages these Funds, which were transferred to Hyperion Brookfield Asset Management in 2008. Certain of the Funds have since been terminated by Hyperion. The complaints contain various allegations, including claims that the Funds and the defendants misrepresented or failed to disclose material facts relating to the activities of the Funds. Plaintiffs have requested equitable relief and unspecified monetary damages. No classes have been certified. Unless and until a class is certified, the scope of the class and claims remains unknown. There are numerous factors that result in a greater degree of complexity in class-action lawsuits as compared to other types of litigation. Due to the many intricacies involved in class-action lawsuits at the early stages of these matters, obtaining clarity on a reasonable estimate is difficult which may call into question its reliability. At this stage of the lawsuits, and in view of the inherent inability to predict the outcome of litigation, particularly where there are many claimants, Regions cannot determine the probability of a material adverse result or reasonably estimate a range of potential exposures, if any. However, in light of the inherent uncertainties involved in these matters, it is reasonably possible that an adverse outcome in any of these matters could be material to Regions' business, consolidated financial position, results of operations or cash flows for any particular reporting period.

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

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

On July 21, 2009, the SEC filed a complaint in U.S. District Court for the Northern District of Georgia against Morgan Keegan alleging violations of the federal securities laws in connection with auction rate securities (ARS) that Morgan Keegan underwrote, marketed and sold. The SEC is seeking an injunction against Morgan Keegan for violations of the antifraud provisions of the federal securities laws, as well as disgorgement, financial penalties and other equitable relief for customers, including repurchase by Morgan Keegan of all ARS that it sold prior to March 20, 2008. Beginning in February 2009, Morgan Keegan commenced a voluntary program to repurchase ARS that it underwrote and sold to the firm's customers, and extended that repurchase program on October 1, 2009 to include ARS that were sold by Morgan Keegan to its customers but were underwritten by other firms. As of March 31, 2011, customers of Morgan Keegan owned approximately \$50 million of ARS and Morgan Keegan held approximately \$158 million of ARS on its balance sheet. On July 21, 2009, the Alabama Securities Commission issued a Show Cause order to Morgan Keegan arising out of the ARS matter that is the subject of the SEC complaint described above. The order requires Morgan Keegan to show cause why its registration as a broker-dealer should not be suspended or revoked in the State of Alabama and also why it should not be subject to disgorgement, repurchasing all ARS sold to Alabama residents and payment of costs and penalties. Although it is not possible to predict the ultimate resolution or

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financial liability with respect to the ARS matter, management is currently of the opinion that the outcome of this matter will not have a material effect on Regions' business, consolidated financial position, results of operations or cash flows.

In April 2009, Regions, Regions Financing Trust III (the "Trust") and certain of Regions' current and former directors, were named in a purported class-action lawsuit filed in the U.S. District Court for the Southern District of New York on behalf of the purchasers of trust preferred securities offered by the Trust. The complaint alleges that defendants made statements in Regions' registration statement, prospectus and year-end filings which were materially false and misleading. On May 10, 2010, the trial court dismissed all claims against all defendants in this case. However, the plaintiffs have appealed the decision. In October 2010, a separate purported class-action lawsuit was filed by Regions' stockholders in the U.S. District Court for the Northern District of Alabama against Regions and certain former officers of Regions. The lawsuit alleges violations of the federal securities laws based on alleged actions similar to those that were the basis for the suit filed by purchasers of the trust preferred securities, including allegations that statements that were materially false and misleading were included in filings made with the SEC. Plaintiffs in these cases have requested equitable relief and unspecified monetary damages. These class-action lawsuits are still early in their development and no classes have been certified. Unless and until a class is certified, the scope of the class and claims remains unknown. There are numerous factors that result in a greater degree of complexity in class-action lawsuits as compared to other types of litigation. Due to the many intricacies involved in class-action lawsuits at the early stages of these matters, obtaining clarity on a reasonable estimate is difficult which may call into question its reliability. At this stage of the lawsuits, and in view of the inherent inability to predict the outcome of litigation, particularly where there are many claimants, Regions cannot determine the probability of a material adverse result or reasonably estimate a range of potential exposures, if any. Although it is not possible to predict the ultimate resolution or financial liability with respect to these matters, management is currently of the opinion that the outcome of these matters will not have a material effect on Regions' business, consolidated financial position, results of operations or cash flows.

In December 2009 and in November 2010, Regions and certain current and former directors and officers were named in a consolidated shareholder derivative action and in a separate derivative action, both of which were filed in Jefferson County, Alabama. The complaints allege mismanagement, waste of corporate assets, breach of fiduciary duty and unjust enrichment relating to bonuses and other benefits received by executive management. Plaintiffs in these cases have requested equitable relief and unspecified monetary damages. Although it is not possible to predict the ultimate resolution or financial liability with respect to these matters, management is currently of the opinion that the outcome of these matters will not have a material effect on Regions' business, consolidated financial position, results of operations or cash flows.

In September 2009, Regions was named as a defendant in a purported class-action lawsuit filed by customers of Regions Bank in the U.S. District Court for the Northern District of Georgia challenging the manner in which non-sufficient funds ("NSF") and overdraft fees were charged and the policies related to posting order. The case was transferred to multidistrict litigation in the U.S. District Court for the Southern District of Florida, and in May 2010 an order to compel arbitration was denied. Regions has appealed the denial and on April 29, 2011, the Eleventh Circuit Court of Appeals vacated the denial and remanded the case to the district court for reconsideration of Regions' motion to compel arbitration. In July 2010, a separate class-action involving this subject was filed in the Circuit Court of Greene County, Missouri, making claims under Missouri's consumer protection statute. That case was removed to the U.S. District Court for the Western District of Missouri and dismissed on January 11, 2011. Plaintiffs in the remaining case in the Southern District of Florida have requested equitable relief and unspecified monetary damages. A voluntary mediation is currently scheduled to begin in mid-May. No class has been certified and unless and until a class is certified, the scope of the class and claims remains unknown. There are numerous factors that result in a greater degree of complexity in class-action lawsuits as compared to other types of litigation. Although it is not possible to predict the ultimate resolution or financial liability with respect to this lawsuit, management is currently of the opinion that the outcome of this proceeding would not have a material effect on Regions' business, consolidated financial position, or cash flows. However, in light of the inherent uncertainties involved in class-action matters, it is reasonably possible that an adverse outcome in this matter could be material to Regions' consolidated results of operations in the particular reporting period of occurrence.

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NOTE 14 Recent Accounting Pronouncements

In January 2011, the FASB issued accounting guidance temporarily deferring the effective date for when public-entity creditors are required to provide new disclosures, which were addressed in previously issued guidance regarding receivables, for troubled debt restructurings (TDRs). The deferred effective date will coincide with the effective date for the clarified guidance about what constitutes a TDR for creditors, which was issued in April 2011 by the FASB. Regions will apply the clarified definition to all loans modified after January 1, 2011, and will begin reporting any newly identified TDRs with September 30, 2011 financial reporting. Any change to the allowance for loan losses arising from a modified loan being newly considered a TDR, and therefore impaired under applicable accounting literature, will be reported in the third quarter of 2011. The guidance also requires new disclosures for TDRs, which will be included with September 30, 2011 financial reporting. Regions is currently in the process of evaluating the impact of the clarified TDR definition on the allowance for loan losses and related disclosures.

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

INTRODUCTION

The following discussion and analysis is part of Regions Financial Corporation's (Regions or the Company) Quarterly Report on Form 10-Q to the Securities and Exchange Commission (SEC) and updates Regions' Form 10-K for the year ended December 31, 2010, which was previously filed with the SEC. This financial information is presented to aid in understanding Regions' financial position and results of operations and should be read together with the financial information contained in the Form 10-K. Certain prior period amounts presented in this discussion and analysis have been reclassified to conform to current period classifications, except as otherwise noted. The emphasis of this discussion will be on the three months ended March 31, 2011 compared to the three months ended March 31, 2010 for the statement of operations. For the balance sheet, the emphasis of this discussion will be the balances as of March 31, 2011 compared to December 31, 2010.

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

CORPORATE PROFILE

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

Regions conducts its banking operations through Regions Bank, an Alabama chartered commercial bank that is a member of the Federal Reserve System. At March 31, 2011, Regions operated 1,771 total branch outlets in Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, South Carolina, Tennessee, Texas and Virginia. Regions provides brokerage services and investment banking from 319 offices of Morgan Keegan & Company, Inc. (Morgan Keegan), a full-service regional brokerage and investment banking firm. Regions provides full-line insurance brokerage services primarily through Regions Insurance, Inc.

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

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

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

FIRST QUARTER HIGHLIGHTS

Regions reported net income available to common shareholders of \$17 million, or \$0.01 per diluted share in the first quarter of 2011, compared to a net loss available to common shareholders of \$255 million, or \$0.21 loss per diluted share in the first quarter of 2010. A decline in the provision for loan losses was the primary driver of the improvement in operations from the prior year period. During the first quarter of 2011, Regions recorded a \$482 million provision for loan losses, \$288 million lower than the first quarter of 2010, reflecting improving credit trends. Higher net interest income and non-interest income along with lower non-interest expenses also contributed to the improved results from operations. Slower prepayments resulted in lower premium amortization on mortgage-backed securities and lower deposit pricing drove the net interest margin to 3.07 percent for the first quarter of 2011, a 30 basis point improvement over the first quarter of 2010.

Net interest income on a fully taxable-equivalent basis for the first quarter of 2011 was \$872 million compared to \$839 million in the first quarter of 2010. Improved deposit pricing resulting from a favorable mix shift to lower cost products, as evidenced by a decline in deposit costs from 1.00 percent to 0.59 percent, drove the increase in net interest income.

Net charge-offs totaled \$481 million, or an annualized 2.37 percent of average loans, in the first quarter of 2011, compared to \$700 million, or an annualized 3.16 percent for the first quarter of 2010. Charge-offs were lower across most major categories when comparing the 2011 period to the prior year period, with investor real estate representing the most significant driver of the decrease. The provision for loan losses, which essentially matched net charge-offs, totaled \$482 million in the first quarter of 2011 compared to \$770 million during the first quarter of 2010. The allowance for loan losses at March 31, 2011 was 3.92 percent of total loans, net of unearned income, compared to 3.84 percent at December 31, 2010 and 3.61 percent at March 31, 2010. Total non-performing assets were \$3.9 billion at both March 31, 2011 and December 31, 2010, compared to \$4.6 billion at March 31, 2010.

Non-interest income for the first quarter of 2011 increased by \$31 million compared to the first quarter of 2010. The increase was primarily driven by increases in brokerage, investment banking and capital markets income as well as securities gains. These increases are offset somewhat by decreases in mortgage income. Total non-interest expense was \$1.2 billion in the first quarter of 2011, a \$63 million decrease from the first quarter of 2010, primarily the result of a \$53 million loss on the prepayment of approximately \$1.5 billion of FHLB advances during the first quarter of 2010.

TOTAL ASSETS

Regions' total assets at March 31, 2011 were \$131.8 billion, compared to \$132.4 billion at December 31, 2010. The decrease in total assets from year-end 2010 resulted primarily from decreases in the loan portfolio, a product of strategic decisions to reduce the concentration in investor real estate loans. A decrease in other assets, primarily driven by settlements of securities sales, also drove the overall decrease in assets. These decreases were partially offset by increases in securities available for sale.

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LOANS

At March 31, 2011, loans represented 70 percent of Regions' interest-earning assets compared to 72 percent at December 31, 2010. The following table presents the distribution by loan segment and class of Regions' loan portfolio, net of unearned income:

Table 1 Loan Portfolio

| | March 31 2011 | December 31 2010 | March 31 2010 |
|--|---------------------------------------|---------------------|------------------|
| | (In millions, net of unearned income) | | |
| Commercial and industrial | \$ 23,149 | \$ 22,540 | \$ 21,220 |
| Commercial real estate mortgage owner occupied | 11,889 | 12,046 | 12,028 |
| Commercial real estate construction owner occupied | 430 | 470 | 598 |
| Total commercial | 35,468 | 35,056 | 33,846 |
| Commercial investor real estate mortgage | 12,932 | 13,621 | 15,702 |
| Commercial investor real estate construction | 1,895 | 2,287 | 4,703 |
| Total investor real estate | 14,827 | 15,908 | 20,405 |
| Residential first mortgage | 14,404 | 14,898 | 15,592 |
| Home equity | 13,874 | 14,226 | 15,066 |
| Indirect | 1,626 | 1,592 | 2,162 |
| Other consumer | 1,172 | 1,184 | 1,103 |
| Total consumer | 31,076 | 31,900 | 33,923 |
| | \$ 81,371 | \$ 82,864 | \$ 88,174 |

Loans, net of unearned income, totaled \$81.4 billion at March 31, 2011, a decrease of \$1.5 billion from year-end 2010 levels. Strategic decisions to reduce the concentration in investor real estate and, to a lesser extent, sales of residential mortgage loans were the primary contributors to the decrease. The decrease was partially offset by an increase in commercial and industrial loans.

Commercial The commercial category includes commercial and industrial, representing loans to commercial customers for use in normal business operations to finance working capital needs, equipment purchases and other expansion projects. Commercial also includes owner-occupied commercial real estate loans to operating businesses, which are loans for long-term financing of land and buildings, and are repaid by cash flow generated by business operations. Owner-occupied construction loans are made to commercial businesses for the development of land or construction of a building where the repayment is derived from revenues generated from the business of the borrower.

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

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

Home Equity Home equity lending includes both home equity loans and lines of credit. This type of lending, which is secured by a first or second mortgage on the borrower's residence, allows customers to borrow against the equity in their home. The vast majority of Regions' home equity lending balances was originated through its branch network.

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Indirect Indirect lending, which is lending initiated through third-party business partners, is largely comprised of loans made through automotive dealerships. Beginning in late 2010, the Company re-entered the indirect auto lending business.

Other Consumer Other consumer loans include direct consumer installment loans, overdrafts and other revolving credit, and educational loans.

CREDIT QUALITY

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

The following chart presents details of Regions' \$14.8 billion investor real estate portfolio as of March 31, 2011 (dollars in billions):

LAND, SINGLE-FAMILY AND CONDOMINIUM

Credit quality of the investor real estate portfolio is sensitive to risks associated with construction loans such as cost overruns, project completion risk, general contractor credit risk, environmental and other hazard risks, and market risks associated with the sale or rental of completed properties. Certain components of the investor real estate portfolio segment carry a higher risk of non-collection. While losses within these loan types were influenced by conditions described above, the most significant drivers of losses were the continued decline in demand for residential real estate and in the value of property. The land, single-family and condominium components of the Investor Real Estate portfolio are particularly affected by these risks and conditions.

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

Table 2 Land, Single-Family and Condominium

| | March 31 2011 | December 31 2010 | March 31 2010 |
|---------------------------------------|------------------|---------------------|------------------|
| (In millions, net of unearned income) | | | |
| Land | | | |
| Loan balance | \$ 1,382 | \$ 1,640 | \$ 2,613 |
| Accruing loans 90 days past due | 3 | 1 | 12 |
| Non-accruing loans* | 369 | 476 | 713 |
| Non-accruing % | 26.7% | 29.0% | 27.3% |
| Single-Family | | | |
| Loan balance | \$ 1,128 | \$ 1,236 | \$ 1,885 |
| Accruing loans 90 days past due | 3 | 3 | 3 |
| Non-accruing loans* | 267 | 290 | 496 |
| Non-accruing % | 23.7% | 23.5% | 26.3% |
| Condominium | | | |
| Loan balance | \$ 284 | \$ 308 | \$ 487 |
| Accruing loans 90 days past due | | | |
| Non-accruing loans* | 87 | 92 | 157 |
| Non-accruing % | 30.6% | 29.9% | 32.2% |

* Excludes non-accruing loans held for sale.

Beginning in 2008 and continuing through 2011, Regions has strategically reduced exposures in these product types through pro-active workouts, appropriate charge-offs, and asset dispositions.

MULTI-FAMILY AND RETAIL

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

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

Table 3 Multi-family and Retail

| | March 31 2011 | December 31 2010 | March 31 2010 |
|---------------------------------------|------------------|---------------------|------------------|
| (In millions, net of unearned income) | | | |
| Multi-family (1) | | | |
| Loan balance | \$ 3,908 | \$ 4,241 | \$ 4,999 |
| Accruing loans 90 days past due | 1 | 1 | |
| Non-accruing loans* | 215 | 239 | 122 |
| Non-accruing % | 5.5% | 5.6% | 2.4% |
| Retail (2) | | | |
| Loan balance | \$ 3,018 | \$ 3,099 | \$ 3,895 |
| Accruing loans 90 days past due | 4 | | 28 |

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| | | | |
|---------------------|------|------|------|
| Non-accruing loans* | 241 | 177 | 347 |
| Non-accruing % | 8.0% | 5.7% | 8.9% |

- (1) The majority of the March 31, 2011 balance related to multi-family loans is geographically distributed throughout the following areas: Texas 19%, Florida 14%, Georgia 9%, Tennessee 8%, Louisiana 7%, North Carolina 6% and Alabama 5%. All other states, none of which comprise more than 4%, make up the remainder of the balance.
- (2) The majority of the March 31, 2011 balance related to retail loans is geographically distributed throughout the following areas: Florida 24%, Texas 13%, Georgia 10%, Alabama 9%, Tennessee 8%, and North Carolina 6%. All other states, none of which comprise more than 4%, make up the remainder of the balance.

* Excludes non-accruing loans held for sale.

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Strategic reductions in investor real estate exposures as discussed above drove the year-over-year decreases in multi-family and retail. While the retail category experienced an increase in non-accrual loans since December 31, 2010, this category comprises less than 10 percent of all non-accrual loans.

HOME EQUITY PORTFOLIO

The home equity portfolio totaled \$13.9 billion at March 31, 2011 as compared to \$14.2 billion at December 31, 2010 and \$15.1 billion at March 31, 2010. Substantially all of this portfolio was originated through Regions' branch network. Losses in this portfolio generally track overall economic conditions. The main source of economic stress has been in Florida, where residential property values have declined significantly while unemployment rates have risen to historically high levels. Losses in Florida where Regions is in a second lien position are higher than first lien losses.

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

Table 4 Selected Home Equity Portfolio Information

| (Dollars in millions) | Florida | | | Three Months Ended March 31, 2011 All Other States | | | Total | | |
|-----------------------|----------|----------|----------|---|----------|----------|----------|----------|-----------|
| | 1st Lien | 2nd Lien | Total | 1st Lien | 2nd Lien | Total | 1st Lien | 2nd Lien | Total |
| Balance | \$ 2,040 | \$ 3,067 | \$ 5,107 | \$ 4,060 | \$ 4,707 | \$ 8,767 | \$ 6,100 | \$ 7,774 | \$ 13,874 |
| Net Charge-offs | 16 | 52 | 68 | 6 | 20 | 26 | 22 | 72 | 94 |
| Net Charge-off % (1) | 3.10% | 6.79% | 5.33% | 0.65% | 1.64% | 1.18% | 1.47% | 3.68% | 2.71% |

| (Dollars in millions) | Florida | | | Three Months Ended March 31, 2010 All Other States | | | Total | | |
|-----------------------|----------|----------|----------|---|----------|----------|----------|----------|-----------|
| | 1st Lien | 2nd Lien | Total | 1st Lien | 2nd Lien | Total | 1st Lien | 2nd Lien | Total |
| Balance | \$ 2,127 | \$ 3,425 | \$ 5,552 | \$ 4,306 | \$ 5,208 | \$ 9,514 | \$ 6,433 | \$ 8,633 | \$ 15,066 |
| Net Charge-offs | 15 | 68 | 83 | 8 | 24 | 32 | 23 | 92 | 115 |
| Net Charge-off % (1) | 2.92% | 7.96% | 6.04% | 0.74% | 1.85% | 1.35% | 1.46% | 4.27% | 3.07% |

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

Net charge-offs were an annualized 2.71 percent of home equity loans for the first three months of 2011 compared to an annualized 3.07 percent through the first three months of 2010. Losses in Florida-based credits remained at elevated levels, as unemployment levels remain high and property valuations in certain markets have continued to experience ongoing deterioration. As illustrated in Table 4 Selected Home Equity Portfolio Information, these loans and lines in Florida represent approximately \$5.1 billion of Regions' total home equity portfolio at March 31, 2011. Of that balance, approximately \$2.0 billion represent first liens, while second liens, which total \$3.1 billion, are the main source of losses. Florida second lien losses were 6.79 percent annualized through the first three months of 2011 as compared to 7.96 percent for the same period of 2010. Through the first three months of 2011, home equity losses in Florida amounted to an annualized 5.33 percent of loans and lines versus 1.18 percent across the remainder of Regions' footprint. This compares to the first three months of 2010 losses of 6.04 percent and 1.35 percent, respectively.

The Company calculated an estimate of the current value of property secured as collateral for home equity lending products (current LTV). The estimate is based on home price indices compiled by the Federal Housing Finance Agency (FHFA). The FHFA data indicates trends for Metropolitan Statistical Areas (MSA). Regions uses the FHFA valuation trends from the MSA's in the Company's footprint in its estimate. The trend data is applied to the loan portfolios taking into account the age of the most recent valuation and geographic area. At March 31, 2011, the Company estimates that the number of home equity loans where the current LTV exceeded 100 was approximately 8.8 percent, while approximately 15.2 percent of the outstanding balances of

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home equity loans had a current LTV greater than 100. If the home equity loan is in a second lien position, the first lien has also been considered in the analysis. If the first lien position is with another institution, the Company uses the first lien outstanding balance at the time the second lien was originated.

Using the same methodology described in the above discussion of home equity loans, at March 31, 2011, the Company estimates that the number of residential first mortgage loans where the current LTV exceeded 100 was approximately 5.3 percent, while approximately 11.4 percent of the outstanding balances of residential first mortgage loans had a current LTV greater than 100.

ALLOWANCE FOR CREDIT LOSSES

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

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

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

For loans that are not specifically reviewed, management uses information from its ongoing review processes to stratify the loan portfolio into pools sharing common risk characteristics. Loans that share common risk characteristics are assigned a portion of the allowance for credit losses based on the assessment process described above. Credit exposures are categorized by type and assigned estimated amounts of inherent loss based on several factors, including current and historical loss experience for each pool and management's judgment of current economic conditions and their expected impact on credit performance. Adjustments to the allowance for credit losses calculated using a pooled approach are recorded through the provision for loan losses or non-interest expense, as applicable.

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

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The allowance for loan losses totaled \$3.2 billion at March 31, 2011, December 31, 2010 and March 31, 2010. The allowance for loan losses as a percentage of net loans was 3.92 percent at March 31, 2011 compared to 3.84 percent at December 31, 2010 and 3.61 percent at March 31, 2010. The reserve for unfunded credit commitments was \$78 million at March 31, 2011 compared to \$71 million at December 31, 2010 and \$66 million at March 31, 2010. Net charge-offs as a percentage of average loans (annualized) were 2.37 percent and 3.16 percent in the first three months of 2011 and 2010, respectively. Charge-off ratios were lower across most major categories, period over period. Investor real estate losses continue to be the largest contributor to charge-offs. In addition to lower levels of charge-offs, credit quality metrics generally improved, including lower levels of criticized and classified loans as well as delinquencies. However, non-performing loans and the level of non-performing assets are essentially flat as compared to year-end. Gross inflows of non-performing loans, while lower than recent quarters, continue to be at elevated levels. These factors all impact management's estimate of the allowance for credit losses, which was essentially flat as compared to December 31, 2010.

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

Given current economic pressures, management expects that net loan charge-offs will continue at an elevated level during 2011. Additionally, while the provision is expected to remain elevated, it is likely to trend down throughout 2011. Economic trends such as real estate valuations, interest rates and unemployment will impact the future levels of net charge-offs and provision. Details regarding the allowance and net charge-offs, including an analysis of activity from the previous year's totals, are included in Table 5 Allowance for Credit Losses.

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

Table 5 Allowance for Credit Losses

| | Three Months Ended March 31 | |
|--|--------------------------------|----------|
| | 2011 | 2010 |
| | (Dollars in millions) | |
| Allowance for loan losses at beginning of year | \$ 3,185 | \$ 3,114 |
| Loans charged-off: | | |
| Commercial and industrial | 78 | 98 |
| Commercial real estate mortgage owner occupied | 69 | 34 |
| Commercial real estate construction owner occupied | 4 | 14 |
| Commercial investor real estate mortgage | 138 | 212 |
| Commercial investor real estate construction | 43 | 151 |
| Residential first mortgage | 57 | 63 |
| Home equity | 100 | 120 |
| Indirect | 7 | 13 |
| Other consumer | 16 | 25 |
| | 512 | 730 |
| Recoveries of loans previously charged-off: | | |
| Commercial and industrial | 6 | 6 |
| Commercial real estate mortgage owner occupied | 3 | 2 |
| Commercial real estate construction owner occupied | | |
| Commercial investor real estate mortgage | 6 | 5 |
| Commercial investor real estate construction | 1 | 1 |
| Residential first mortgage | 1 | 1 |
| Home equity | 6 | 4 |
| Indirect | 3 | 5 |
| Other consumer | 5 | 6 |
| | 31 | 30 |
| Net charge-offs: | | |
| Commercial and industrial | 72 | 92 |
| Commercial real estate mortgage owner occupied | 66 | 32 |
| Commercial real estate construction owner occupied | 4 | 14 |
| Commercial investor real estate mortgage | 132 | 207 |
| Commercial investor real estate construction | 42 | 150 |
| Residential first mortgage | 56 | 62 |
| Home equity | 94 | 116 |
| Indirect | 4 | 8 |
| Other consumer | 11 | 19 |
| | 481 | 700 |
| Provision for loan losses | 482 | 770 |
| Allowance for loan losses at March 31 | \$ 3,186 | \$ 3,184 |
| Reserve for unfunded credit commitments at January 1 | 71 | 74 |
| Provision for unfunded credit commitments | 7 | (8) |
| Reserve for unfunded credit commitments at March 31 | 78 | 66 |

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| | | |
|---|-----------|-----------|
| Allowance for credit losses at end of period | \$ 3,264 | \$ 3,250 |
| Loans, net of unearned income, outstanding at end of period | \$ 81,371 | \$ 88,174 |
| Average loans, net of unearned income, outstanding for the period | \$ 82,412 | \$ 89,723 |
| Ratios: | | |
| Allowance for loan losses at end of period to loans, net of unearned income | 3.92% | 3.61% |
| Allowance for loan losses at end of period to non-performing loans, excluding loans held for sale | 1.03x | 0.86x |
| Net charge-offs as percentage of: | | |
| Average loans, net of unearned income | 2.37 | 3.16 |
| Provision for loan losses | 99.8 | 90.9 |

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Loans deemed to be impaired include troubled debt restructurings (TDRs), plus commercial and investor real estate non-accrual loans. For consumer TDRs, Regions measures the level of impairment based on pools of loans stratified by common risk characteristics. Commercial and investor real estate impaired loans with outstanding balances equal to or greater than \$2.5 million are evaluated individually for impairment. For these loans, Regions measures the level of impairment based on the present value of the estimated projected cash flows, the estimated value of the collateral or, if available, observable market prices. If current valuations are lower than the current book balance of the credit, the negative differences are reviewed for possible charge-off. In instances where management determines that a charge-off is not appropriate, a specific reserve is established for the individual loan in question. This specific reserve is incorporated as a part of the overall allowance for credit losses. The recorded investment in impaired loans was approximately \$4.5 billion at both March 31, 2011 and December 31, 2010. Loans that were characterized as TDRs totaled \$2.2 billion and \$2.1 billion at March 31, 2011 and December 31, 2010, respectively. The allowance allocated to TDRs totaled \$288 million at March 31, 2011 and \$224 million at December 31, 2010.

Regions continues to work to meet the individual needs of consumer borrowers to stem foreclosure through the Customer Assistance Program (CAP). Regions designed the program to allow for customer-tailored modifications with the goal of keeping customers in their homes and avoiding foreclosure where possible. Modification may be offered to any borrower experiencing financial hardship regardless of the borrower's payment status. Under the CAP, Regions may offer a short-term deferral, a term extension, an interest rate reduction, a new loan product, or a combination of these options. Regions evaluates the success of the modification program (the recidivism rate). The recidivism rate is the 60-day and greater delinquency rate inclusive of non-accruing loans for all TDRs which were restructured six months or prior to the reporting period. For CAP modifications, this rate is currently approximately 21%. For loans restructured under the CAP, Regions expects to collect the original contractually due principal. The gross original contractual interest may be collectible, depending on the terms modified. The length of the CAP modifications ranges from temporary payment deferrals of three months to term extensions for the life of the loan. All such modifications are considered TDRs regardless of the term if there is a concession to a borrower experiencing financial difficulty. Modified loans are subject to policies governing accrual/nonaccrual evaluation consistent with all other loans of the same product type. Consumer loans are subject to objective accrual/nonaccrual decisions. Under these policies, loans subject to the CAP are charged down to estimated value and placed on nonaccrual status on or before the month in which the loan becomes 180 days past due. Because the program was designed to evaluate potential CAP participants as early as possible in the lifecycle of the troubled loan, many of the modifications are finalized without the borrower ever reaching 180 days past due, and with the loans having never been placed on nonaccrual. Accordingly, given the positive impact of the restructuring on the likelihood of recovery of cash flows due under the modified terms, accrual status continues to be appropriate for these loans. None of the modified consumer loans listed in the TDR disclosures were collateral-dependent at the time of modification. At March 31, 2011, approximately \$158 million in residential first mortgage TDRs and approximately \$11 million in home equity TDRs were in excess of 180 days past due and are considered collateral-dependent.

If loans characterized as TDRs perform according to the restructured terms for a satisfactory period of time, the TDR designation may be removed in a new calendar year if the loan yields a market rate. A minimum of six months consecutive payments is required in order to demonstrate a performance history sufficient to remove the TDR designation. Under Regions' current policy, the market rate assessment must be made at the date of the modification considering the terms that would be offered to a new borrower with a similar credit profile. Given the types of concessions currently being granted under the CAP as described above, Regions does not expect that the market rate condition will be widely achieved; accordingly, Regions expects loans modified through the CAP to remain identified as TDRs.

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Residential first mortgage, home equity and other consumer TDRs are consumer loans modified under the CAP. Commercial and investor real estate are not the result of a formal program, but represent situations where modification was offered as a workout alternative. The following table summarizes TDRs for the periods ending March 31, 2011 and December 31, 2010:

Table 6 Troubled Debt Restructurings

| | March 31, 2011 | | December 31, 2010 | |
|---|-----------------|-----------------------------------|-------------------|-----------------------------------|
| | Loan Balance | Allowance for Credit Losses | Loan Balance | Allowance for Credit Losses |
| | (In millions) | | | |
| Accruing: | | | | |
| Commercial | \$ 72 | \$ 9 | \$ 77 | \$ 5 |
| Investor real estate | 208 | 12 | 192 | 4 |
| Residential first mortgage | 854 | 105 | 813 | 97 |
| Home equity | 355 | 50 | 335 | 42 |
| Other consumer | 64 | 1 | 66 | 1 |
| | \$ 1,553 | \$ 177 | \$ 1,483 | \$ 149 |
| Non-accrual status or 90 days past due: | | | | |
| Commercial | \$ 120 | \$ 33 | \$ 105 | \$ 23 |
| Investor real estate | 230 | 47 | 198 | 20 |
| Residential first mortgage | 221 | 27 | 240 | 28 |
| Home equity | 28 | 4 | 30 | 4 |
| Other consumer | 1 | | | |
| | 600 | 111 | 573 | 75 |
| | \$ 2,153 | \$ 288 | \$ 2,056 | \$ 224 |

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

Note 2. Net charge-offs on commercial TDRs were approximately \$5 million and \$1 million for the three months ended March 31, 2011 and 2010, respectively.

Net charge-offs on investor real estate TDRs were approximately \$3 million and \$3 million for the three months ended March 31, 2011 and 2010, respectively.

Net charge-offs on residential first mortgage TDRs were approximately \$29 million and \$22 million for the three months ended March 31, 2011 and 2010, respectively.

Net charge-offs on home equity TDRs were approximately \$12 million and \$10 million for the three months ended March 31, 2011 and 2010, respectively.

Net charge-offs on other consumer TDRs were approximately \$1 million and \$2 million for the three months ended March 31, 2011 and 2010, respectively.

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NON-PERFORMING ASSETS

Non-performing assets are summarized as follows:

Table 7 Non-Performing Assets

| | March 31 2011 | December 31 2010 (Dollars in millions) | March 31 2010 |
|--|------------------|--|------------------|
| Non-performing loans: | | | |
| Commercial and industrial | \$ 446 | \$ 467 | \$ 517 |
| Commercial real estate mortgage owner occupied | 648 | 606 | 623 |
| Commercial real estate construction owner occupied | 31 | 29 | 38 |
| Total commercial | 1,125 | 1,102 | 1,178 |
| Commercial investor real estate mortgage | 1,142 | 1,265 | 1,343 |
| Commercial investor real estate construction | 448 | 452 | 986 |
| Total investor real estate | 1,590 | 1,717 | 2,329 |
| Residential first mortgage | 303 | 285 | 199 |
| Home equity | 69 | 56 | |
| Total non-performing loans, excluding loans held for sale | 3,087 | 3,160 | 3,706 |
| Non-performing loans held for sale | 381 | 304 | 256 |
| Total non-performing loans (1) | 3,468 | 3,464 | 3,962 |
| Foreclosed properties | 465 | 454 | 610 |
| Total non-performing assets (1) | \$ 3,933 | \$ 3,918 | \$ 4,572 |
| Accruing loans 90 days past due: | | | |
| Commercial and industrial | \$ 10 | \$ 9 | \$ 24 |
| Commercial real estate mortgage owner occupied | 8 | 6 | 6 |
| Commercial real estate construction owner occupied | | 1 | |
| Total commercial | 18 | 16 | 30 |
| Commercial investor real estate mortgage | 13 | 5 | 42 |
| Commercial investor real estate construction | 1 | 1 | 6 |
| Total investor real estate | 14 | 6 | 48 |
| Residential first mortgage | 315 | 359 | 365 |
| Home equity | 174 | 198 | 249 |
| Indirect | 2 | 2 | 3 |
| Other consumer | 4 | 4 | 5 |
| | \$ 527 | \$ 585 | \$ 700 |
| Restructured loans not included in the categories above | \$ 1,553 | \$ 1,483 | \$ 1,306 |
| Non-performing loans (1) to loans and non-performing loans held for sale (2) | 4.24% | 4.17% | 4.48% |
| Non-performing assets (1) to loans, foreclosed properties and non-performing loans held for sale (2) | 4.78% | 4.69% | 5.13% |

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- (1) Exclusive of accruing loans 90 days past due
- (2) Beginning in the first quarter of 2011, non-performing loans and assets ratios include non-performing loans held for sale in the denominator, in addition to portfolio loans and foreclosed properties. Prior quarters have been revised to conform to current period presentation.

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Non-performing assets totaled \$3.9 billion at both March 31, 2011 and December 31, 2010, and \$4.6 billion at March 31, 2010. Non-performing assets remained flat compared to year-end due to gross inflows essentially equaling charge-off, payment and disposition activity. Gross non-performing loan inflows of approximately \$730 million for the quarter ended March 31, 2011 were significantly lower than \$1.2 billion for the quarter ended March 31, 2010, but remain at elevated levels.

Foreclosed properties, a subset of non-performing assets, totaled \$465 million, \$454 million and \$610 million at March 31, 2011, December 31, 2010 and March 31, 2010, respectively. The balance at March 31, 2011 remained essentially flat compared to year-end. Regions' foreclosed properties are diversified geographically throughout the franchise. Foreclosed properties are recorded at the lower of the recorded investment in the loan or fair value less the estimated cost to sell.

Management expects non-performing assets to remain elevated as compared to historical levels. Economic trends such as real estate valuations, interest rates and unemployment, as well as the level of disposition activity, will impact the future level of non-performing assets.

Loans past due 90 days or more and still accruing were \$527 million at March 31, 2011, a decrease from \$585 million at December 31, 2010.

At March 31, 2011 and December 31, 2010, Regions had approximately \$650 million and \$800 million, respectively, of potential problem commercial and investor real estate loans that were not included in non-accrual loans, but for which management had concerns as to the ability of such borrowers to comply with their present loan repayment terms.

SECURITIES

The following table details the carrying values of securities:

Table 8 Securities

| | March 31 2011 | December 31 2010 (In millions) | March 31 2010 |
|--|------------------|--------------------------------------|------------------|
| U.S. Treasury securities | \$ 94 | \$ 96 | \$ 66 |
| Federal agency securities | 20 | 21 | 51 |
| Obligations of states and political subdivisions | 31 | 30 | 46 |
| Mortgage-backed securities | | | |
| Residential agency | 23,135 | 21,857 | 22,873 |
| Residential non-agency | 20 | 22 | 26 |
| Commercial agency | 154 | 112 | 21 |
| Commercial non-agency | 201 | 100 | |
| Other debt securities | 25 | 27 | 25 |
| Equity securities | 1,044 | 1,048 | 1,141 |
| | \$ 24,724 | \$ 23,313 | \$ 24,249 |

Securities totaled \$24.7 billion at March 31, 2011, an increase of \$1.4 billion from year-end 2010 levels. As part of the Company's asset/liability management process, in the first quarter of 2011, Regions sold approximately \$2.4 billion of agency securities available for sale and recognized a gain of approximately \$82 million. The proceeds were reinvested into similar securities with slightly longer durations.

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

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LOANS HELD FOR SALE

Loans held for sale totaled \$1.6 billion at March 31, 2011, consisting of \$1.2 billion of residential real estate mortgage loans and \$381 million of non-performing investor real estate loans. At December 31, 2010, loans held for sale totaled \$1.5 billion, consisting of \$1.2 billion of residential real estate mortgage loans and \$304 million of non-performing investor real estate loans.

OTHER INTEREST-EARNING ASSETS

All other interest-earning assets, which are primarily comprised of interest-bearing deposits in other banks, trading account assets, and other interest-earning assets, increased approximately \$165 million from year-end 2010 to March 31, 2011 primarily due to an increase in trading assets.

GOODWILL

Goodwill totaled \$5.6 billion at both March 31, 2011 and December 31, 2010 and is allocated to each of Regions' reportable segments (each a reporting unit), at which level goodwill is tested for impairment on an annual basis or more often if events and circumstances indicate impairment may exist (refer to Note 1 Significant Accounting Policies to the 2010 consolidated financial statements filed on Form 10-K for the year ended December 31, 2010 for further discussion of when Regions tests goodwill for impairment). Adverse changes in the economic environment, declining operations of the reporting unit, or other factors could result in a decline in the estimated implied fair value of goodwill. If the estimated implied fair value is less than the carrying amount, a loss would be recognized to reduce the carrying amount to the estimated implied fair value.

A test of goodwill for impairment consists of two steps. In Step One, the fair value of the reporting unit is compared to its carrying amount. To the extent that the fair value of the reporting unit exceeds the carrying value, impairment is not indicated and no further testing is required. Conversely, if the fair value of the reporting unit is below its carrying amount, Step Two must be performed. Step Two consists of determining the implied fair value of goodwill, which is the net difference between the after-tax valuation adjustments of assets and liabilities and the valuation adjustment to equity (from Step One) of the reporting unit.

The fair value of the reporting unit is determined using two approaches and several key assumptions. Regions utilizes the capital asset pricing model (CAPM) in order to derive the base discount rate. The inputs to the CAPM include the 20-year risk-free rate, 5-year beta for a select peer set, and the market risk premium based on published data. Once the output of the CAPM is determined, a size premium is added (also based on a published source) as well as a company-specific risk premium, which is an estimate determined by the Company and meant to compensate for the risk inherent in the future cash flow projections and inherent differences (such as business model and market perception of risk) between Regions and the peer set. The table below summarizes the discount rate used in the goodwill impairment tests of the Banking/Treasury reporting unit for the reporting periods indicated:

| | 1st Quarter 2011 | 4th Quarter 2010 | 3rd Quarter 2010 | 2nd Quarter 2010 | 1st Quarter 2010 |
|---------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Discount Rate | 15% | 15% | 16% | 16% | 16% |

In the fourth quarter of 2010, Regions reduced the company-specific component of its discount rate to reflect several positive factors that occurred during the period, as well as factors which reduced the uncertainty of future cash flow projections. Specifically, the Company earned a profit and experienced improving credit metrics, including lower non-performing assets and lower gross inflows of non-performing loans than in the third quarter of 2010. Additionally, Regions experienced lower levels of criticized loans, a leading indicator of loan losses (see Note 5 Allowance for Credit Losses to the 2010 consolidated financial statements filed on Form 10-K for further details, including a definition of criticized loans). The Company also completed its three-year strategic plan, which reflected improving credit trends and included additional clarity around future cash flows.

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that were driven by a proposed rule issued by the Federal Reserve governing debit interchange income and the announcements in the fourth quarter of 2010 and January of 2011 of pending non-distressed, orderly sales of financial institutions of comparable size and/or footprint to Regions. Additionally, the Basel Committee finalized its capital framework, which provided additional clarity on future equity requirements that impact the projections of future cash flows. In the judgment of management, these factors outweighed the downgrades of Regions' debt to below investment grade during the fourth quarter of 2010, as well as new rules which impacted FDIC insurance premiums.

In estimating future cash flows, a balance sheet as of the test date and a statement of operations for the last twelve months of activity for the reporting unit are compiled. From that point, future balance sheets and statements of operations are projected based on the inputs discussed below. Cash flows are based on expected future capitalization requirements due to balance sheet growth and anticipated changes in regulatory capital requirements. The baseline cash flows utilized in all models correspond to the most recent internal forecasts and/or budgets that range from 1 to 5 years. These internal forecasts are based on inputs developed in the Company's capital planning processes.

Refer to Note 5 "Goodwill", for further discussion of these approaches and related assumptions. The fair values of assets and liabilities are determined using an exit price concept. Refer to the discussion of fair value in Note 11 "Fair Value Measurements" for discussions of the exit price concept and the determination of fair values of financial assets and liabilities.

In the fourth quarter of 2008, Regions performed its goodwill impairment tests for the Banking/Treasury reporting unit, which resulted in an implied fair value of goodwill of approximately \$4.7 billion and a goodwill impairment charge of \$6.0 billion. Throughout 2009 and continuing into the first half of 2010, in the Banking/Treasury reporting unit, the credit quality of Regions' loan portfolio declined, which contributed to increased losses as well as elevated non-performing loan levels. Accordingly, Regions performed tests of goodwill for impairment during each quarter of 2010 and during the second, third and fourth quarters of 2009 in a manner consistent with the test conducted in the fourth quarter of 2008. The long-term fair value of equity was determined using both income and market approaches (discussed in Note 5 "Goodwill"). The results of these calculations continued to indicate that the fair value of the Banking/Treasury reporting unit was less than its carrying amount. As of March 31, 2011, the carrying amount and fair value of the Banking/Treasury reporting unit were \$11.5 billion and \$8.3 billion, respectively, while the carrying amount of goodwill for the reporting unit was \$4.7 billion. Therefore, Step Two of the goodwill impairment test was performed. In Step Two, the fair values of the reporting unit's assets and liabilities, including the loan portfolio, intangible assets, time deposits, debt, and others were calculated. Once the fair values were determined, deferred tax adjustments were calculated as applicable. The after-tax effects of the Step Two adjustments, which were primarily write-downs of assets to fair value, exceeded any reductions in the value of common equity determined in Step One; therefore, the results were no impairment for the Banking/Treasury reporting unit. Since the second quarter of 2009, the fair values of net assets and liabilities of the Banking/Treasury reporting unit have increased faster than the value of this reporting unit. Should the fair values of net assets continue to increase more rapidly than the fair value of this reporting unit, goodwill could be impaired in future periods.

Specific factors as of the date of filing the financial statements that could negatively impact the assumptions used in assessing goodwill for impairment include: disparities in the level of fair value changes in net assets compared to equity; adverse business trends resulting from litigation and/or regulatory actions; higher loan losses; lengthened forecasts of unemployment in excess of 10 percent beyond 2012; future increased minimum regulatory capital requirements above current thresholds (refer to Note 13 "Regulatory Capital Requirements and Restrictions to the 2010 consolidated financial statements filed on Form 10-K for the year ended December 31, 2010 for a discussion of current minimum regulatory requirements); future federal rules and regulations resulting from the Dodd-Frank Act; and a protraction in the current low level of interest rates beyond 2012.

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The following tables present an analysis of independent changes in market factors or significant assumptions that could adversely impact the carrying balance of goodwill in the Banking/Treasury reporting unit and the outcome of the Step One tests for the Investment Banking/Brokerage/Trust reporting units:

Impact to the Carrying Value of Goodwill

| Banking/Treasury Reporting Unit | | Estimated Amount of Impairment (In millions) |
|--|----|--|
| Change in Discount Rate | | |
| +3.1% | \$ | (a) |
| +4% | | (418) |
| +5% | | (792) |
| Change in Tangible Book Value Multipliers (b) | | |
| -73% | \$ | (a) |
| Improvement in Loan Fair Values | | |
| +3.7 Percentage Points | \$ | (a) |
| +4 Percentage Points | | (165) |
| +5 Percentage Points | | (673) |

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

(b) Represents a 73 percent decline in both tangible book value multipliers of 1.0x and 1.2x for the public company method and the transaction method, respectively. The 1.0x multiplier for the public company method is before the 30 percent control premium utilized for this metric. See Note 5 for further details.

Impact to Step One Conclusion

| Investment Banking/Brokerage/Trust and Insurance Reporting Units | | Impact of Change | |
|--|--|--|-----------|
| | | Investment Banking/ Brokerage/Trust | Insurance |
| Change in Discount Rate | | | |
| +1% | | Pass | Pass |
| +2% | | Pass | Pass |
| +3% | | Pass | Pass |
| Change in Market Approach Multipliers (c)(d) | | | |
| -10% | | Pass | Pass |
| -20% | | Pass | Pass |
| -30% | | Pass | Pass |
| -40% | | Pass | Fail |

(c) For Investment Banking/Brokerage/Trust, represents the percent decline in both tangible book value multipliers of 1.8x and 2.1x for the public company method and the transaction method, respectively. The 1.8x multiplier for the public company method is before the 30 percent control premium utilized for this metric. See Note 5 for further details.

(d) For Insurance, represents the percent decline in the 16.0x multiplier for the last twelve months of net income and is before the 30 percent control premium utilized for this metric. See Note 5 for further details.

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

magnify or counteract the effect of the change.

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DEPOSITS

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

The following table summarizes deposits by category:

Table 9 Deposits

| | March 31 2011 | December 31 2010 (In millions) | March 31 2010 |
|---------------------------------------|------------------|--------------------------------------|------------------|
| Non-interest-bearing demand | \$ 27,480 | \$ 25,733 | \$ 23,391 |
| Savings accounts | 5,064 | 4,668 | 4,394 |
| Interest-bearing transaction accounts | 13,365 | 13,423 | 15,715 |
| Money market accounts - domestic | 27,261 | 27,420 | 26,196 |
| Money market accounts - foreign | 533 | 569 | 635 |
| Low-cost deposits | 73,703 | 71,813 | 70,331 |
| Time deposits | 22,656 | 22,784 | 27,939 |
| Customer deposits | 96,359 | 94,597 | 98,270 |
| Corporate Treasury deposits | | | |
| Time deposits | 10 | 17 | 62 |
| Total deposits | \$ 96,369 | \$ 94,614 | \$ 98,332 |

Total deposits at March 31, 2011 increased approximately \$1.8 billion compared to year-end 2010 levels. The overall increase in deposits was primarily driven by an increase in non-interest-bearing demand accounts.

Regions elected to exit the FDIC's Transaction Account Guarantee (TAG) program on July 1, 2010. The TAG program is a component of the Temporary Liquidity Guarantee Program, whereby the FDIC guarantees all funds held at participating institutions beyond the \$250,000 deposit insurance limit in qualifying transaction accounts. Regions' decision to exit the program did not have a significant impact on liquidity. The Dodd-Frank Act permanently increased the FDIC coverage limit to \$250,000. Also as a result of the Dodd-Frank Act, effective as of December 31, 2010, unlimited coverage for non-interest bearing demand transaction accounts will be provided until January 1, 2013.

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SHORT-TERM BORROWINGS

The following is a summary of short-term borrowings:

Table 10 Short-Term Borrowings

| | March 31 2011 | December 31 2010 (In millions) | March 31 2010 |
|--|------------------|--------------------------------------|------------------|
| Company funding sources: | | | |
| Federal funds purchased | \$ 16 | \$ 19 | \$ 17 |
| Securities sold under agreements to repurchase | 296 | 763 | 274 |
| Federal Home Loan Bank advances | | 500 | |
| Treasury, tax and loan notes | 97 | 118 | 124 |
| Other short-term borrowings | 35 | 95 | 56 |
| | 444 | 1,495 | 471 |
| Customer-related borrowings: | | | |
| Securities sold under agreements to repurchase | 1,906 | 1,934 | 1,396 |
| Brokerage customer liabilities | 413 | 324 | 384 |
| Short-sale liability | 402 | 174 | 313 |
| Customer collateral | 17 | 10 | 120 |
| | 2,738 | 2,442 | 2,213 |
| | \$ 3,182 | \$ 3,937 | \$ 2,684 |

COMPANY FUNDING SOURCES

Federal funds purchased and securities sold under agreements to repurchase used for funding purposes totaled \$312 million at March 31, 2011 compared to \$782 million at December 31, 2010. The level of these borrowings can fluctuate significantly on a day-to-day basis, depending on funding needs and which sources of funds are used to satisfy those needs. All such arrangements are considered typical of the banking and brokerage industries and are accounted for as borrowings.

As another source of funding, the Company utilized short-term borrowings through the issuance of Federal Home Loan Bank (FHLB) advances. FHLB borrowings are used to satisfy short-term borrowing requirements and can also fluctuate between periods. There were no short-term FHLB borrowings outstanding at March 31, 2011 compared to \$500 million at December 31, 2010. See the Liquidity section for discussion of Regions' borrowing capacity with the FHLB.

Treasury, tax and loan notes consist of borrowings from the Federal Reserve Bank. At March 31, 2011, Regions had \$97 million outstanding under this program, compared to \$118 million at December 31, 2010. See the Liquidity section for further detail of Regions' borrowing capacity with the Federal Reserve.

Other short-term borrowings are related to Morgan Keegan and include certain lines of credit that Morgan Keegan maintains with unaffiliated banks totaling \$35 million and \$95 million at March 31, 2011 and December 31, 2010, respectively. The lines of credit provide for maximum borrowings of \$585 million as of March 31, 2011.

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Selected data for short-term borrowings used for funding purposes for the quarter ended March 31, 2011 is presented below:

| | |
|--|--------|
| Federal funds purchased: | |
| Balance at quarter-end | \$ 16 |
| Average outstanding (based on average daily balances) | 20 |
| Maximum amount outstanding at any month-end during the quarter | 106 |
| Weighted-average interest rate at quarter-end | 0.2% |
| Weighted-average interest rate on amounts outstanding during the quarter (based on average daily balances) | 0.1% |
| Securities sold under agreements to repurchase: | |
| Balance at quarter-end | \$ 296 |
| Average outstanding (based on average daily balances) | 334 |
| Maximum amount outstanding at any month-end during the quarter | 361 |
| Weighted-average interest rate at quarter-end | 0.2% |
| Weighted-average interest rate on amounts outstanding during the quarter (based on average daily balances) | 0.2% |

CUSTOMER-RELATED BORROWINGS

Repurchase agreements are also offered as commercial banking products as short-term investment opportunities for customers. The balance totaled \$1.9 billion at both March 31, 2011 and December 31, 2010. The level of these borrowings can fluctuate significantly on a day-to-day basis.

Regions, through Morgan Keegan, maintains two types of liabilities for its brokerage customers that are classified as short-term borrowings since Morgan Keegan pays its customers interest related to these liabilities. The brokerage customer position liability represents liquid funds in customers' brokerage accounts. The short-sale liability represents traditional obligations to deliver to customers securities at a predetermined date and price. Balances due to brokerage customers totaled \$413 million at March 31, 2011 compared to \$324 million at December 31, 2010. The short-sale liability was \$402 million at March 31, 2011 compared to \$174 million at December 31, 2010. The balances of these liabilities fluctuate frequently based on customer activity.

Customer collateral increased \$7 million to \$17 million at March 31, 2011 from \$10 million at December 31, 2010. This balance includes cash collateral posted by customers related to derivative transactions by swap customers of Morgan Keegan.

Table of Contents**LONG-TERM BORROWINGS**

Long-term borrowings are summarized as follows:

Table 11 Long-Term Borrowings

| | March 31 2011 | December 31 2010 (In millions) | March 31 2010 |
|---|------------------|--------------------------------------|------------------|
| Federal Home Loan Bank structured advances | \$ | \$ 200 | \$ 2,472 |
| Other Federal Home Loan Bank advances | 3,965 | 3,515 | 2,119 |
| 6.375% subordinated notes due May 2012 | 599 | 599 | 599 |
| 7.75% subordinated notes due March 2011 | | 502 | 510 |
| 7.00% subordinated notes due March 2011 | | 500 | 500 |
| 7.375% subordinated notes due December 2037 | 300 | 300 | 300 |
| 6.75% subordinated debentures due November 2025 | 162 | 162 | 163 |
| 7.75% subordinated notes due September 2024 | 100 | 100 | 100 |
| 7.50% subordinated notes due May 2018 (Regions Bank) | 750 | 750 | 750 |
| 6.45% subordinated notes due June 2037 (Regions Bank) | 497 | 497 | 497 |
| 4.85% subordinated notes due April 2013 (Regions Bank) | 495 | 494 | 492 |
| 5.20% subordinated notes due April 2015 (Regions Bank) | 347 | 347 | 346 |
| 3.25% senior bank notes due December 2011 | 2,000 | 2,000 | 2,000 |
| 2.75% senior bank notes due December 2010 | | | 1,000 |
| LIBOR floating rate senior bank notes due June 2010 | | | 250 |
| LIBOR floating rate senior bank notes due December 2010 | | | 500 |
| 7.75% senior notes due November 2014 | 693 | 692 | 691 |
| 4.375% senior notes due December 2010 | | | 498 |
| 5.75% senior notes due June 2015 | 495 | 495 | |
| 4.875% senior notes due April 2013 | 249 | 249 | |
| LIBOR floating rate senior notes due June 2012 | 350 | 350 | 350 |
| 6.625% junior subordinated notes due May 2047 | 498 | 498 | 498 |
| 8.875% junior subordinated notes due June 2048 | 345 | 345 | 345 |
| Other long-term debt | 183 | 383 | 451 |
| Valuation adjustments on hedged long-term debt | 169 | 212 | 252 |
| | \$ 12,197 | \$ 13,190 | \$ 15,683 |

Long-term borrowings decreased approximately \$1.0 billion since year-end 2010 due primarily to approximately \$1.0 billion of subordinated notes maturing during the first three months of 2011. FHLB structured advances are convertible quarterly at the option of the FHLB. The convertible feature provides that after a specified date in the future, the advances will remain at a fixed rate, or Regions will have the option to either pay off the advance or convert from a fixed rate to a variable rate based on the LIBOR index. The FHLB structured advances had weighted-average interest rates of 2.5% at both December 31, 2010 and March 31, 2010. Other FHLB advances have a weighted-average interest rate of 1.0%, 1.0% and 3.3% at March 31, 2011, December 31, 2010 and March 31, 2010, respectively, with maturities ranging from one to twenty years.

STOCKHOLDERS EQUITY

Stockholders' equity was \$16.6 billion at March 31, 2011 compared to \$16.7 billion at December 31, 2010. During the first three months of 2011, net income increased stockholders' equity by \$69 million, cash dividends declared reduced equity by \$13 million for common stock and \$43 million for preferred stock, and changes in accumulated other comprehensive income decreased equity by \$127 million.

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Regions' ratio of stockholders' equity to total assets was 12.61 percent at March 31, 2011, compared to 12.64 percent at December 31, 2010. Regions' ratio of tangible common stockholders' equity to tangible assets was 5.98 percent at March 31, 2011, compared to 6.04 percent at December 31, 2010 (see Table 14 - GAAP to Non-GAAP Reconciliation - for further discussion).

See Note 6, "Stockholders' Equity and Comprehensive Income (Loss)" for further information related to common shares available for repurchase and dividends.

REGULATORY CAPITAL REQUIREMENTS

Regions and Regions Bank are required to comply with regulatory capital requirements established by Federal banking agencies. These regulatory capital requirements involve quantitative measures of the Company's assets, liabilities and certain off-balance sheet items, and also qualitative judgments by the regulators. Failure to meet minimum capital requirements can subject the Company to a series of increasingly restrictive regulatory actions. Currently, there are two basic measures of capital adequacy: a risk-based measure and a leverage measure.

The risk-based capital requirements are designed to make regulatory capital requirements more sensitive to differences in credit and market 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 percent. At least 50 percent of that capital level must consist of common equity, undivided profits and non-cumulative perpetual preferred stock, senior perpetual preferred stock issued to the U.S. Treasury under the CPP, minority interests relating to qualifying common or noncumulative perpetual preferred stock issued by a consolidated U.S. depository institution or foreign bank subsidiary, less goodwill, deferred tax assets and certain other intangibles ("Tier 1 capital"). The remainder ("Tier 2 capital") may consist of a limited amount of other preferred stock, mandatorily convertible securities, subordinated debt, and a limited amount of the allowance for loan losses. The sum of Tier 1 capital and Tier 2 capital is "total risk-based capital" or total capital. However, under the Collins Amendment, which was passed as a section of the Dodd-Frank Act, trust preferred securities will be eliminated as an element of Tier 1 capital. This disallowance of trust preferred securities will be phased in from January 1, 2013 to January 1, 2016. Debt or equity instruments issued to the Federal government as part of the CPP are exempt from the Collins Amendment. As of March 31, 2011, Regions has \$846 million of trust preferred securities that are subject to the Collins Amendment and \$3.5 billion of preferred equity that is exempt from the Collins Amendment.

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

In connection with the SCAP, banking regulators began supplementing their assessment of the capital adequacy of a bank based on a variation of Tier 1 capital, known as Tier 1 common equity. While not codified, analysts and banking regulators have assessed Regions' capital adequacy using the tangible common stockholders' equity and/or the Tier 1 common equity measure. Because tangible common stockholders' equity and Tier 1 common equity are not formally defined by GAAP or codified in the federal banking regulations, these measures are considered to be non-GAAP financial measures and other entities may calculate them differently than Regions' disclosed calculations (see Table 14 - GAAP to Non-GAAP Reconciliation - for further details).

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Regions is evaluating the anticipated impact of Basel III, which will begin in 2013 and is expected to be fully phased-in on January 1, 2019. The Company's pro forma Tier 1 common and Tier 1 capital ratios as of March 31, 2011, based on Regions' current understanding of the guidelines, are approximately 7.5 and 11.1 percent, above the Basel III minimums of 7 percent for Tier 1 common and 8.5 percent for Tier 1 capital. Regions also expects to meet the Basel III liquidity coverage ratio in its current form. However, there is still need for clarification of the Basel III rules as well as interpretation and implementation by U.S. banking regulators, so the ultimate impact on Regions is not completely known at this point. See the Supervision and Regulation Capital Requirements subsection of the Business section and the Risk Factors section of Regions' Annual Report on Form 10-K for the year ended December 31, 2010 for more information.

The following chart summarizes the applicable holding company and bank regulatory capital requirements. Regions' capital ratios at March 31, 2011, December 31, 2010 and March 31, 2010 exceeded all regulatory requirements.

Table 12 Regulatory Capital Requirements

| | March 31, 2011 Ratio | December 31, 2010 Ratio | March 31, 2010 Ratio | To Be Well Capitalized |
|-------------------------------|-------------------------|----------------------------|-------------------------|------------------------------|
| Tier 1 common (non-GAAP): | | | | |
| Regions Financial Corporation | 7.92% | 7.85% | 7.13% | NA(1) |
| Tier 1 capital: | | | | |
| Regions Financial Corporation | 12.53% | 12.40% | 11.66% | 6.00% |
| Regions Bank | 11.89 | 11.68 | 10.62 | 6.00 |
| Total capital: | | | | |
| Regions Financial Corporation | 16.48% | 16.35% | 15.76% | 10.00% |
| Regions Bank | 15.13 | 14.93 | 13.94 | 10.00 |
| Leverage: | | | | |
| Regions Financial Corporation | 9.41% | 9.30% | 8.84% | 5.00% |
| Regions Bank | 9.02 | 8.85 | 8.10 | 5.00 |

- (1) The Board of Governors of the Federal Reserve System has identified 4% as the level of Tier 1 common capital sufficient to withstand adverse economic scenarios.

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. Regions intends to fund obligations primarily through cash generated from normal operations. In addition to these obligations, Regions has obligations related to potential litigation contingencies. See Note 13, Commitments and Contingencies to the consolidated financial statements for additional discussion of the Company's funding requirements.

Assets, consisting principally of loans and securities, are funded by customer deposits, purchased funds, borrowed funds and stockholders equity. Regions' goal in liquidity management is to satisfy the cash flow requirements of depositors and borrowers, while at the same time meeting the Company's cash flow needs. The challenges of the current market environment demonstrate the importance of having and using various sources of liquidity to satisfy the Company's funding requirements.

In order to ensure an appropriate level of liquidity is maintained, Regions performs specific procedures including scenario analyses and stress testing at the bank, holding company, and affiliate levels. Regions' policy is to maintain a sufficient level of funding to meet projected cash needs, including all debt service and maturities, for the subsequent two years at the parent company and acceptable periods for the bank and other affiliates. The Company's funding and contingency planning does not currently include any reliance on unsecured sources. Regions has continued to test those markets and has entered them only when opportunistic borrowing is available. Regions has chosen to focus on using short-term secured sources of funding.

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The securities portfolio is one of Regions' primary sources of liquidity. Maturities of securities provide a constant flow of funds available for cash needs (see Note 2 Securities to the consolidated financial statements). The agency guaranteed mortgage portfolio is another source of liquidity in various secured borrowing capacities. In anticipation of regulatory changes proposed within the Basel III framework, in particular the Liquidity Coverage Ratio, Regions increased its holdings in securities backed by the Government National Mortgage Association (GNMA), which are explicitly backed by the U.S. Government.

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 first mortgage loans. In addition, liquidity needs can also be met by borrowing funds in state and national money markets. Historically, Regions' liquidity has been enhanced by its relatively stable customer deposit base. During 2010, Regions' customer base grew substantially in response to competitive offers and customers' desire to lock-in rates in the falling rate environment, as well as the introduction of new consumer and business checking products.

Regions elected to exit the FDIC's TAG program on July 1, 2010. The TAG program is a component of the Temporary Liquidity Guarantee Program, whereby the FDIC guarantees all funds held at participating institutions beyond the \$250,000 deposit insurance limit in qualifying transaction accounts. The decision to exit the program did not have a significant impact on liquidity. The Dodd-Frank Act permanently increased the FDIC coverage limit to \$250,000. As a result of the Dodd-Frank Act, effective December 31, 2010, unlimited coverage for non-interest bearing demand transaction accounts will be provided until January 1, 2013.

Due to the potential for uncertainty and inconsistency in the unsecured funding markets, Regions has been maintaining higher levels of cash liquidity by depositing excess cash with the Federal Reserve Bank, which is the primary component of the balance sheet line item, interest-bearing deposits in other banks. At March 31, 2011, Regions had over \$4.9 billion in excess cash on deposit with the Federal Reserve. Regions' borrowing availability with the Federal Reserve Bank as of March 31, 2011, based on assets available for collateral at that date, was \$17.1 billion.

Regions periodically accesses funding markets through sales of securities with agreements to repurchase. Repurchase agreements are also offered through a commercial banking sweep product as a short-term investment opportunity for customers. All such arrangements are considered typical of the banking and brokerage industries and are accounted for as borrowings.

Regions' financing arrangement with FHLB Atlanta adds additional flexibility in managing its liquidity position. As of March 31, 2011, Regions' borrowing availability from FHLB Atlanta totaled \$1.2 billion. FHLB borrowing capacity is contingent on the amount of collateral pledged to the FHLB. Regions Bank and its subsidiaries have pledged certain residential first mortgage loans on one-to-four family dwellings and home equity lines of credit as collateral for the FHLB advances outstanding. Additionally, investment in FHLB stock is required in relation to the level of outstanding borrowings. Regions held \$419 million in FHLB stock at March 31, 2011. The FHLB has been and is expected to continue to be a reliable and economical source of funding.

In February 2010, Regions filed a shelf registration statement with the U.S. Securities and Exchange Commission. This shelf registration does not have a capacity limit and can be utilized by Regions to issue various debt and/or equity securities. The registration statement will expire in February 2013.

Regions' Bank Note program allows Regions Bank to issue up to \$20 billion aggregate principal amount of bank notes outstanding at any one time. No issuances have been made under this program as of March 31, 2011. Notes issued under the program may be senior notes with maturities from 30 days to 15 years and subordinated notes with maturities from 5 years to 30 years. These notes are not deposits and they are not insured or guaranteed by the FDIC.

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Regions may, from time to time, consider opportunistically retiring outstanding issued securities, including subordinated debt, trust preferred securities and preferred shares in privately negotiated or open market transactions for cash or common shares. Regulatory approval would be required for retirement of some instruments.

Morgan Keegan maintains certain lines of credit with unaffiliated banks to manage liquidity in the ordinary course of business. See the Short-Term Borrowings section for further detail.

RATINGS

During the first quarter of 2011, Regions did not experience any rating actions; therefore, all debt ratings remained consistent with those disclosed in the Annual Report on Form 10-K for the year ended December 31, 2010. Throughout 2010, Regions experienced rating actions by Standard & Poor's Corporation (S&P), Moody's Investors Service, Fitch Ratings and Dominion Bond Rating Service (DBRS). The agencies downgraded obligations of Regions Financial Corporation and Regions Bank. In general, ratings agencies base their ratings on many quantitative and qualitative factors, including capital adequacy, liquidity, asset quality, business mix, probability of government support, and level and quality of earnings. Any downgrade in credit ratings by one or more ratings agencies may impact Regions in several ways, including, but not limited to, Regions' access to the capital markets or short-term funding, borrowing cost and capacity, collateral requirements, acceptability of its letters of credit, funding of variable rate demand notes (VRDNs), as well as FDIC insurance costs, thereby potentially adversely impacting Regions' financial condition and liquidity.

Table 13 Credit Ratings reflects the debt ratings information of Regions Financial Corporation and Regions Bank by S&P, Moody's Investors Service, Fitch Ratings and DBRS.

Table 13 Credit Ratings

| | As of March 31, 2011 and December 31, 2010 | | | |
|--------------------------------------|--|---------|-------|------|
| | Standard & Poor's | Moody's | Fitch | DBRS |
| Regions Financial Corporation | | | | |
| Senior notes | BB+ | Ba3 | BBB- | BBB |
| Subordinated notes | BB | B1 | BB+ | BBBL |
| Junior subordinated notes | B | B2 | BB | BBBL |
| Regions Bank | | | | |
| Short-term debt | A-3 | NP* | F3 | R-2H |
| Long-term bank deposits | BBB- | Ba1 | BBB | BBBH |
| Long-term debt | BBB- | Ba2 | BBB- | BBBH |
| Subordinated debt | BB+ | Ba3 | BB+ | BBB |

* Not Prime

At March 31, 2011, Moody's and S&P's credit ratings for Regions Financial Corporation were below investment grade. For Regions Bank, Moody's credit ratings were below investment grade. Regions Financial Corporation and Regions Bank remain on a credit watch with negative implications from Moody's. Additionally, many obligations of Regions Financial Corporation and Regions Bank remain on negative outlook by the agencies referred to above. See the Risk Factors section in the Annual Report on Form 10-K for the year ended December 31, 2010 for more information.

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

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OPERATING RESULTS

The table below presents computations of earnings and certain other financial measures including efficiency ratio, return on average tangible common stockholders' equity, end of period tangible common stockholders' equity and Tier 1 common equity, all of which are non-GAAP. Regions believes these financial measures provide a meaningful base for period-to-period comparisons and will assist investors in analyzing the operating results of the Company and predicting future performance. These non-GAAP financial measures are also used by management to assess the performance of Regions' business. Management and the Board of Directors utilize these non-GAAP financial measures as follows:

Preparation of Regions' operating budgets

Monthly financial performance reporting

Monthly close-out flash reporting of consolidated results (management only)

Presentations to investors of Company performance.

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

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

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

Tier 1 common equity is often expressed as a percentage of risk-weighted assets. Under the risk-based capital framework, a bank's balance sheet assets and credit equivalent amounts of off-balance sheet items are assigned to one of four broad risk categories. The aggregated dollar amount in each category is then multiplied by the risk weighting assigned to that category. The resulting weighted values from each of the four categories are added together and this sum is the risk-weighted assets total that, as adjusted, comprises the denominator of

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certain risk-based capital ratios. Tier 1 capital is then divided by this denominator (risk-weighted assets) to determine the Tier 1 capital ratio. Adjustments are made to Tier 1 capital to arrive at Tier 1 common equity (non-GAAP). Tier 1 common equity is also divided by the risk-weighted assets to determine the Tier 1 common equity ratio. The amounts disclosed as risk-weighted assets are calculated consistent with banking regulatory requirements.

Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied and are not audited. To mitigate these limitations, Regions has policies and procedures in place to identify and address expenses that qualify for non-GAAP presentation, including authorization and system controls to ensure accurate period to period comparisons. Although these non-GAAP financial measures are frequently used by stakeholders in the evaluation of a company, they have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analyses of results as reported under GAAP.

The following tables provide: 1) a reconciliation of non-interest expense (GAAP) to adjusted non-interest expense (non-GAAP), 2) a reconciliation of non-interest income (GAAP) to adjusted non-interest income (non-GAAP), 3) a computation of adjusted total revenue (non-GAAP), 4) computation of the efficiency ratio (non-GAAP), 5) a reconciliation of average and ending stockholders' equity (GAAP) to average and ending tangible common stockholders' equity (non-GAAP), and 6) a reconciliation of stockholders' equity (GAAP) to Tier 1 capital (regulatory) and to Tier 1 common equity (non-GAAP).

Table of Contents**Table 14 GAAP to Non-GAAP Reconciliation**

| | | Three Months Ended March 31 | |
|---|-----|---|------------|
| | | 2011 | 2010 |
| | | (Dollars in millions, except per share data) | |
| INCOME (LOSS) | | | |
| Net income (loss) (GAAP) | | \$ 69 | \$ (196) |
| Preferred dividends and accretion (GAAP) | | (52) | (59) |
| Net income (loss) available to common shareholders (GAAP) | A | \$ 17 | \$ (255) |
| Weighted-average diluted shares | B | 1,259 | 1,194 |
| Earnings (loss) per common share diluted (GAAP) | A/B | \$ 0.01 | \$ (0.21) |
| EFFICIENCY RATIO | | | |
| Non-interest expense (GAAP) | | \$ 1,167 | \$ 1,230 |
| Significant items: | | | |
| Loss on extinguishment of debt | | | (53) |
| Securities impairment, net | | | (1) |
| Branch consolidation costs | | | (8) |
| Adjusted non-interest expense (non-GAAP) | C | \$ 1,167 | \$ 1,168 |
| Net interest income, taxable-equivalent basis (GAAP) | | \$ 872 | \$ 839 |
| Non-interest income (GAAP) | | 843 | 812 |
| Significant items: | | | |
| Securities gains, net | | (82) | (59) |
| Leveraged lease termination gains | | | (19) |
| Loss on sale of mortgage loans | | 3 | |
| Adjusted non-interest income (non-GAAP) | | 764 | 734 |
| Adjusted total revenue (non-GAAP) | D | \$ 1,636 | \$ 1,573 |
| Efficiency ratio (non-GAAP) | C/D | 71.33% | 74.25% |
| RETURN ON AVERAGE ASSETS (1) | | | |
| Average assets (GAAP) | E | \$ 131,212 | \$ 139,565 |
| Return on average assets (GAAP) (1) | A/E | 0.05% | (0.74%) |
| RETURN ON AVERAGE TANGIBLE COMMON STOCKHOLDERS' EQUITY | | | |
| Average stockholders' equity (GAAP) | | \$ 16,684 | \$ 17,798 |
| Less: Average intangible assets (GAAP) | | 5,935 | 6,046 |
| Average deferred tax liability related to intangibles (GAAP) | | (237) | (265) |
| Average preferred equity (GAAP) | | 3,383 | 3,605 |
| Average tangible common stockholders' equity (non-GAAP) | F | \$ 7,603 | \$ 8,412 |
| Return on average tangible common stockholders' equity (non-GAAP) (1) | A/F | 0.89% | (12.29%) |

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| | | March 31 2011 | December 31 2010 | March 31 2010 |
|--|-----|------------------|---------------------|------------------|
| TANGIBLE COMMON RATIOS | | | | |
| Ending stockholders' equity (GAAP) | | \$ 16,619 | \$ 16,734 | \$ 17,638 |
| Less: Ending intangible assets (GAAP) | | 5,919 | 5,946 | 6,031 |
| Ending deferred tax liability related to intangibles (GAAP) | | (233) | (240) | (261) |
| Ending preferred equity (GAAP) | | 3,389 | 3,380 | 3,610 |
| Ending tangible common stockholders' equity (non-GAAP) | G | \$ 7,544 | \$ 7,648 | \$ 8,258 |
| Ending total assets (GAAP) | | \$ 131,756 | \$ 132,351 | \$ 137,230 |
| Less: Ending intangible assets (GAAP) | | 5,919 | 5,946 | 6,031 |
| Ending deferred tax liability related to intangibles (GAAP) | | (233) | (240) | (261) |
| Ending tangible assets (non-GAAP) | H | \$ 126,070 | \$ 126,645 | \$ 131,460 |
| End of period shares outstanding | I | 1,256 | 1,256 | 1,192 |
| Tangible common stockholders' equity to tangible assets (non-GAAP) | G/H | 5.98% | 6.04% | 6.28% |
| Tangible common book value per share (non-GAAP) | G/I | \$ 6.00 | \$ 6.09 | \$ 6.93 |
| TIER 1 COMMON RISK-BASED RATIO (2) | | | | |
| Stockholders' equity (GAAP) | | \$ 16,619 | \$ 16,734 | \$ 17,638 |
| Accumulated other comprehensive income (loss) | | 387 | 260 | (144) |
| Non-qualifying goodwill and intangibles | | (5,686) | (5,706) | (5,771) |
| Disallowed deferred tax assets | | (463) | (424) | (932) |
| Disallowed servicing assets | | (28) | (27) | (27) |
| Qualifying non-controlling interests | | 92 | 92 | 91 |
| Qualifying trust preferred securities | | 846 | 846 | 846 |
| Tier 1 capital (regulatory) | | 11,767 | 11,775 | 11,701 |
| Qualifying non-controlling interests | | (92) | (92) | (91) |
| Qualifying trust preferred securities | | (846) | (846) | (846) |
| Preferred stock | | (3,389) | (3,380) | (3,610) |
| Tier 1 common equity (non-GAAP) | J | \$ 7,440 | \$ 7,457 | \$ 7,154 |
| Risk-weighted assets (regulatory) | K | \$ 93,929 | \$ 94,966 | \$ 100,323 |
| Tier 1 common risk-based ratio (non-GAAP) | J/K | 7.92% | 7.85% | 7.13% |

(1) Income statement amounts have been annualized in calculation.

(2) Current quarter amount and the resulting ratio is estimated

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The following table presents an analysis of net interest income/margin for the three months ended March 31, 2011 and 2010:

Table 15 Consolidated Average Daily Balances and Yield/Rate Analysis

| (Dollars in millions; yields on taxable-equivalent basis) | Three Months Ended March 31 | | | | | |
|--|-----------------------------|----------------------------|----------------|--------------------|----------------------------|----------------|
| | Average Balance | 2011 Income/ Expense | Yield/ Rate | Average Balance | 2010 Income/ Expense | Yield/ Rate |
| Assets | | | | | | |
| Interest-earning assets: | | | | | | |
| Federal funds sold and securities purchased under agreements to resell | \$ 305 | \$ | % | \$ 373 | \$ | % |
| Trading account assets | 1,162 | 8 | 2.79 | 1,288 | 13 | 4.09 |
| Securities: | | | | | | |
| Taxable | 24,758 | 207 | 3.39 | 23,811 | 242 | 4.12 |
| Tax-exempt | 30 | | | 51 | 1 | 7.95 |
| Loans held for sale | 1,486 | 13 | 3.55 | 1,392 | 8 | 2.33 |
| Loans, net of unearned income (1)(2) | 82,412 | 875 | 4.31 | 89,723 | 952 | 4.30 |
| Other interest-earning assets | 4,989 | 6 | 0.49 | 5,973 | 7 | 0.48 |
| Total interest-earning assets | 115,142 | 1,109 | 3.91 | 122,611 | 1,223 | 4.04 |
| Allowance for loan losses | (3,209) | | | (3,144) | | |
| Cash and due from banks | 2,164 | | | 2,181 | | |
| Other non-earning assets | 17,115 | | | 17,917 | | |
| | \$ 131,212 | | | \$ 139,565 | | |
| Liabilities and Stockholders' Equity | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Savings accounts | \$ 4,837 | 1 | 0.08 | \$ 4,215 | 1 | 0.10 |
| Interest-bearing transaction accounts | 13,228 | 7 | 0.21 | 15,709 | 11 | 0.28 |
| Money market accounts | 27,816 | 21 | 0.31 | 25,715 | 40 | 0.63 |
| Time deposits | 22,971 | 110 | 1.94 | 29,779 | 190 | 2.59 |
| Total interest-bearing deposits (3) | 68,852 | 139 | 0.82 | 75,418 | 242 | 1.30 |
| Federal funds purchased and securities sold under agreements to repurchase | 2,167 | 1 | 0.19 | 1,989 | 1 | 0.20 |
| Other short-term borrowings | 1,068 | 2 | 0.76 | 1,086 | 2 | 0.75 |
| Long-term borrowings | 12,891 | 95 | 2.99 | 17,417 | 139 | 3.24 |
| Total interest-bearing liabilities | 84,978 | 237 | 1.13 | 95,910 | 384 | 1.62 |
| Net interest spread | | | 2.78 | | | 2.42 |
| Non-interest-bearing deposits (3) | 26,405 | | | 22,817 | | |
| Other liabilities | 3,145 | | | 3,040 | | |
| Stockholders' equity | 16,684 | | | 17,798 | | |
| | \$ 131,212 | | | \$ 139,565 | | |
| Net interest income/margin on a taxable-equivalent basis (4) | | \$ 872 | 3.07% | | \$ 839 | 2.77% |

Notes:

- (1) Loans, net of unearned income include non-accrual loans for all periods presented.
- (2) Interest income includes net loan fees of \$15 million and \$11 million for the quarters ended March 31, 2011 and 2010, respectively.
- (3) Total deposit costs may be calculated by dividing total interest expense on deposits by the sum of interest-bearing deposits and non-interest bearing deposits. The rates for total deposit costs equal 0.59% and 1.00% for the three months ended March 31, 2011 and 2010, respectively.
- (4) The computation of taxable-equivalent net interest income is based on the statutory federal income tax rate of 35%, adjusted for applicable state income taxes net of the related federal tax benefit.

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For the first quarter of 2011, net interest income (taxable-equivalent basis) totaled \$872 million compared to \$839 million in the first quarter of 2010. The net interest margin (taxable-equivalent basis) was 3.07 percent in the first quarter of 2011, compared to 2.77 percent during the first quarter of 2010. Improved deposit pricing driven by the improvement in the Company's funding mix as a result of a shift to lower cost deposits has driven the expansion in the net interest margin.

MARKET RISK INTEREST RATE RISK

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

Sensitivity Measurement Financial simulation models are Regions' primary tools used to measure interest rate exposure. Using a wide range of sophisticated simulation techniques provides management with extensive information on the potential impact to net interest income caused by changes in interest rates. Models are structured to simulate cash flows and accrual characteristics of Regions' balance sheet. Assumptions are made about the direction and volatility of interest rates, the slope of the yield curve, and the changing composition of the balance sheet that result from both strategic plans and from customer behavior. Among the assumptions are expectations of balance sheet growth and composition, the pricing and maturity characteristics of existing business and the characteristics of future business. Interest rate-related risks are expressly considered, such as pricing spreads, the lag time in pricing deposit accounts, prepayments and other option risks. Regions considers these factors, as well as the degree of certainty or uncertainty surrounding their future behavior.

Historically, Regions' balance sheet has consisted of a relatively rate-sensitive deposit base that funds a predominantly floating rate commercial and consumer loan portfolio. This mix of Regions' core business activities creates a naturally asset sensitive balance sheet, meaning that increases (decreases) in interest rates would likely have a positive (negative) cumulative impact on Regions' net interest income. To manage the balance sheet's interest rate risk, Regions maintains a portfolio of largely fixed-rate discretionary investments, loans and derivatives. The market risk of these discretionary instruments attributable to variation in interest rates is fully incorporated into the simulation results in the same manner as all other balance sheet instruments.

The primary objective of asset/liability management at Regions is to coordinate balance sheet composition with interest rate risk management to sustain a reasonable and stable net interest income throughout various interest rate cycles. In computing interest rate sensitivity for measurement, Regions compares a set of alternative interest rate scenarios to the results of a base case scenario based on market forward rates. The standard set of interest rate scenarios includes the traditional instantaneous parallel rate shifts of plus 100 and 200 basis points. Regions also prepares a minus 100 basis points scenario; a minus 200 basis scenario is not considered realistic in the current rate environment. Up-rate scenarios of greater magnitude are also analyzed, and are of increased importance provided that current and historic low levels of interest rates increase the relative likelihood of a rapid and substantial increase in interest rates. Regions also includes simulations of gradual interest rate movements that may more realistically mimic potential interest rate movements. These gradual scenarios include curve steepening, flattening, and parallel movements of various magnitudes phased in over a six-month period, and include rate shifts of plus and minus 100 basis points and plus 200 basis points.

Exposure to Interest Rate Movements As of March 31, 2011, Regions was moderately asset sensitive to both gradual and instantaneous rate shifts as compared to the base case for the measurement horizon ending March 2012. Regions continues to observe that the pace of economic recovery is at risk of being slow, which may result in a continuation of this period of low interest rates. To partially offset the adverse impact on

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net interest income and net interest margin attributable to an extended period of low interest rates, Regions entered into a series of receive-fixed interest rate swaps. These instruments have a final maturity in December 2012. Increases in long-term interest rates in the fourth quarter 2010 have moderated prepayment speeds considerably across mortgage-related investments. Therefore, the minus 100 basis point scenario reflects the risk of prepayment activity accelerating as spurred by a decrease in long-term interest rates. The table below summarizes Regions' position, and the scenarios are inclusive of all interest-rate risk hedging activities. Note that where scenarios would indicate negative interest rates, a minimum of zero is applied.

Table 16 Interest Rate Sensitivity

| | Estimated Annual Change in Net Interest Income | |
|---|---|-------|
| | March 31, 2011 | |
| | (In millions) | |
| Gradual Change in Interest Rates | | |
| +200 basis points | \$ | 174 |
| +100 basis points | | 100 |
| -100 basis points | | (171) |
| Instantaneous Change in Interest Rates | | |
| +200 basis points | \$ | 185 |
| +100 basis points | | 118 |
| -100 basis points | | (235) |

Interest rate movements may also have an impact on the value of Regions' securities portfolio, which can directly impact the carrying value of shareholders' equity. Regions from time to time may hedge these price movements with derivatives (as discussed below). However, at March 31, 2011, Regions had no designations of hedges to mitigate price movements of securities.

Derivatives Regions uses financial derivative instruments for management of interest rate sensitivity. The Asset and Liability Committee (ALCO), which consists of members of Regions' senior management team, 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 Regions employs are forward rate contracts, Eurodollar futures contracts, interest rate swaps, options on interest rate swaps, interest rate caps and floors, and forward sale commitments. Derivatives are also used to offset the risks associated with customer derivatives, which include interest rate, credit and foreign exchange risks.

Forward rate contracts are commitments to buy or sell financial instruments at a future date at a specified price or yield. A Eurodollar futures contract is a future on a Eurodollar deposit. Eurodollar futures contracts subject Regions to market risk associated with changes in interest rates. Because futures contracts are cash settled daily, there is minimal credit risk associated with Eurodollar futures. Interest rate swaps are contractual agreements typically entered into to exchange fixed for variable (or vice versa) streams of interest payments. The notional principal is not exchanged but is used as a reference for the size of interest settlements. Interest rate options are contracts that allow the buyer to purchase or sell a financial instrument at a predetermined price and time. Forward sale commitments are contractual obligations to sell market instruments at a future date for an already agreed-upon price. Foreign currency contracts involve the exchange of one currency for another on a specified date and at a specified rate. The Company is subject to the credit risk that another party will fail to perform.

Regions has made use of interest rate swaps to effectively convert a portion of its fixed-rate funding position to a variable-rate position and, in some cases, to effectively convert a portion of its variable-rate loan portfolio to fixed-rate. Regions also uses derivatives to manage interest rate and pricing risk associated with its mortgage origination business. 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 contracts and forward sale commitments are used to protect the value of the loan pipeline and loans held for sale from changes in interest rates and pricing.

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Regions manages the credit risk of these instruments in much the same way as it manages credit risk of the loan portfolios by establishing credit limits for each counterparty and through collateral agreements for dealer transactions. For non-dealer transactions, the need for collateral is evaluated on an individual transaction basis and is primarily dependent on the financial strength of the counterparty. Credit risk is also reduced significantly by entering into legally enforceable master netting agreements. When there is more than one transaction with a counterparty and there is a legally enforceable master netting agreement in place, the exposure represents the net of the gain and loss positions with and collateral received from and/or posted to that counterparty. The Credit Risk section in Regions Annual Report on Form 10-K for December 31, 2010 contains more information on the management of credit risk.

Regions also uses derivatives to meet the needs of its customers. Interest rate swaps, interest rate options and foreign exchange forwards are the most common derivatives sold to customers. Other derivatives instruments with similar characteristics are used to hedge market risk and minimize volatility associated with this portfolio. Instruments used to service customers are held in the trading account, with changes in value recorded in the consolidated statements of operations.

The primary objective of Regions hedging strategies is to mitigate the impact of interest rate changes, from an economic perspective, on net interest income and the net present value of its balance sheet. The overall effectiveness of these hedging strategies is subject to market conditions, the quality of Regions execution, the accuracy of its valuation assumptions, counterparty credit risk and changes in interest rates. See Note 10 Derivative Financial Instruments and Hedging Activities to the consolidated financial statements for a tabular summary of Regions quarter-end and year-end derivatives positions and further discussion.

MARKET RISK PREPAYMENT RISK

Regions, like most financial institutions, is subject to changing prepayment speeds on mortgage-related assets under different interest rate environments. Prepayment risk is a significant risk to earning and specifically to net interest income. For example, mortgage loans and other financial assets may be prepaid by a debtor, so that the debtor may refinance its obligations at lower rates. As loans and other financial assets prepay in a falling rate environment, Regions must reinvest these funds in lower-yielding assets. Prepayments of assets carrying higher rates reduce Regions interest income and overall asset yields. Conversely, in a rising rate environment, these assets will prepay at a slower rate, resulting in opportunity cost by not having the cash flow to reinvest at higher rates. Prepayment risk can also impact the value of securities and the carrying value of equity. Regions greatest exposures to prepayment risks primarily rest in its mortgage-backed securities portfolio, the mortgage fixed-rate loan portfolio and the mortgage servicing asset, all of which tend to be sensitive to interest rate movements. Regions also has prepayment risk that would be reflected in non-interest income in the form of servicing income on loans sold. Regions actively monitors prepayment exposure as part of its overall net interest income forecasting and interest rate risk management. In particular, because interest rates are currently relatively low, Regions is actively managing exposure to declining prepayments that are expected to coincide with increasing interest rates in both the loan and securities portfolios.

MARKET RISK BROKERAGE AND OTHER MARKET ACTIVITY RISK

References below, and elsewhere in this Form 10-Q, to Morgan Keegan are intended to include not only Morgan Keegan & Company, Inc. but also certain of its affiliates and subsidiaries. It should not be assumed or inferred that any specific activity mentioned is carried on by any particular Morgan Keegan entity.

Morgan Keegan s business activities, including its securities inventory positions and securities held for investment, expose it to market risk. Further, the Company is also exposed to market risk in its capital markets business, which includes derivatives, loan syndication and foreign exchange trading activities, and mortgage trading activity, which includes secondary marketing of loans to government-sponsored entities.

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Morgan Keegan trades for its own account in corporate and tax-exempt securities and U.S. Government agency and Government-sponsored 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 order to mitigate the risks of carrying inventory and as part of other normal brokerage activities, Morgan Keegan assumes short positions on securities.

In the normal course of business, Morgan Keegan enters into underwriting and forward commitments. As of March 31, 2011, the contractual amount of forward commitments was approximately \$389 million. 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 in trading account assets on the consolidated balance sheets 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 Morgan Keegan 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, entering into offsetting positions in securities with similar interest rate risk characteristics. Securities inventories recorded in trading account assets on the consolidated balance sheets 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. Also, Morgan Keegan is 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 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.

Morgan Keegan has been an underwriter and dealer in auction rate securities. See Note 13 "Commitments and Contingencies" to the consolidated financial statements for more details regarding regulatory action related to Morgan Keegan auction rate securities. As of March 31, 2011, customers of Morgan Keegan owned approximately \$50 million of auction rate securities, and Morgan Keegan held approximately \$158 million of auction rate securities on its balance sheet.

To manage trading risks arising from interest rate and equity price risks, Morgan Keegan uses a Value at Risk ("VAR") model along with other risk management methods to measure the potential fair value the

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Company could lose on its trading positions given a specified statistical confidence level and time-to-liquidate time horizon. The end-of-period VAR was approximately \$889 thousand at March 31, 2011 and approximately \$805 thousand at December 31, 2010. Maximum daily VAR utilization during the first quarter of 2011 was approximately \$2 million and average daily VAR during the same period was approximately \$1 million.

PROVISION FOR LOAN LOSSES

The provision for loan losses is used to maintain the allowance for loan losses at a level that in management's judgment is adequate to cover losses inherent in the portfolio at the balance sheet date. In the first quarter of 2011, the provision for loan losses was \$482 million, essentially equal to net charge-offs for the quarter. In the same quarter of 2010, the provision was \$770 million, while net charge-offs were \$700 million. Net charge-offs as a percent of average loans (annualized) were 2.37 percent for the first quarter of 2011 compared to 3.16 percent for the corresponding period in 2010. The decrease in the provision reflects generally improving credit metrics, including lower levels of criticized and classified loans, lower delinquencies, and lower charge-offs as discussed above. These positive trends were partially offset by continued elevated levels of non-performing loans, which are essentially flat with December 31, 2010 and down slightly from March 31, 2010. Gross inflows of non-performing loans, while lower than recent quarters, also continue to be at elevated levels.

CREDIT RISK

Regions' objective regarding credit risk is to maintain a high-quality credit portfolio that provides for stable credit costs with acceptable volatility through an economic cycle. Regions has a diversified loan portfolio, in terms of product type, collateral and geography. See Table 1 for further details of each loan portfolio segment. See the Credit Risk section of the 2010 Form 10-K for a discussion of risk characteristics of each loan type.

NON-INTEREST INCOME

The following tables present a summary of non-interest income. For expanded discussion of certain significant non-interest income items, refer to the discussion of each component following the tables presented.

Table 17 Non-Interest Income

| | Three Months Ended March 31 | |
|---|--|---------------|
| | 2011 | 2010 |
| | (In millions) | |
| Service charges on deposit accounts | \$ 287 | \$ 288 |
| Brokerage, investment banking and capital markets | 267 | 236 |
| Mortgage income | 45 | 67 |
| Trust department income | 50 | 48 |
| Securities gains, net | 82 | 59 |
| Insurance commissions and fees | 28 | 27 |
| Bank owned life insurance | 21 | 20 |
| Commercial credit fee income | 20 | 16 |
| Insurance recovery | 20 | 15 |
| Other miscellaneous income | 23 | 36 |
| | \$ 843 | \$ 812 |

Non-interest income for the first quarter of 2011 increased by \$31 million compared to the first quarter of 2010. Higher brokerage, investment banking and capital markets income drove the increase, as well as, an increase in securities gains. The increase was partially offset by a decrease in mortgage income.

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Brokerage, investment banking and capital markets Regions primary source of brokerage, investment banking and capital markets revenue is its subsidiary, Morgan Keegan. Morgan Keegan's revenues are predominately recorded in the brokerage, investment banking and capital markets, as well as trust department income lines of the consolidated statements of operations, while a smaller portion is reported in other non-interest income categories. Total brokerage, investment banking and capital markets income increased in the first quarter of 2011 by \$31 million compared to the same period in 2010. The increase was primarily due to higher revenues from the equity capital markets, investment banking and private client brokerage services divisions. Also contributing to the increase was higher revenues from the capital markets activities of the bank.

The following table details the breakout of revenue by division contributed by Morgan Keegan:

Table 18 Morgan Keegan**Breakout of Revenue by Division (1)**

| | Private Client | Fixed- Income Capital Markets | Equity Capital Markets | Investment Banking | Regions MK Trust | Asset Management | Interest And Other |
|---------------------------|-------------------|--|------------------------------|-----------------------|------------------------|---------------------|--------------------------|
| (Dollars in millions) | | | | | | | |
| Three months ended | | | | | | | |
| March 31, 2011: | | | | | | | |
| Gross revenue | \$ 125 | \$ 66 | \$ 16 | \$ 30 | \$ 56 | \$ 3 | \$ 37 |
| Percent of gross revenue | 37.6% | 19.8% | 4.8% | 9.0% | 16.8% | 0.9% | 11.1% |
| Three months ended | | | | | | | |
| March 31, 2010: | | | | | | | |
| Gross revenue | \$ 114 | \$ 72 | \$ 13 | \$ 27 | \$ 49 | \$ 4 | \$ 35 |
| Percent of gross revenue | 36.3% | 22.9% | 4.1% | 8.6% | 15.6% | 1.3% | 11.2% |

(1) Certain amounts in prior periods have been reclassified to reflect current period presentation

Mortgage income Mortgage income decreased \$22 million compared to the first quarter of 2010. The year-over-year mortgage income decline reflects market valuation adjustments for mortgage servicing rights and related derivatives, which were affected by the rate environment shifts in first quarter 2011 compared to first quarter 2010.

Securities gains Securities gains increased in the first quarter of 2011 by \$23 million compared to the same period in 2010. In the first quarter of 2011, Regions sold approximately \$2.4 billion in securities, primarily agency securities available for sale. The proceeds were reinvested into similar securities with slightly longer durations.

Insurance recovery In the first quarters of 2011 and 2010, Regions received proceeds under professional liability insurance coverage for recovery of previously incurred legal expenses.

NON-INTEREST EXPENSE

The following table presents a summary of non-interest expense. For expanded discussion of certain significant non-interest expense items, refer to the discussion of each component following the tables presented.

Table of Contents**Table 19 Non-Interest Expense**

| | Three Months Ended March 31 | |
|---|------------------------------------|-------------|
| | 2011 | 2010 |
| | (In millions) | |
| Salaries and employee benefits | \$ 594 | \$ 575 |
| Net occupancy expense | 109 | 120 |
| Furniture and equipment expense | 77 | 74 |
| Professional and legal fees | 81 | 66 |
| Amortization of core deposit intangible | 25 | 28 |
| Other real estate owned expense | 39 | 42 |
| FDIC premiums | 52 | 59 |
| Loss on early extinguishment of debt | | 53 |
| Other miscellaneous expenses | 190 | 213 |
| | \$ 1,167 | \$ 1,230 |

Non-interest expense for the first quarter of 2011 decreased by \$63 million primarily due to a loss on early extinguishment of debt in the first quarter of 2010.

Salaries and employee benefits For the three months ended March 31, 2011, salaries and employee benefits increased \$19 million when compared to the same period in 2010. This increase is primarily due to incentives and commissions including those related to increased levels of brokerage, investment banking and capital markets income.

Net occupancy expense Net occupancy expense for the first quarter of 2011 decreased \$11 million when compared to the same period in 2010. This decrease is primarily due to branch consolidation charges of \$8 million in the first quarter of 2010.

Professional and legal fees Professional and legal fees increased \$15 million during the first quarter of 2011 when compared to the same period of 2010 reflecting higher legal costs.

FDIC premiums FDIC premiums decreased by \$7 million in the first quarter of 2011 as compared to the corresponding period in 2010, reflecting Regions' decision to exit the Transaction Account Guaranty Program on July 1, 2010.

In February 2011, the FDIC adopted a final rule (the New Assessment Rule) to revise the deposit insurance assessment system for large institutions. The New Assessment Rule changed the assessment base from deposits as the basis and utilizes a risk-based approach which calculates the assessment using average consolidated assets minus average tangible equity. Implementation of the New Assessment Rule is expected to result in an increase in FDIC expense beginning in the second quarter of 2011.

Loss on early extinguishment of debt During the first quarter of 2010, Regions prepaid approximately \$1.5 billion of FHLB advances, recognizing an expense of \$53 million. There was no corresponding expense in the first quarter of 2011.

Other miscellaneous expenses Other miscellaneous expenses include communications, postage, supplies, credit-related costs and business development services. Other miscellaneous expenses decreased \$23 million to \$190 million in the first quarter of 2011 when compared to the same period of 2010. The decline was driven by various categories, including those listed above.

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INCOME TAXES

The Company's income tax benefit for the three months ended March 31, 2011 was \$12 million compared to \$161 million for the same period in 2010, resulting in an effective tax rate of (21.1) percent and 45.1 percent, respectively. The decrease in the income tax benefit reflects the impact of the positive consolidated pre-tax earnings partially offset by the absence of leveraged lease terminations.

The Company's effective tax rate is affected by recurring items such as affordable housing tax credits, bank-owned life insurance and other tax-exempt income, which are expected to be consistent in the near term. The effective tax rate is also affected by one-time items that may occur in any given period but are not consistent from period to period, such as the termination of certain leveraged leases and expenses that are nondeductible for income tax purposes.

At March 31, 2011, the Company reported a net deferred tax asset of \$1.5 billion compared to \$1.4 billion for the period ended December 31, 2010. Of this amount, \$1.1 billion was generated from differences between the financial statement carrying amounts and the corresponding tax bases of assets and liabilities, of which a significant portion relates to the allowance for loan losses. These net deferred tax assets have not yet reduced taxable income and therefore, do not have a set expiration date. The remaining net deferred tax asset balance relates to tax carryforwards that have defined expiration dates which are typically 15 or 20 years from the date of creation.

The Company's determination of the realization of the net deferred tax asset is based on its assessment of all available positive and negative evidence. The primary sources of positive and negative evidence impacting taxable income are summarized below.

Positive Evidence

History of earnings The Company continues a strong history of generating earnings and has demonstrated positive earnings in 17 of the last 20 years with the prior three years' results of operations being impacted by unprecedented credit losses. Absent the \$6.0 billion goodwill impairment charge during 2008, which had no impact on taxable net income reported on the Company's tax returns, the Company would have generated positive earnings during that year leaving only 2009 and 2010 in loss positions. The Company did not generate any federal net operating losses or tax credit carryforwards until 2009, thus there is no history of significant tax carryforwards expiring unused.

Reversals of taxable temporary differences The Company anticipates that future reversals of taxable temporary differences, including the accretion of taxable temporary differences related to leveraged leases acquired in the AmSouth merger, can absorb up to \$940 million of deferred tax assets.

Creation of future taxable income At March 31, 2011, the Company has utilized all taxable income in prior carryback years. The Company has projected future taxable income that will be sufficient to absorb the remaining deferred tax assets after the reversal of future taxable temporary differences. The taxable income forecasting process utilizes the forecasted pre-tax earnings and adjusts for book-tax differences that will be exempt from taxation, primarily tax-exempt interest income and bank-owned life insurance, as well as temporary book-tax differences including the allowance for loan losses. The projections relied upon for this process are consistent with those used in the goodwill impairment test and are sourced from the Company's economic forecasting process.

Strong capital position At March 31, 2011, the Company continues to be well capitalized. The Tier 1 capital ratio is 12.5 percent, substantially above the 6.0 percent minimum standard to be well capitalized. Also, the Total capital ratio of 16.5 percent substantially exceeds the 10.0 percent minimum standard to be well capitalized. The Company's Tier 1 common ratio (non-GAAP) was 7.9 percent at March 31, 2011. The Board of Governors of the Federal Reserve System has identified 4 percent as the level of Tier 1 common capital sufficient to withstand adverse economic scenarios.

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Ability to implement tax-planning strategies The Company has the ability to implement tax planning strategies to maximize the realization of deferred tax assets, such as the sale of appreciated assets.

Negative Evidence

Cumulative loss position The Company remains in a three-year cumulative loss position as of March 31, 2011. Management believes the primary contributing factor, unprecedented provision for loan losses, will continue to stabilize in future periods. Additionally, the Company has reported positive net income available to common shareholders for two consecutive quarters providing additional positive evidence regarding the Company's earnings potential.

The Company believes that a portion of the state net operating loss carryforwards and state tax credit carryforwards will not be realized due to the length of certain state carryforward periods. Accordingly, a valuation allowance has been established in the amount of \$30 million against such benefits at March 31, 2011 and at December 31, 2010.

Except for certain state tax carryforwards, the Company believes, based on the analysis above, that the net deferred tax asset is more-likely-than-not to be realized.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Reference is made to pages 76 through 80 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. During the quarter ended March 31, 2011, 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.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Information required by this item is set forth in Note 13, Commitments and Contingencies in the Notes to the Consolidated Financial Statements (Unaudited) in Part I. Item 1. of this report, which is incorporated herein by reference.

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 March 31, 2011, is set forth in the following table:

Issuer Purchases of Equity Securities

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|-----------------------|-------------------------------------|---------------------------------|---|---|
| January 1 - 31, 2011 | | | | 23,072,300 |
| February 1 - 28, 2011 | | | | 23,072,300 |
| March 1 - 31, 2011 | | | | 23,072,300 |
| Total | | | | 23,072,300 |

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

Restrictions on Dividends and Repurchase of Stock

Holders of Regions common stock are only entitled to receive such dividends as Regions' board of directors may declare out of funds legally available for such payments. Furthermore, holders of Regions common stock are subject to the prior dividend rights of any holders of Regions preferred stock then outstanding. As of March 31, 2011, there were 3,500,000 shares of Regions' Fixed Rate Cumulative Perpetual Preferred Stock Series A (the "Series A Preferred Stock") with a liquidation amount of \$1,000 per share, issued and outstanding. Under the terms of the Series A Preferred Stock, Regions' ability to declare and pay dividends on or repurchase Regions' common stock will be subject to restrictions in the event Regions fails to declare and pay (or set aside for payment) full dividends on the Series A Preferred Stock.

As long as the Series A Preferred Stock is outstanding, dividend payments and repurchases or redemptions relating to certain equity securities, including Regions common stock, are prohibited during any period there are accrued and unpaid dividends on such preferred stock, subject to certain limited exceptions. In addition, prior to November 14, 2011, unless Regions has redeemed all of the Series A Preferred Stock or the U.S. Treasury has transferred all of the Series A Preferred Stock to third parties, the consent of the U.S. Treasury will be required for Regions to, among other things, increase its common stock dividend above \$0.10 except in limited circumstances. Regions has reduced its quarterly dividend to \$0.01 per share and does not expect to increase its quarterly dividend above such level for the foreseeable future. Also, Regions is a bank holding company, and its ability to declare and pay dividends is dependent on certain federal regulatory considerations, including the guidelines of the Federal Reserve regarding capital adequacy and dividends.

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

Item 6. Exhibits

The following is a list of exhibits including items incorporated by reference

- 3.1 Amended and Restated Certificate of Incorporation filed as Exhibit 3.1 to Form 8-K Current Report filed by registrant on May 14, 2010, incorporated herein by reference
- 3.2 Certificate of Designations filed as Exhibit 3.1 to Form 8-K Current Report filed by registrant on November 18, 2008, incorporated herein by reference
- 3.3 By-laws as amended and restated filed as Exhibit 3.2 to Form 8-K Current Report filed by registrant on May 14, 2010, incorporated herein by reference
- 10.1 Form of 2011 Annual Salary Stock Unit Award Agreement filed as Exhibit 10.1 to Form 8-K Current Report filed by registrant on February 25, 2011, incorporated herein by reference
- 10.2 Form of TARP Restricted Stock Award Agreement filed as Exhibit 10.2 to Form 8-K Current Report filed by registrant on February 25, 2011, incorporated herein by reference
- 12 Computation of Ratio of Earnings to Fixed Charges
- 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
- 101 Interactive Data File

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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.

DATE: May 5, 2011

Regions Financial Corporation

/s/ **HARDIE B. KIMBROUGH, JR.**
Hardie B. Kimbrough, Jr.

Executive Vice President and Controller

(Chief Accounting Officer and Authorized Officer)