

REGIONS FINANCIAL CORP

Form 10-K

March 09, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-K

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

For the fiscal year ended December 31, 2005

OR

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

For the transition period from _____ to _____

Commission File Number 0-6159

REGIONS FINANCIAL CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware
*(State or other jurisdiction of
Incorporation or Organization)*

417 North 20th Street, Birmingham, Alabama 35203

(Address of principal executive offices)

63-0589368
*(I.R.S. Employer
Identification No.)*

Registrant's telephone number, including area code: **(205) 944-1300**

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

Title of each class

Name of each exchange on which registered

Common Stock, \$.01 par value

New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

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

Common Stock, \$.01 par value \$15,637,625,967 as of June 30, 2005.

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

Common Stock, \$.01 Par Value 456,352,243 shares issued and outstanding as of February 28, 2006.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the annual proxy statement to be dated approximately April 4, 2006 are incorporated by reference into Part III.

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PART I

FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K, other periodic reports filed by Regions Financial Corporation (Regions) under the Securities Exchange Act of 1934, as amended (the Exchange Act), and any other written or oral statements made by or on behalf of Regions may include

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

Regions' ability to achieve the earnings expectations related to the businesses that were acquired, including its merger with Union Planters Corporation (Union Planters) in July 2004, or that may be acquired in the future, which in turn depends on a variety of factors, including:

Regions' ability to achieve the anticipated cost savings and revenue enhancements with respect to the acquired operations, or lower than expected revenues from continuing operations;

the assimilation of the acquired operations to Regions' corporate culture, including the ability to instill Regions' credit practices and efficient approach to the acquired operations;

the continued growth of the markets that the acquired entities serve, consistent with recent historical experience;

difficulties related to the integration of the businesses, including integration of information systems and retention of key personnel.

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

Regions' ability to keep pace with technological changes.

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

Regions' ability to effectively manage interest rate risk, market risk, credit risk and operational risk.

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

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

Further easing of restrictions on participants in the financial services industry, such as banks, securities brokers and dealers, investment companies and finance companies, may increase competitive pressures.

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

Possible changes in general economic and business conditions in the United States in general and in the communities Regions serves in particular may lead to a deterioration in credit quality, thereby increasing provisioning costs, or a reduced demand for credit, thereby reducing earning assets.

The occurrence of natural disasters or the threat or occurrence of war or acts of terrorism and the existence or exacerbation of general geopolitical instability and uncertainty.

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

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

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

Item 1. Business

Regions Financial Corporation (together with its subsidiaries on a consolidated basis, Regions or Company) is a financial holding company headquartered in Birmingham, Alabama which operates throughout the South, Midwest and Texas. Regions' operations consist of banking, brokerage and investment services, mortgage banking, insurance brokerage, credit life insurance, leasing, commercial accounts receivable factoring and specialty financing. At December 31, 2005, Regions had total consolidated assets of approximately \$84.8 billion, total consolidated deposits of approximately \$60.4 billion and total consolidated stockholders' equity of approximately \$10.6 billion.

Regions is a Delaware corporation that, on July 1, 2004, became the successor by merger to Union Planters and the former Regions Financial Corporation. Regions' principal executive offices are located at 417 North 20th Street, Birmingham, Alabama 35203, and its telephone number at such address is (205) 944-1300.

Banking Operations

Regions conducts its banking operations through Regions Bank, an Alabama chartered commercial bank that is a member of the Federal Reserve System. At December 31, 2005, Regions operated 1,311 full service banking offices in Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, South Carolina, Tennessee, Texas and Virginia.

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The following chart reflects the distribution of total assets, loans, deposits and branches in each of the states in which Regions conducts its banking operations:

	Assets	Loans	Deposits	Branches
Alabama	18%	19%	21%	175
Arkansas	8	8	8	103
Florida	14	13	12	149
Georgia	14	14	10	132
Illinois	1	3	4	71
Indiana	4	4	4	65
Iowa	1	1	1	18
Kentucky	2	2	1	18
Louisiana	6	6	9	101
Mississippi	4	3	6	99
Missouri	6	4	4	68
North Carolina	3	4	*	6
South Carolina	3	3	2	38
Tennessee	11	11	13	191
Texas	5	5	5	76
Virginia	*	*	*	1
Totals	100%	100%	100%	1,311

* less than 1%

Other Financial Services Operations

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

Morgan Keegan & Company, Inc. (Morgan Keegan), a subsidiary of Regions Financial Corporation, is a full-service regional brokerage and investment banking firm. Morgan Keegan offers products and services including securities brokerage, asset management, financial planning, mutual funds, securities underwriting, sales and trading, and investment banking. Morgan Keegan, one of the largest investment firms in the South, employs approximately 1,000 financial advisors offering products and services from 281 offices located in Alabama, Arkansas, Florida, Georgia, Illinois, Kentucky, Massachusetts, Mississippi, New York, Louisiana, North Carolina, South Carolina, Tennessee, Texas and Virginia.

Regions Mortgage, a division of Regions Bank, and EquiFirst Corporation (EquiFirst), a subsidiary of Regions Bank, are engaged in mortgage banking. Regions Mortgage's primary business and source of income is the origination and servicing of mortgage loans for long-term investors. EquiFirst typically originates mortgage loans which are sold to third-party investors. Regions Mortgage's servicing portfolio totaled approximately \$37.2 billion and included approximately 398,000 real estate mortgages at December 31, 2005. Regions Mortgage and EquiFirst operate loan production offices in Alabama, Arizona, Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, South Carolina, Tennessee and Texas.

Rebsamen Insurance, Inc., a subsidiary of Regions Financial Corporation, acts as a general insurance broker for a full-line of insurance products, primarily focusing on commercial property and casualty insurance customers.

Regions Agency, Inc., a subsidiary of Regions Financial Corporation, acts as an insurance agent or broker with respect to credit life insurance, accident and health insurance and other types of insurance relating to extensions of credit by Regions Bank or Regions banking-related subsidiaries.

Regions Life Insurance Company, a subsidiary of Regions Financial Corporation, acts as a re-insurer of credit life insurance and accident and health insurance in connection with the activities of certain affiliates of Regions.

Regions Interstate Billing Service, Inc., a subsidiary of Regions Financial Corporation, factors commercial accounts receivable and performs billing and collection services, focusing primarily on clients in the trucking and automotive service industry.

Acquisition Program

In July 2004, Regions and Union Planters completed a merger of the two companies. Union Planters was a \$32.2 billion bank holding company headquartered in Memphis, Tennessee. The merger was accounted for as a purchase of Union Planters by Regions for accounting and financial reporting purposes.

A substantial portion of the growth of Regions from its inception as a bank holding company in 1971 to the merger with Union Planters has been through the acquisition of other financial institutions, including commercial banks and thrift institutions, and the assets and deposits thereof. Prior to the merger with Union Planters, Regions had completed 103 acquisitions of financial institutions and financial service providers representing in aggregate (at the time the acquisitions were completed) approximately \$28.4 billion in assets. As part of its ongoing strategic plan, Regions continually evaluates business combination opportunities. Any future business combination or series of business combinations that Regions might undertake may be material, in terms of assets acquired or liabilities assumed, to Regions' financial condition. Recent business combinations in the financial services industry have typically involved the payment of a premium over book and market values. This practice could result in dilution of book value and net income per share for the acquirer.

Segment Information

Reference is made to Note 24 "Business Segment Information" to the consolidated financial statements included under Item 8 of this Annual Report on Form 10-K for information required by this item.

Supervision And Regulation

General. Regions is a financial holding company, registered with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956, as amended ("BHC Act"). As such, Regions and its subsidiaries are subject to the supervision, examination and reporting requirements of the BHC Act and the regulations of the Federal Reserve.

The Gramm-Leach-Bliley Act, adopted in 1999 ("GLB Act"), significantly relaxed previously existing restrictions on the activities of banks and bank holding companies. Under such legislation, an eligible bank holding company may elect to be a "financial holding company" and thereafter may engage in a range of activities that are financial in nature and that were not previously permissible for banks and bank holding companies. A financial holding company may engage directly or through a subsidiary in the statutorily authorized activities of securities dealing, underwriting and market making, insurance underwriting and agency activities, merchant banking and insurance company portfolio investments. A financial holding company also may engage in any activity that the Federal Reserve determines by rule or order to be financial in nature, incidental to such financial activity, or complementary to a financial activity and that does not pose a substantial risk to the safety and soundness of an institution or to the financial system generally.

In addition to these activities, a financial holding company may engage in those activities permissible for a bank holding company, including factoring accounts receivable, acquiring and servicing loans, leasing personal property, performing certain data processing services, acting as agent or broker in selling credit life insurance and certain other types of insurance in connection with credit transactions and conducting certain insurance underwriting activities. The BHC Act does not place territorial limitations on permissible nonbanking activities of bank holding companies. Despite prior approval, the Federal Reserve has the power to order any bank holding company or its subsidiaries to terminate any activity or to terminate its ownership or control of any subsidiary when the Federal Reserve has reasonable grounds to believe that continuation of

such activity or such ownership or control constitutes a serious risk to the financial soundness, safety or stability of any bank subsidiary of the bank holding company.

The GLB Act also permits securities brokerage firms and insurance companies to own banks and bank holding companies. The GLB Act also seeks to streamline and coordinate regulation of integrated financial holding companies, providing generally for umbrella regulation of financial holding companies by the Federal Reserve, and for functional regulation of banking activities by bank regulators, securities activities by securities regulators, and insurance activities by insurance regulators.

For a bank holding company to be eligible for financial holding company status, all of its subsidiary insured depository institutions must be well-capitalized and well-managed. A bank holding company may become a financial holding company by filing a declaration with the Federal Reserve that it elects to become a financial holding company. The Federal Reserve must deny expanded authority to any bank holding company with a subsidiary insured depository institution that received less than a satisfactory rating on its most recent Community Reinvestment Act of 1977 (the CRA) review as of the time it submits its declaration. If, after becoming a financial holding company and undertaking activities not permissible for a bank holding company, the company fails to continue to meet any of the prerequisites for financial holding company status, the company must enter into an agreement with the Federal Reserve to comply with all applicable capital and management requirements. If the company does not return to compliance within 180 days, the Federal Reserve may order the company to divest its subsidiary banks or the company may discontinue or divest its non-permissible activities.

The BHC Act requires every bank holding company to obtain the prior approval of the Federal Reserve before: (1) it may acquire direct or indirect ownership or control of any voting shares of any bank if, after such acquisition, the bank holding company will directly or indirectly own or control more than 5.0% of the voting shares of the bank; (2) it or any of its subsidiaries, other than a bank, may acquire all or substantially all of the assets of any bank; or (3) it may merge or consolidate with any other bank holding company.

The BHC Act further provides that the Federal Reserve may not approve any transaction that would result in a monopoly or would be in furtherance of any combination or conspiracy to monopolize or attempt to monopolize the business of banking in any section of the United States, or the effect of which may be substantially to lessen competition or to tend to create a monopoly in any section of the country, or that in any other manner would be in restraint of trade, unless the anticompetitive effects of the proposed transaction are clearly outweighed by the public interest in meeting the convenience and needs of the community to be served. The Federal Reserve is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks concerned and the convenience and needs of the community to be served. Consideration of financial resources generally focuses on capital adequacy, and consideration of convenience and needs issues includes the parties' performance under the CRA, both of which are discussed below.

Regions Bank is a member of the Federal Deposit Insurance Corporation (FDIC), and as such, its deposits are insured by the FDIC to the extent provided by law. It is also subject to numerous statutes and regulations that affect its business activities and operations, and is supervised and examined by one or more state or federal bank regulatory agencies.

Regions Bank is a state-chartered bank. Regions Bank is a member of the Federal Reserve System and is subject to supervision and examination by the Federal Reserve and the state banking authority of Alabama, the state in which it is headquartered. The Federal Reserve and the Alabama Department of Banking regularly examine the operations of Regions Bank and are given authority to approve or disapprove mergers, consolidations, the establishment of branches and similar corporate actions. The federal and state banking regulators also have the power to prevent the continuance or development of unsafe or unsound banking practices or other violations of law.

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

Patriot Act. In 2001, President Bush signed into law comprehensive anti-terrorism legislation known as the USA Patriot Act. Title III of the USA Patriot Act requires financial institutions, including Regions' banking, broker-dealer, and insurance subsidiaries, to help prevent, detect and prosecute international money laundering and the financing of terrorism. Regions' banking, broker-dealer and insurance subsidiaries have augmented their systems and procedures to meet the requirements of these regulations.

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

As to the payment of dividends, Regions Bank is subject to the laws and regulations of the state of Alabama and to the regulations of the Federal Reserve.

If, in the opinion of a federal regulatory agency, an institution under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which, depending on the financial condition of the institution, could include the payment of dividends), such agency may require, after notice and hearing, that such institution cease and desist from such practice. The federal banking agencies have indicated that paying dividends that deplete an institution's capital base to an inadequate level would be an unsafe and unsound banking practice. Under the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), an insured institution may not pay any dividend if payment would cause it to become undercapitalized or if it already is undercapitalized. See Regulatory Remedies under FDICIA below. Moreover, the Federal Reserve, and the FDIC have issued policy statements stating that bank holding companies and insured banks should generally pay dividends only out of current operating earnings.

At December 31, 2005, under dividend restrictions imposed under federal and state laws, Regions Bank, without obtaining governmental approvals, could declare aggregate dividends to Regions Financial Corporation of approximately \$1.1 billion.

The payment of dividends by Regions Financial Corporation and Regions Bank may also be affected or limited by other factors, such as the requirement to maintain adequate capital above regulatory guidelines.

Capital Adequacy. Regions Financial Corporation and its subsidiary bank are required to comply with the applicable capital adequacy standards established by the Federal Reserve. There are two basic measures of capital adequacy for bank holding companies that have been promulgated by the Federal Reserve: a risk-based measure and a leverage measure. All applicable capital standards must be satisfied for a financial holding company to be considered in compliance.

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

The minimum guideline for the ratio of total capital (Total Capital) to risk-weighted assets (including certain off-balance-sheet items, such as standby letters of credit) is 8.0%. At least half of the Total Capital must be composed of common equity, undivided profits, minority interests in the equity accounts of consolidated subsidiaries, noncumulative perpetual preferred stock and a limited amount of cumulative perpetual preferred stock, less goodwill and certain other intangible assets (Tier 1 Capital). The remainder may consist of subordinated debt, other preferred stock and a limited amount of allowance for loan losses. The minimum guideline for Tier 1 Capital is 4.0%. At December 31, 2005, Regions consolidated Tier 1 Capital ratio was 8.60% and its Total Capital ratio was 12.76%.

In addition, the Federal Reserve has established minimum leverage ratio guidelines for financial holding companies. These guidelines provide for a minimum ratio of Tier 1 Capital to average assets, less goodwill and certain other intangible assets (the Leverage Ratio), of 3.0% for bank holding companies that meet certain specified criteria, including having the highest regulatory rating. All other bank holding companies generally are required to maintain a Leverage Ratio of at least 3.0%, plus an additional cushion of 100 to 200 basis points. Regions Leverage Ratio at December 31, 2005, was 7.42%. The guidelines also provide that bank holding companies experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Furthermore, the Federal Reserve has indicated that it will consider a tangible Tier 1 Capital leverage ratio (deducting all intangibles) and other indicators of capital strength in evaluating proposals for expansion or new activities.

A subsidiary bank is subject to substantially similar risk-based and leverage capital requirements as those applicable to Regions. Regions Bank was in compliance with applicable minimum capital requirements as of December 31, 2005. Neither Regions nor Regions Bank has been advised by any federal banking agency of any specific minimum capital ratio requirement applicable to it.

Failure to meet capital guidelines could subject a bank to a variety of enforcement remedies, including the termination of deposit insurance by the FDIC, and to certain restrictions on its business. See Regulatory Remedies under FDICIA below.

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

Regulatory Remedies under FDICIA. FDICIA establishes a system of regulatory remedies to resolve the problems of undercapitalized institutions. Under this system, which became effective in 1992, the federal banking regulators are required to establish five capital categories (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized) and to take certain mandatory supervisory actions, and are authorized to take other discretionary actions, with respect to institutions in the three undercapitalized categories, the severity of which will depend upon the capital category in which the institution is placed. Generally, subject to a narrow exception, FDICIA requires the banking regulator to appoint a receiver or conservator for an institution that is critically undercapitalized. The federal banking agencies have specified by regulation the relevant capital level for each category.

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Under the agencies' rules implementing FDICIA's remedy provisions, an institution that (1) has a Total Capital ratio of 10.0% or greater, a Tier 1 Capital ratio of 6.0% or greater, and a Leverage Ratio of 5.0% or greater and (2) is not subject to any written agreement, order, capital directive, or regulatory remedy directive issued by the appropriate federal banking agency is deemed to be well capitalized. An institution with a Total Capital ratio of 8.0% or greater, a Tier 1 Capital ratio of 4.0% or greater, and a Leverage Ratio of 4.0% or greater is considered to be adequately capitalized. A depository institution that has a Total Capital ratio of less than 8.0%, a Tier 1 Capital ratio of less than 4.0%, or a Leverage Ratio of less than 4.0% is considered to be undercapitalized. An institution that has a Total Capital ratio of less than 6.0%, a Tier 1 Capital ratio of less than 3.0%, or a Leverage Ratio of less than 3.0% is considered to be significantly undercapitalized, and an institution that has a tangible equity capital to assets ratio equal to or less than 2.0% is deemed to be critically undercapitalized. For purposes of the regulation, the term tangible equity includes core capital elements counted as Tier 1 Capital for purposes of the risk-based capital standards plus the amount of outstanding cumulative perpetual preferred stock (including related surplus), minus all intangible assets with certain exceptions. A depository institution may be deemed to be in a capitalization category that is lower than is indicated by its actual capital position if it receives an unsatisfactory examination rating.

An institution that is categorized as undercapitalized, significantly undercapitalized, or critically undercapitalized is required to submit an acceptable capital restoration plan to its appropriate federal banking agency. Under FDICIA, a bank holding company must guarantee that a subsidiary depository institution meets its capital restoration plan, subject to certain limitations. The obligation of a controlling bank holding company under FDICIA to fund a capital restoration plan is limited to the lesser of 5.0% of an undercapitalized subsidiary's assets or the amount required to meet regulatory capital requirements. An undercapitalized institution is also generally prohibited from increasing its average total assets, making acquisitions, establishing any branches, or engaging in any new line of business, except in accordance with an accepted capital restoration plan or with the approval of the FDIC. In addition, the appropriate federal banking agency is given authority with respect to any undercapitalized depository institution to take any of the actions it is required to or may take with respect to a significantly undercapitalized institution as described below if it determines that those actions are necessary to carry out the purpose of FDICIA.

For those institutions that are significantly undercapitalized or undercapitalized and either fail to submit an acceptable capital restoration plan or fail to implement an approved capital restoration plan, the appropriate federal banking agency must require the institution to take one or more of the following actions: sell enough shares, including voting shares, to become adequately capitalized; merge with (or be sold to) another institution (or holding company), but only if grounds exist for appointing a conservator or receiver; restrict certain transactions with banking affiliates as if the sister bank exception to the requirements of Section 23A of the Federal Reserve Act did not exist; otherwise restrict transactions with bank or nonbank affiliates; restrict interest rates that the institution pays on deposits to prevailing rates in the institution's region; restrict asset growth or reduce total assets; alter, reduce, or terminate activities; hold a new election of directors; dismiss any director or senior executive officer who held office for more than 180 days immediately before the institution became undercapitalized, provided that in requiring dismissal of a director or senior officer, the agency must comply with certain procedural requirements, including the opportunity for an appeal in which the director or officer will have the burden of proving his or her value to the institution; employ qualified senior executive officers; cease accepting deposits from correspondent depository institutions; divest certain nondepository affiliates which pose a danger to the institution; or be divested by a parent holding company. In addition, without the prior approval of the appropriate federal banking agency, a significantly undercapitalized institution may not pay any bonus to any senior executive officer or increase the rate of compensation for such an officer without regulatory approval.

At December 31, 2005, Regions Bank had the requisite capital levels to qualify as well capitalized.

FDIC Insurance Assessments. Pursuant to FDICIA, the FDIC adopted a risk-based assessment system for insured depository institutions that takes into account the risks attributable to different categories and concentrations of assets and liabilities. The risk-based system, which went into effect in 1994, assigns an institution to one of three capital categories: (1) well capitalized; (2) adequately capitalized; and (3) undercapitalized, as determined by capital reported by the institution in the quarterly report issued before each

assessment period. Each institution also is assigned by the FDIC to one of three supervisory subgroups within each capital group. The supervisory subgroup to which an institution is assigned is based on a supervisory evaluation provided to the FDIC by the institution's primary federal regulator and information which the FDIC determines to be relevant to the institution's financial condition and the risk posed to the deposit insurance funds (which may include, if applicable, information provided by the institution's state supervisor). An institution's insurance assessment rate is then determined based on the capital category and supervisory subgroup to which it is assigned. Under the final risk-based assessment system, there are nine assessment risk classifications (i.e., combinations of capital groups and supervisory subgroups) to which different assessment rates are applied.

Regions Bank is assessed at the well-capitalized level where the premium rate is currently zero. Like all insured banks, it also must pay a quarterly assessment of approximately \$.02 per \$100 of assessable deposits to pay off bonds that were issued in the late 1980's by a mixed-ownership government corporation, the Financing Corporation, to raise funds to cover costs of the resolution of the savings and loan crisis.

Under the Federal Deposit Insurance Act (FDIA), insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Safety and Soundness Standards. The FDIA, as amended by FDICIA and the Riegle Community Development and Regulatory Improvement Act of 1994, requires the federal bank regulatory agencies to prescribe standards, by regulations or guidelines, relating to internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, stock valuation and compensation, fees and benefits and such other operational and managerial standards as the agencies deem appropriate. In 1995, the federal bank regulatory agencies adopted guidelines prescribing safety and soundness standards pursuant to FDICIA, as amended. The guidelines establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director, or principal stockholder. In addition, the agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the prompt corrective action provisions of FDICIA. See Regulatory Remedies under FDICIA above. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties. The federal bank regulatory agencies also proposed guidelines for asset quality and earnings standards.

Depositor Preference. The Omnibus Budget Reconciliation Act of 1993 provides that deposits and certain claims for administrative expenses and employee compensation against an insured depository institution would be afforded a priority over other general unsecured claims against such an institution in the liquidation or other resolution of such an institution by any receiver.

Regulation of Morgan Keegan. As a registered investment adviser and broker-dealer, Morgan Keegan is subject to regulation and examination by the Securities and Exchange Commission (SEC), the National Association of Securities Dealers (NASD), the New York Stock Exchange (NYSE) and other self regulatory organizations (SROs), which may affect its manner of operation and profitability. Such regulations cover a broad range of subject matter. Rules and regulations for registered broker-dealers cover such issues as: capital requirements; sales and trading practices; use of client funds and securities; the conduct of directors, officers, and employees; record-keeping and recording; supervisory procedures to prevent

improper trading on material non-public information; qualification and licensing of sales personnel; and limitations on the extension of credit in securities transactions. Rules and regulations for registered investment advisers include the limitations on the ability of investment advisers to charge performance-based or non-refundable fees to clients, record-keeping and reporting requirements, disclosure requirements, limitations on principal transactions between an adviser or its affiliates and advisory clients, and anti-fraud standards.

Morgan Keegan is subject to the net capital requirements set forth in Rule 15c3-1 of the Exchange Act. The net capital requirements measure the general financial condition and liquidity of a broker-dealer by specifying a minimum level of net capital that a broker-dealer must maintain, and by requiring that a significant portion of its assets be kept liquid. If Morgan Keegan failed to maintain its minimum required net capital, it would be required to cease executing customer transactions until it came back into compliance. This could also result in Morgan Keegan losing its NASD membership, its registration with the SEC or require a complete liquidation.

The SEC's risk assessment rules also apply to Morgan Keegan as a registered broker-dealer. These rules require broker-dealers to maintain and preserve records and certain information, describe risk management policies and procedures, and report on the financial condition of affiliates whose financial and securities activities are reasonably likely to have a material impact on the financial and operational condition of the broker-dealer. Certain material associated persons of Morgan Keegan, as defined in the risk assessment rules, may also be subject to SEC regulation.

In addition to federal registration, state securities commissions require the registration of certain broker-dealers and investment advisers. Morgan Keegan is registered as a broker-dealer with every state, the District of Columbia, and Puerto Rico. Morgan Keegan is registered as an investment adviser in the following states: Alabama, Arkansas, California, Connecticut, Delaware, District of Columbia, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia and Wisconsin.

Violations of federal, state, and SRO rules or regulations may result in the revocation of broker-dealer or investment adviser licenses, imposition of censures or fines, the issuance of cease and desist orders, and the suspension or expulsion of officers and employees from the securities business firm. In addition, Morgan Keegan's business may be materially affected by new rules and regulations issued by the SEC or SROs as well as any changes in the enforcement of existing laws and rules that affect its securities business.

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

Other. The United States Congress and other state law-making bodies continue to consider a number of wide-ranging proposals for altering the structure, regulation and competitive relationships of the nation's financial institutions. It cannot be predicted whether or in what form further legislation may be adopted or the extent to which Regions' business may be affected thereby.

Competition

All aspects of Regions' business are highly competitive. Regions' subsidiaries compete with other financial institutions located in the states in which they operate and other adjoining states, as well as large banks in major financial centers and other financial intermediaries, such as savings and loan associations, credit unions, consumer finance companies, brokerage firms, insurance companies, investment companies, mutual funds, other mortgage companies and financial service operations of major commercial and retail corporations.

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

Employees

As of December 31, 2005, Regions and its subsidiaries had approximately 25,000 full-time-equivalent employees.

Available Information

Regions maintains a website at www.regions.com. Regions makes available on its website free of charge its annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to those reports which are filed with or furnished to the SEC pursuant to Section 13(a) of the Exchange Act. These documents are made available on Regions' website as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. You may also request a copy of these filings, at no cost, by writing or telephoning Regions at the following address:

ATTENTION: Investor Relations

REGIONS FINANCIAL CORPORATION
417 North 20th Street
Birmingham, Alabama 35203
(205) 944-1300

Item 1A. Risk Factors

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Regions' corporate headquarters occupy several floors of the main banking facility of Regions Bank, located at 417 North 20th Street, Birmingham, Alabama 35203.

Regions Bank, Regions' banking subsidiary, operates through 1,311 banking offices. Regions provides investment banking and brokerage services through 281 offices of Morgan Keegan, while Regions' mortgage divisions operate 334 offices. For offices in premises leased by Regions and its subsidiaries, annual rentals totaled approximately \$84.4 million as of December 31, 2005. During 2005, Regions and its subsidiaries received approximately \$11.6 million in rentals for space leased to others. At December 31, 2005, there were no significant encumbrances on the offices, equipment and other operational facilities owned by Regions and its subsidiaries.

See Item 1. Business of this annual report for a description of the states in which Regions Bank branches and Morgan Keegan's offices are located.

Item 3. Legal Proceedings

Reference is made to Note 13 Commitments and Contingencies, to the consolidated financial statements included under Item 8 of this Annual Report on Form 10-K.

Regions is subject to litigation, including class action litigation, 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 of the opinion that the outcome of pending and threatened litigation would not have a material effect on Regions consolidated financial position or results of operations.

Item 4. Submission Of Matters to a Vote Of Security Holders

No matters were submitted to security holders for a vote during the fourth quarter of 2005.

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

Common Stock Market Prices and Dividend information for the year ended December 31, 2005, is included under Item 8 of this Annual Report filed on Form 10-K in Note 26 Summary of Quarterly Results of Operations, Common Stock Market Prices and Dividends to the consolidated financial statements.

The following table presents information regarding issuer purchases of equity securities during the fourth quarter of 2005.

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(1)(2)
October 1, 2005 - October 31, 2005	568,900	\$32.41	568,900	30,845,400
November 1, 2005 - November 30, 2005	1,806,700	33.63	1,806,700	29,038,700
December 1, 2005 - December 31, 2005	1,447,500	34.17	1,447,500	27,591,200
Total	3,823,100	\$33.65	3,823,100	

- (1) On July 15, 2004, Regions Board of Directors assessed the pre-merger repurchase authorizations of both Regions and Union Planters and authorized the repurchase of up to 20.0 million shares of Regions common stock through open market transactions.
- (2) On October 20, 2005, Regions Board of Directors assessed the repurchase authorization of Regions and authorized the repurchase of an additional 25.0 million shares of Regions common stock through open market transactions.

Item 6. Selected Financial Data

HISTORICAL FINANCIAL SUMMARY

REGIONS FINANCIAL CORPORATION & SUBSIDIARIES

	2005	2004	2003	2002	2001	2000	Annual Change 2004-2005	Compound Growth Rate 2000-2005
(in thousands, except ratios, yields, and per share amounts)								
Summary of Operating Results								
Interest income:								
Interest and fees on loans	\$ 3,546,767	\$ 2,318,684	\$ 1,702,299	\$ 1,986,203	\$ 2,458,503	\$ 2,588,143	52.96%	6.50%
Income on federal funds sold	19,301	7,701	5,828	8,377	17,890	5,537	150.63	28.37
Taxable interest on securities	498,666	434,009	348,765	400,705	445,919	561,974	14.90	-2.36
Tax-free interest on securities	28,800	25,319	24,355	29,967	40,434	41,726	13.75	-7.15
Other interest income	216,841	169,972	137,883	111,737	92,891	36,863	27.57	42.53
Total interest income	4,310,375	2,955,685	2,219,130	2,536,989	3,055,637	3,234,243	45.83	5.91
Interest expense:								
Interest on deposits	1,004,727	496,627	430,353	652,765	1,135,695	1,372,260	102.31	-6.04
Interest on short-term borrowings	164,816	108,000	101,075	128,256	188,108	276,243	52.61	-9.81
Interest on long-term borrowings	320,213	238,024	213,104	258,380	306,341	196,943	34.53	10.21
Total interest expense	1,489,756	842,651	744,532	1,039,401	1,630,144	1,845,446	76.79	-4.19
Net interest income	2,820,619	2,113,034	1,474,598	1,497,588	1,425,493	1,388,797	33.49	15.22
Provision for loan losses	165,000	128,500	121,500	127,500	165,402	127,099	28.40	5.36
Net interest income after provision for loan losses	2,655,619	1,984,534	1,353,098	1,370,088	1,260,091	1,261,698	33.82	16.05
Non-interest income:								
Brokerage and investment banking income	548,662	535,300	552,729	499,685	358,974	41,303	2.50	67.75
Trust department income	127,766	102,569	69,921	62,197	56,681	57,675	24.57	17.24
Service charges on deposit accounts	518,388	418,142	288,613	277,807	267,263	231,670	23.97	17.48
Mortgage servicing and origination fees	145,304	128,845	97,383	90,000	86,865	74,689	12.77	14.24
Net securities (losses) gains	(18,892)	63,086	25,658	51,654	32,106	(39,928)	-129.95	-13.90
Other	492,204	414,489	317,032	239,954	177,660	211,890	18.75	18.36
Total non-interest income	1,813,432	1,662,431	1,351,336	1,221,297	979,549	577,299	9.08	25.72
Non-interest expense:								
Salaries and employee benefits	1,739,017	1,425,075	1,095,781	1,005,099	861,730	573,137	22.03	24.86
Net occupancy expense	224,073	160,060	105,847	97,924	86,901	70,675	39.99	25.96
Furniture and equipment expense	132,776	101,977	81,347	90,818	87,727	74,213	30.20	12.34
Other	951,090	784,271	509,887	528,304	485,331	379,246	21.27	20.19
Total non-interest expense	3,046,956	2,471,383	1,792,862	1,722,145	1,521,689	1,097,271	23.29	22.66
Income before income taxes	1,422,095	1,175,582	911,572	869,240	717,951	741,726	20.97	13.90

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Applicable income taxes	421,551	351,817	259,731	249,338	209,017	214,203	19.82	14.50
Net income	\$ 1,000,544	\$ 823,765	\$ 651,841	\$ 619,902	\$ 508,934	\$ 527,523	21.46%	13.66%
Net income available to common shareholders	\$ 1,000,544	\$ 817,745	\$ 651,841	\$ 614,458	\$ 508,934	\$ 527,523	22.35%	13.66%
Average number of shares outstanding	461,171	368,656	274,212	276,936	277,455	272,553	25.10%	11.09%
Average number of shares outstanding diluted	466,183	373,732	277,930	281,043	280,332	274,068	24.74%	11.21%
Per share:								
Net income	\$ 2.17	\$ 2.22	\$ 2.38	\$ 2.22	\$ 1.83	\$ 1.94	-2.25%	2.27%
Net income, diluted	2.15	2.19	2.35	2.19	1.82	1.92	-1.83	2.29
Cash dividends declared	1.36	1.33	1.00	0.94	0.91	0.87	2.26	9.35

(1) In 2002, Regions adopted Statement 142 which eliminated amortization of excess purchase price. Results for 2002 were also impacted by the retroactive application of EITF 03-6 Participating Securities and the Two Class Method under FASB Statement No. 128, Earnings per Share.

(2) Prior periods have been conformed to the current period presentation.

(3) Prior period share and per share amounts have been adjusted to reflect the exchange of Regions common stock in connection with the Union Planters transaction. See Note 18 Business Combinations to the consolidated financial statements.

REGIONS FINANCIAL CORPORATION & SUBSIDIARIES

HISTORICAL FINANCIAL SUMMARY (Continued)

	2005	2004	2003	2002	2001	2000
Yields and Costs (taxable equivalent basis)						
Earning assets:						
Taxable securities	4.29%	4.14%	4.06%	5.16%	6.17%	6.51%
Tax-free securities	8.78	7.93	7.68	7.96	7.95	7.64
Federal funds sold	3.14	1.22	0.93	1.46	3.21	6.27
Loans (net of unearned income)	6.23	5.31	5.56	6.59	8.13	8.63
Other earning assets	6.06	5.23	4.72	5.17	5.58	8.95
Total earning assets	5.91	5.07	5.17	6.19	7.61	8.15
Interest-bearing liabilities:						
Interest-bearing deposits	2.11	1.37	1.61	2.47	4.30	5.03
Short-term borrowings	2.99	1.73	1.90	2.88	4.55	6.26
Long-term borrowings	4.46	3.65	3.88	5.01	6.39	6.42
Total interest-bearing liabilities	2.47	1.72	1.98	2.89	4.61	5.31
Net yield on interest earning assets	3.91	3.66	3.49	3.73	3.66	3.55
Ratios						
Net income to:						
Average stockholders equity	9.37%(a)	10.91%(b)	15.06%	15.27%	13.49%(c)	16.31%(d)
Average total assets	1.18(a)	1.23(b)	1.34	1.34	1.14(c)	1.23(d)
Efficiency(e)	64.30(a)	65.36(b)	62.52	62.85	61.82(c)	53.82(d)
Dividend payout	62.67	59.91	42.02	42.34	49.73	44.85
Average loans to average deposits	97.14	99.23	97.97	98.46	99.71	94.63
Average stockholders equity to average total assets	12.55	11.29	8.93	8.80	8.45	7.54
Average interest-bearing deposits to average total deposits	79.64	80.77	83.24	84.26	85.07	85.67

The ratios disclosed in the following footnotes exclude certain items which management believes aid the reader in evaluating trends.

- (a) Ratios for 2005, excluding \$115.4 million in after-tax merger and other charges, are as follows: Return on average stockholders equity 10.45%; Return on average total assets 1.31%; and Efficiency 61.87%.
- (b) Ratios for 2004, excluding \$39.1 million in after-tax merger and other charges, are as follows: Return on average stockholders equity 11.43%; Return on average total assets 1.29%; and Efficiency 63.90%.
- (c) Ratios for 2001, excluding \$17.8 million in after-tax merger and other charges, are as follows: Return on average stockholders equity 13.96%; Return on average total assets 1.18%; and Efficiency 60.87%.
- (d) Ratios for 2000, excluding \$44.0 million in after-tax gain from sale of credit card portfolio and \$26.2 million in after-tax loss from sale of securities, are as follows: Return on average stockholders equity 15.76%; Return on average total assets 1.19%; and Efficiency 55.65%.
- (e) The efficiency ratio is the quotient of non-interest expense divided by the sum of net interest income (on a tax equivalent basis) and non-interest income (excluding securities gains and losses). This ratio is commonly used by financial institutions as a measure of productivity.

REGIONS FINANCIAL CORPORATION & SUBSIDIARIES