

Off Wall Street Consulting Group, Inc.

P.O. Box 382107
Cambridge, MA 02238

tel: 617.868.7880

fax: 617.868.4933

internet: research@offwallstreet.com
www.offwallstreet.com

All information contained herein is obtained by Off Wall Street Consulting Group, Inc. from sources believed by it to be accurate and reliable. However, such information is presented "as is," without warranty of any kind, and Off Wall Street Consulting Group, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, or completeness of any such information or with regard to the results to be obtained from its use. All expressions of opinion are subject to change without notice, and Off Wall Street Consulting Group, Inc. does not undertake to update or supplement this report or any of the information contained herein. You should assume that Off Wall Street Consulting Group, Inc. and its employees enter into securities transactions which may include hedging strategies and buying and selling short the securities discussed in its reports before and after the time that Off Wall Street Consulting Group, Inc. determines to issue a report. Off Wall Street Consulting Group, Inc. hereby discloses that its clients and we the company, or our officers and directors, employees and relatives, may now have and from time to time have, directly or indirectly, a long or short position in the securities discussed and may sell or buy such securities at any time.

Copyright 2008 by Off Wall Street Consulting Group, Inc.

N.B: Federal copyright law (Title 17 of the U.S. Code) makes it illegal to reproduce this report by any means and for any purpose, unless you have our written permission. Copyright infringement carries a statutory fine of up to \$100,000 per violation. We offer a reward of \$2,000 for information that leads to the successful prosecution of copyright violators.

New Rec: Regions Financial (RF: \$21.43) May 13, 2008

Position: Sell

Target: \$12.00

\$MM	Q1 08e	Q2 08e	Q3 08e	Q4 08e	2008e	2009e
Revs	1,474,920	1,356,102	1,233,185	1,194,628	5,808,990	5,054,697
EPS \$	0.29	0.17	0.04	(0.00)	0.98	0.23
Y/Y Gr	-55%	-70%	-59%	-100%	-50%	-76%
PE	n/a	n/a	n/a	n/a	21.9	93.1
PSR	n/a	n/a	n/a	n/a	2.6	2.9
Consens	0.50	0.50	0.51	0.50	2.01	2.22

Shares Out: 696M

Market Cap: \$14.9B

FYE: December

Summary: Birmingham, Alabama based Regions Financial Corporation (Regions or RF) provides a full range of bank and bank-related services to individual and business customers through its subsidiaries and 1,900 branch offices. The General Banking/Treasury segment, which includes the company's branch network,

accounted for 89% of RF's net income in 2007. RF's primary subsidiaries are Morgan Keegan, a full service regional brokerage and investment banking firm based in Memphis that accounted for 10% of 2007 net income, and Regions Insurance Group, an insurance brokerage that offers all lines of personal and commercial insurance including, property, casualty, life, health and accident insurance (1% of 2007 net income).

Regions holds leading market share positions in Alabama (1st), Mississippi (1st), Arkansas (2nd), Tennessee (2nd), Louisiana (3rd), Florida (4th) and Georgia (5th). In November 2006, Regions (which had about \$87B in assets at the time) acquired AmSouth Bancorporation, another Birmingham based regional bank with \$54B in assets, for \$10B, or 2.8X tangible book. Following the acquisition, Regions almost tripled its branch presence in Florida from 149 at the end of 2006 to 417 at the end of 2007. AmSouth had been aggressively expanding in Florida, and had stated in its 2004 annual report that it intended to double Florida's asset contribution by 2007. Its expansion was mostly on the west coast of Florida (it was #4 by market share in Tampa in 2006) and in the Panhandle. AmSouth had almost doubled its branch count in Florida from 140 in 2002 to almost 270 at the time of the merger in November 2006, and Florida branches represented almost 40% of AmSouth's branch count at that time. Today, Regions has total assets of \$144B, including loans of \$95B. The remainder of assets consists primarily of securities available for sale (\$18B), excess purchase price (or goodwill) related to the 2006 acquisition of AmSouth (\$7B) and 2004 merger with Union Planters (\$4B), Other Assets of \$9B (which we discuss later), cash (\$3B), and net premises and equipment (\$3B). Tangible book is \$8.8B.

As a result of the AmSouth acquisition, Regions has significant real estate exposure in some of Florida's weakest real estate markets (Tampa, Fort Myers, Panhandle). Regions also has a significant exposure to Atlanta real estate. These two areas accounted for about 4.5 percentage points of non-accruals in the residential homebuilder loan portfolio of \$6.2B at the end of Q1 08, nearly 7% of which is non-accruing or 90+ days past due. This portfolio includes \$1.2B of construction loans that RF classifies as exit credits, because it is attempting to exit these loans. On the Q4 07 call, the company said that it is getting offers of 40-50 cents on the dollar for these loans, which is lower than what Regions is currently willing to accept. As we point out later in our discussion of the Florida Panhandle and West Coast real estate markets, Regions could end up selling these loans for as low as 33 cents on the dollar.

RF also has \$15B of home equity loan exposure, and it does not hold first lien on about \$9B of these loans. Home equity loan net chargeoffs nearly doubled from 0.31% of loans in Q4 07 to 0.57% in Q1 08, as did non-accruing loans from 0.04% to 0.08%. The portion of home loans that were 90 days + past due rose from

0.98% of loans in Q4 07 to 1.28% in Q1 08. To assuage concerns, Regions cited a few factors on the call that it claimed would enable it to manage the exposure. It said that only 40% of home equity loans were drawn, that the weighted average FICO score of its home equity borrowers is 733, that weighted loan-to-value exposure for home equity lending was 74%, and that it insures LTV exposures greater than 80%. However, on the Q4 07 call, the company noted that that only \$500M of the \$9B second lien home equity portfolio have LTVs greater than 80% and are therefore insured. We estimate that LTVs on the \$8.5B of uninsured second lien home equity loan portfolio are above 70% and LTVs on many of these loans will likely exceed 80% at current market due to home price declines. Thus, losses on these loans should go up. While the fact that only 40% of commitments are drawn may be regarded as a positive by the company, it also implies that 60% of commitments is available to be drawn by customers. In the current economic and real estate market conditions, we think the amount available for draw increases the risks that the company is underestimating its potential losses. We note that on May 13, 2008, Bank of America, whose home equity loan portfolio has similar FICO and LTV characteristics to Regions and is also exposed to Florida, raised its estimate of home equity loan losses from 2%-2.5% of home equity loans to greater than 2.5%.

On its Q4 07 call, RF suggested that its net chargeoffs, which were 0.45% of loans in 2007, would increase a bit in H1 08, but stabilize after that. The company projected net chargeoffs of 0.55% in 2008. Management did not update that guidance on the Q1 08 call, but said that it was “pretty comfortable” with where Regions was. The “street” appears to agree with this sentiment and forecasts chargeoffs at the high end of management forecast (0.65%) in 2008 and at a similar level in 2009. The “street” thinks that provision for loan losses should total \$800M-\$900M in 2008 (versus \$555M in 2007) and should decline to about \$750M in 2009. With these assumptions, the “street” estimates 2008 EPS of \$2.01, down slightly from 2007 adjusted EPS of 2.26, and 2009 EPS of \$2.22. As we discuss, we think that current consensus assumptions are far too optimistic.

We conducted extensive surveys of real estate markets where Regions had leading deposit market shares, such as Panama City (where Regions is #2 with 23% market share), Panama City Beach (#1, 31%), Destin (#1, 17%), Santa Rosa Beach (#2, 21%) and Pensacola (#1, 21%). These surveys suggest that prices of single family homes and condos are down as much as 50% from their peak in late 2006 in new developments, and prices may be down by as much as two-thirds for unsold lots in newer subdivisions with excess inventory. Moreover, the declines appear to be unabated in 2008. For instance, list prices (which no one pays these days) have dropped 20% since January 2008 on tower condos in Kelly Plantation in Destin. Many developments that were permitted in 2006 and 2007 are getting finished now and are adding to the inventory of homes. Based on our conversations

with real estate brokers and based on onsite visits to development sales offices, we estimate that inventories of new units and lots rose 20% Y/Y in 2007 and could increase as much as 15% Y/Y in 2008. Thus, some knowledgeable real estate investors think that it could take several years for the supply-demand imbalance to be rectified, during which time pricing pressure on homes should continue.

Therefore, home prices in Regions strongholds in Florida should continue to decline, which we think will increase foreclosures and short sales. This will also increase home equity defaults, since many borrowers will be upside down (i.e., borrowings higher than equity). Moreover, because banks are busy dealing with foreclosures and short sales, construction borrowers who are now current on their obligations but suspect that they may default are unable to command bankers' attentions. Thus, defaults of both construction loan and residential mortgage and home equity loans should increase far more than the modest rate that Regions projects.

We note that other banks that lend heavily in the Panhandle (such as BancTrust which has the leading market share in Santa Rosa Beach) are reporting non-performing assets/ loans of 3.88% versus 1.25% for Regions. The Regions' non-first lien home equity loan exposure of \$9B exceeds RF's tangible equity of \$8.8B. RF is levered 16.9X (tangible assets/tangible equity), well higher than peers SunTrust (15.3X) and Wachovia (16.1X).

We project that net chargeoffs as a percent of average loans in 2008 and 2009 will total 0.77% and 0.81%, respectively, compared to the "street" expectation of about 0.65% in both years. As a result, we assume provisions for loan loss of \$1.1B in both 2008 and 2009, well above "street" forecasts of \$850M and \$750M. With these assumptions, we estimate 2008 EPS of \$0.98, which is half of the consensus expectation, and \$0.23 in 2009 versus \$2.22 for the "street."

Moreover, if we are correct in our chargeoff estimates, tangible book value would decrease from the current \$12.59 to less than \$12 by the end of 2008 and to \$10.53 by the end of 2009. Our initial price target is \$12, which is our estimate of the tangible book value at the end of 2008. We note that banks such as First Horizon and Colonial BancGroup, which have similar real estate exposure to Florida, trade at 70%-110% of tangible book.

Background:

Regions took on its current name in 1994. Prior to that, it was known as First Alabama Bancshares (FAB). FAB was formed in 1971 by the merger of First National Bank of Huntsville (chartered in 1856), First National Bank of Montgomery (opened in 1871), and Exchange Security Bank of Birmingham

(founded in 1928). In July 2004, Regions (which had \$50B in assets at the time) merged with Memphis-based Union Planters (which had \$32B in assets). As noted previously, in November 2006, Regions acquired AmSouth.

Today, Regions has about 1900 branches. Table 1 shows states with more than 100 branches, RF's market shares and market share positions in those states, as well as their contribution to the company's loans and deposits. The loan and deposit data is from the 2006 10-K because Regions did not provide similar information in its 2007 10-K.

Table 1: Data on RF's top states by branches

State	Branch count	Market share in state (6/30/07)	Market share position in state	% of total Regions loans	% of total Regions deposits
Florida	427	4.73%	4	24	18
Tennessee	314	15.60%	2	15	19
Alabama	255	24.32%	1	19	22
Mississippi	165	15.00%	1	4	7
Georgia	158	3.10%	5	9	6
Louisiana	138	10.47%	3	6	9
Arkansas	119	9.06%	2	5	5

Sources: Company reports, FDIC

Regions has two primary subsidiary activities. Morgan Keegan & Company (Morgan Keegan) is a full service regional brokerage and investment banking firm. Morgan Keegan has 400 offices and 1,300 financial advisors and its products and services include securities brokerage, asset management, financial planning, mutual funds, securities underwriting, sales & trading, and investment banking.

Regions is also involved in insurance through its Regions Insurance Group, Regions Insurance Services, Regions Agency, and Regions Life Insurance Company subsidiaries. Regions Insurance Group is a brokerage firm that offers all lines of commercial and business insurance, including property, casualty, life, health and accident insurance. Regions Insurance Services offers credit-related insurance products such as title, term, credit life, debt cancellation, environmental, crop and mortgage insurance to Regions customers. Regions Agency acts as an insurance agent or broker for credit life insurance, accident and health insurance, and other types of insurance related to extensions of credit by Regions Bank. Regions Life Insurance Company acts as a reinsurer of credit life and accident and health insurance for certain Regions affiliates.

Discussion:

1. RF shares are up 20% from recent lows. On April 15, 2008, the company posted Q1 08 EPS of 55 cents, adjusted for certain items, which beat consensus of 50

cents. Net chargeoffs of 0.53% of loans in the quarter were better than many expected. Management made comments on the call that appeared to suggest that while loan losses would continue to increase, they would be manageable. We will comment on earnings quality later on, but investors were relieved that the results were not worse.

Most “street” analysts are neutral on the stock and recognize that RF’s loan portfolio is risky, but they appear to have bought into management’s contention that the company will be able to manage losses. Thus, “street” forecasts for net chargeoffs for all of 2008 average about 0.65% of average loans, at the high end of management guidance provided on the Q4 07 call, versus 0.45% in Q4 07. Consequently, the “street” estimates that provision for loan losses will total \$850M, up 50% Y/Y, before falling to \$750M in 2009.

Our research suggests that RF’s loan losses are likely to be far higher, as we explain below, and that EPS in 2008 and 2009 could fall well short of “street” estimates. Thus, we think that the company’s shares, which trade at 1.7X tangible book, could fall significantly from current levels as the actual magnitude of the losses becomes known.

2. Table 2 lists RF’s loan portfolio by category for the last two quarters. Construction loans were 11.9% and 13.5% of the total loan portfolio at the end of Q1 08 and Q4 07, respectively. Of the construction loans, \$6.2B and \$7.2B (or 6.5% and 7.6%), respectively, were loans to residential homebuilders in Q1 08 and Q4 07. Construction loans can be of several types. For instance, banks lend to land developers, who get the subdivision entitled, perform site work, infrastructure (power lines, water lines, sewage, etc.) and common area roadwork before selling lots to homebuilders. Another type of construction loan is to smaller homebuilders who buy lots from the land developer and build spec homes. Yet another type of construction loan is made to national or larger regional homebuilders who develop the land and build homes. It appears that most of Regions’ construction loans were made to local and regional builders, which increases the probability of default.

Table 2: RF's loan portfolio

End of period amounts (\$000)	Q4 07	Q1 08
Commercial & Industrial/Leases	16,533,176	17,463,045
Commercial Real Estate - owner occupied mortgages	4,436,631	4,543,263
Total Commercial	20,969,807	22,006,308
Commercial Real Estate - non-owner occupied mortgages	8,057,504	9,063,831
Construction	12,893,068	11,460,090
Total Commercial Real Estate	20,950,572	20,523,921
Business & Community Banking Loans	15,540,443	16,045,530
Alt-A	2,830,062	2,743,467
Residential First Mortgage	14,129,484	14,019,883
Total Residential First Mortgage	16,959,546	16,763,350
Home Equity Lending	14,962,007	15,034,850
Indirect lending	3,938,113	3,961,782
Direct Lending	1,066,184	974,684
Other Consumer	992,175	1,075,006
Total Other Consumer Loans	20,958,479	21,046,322
Total Loans	95,378,847	96,385,431

Source: Company reports

Table 3 shows residential homebuilder loan breakdown by product category. While Regions highlighted the fact that residential homebuilder exposure was down by \$1B Q/Q, left unsaid was the fact that nonperforming assets (NPAs, or non accruing loans & foreclosed loan collateral) in each product category increased Q/Q. Total NPAs nearly doubled Q/Q.

Table 3: RF's residential homebuilder exposure by product category

End of period amounts (\$000)	Q4 07	Q1 08
Land	2,925,685	2,093,181
Residential spec	1,893,567	1,874,700
Lots	1,607,794	1,416,909
Residential pre-sold	617,628	588,163
National homebuilders	160,505	258,211
Total	7,205,179	6,231,164
Non-accruing loans at end of period (\$000)		
Land	57,346	94,319
Residential spec	100,640	160,343
Lots	68,269	103,294
Residential pre-sold	31,750	33,245
National homebuilders	-	27,030
Total	258,005	418,231
Non accruals as % of period ending loan amounts		
Land	2.0%	4.5%
Residential spec	5.3%	8.6%
Lots	4.2%	7.3%
Residential pre-sold	5.1%	5.7%
National homebuilders	0.0%	10.5%
Total	3.6%	6.7%
90+ days past due loans at end of period (\$000)		
Land	5,218	3,764
Residential spec	4,921	6,596
Lots	8,306	2,883
Residential pre-sold	892	428
National homebuilders	-	102
Total	19,337	13,773
90+ days past due as % of period ending loan amounts		
Land	0.18%	0.18%
Residential spec	0.26%	0.35%
Lots	0.52%	0.20%
Residential pre-sold	0.14%	0.07%
National homebuilders	0.00%	0.04%
Total	0.27%	0.22%

Source: Company reports

Table 4 shows residential homebuilder loan breakdown by geography. Note that NPAs increased in every region but the Southwest (Louisiana and Mississippi). Besides Florida and Atlanta, areas that the company highlighted for their weakness, Tennessee appears to be another state with increasing NPAs. Regions does not provide 90+ days past due figures by geography.

Table 4: RF's residential homebuilder exposure by geography

End of period amounts (\$000)	Q4 07	Q1 08
Florida	2,008,091	1,535,909
AL, GA, NC, SC, TN	3,864,057	3,531,020
Midwest	827,252	678,468
Southwest	328,935	337,889
Other	176,844	147,878
Total	7,205,179	6,231,164
Non-accruing loans at end of period (\$000)		
Florida	104,896	138,572
AL, GA, NC, SC, TN	97,889	200,830
Midwest	45,030	59,137
Southwest	10,145	8,226
Other	45	11,466
Total	258,005	418,231
Non accruals as % of period ending loan amounts		
Florida	5.2%	9.0%
AL, GA, NC, SC, TN	2.5%	5.7%
Midwest	5.4%	8.7%
Southwest	3.1%	2.4%
Other	0.0%	7.8%
Total	3.6%	6.7%

Source: Company reports

In Table 5, we show the average note size of loans issued for residential construction in all of RF's geographies and specifically in Florida. We were unable to learn from the company why the average land and lot note sizes decreased so significantly Q/Q both in Florida as well as in all of the company's geographies. The increase in the average residential pre-sold note commitment Q/Q both in Florida and for all of Regions suggests that the bank is financing the construction of increasingly expensive homes (\$1M+ ASP in Florida). As we explain below in our discussion of the Florida real estate market, it is likely that the values of such homes will decrease, which increases the probability of writedowns on even the newer loans.

Table 5: Residential homebuilder loan note size data

Average note size (all geographies, \$000)	Q4 07	Q1 08
Land	1,148	673
Residential spec	240	245
Lots	290	250
Residential pre-sold	350	416
National homebuilder	4,721	521
Total	405	340
#notes	17,791	18,327
Average note size in Florida (\$000)		
Land	3,626	2,137
Residential spec	529	470
Lots	843	577
Residential pre-sold	965	1,026
National homebuilder	-	5,003
Total	1,265	907
#notes	1,587	1,693

Source: Company reports, OWS estimates

3. Regions said that \$1.2B of the \$6.2B in the residential homebuilder loan category was being managed within the Special Assets department. This is an increase from the \$850M (out of a total of \$7.2B in total residential homebuilder loans) that the Special Assets group was managing at the end of Q4 07. On the Q4 07 call, Regions indicated that it would like to get these Special Assets managed loans off its books, but was being offered just 40-50 cents on the dollar. Management indicated that it was unwilling to accept these prices. One of these Special Asset loans appears to be for a development near an Alabama subdivision where lots were selling for \$250K apiece at the end of 2006, but go for just \$80K today. The fact that some of these lots are going for 32 cents on the dollar suggests that management may be making a mistake in rejecting offers of 40-50 cents, given that the glut of inventory from new developments, foreclosures and short sales is likely to continue to pressure prices.

4. Table 6 shows Regions' residential mortgage portfolio, which consists of residential mortgages and home equity loans. Residential mortgages include Alt-A loans, but only \$100M of subprime loans, since the company sold its subprime mortgage division to Barclays Bank in March 2007.

Table 6: Regions' residential mortgage and home equity exposure

End of period loan amounts (\$000)	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08
Alt-A	n/a	n/a	n/a	2,830,062	2,743,467
Residential First Mortgage	n/a	n/a	n/a	14,129,484	14,019,883
Home Equity Lending	14,845,348	14,819,443	14,835,319	14,962,007	15,034,850
Non-accrual loans (\$000)	n/a	n/a	n/a		
Alt-A	n/a	n/a	n/a	8,534	14,271
Residential First Mortgage	n/a	n/a	n/a	38,177	41,750
Home Equity Lending	n/a	n/a	n/a	6,611	12,428
Non-accrual loans, % of loans					
Alt-A	n/a	n/a	n/a	0.30%	0.52%
Residential First Mortgage	n/a	n/a	n/a	0.27%	0.30%
Home Equity Lending	n/a	n/a	n/a	0.04%	0.08%
90+ past due loans (\$000)					
Alt-A	n/a	n/a	n/a	41,125	67,275
Residential First Mortgage	n/a	n/a	n/a	113,281	118,654
Home Equity Lending	n/a	n/a	n/a	146,808	192,836
90+ past due, % of loans					
Alt-A	n/a	n/a	n/a	1.45%	2.45%
Residential First Mortgage	n/a	n/a	n/a	0.80%	0.85%
Home Equity Lending	n/a	n/a	n/a	0.98%	1.28%
Net chargeoffs (\$000)					
Alt-A	n/a	n/a	n/a	1,822	2,106
Residential First Mortgage	n/a	n/a	n/a	5,611	7,356
Home Equity Lending	8,686	8,774	11,701	11,513	21,072
Net chargeoffs, % of loans					
Alt-A	n/a	n/a	n/a	0.26%	0.31%
Residential First Mortgage	n/a	n/a	n/a	0.16%	0.21%
Home Equity Lending	0.24%	0.24%	0.32%	0.31%	0.57%

Source: Company reports

We note that 60% of Regions' home equity loans (or \$9B) are second lien. In other words, they are preceded in priority in the case of default by the first mortgage. Yet, home equity loans on non-accrual represent just 0.08% of home equity loans. The weighted average FICO and LTV on all home equity loans at the end of Q1 08 were 733 and 74%, respectively. We note that Bank of America, which has similar characteristics for its home equity portfolio and has a large Florida exposure, announced on May 13, 2008, that it expects losses of more than 2.5% on its home equity portfolio, versus its prior expectation of 2%-2.5%. As can be seen in Table 5, Regions is charging off far less (0.57% in Q1 08) and its allowance for loan losses is probably in the 0.75% range. If Regions were to experience losses in line with Bank of America, it would need to provide for an additional \$350M in loan losses.

On the Q1 08 call, management said that second-lien home equity loans with greater than 80% LTV exposures were insured. However, on the Q4 07 call, management said that such insured loans represented just \$500M. We estimate the average LTV exposure on the remainder of the second-lien home equity loan portfolio to be in excess of 70%. With home prices falling 25%-50% in Florida, current LTVs on many of the loans is likely greater than 100%, increasing the probability of defaults.

5. To assess the potential loan losses Regions could experience, we conducted market surveys in Atlanta (which, along with Florida, was highlighted by the company as a geography where the residential homebuilder portfolio was experiencing stress) and areas of Florida where Regions has significant branch count and deposit market share. Table 7 lists the Florida markets we surveyed along with Regions position in those markets. About a quarter of Regions residential homebuilder loans were for construction in Florida, and we estimate that the Atlanta area accounted for 15%-20% of residential homebuilder loans.

Table 7: Regions Florida markets with strong presence

(As of 6/30/07)	Number of offices	Deposits (\$M)	Market share
Orlando, FL			
SunTrust	27	3,192	23.8%
Bank of America	29	2,797	20.8%
Wachovia	23	2,712	20.2%
Colonial	6	1,038	7.7%
Washington Mutual	19	760	5.7%
CNLBank	2	568	4.2%
Regions	21	467	3.5%
Tampa, FL			
Bank of America	27	3,833	28.4%
Wachovia	23	2,827	20.9%
SunTrust	24	1,652	12.2%
Regions	26	889	6.6%
Bank of Tampa	8	663	4.9%
Naples, FL			
Bank of America	15	1,579	16.3%
Fifth Third	18	1,420	14.6%
Wachovia	17	1,270	13.1%
Orion	6	1,054	10.9%
Regions	13	495	5.1%
Santa Rosa Beach, FL			
BankTrust	2	117	40.1%
Regions	2	62	21.4%
Trustmark	2	40	13.7%
Whitney	2	20	7.0%
Vision	1	19	6.4%
Panama City, FL			
Peoples First Community Bank	5	378	27.2%
Regions	7	324	23.3%
Bay Bank & Trust	2	155	11.1%
SunTrust	4	142	10.2%
Wachovia	3	101	7.2%
Panama City Beach, FL			
Regions	4	237	31.3%
Peoples First Community Bank	2	112	14.7%
Vision	2	94	12.4%
Coastal Community	1	79	10.5%
Trustmark	1	72	9.5%
Destin, FL			
Regions	3	187	17.3%
World Savings Bank	1	101	9.4%
Vanguard Bank & Trust	2	92	8.5%
Whitney	2	92	8.5%
Gulfsouth Private Bank	1	80	7.4%

Defuniak Springs, FL			
SunTrust	1	64	30.9%
Regions	1	54	26.2%
Bank of America	1	43	20.8%
First National Bank & Trust	1	25	12.4%
Peoples National	1	9	4.5%
Pensacola, FL			
Regions	18	784	20.5%
Bank of Pensacola	8	775	20.3%
Wachovia	11	515	13.5%
Bank of America	6	365	9.5%
Whitney	7	213	5.6%

Source: FDIC

Home prices in suburban Atlanta are down about 25% from their 2006 peak. A higher percentage of lots are built out here than in Florida because the peak of the housing boom occurred earlier (2003-2005). There was also less speculative activity than in Florida, and pricing was lower than Florida for homes of similar quality. Another reason why prices have not dropped further is that builders of new homes are offering significant upgrades rather than dropping prices, and this is keeping appraisal values high and enabling qualified buyers to obtain mortgages. However, there is plenty of supply, and one broker told us that she has received 300 listings in the last two months. Foreclosures, pre-foreclosures and short sales are increasing. Our broker contact also told us that if the flood of new listings does not move before the beginning of the school year in September, sellers are likely to aggressively drop prices.

Naples and other areas in southern Florida such as Tampa and Fort Myers have large numbers of built homes as well as undeveloped lots. Lots are selling for 30 cents on the dollar relative to the peak in late 2005. Note that the peak here was earlier than it was almost everywhere else (mid 2006). As a result, banks were trying to get borrowers to conduct short sales of their lots at 50 cents on the dollar last year, but these offers were not attractive to builders because of the inventory of available built homes. These built homes would be less expensive than homes builders would be able to build even after buying lots at 50 cents on the dollar. Now, at 30 cents on the dollar, builders can build and sell homes for less than available built homes, and lots are moving. Even at these prices, there is about a year's supply of available lots.

An example that highlights this situation is a high-end development called Quail West in Bonita Springs, just outside of Naples. This development with 585 estate lots has two championship golf courses. Lots have direct or indirect views of the golf courses. Multiple developers and builders are upside down, and banks either own parcels of undeveloped lots or are forcing short sales. Homes, which

should have a minimum enclosed area of 3000 square feet, sold for \$2.5M in 2005 and now sell for \$1.75M. In 2005, certain lots that cost \$690,000 apiece were being sold to builders and directly to homeowners when building costs were about \$325/sf. Thus, builders would build houses for \$1.7M apiece and sell them for \$2.5M, or a homeowner building a custom home with a contractor could realize this added value. Today, certain of these lots are listed for \$299,000 each and brokers told us that they could be purchased for \$225,000-\$250,000 apiece. Currently, construction costs have declined as much as 40% from the 2005 peak due to lack of new work for contractors, and we estimate that the build cost for similar quality construction is \$250/sf. Thus, builders can build homes for less than \$1M and sell for an amount well under the listed price for an already built home (\$1.75M) and still make money. Sellers of existing homes, on the other hand, face the prospect of losing 30% or more. We think some of these existing homeowners likely hold Regions mortgages.

The situation on the Florida Panhandle, another high exposure area for Regions, is similar. North of the Intracoastal Waterway all the way up to I-10, developers have built a large number of single family homes. The tail end of the largest portion of this supply is just coming on the market, since the development orders (DOs) for land development were granted in 2006. It takes 18-24 months for a 150 lot subdivision to proceed from DO issuance to completion of homes. As a result of the new supply, we estimate that home and lot inventories in places such as Pensacola and Panama City increased 20% Y/Y in 2007 and are likely to increase 10%-15% Y/Y in 2008. While home prices are listed at \$250/sf to \$350/sf, actually transaction prices have been 10%-20% below these prices. Buyer caution and stricter bank lending standards have created a situation where this inventory is going to be worked off slowly over a period of years. In many high-end developments in Santa Rosa Beach and in the Panama City area, many homes are now selling for 50 cents on the dollar versus 2006 prices, and bid-ask spreads have increased.

In Panama City Beach, condo owners across from Pier Park, a new Simon Properties outdoor mall are looking to sell below prices they paid last year, even though a new airport projected to open in a couple of years promises to boost values after the opening. Recent condo transactions have taken place at about 50% of 2006 peak prices, and lenders are forcing developers to sell unsold inventories of units at current bids despite the potential of higher prices after the airport opening. We estimate that there are currently approximately 30,000 condominiums listed for sale between Pensacola and Port St. Joe, which represents at least a three-year supply.

List prices for units in Plantation Place, a set of high-end condo towers in Destin, have dropped 20% since January 2008, and a salesperson told us that we

could buy units at 15% below list. We were told that Regions is among several banks that have participated in making loans to both the developers and unit buyers of many such developments. Many preconstruction buyers have dropped out and several developers have not yet met the 80% unit sales threshold for unloading common maintenance expenses to the condo association. As a result, condo developers are selling unsold inventory below preconstruction prices, leaving many earlier purchasers and their mortgagees with an instant burden of carrying a higher comparable value for their earlier purchased units. Rifts between existing owners and these developers appear to be increasing with regard to the carry and funding of the condominium associations. This is important because, increasingly, some owners are not paying their monthly dues and their portions are inuring to the balance of the paying owners.

There are undeveloped or partly developed sites such as Osprey Creek in Santa Rosa, where banks have foreclosed on the land and are trying to attract builder proposals. We heard that builders are rejecting offers from the bank to sell lots for just 20 cents on the dollar. There are many such undeveloped and partially developed subdivisions in the area and we were told that Regions has financed at least two of them. Given the glut, it is likely that Regions will realize, at best, 10 - 15 cents on the dollar on its loans here, unless it holds the properties for an extended time period, in which case the bank will have to increase its reserves accordingly.

The final example we cite is a short sale of a year 2000-built, 2,400 square foot, 4-bedroom, 2.5-bath cottage home with Gulf views in Santa Rosa Beach, which is listed for \$499,000. The amount owed on the property is \$650,000, and a large national lender holds first and second mortgages, which suggests that it was bought for \$750,000-\$800,000. It appears that no one has bid on the property yet, even though the property has been on the market for a couple of weeks. Receipt of a bid is necessary to start an approval process at the lender. If beachfront property is down 40%, we think then majority of the construction and home equity loans for properties in this area should be down even more.

6. It appears that AmSouth, in its eagerness to expand in Florida, paid up to acquire land for branches on the assumption that it would make the branches profitable in twelve months versus the industry norm of about eighteen months. As a result, AmSouth spent about \$3M per Florida branch versus about \$2M for others. The accelerated profitability did not occur, according to some employees. If these figures are correct, the net premises and equipment assets for AmSouth were overstated and thus the excess purchase price booked by Regions for its acquisition of AmSouth is likely understated. Accordingly, Regions' tangible book value could be lower than the reported value of \$12.59 in Q1 08. If we assume that AmSouth's office costs are overstated by \$1M for each Florida branch, then for the

270 branches acquired by Regions, the excess purchase price is understated by 39 cents, and tangible book value is \$12.20.

7. Recent results.

Regions reported Q1 08 GAAP EPS of 48 cents and adjusted EPS of 55 cents on April 15, 2008, versus consensus of 50 cents. Naturally, management focused on the adjusted EPS beat. An analysis of the adjustments suggests that some of them are questionable. Table 8 lists the adjustments.

Table 8: Regions Q1 08 EPS adjustments

	Amount (\$M)	After tax impact
Securities gain	91.6	0.09
VISA IPO gain	62.8	0.06
VISA litigation expense reduction	28.4	0.03
Merger related charges	(46.9)	(0.07)
Mortgage Servicing Rights (MSR) impairment charge	(42.0)	(0.04)
Early debt extinguishment loss	(65.4)	(0.06)
Writedown of investments in Morgan Keegan funds	(24.5)	(0.02)
Loan loss provisions in excess of net chargeoffs	(55.2)	(0.05)
Total	(51.2)	(0.07)

Source: Company reports

We think that the company's contention that it should exclude provisions for loan losses taken in excess of net chargeoffs at a time of rising nonaccruals is untenable, especially because we think Regions is significantly under-reserved. Secondly, we think that securities gains and MSR impairments are not core earnings/losses and should be eliminated. Thus, we think adjusted EPS has been boosted by 10 cents by items that should be excluded to get core earnings: 5 cents of excess provision for loan losses, and 9 cents of securities gains, less 4 cents of MSR impairments. Accordingly, we think that EPS was 45 cents, a nickel shy of consensus.

The company's low cost deposit base has declined every quarter now since the completion of the AmSouth acquisition (Table 9), and was down 6% Y/Y in Q1 08. The company mentioned on the call that low cost deposits were down because consumers sought higher rates and commercial customers used their deposit balances to pay down debt. Regions thinks that deposit growth is likely to be challenging for the remainder of 2008.

Table 9: Regions deposits

End of period amounts (\$000)	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08
Interest-free deposits	19,942,928	19,136,419	18,834,856	18,417,266	18,182,582
Interest bearing checking accounts	16,426,436	15,685,340	15,208,224	15,846,139	15,603,984
Savings accounts	3,937,346	3,795,701	3,692,087	3,646,632	3,792,550
Money Market Accounts	19,222,697	20,025,759	19,694,280	18,934,309	18,649,389
Money Market Accounts - foreign	3,834,587	3,900,599	3,807,196	3,482,603	3,089,721
Total low cost deposits	63,363,994	62,543,818	61,236,643	60,326,949	59,318,226
Time deposits	31,266,698	29,572,747	27,744,788	29,298,845	29,463,183
Other foreign deposits	705,956	2,939,826	4,458,499	5,149,174	406,000
Total deposits	95,336,648	95,056,391	93,439,930	94,774,968	89,187,409

Source: Company reports

Table 10 shows the loan trend for the past five quarters. Loan growth was up 2% Y/Y and up 1% Q/Q due to growth in real estate mortgage loans. Single family and condo construction loans represented \$3.5B and \$1.2B (17% and 6%), respectively of real estate construction loans at the end of Q1 08.

Table 10: Regions loans

End of period amounts (\$000)	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08
Commercial	24,188,205	25,123,355	23,565,882	20,906,617	21,721,738
Real Estate - Mortgage	34,505,573	33,646,480	35,337,366	39,343,128	40,553,066
Real Estate - Construction	14,357,801	14,311,192	14,237,083	14,025,491	12,866,630
Home equity lending	14,845,348	14,819,443	14,835,319	14,962,007	15,034,850
Indirect lending	4,050,317	4,052,637	4,015,142	3,938,113	3,961,782
Other Consumer	2,221,016	2,061,381	2,382,840	2,203,491	2,247,365
Total	94,168,260	94,014,488	94,373,632	95,378,847	96,385,431

Source: Company reports

Regions had \$8.8B in Other Assets at the end of Q1 08, about the same as tangible equity (Table 11). The company does not disclose what is in Other Assets, but does describe reasons for change between periods. From these descriptions, we conclude that Other Assets include: equity interest in business trusts of subsidiaries, foreclosed real estate assets, premises and equipment held for sale, offsetting derivatives to hedge derivative agreements with customers, a tax deposit made with the IRS, bank-owned life insurance and investments in two Morgan Keegan funds. The only disclosure we have for Q1 08 Other Assets account is that it includes \$38M of investments in the Morgan Keegan funds. From the 2007 10-K, it appears that the tax deposit with the IRS, bank owned life insurance, foreclosed real estate and premises & equipment held for sale amounted to about \$1.8B, \$900M, \$121M, and \$82B, respectively.

Table 11: Other assets

End of period amounts (\$000)	Q4 07	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08
Other assets	4,088,280	3,669,790	3,886,762	5,841,002	6,753,651	8,845,669

Source: Company reports

8. Financial assumptions.

a. Provision for loan losses.

We assume that Regions will take a 40% haircut on its Florida residential homebuilder portfolio of \$1.5B, a 25% haircut on its Atlanta homebuilder portfolio of about \$1B, and a 10% haircut on its residential construction portfolio in other geographies over the next couple of years. Based on these assumptions, we project that residential homebuilder losses should total \$1.2B through the end of 2009. We think that our assumptions are actually very conservative given what is going on in these markets, as we described earlier. Moreover, we note that the Special Assets portfolio of \$1.2B could fetch as little as 33 cents on the dollar, given what we have found and have described in Florida Panhandle real estate markets, where a large portion of these assets likely reside, which would result in \$800M of losses on the Special Assets portfolio alone.

We also assume that the \$15B home equity loan portfolio will experience losses of 2.75%. This is in line with Bank of America's forecast on May 13, 2008, of losses greater than 2.5% on its home equity portfolio, which has credit and geographical characteristics similar to Regions. This totals \$412M over the next seven quarters. For the remainder of the loan portfolio, we assume losses in line with Q1 08 of about \$50M per quarter, or \$350M through the end of 2009.

Thus, our total loss assumptions through the end of 2009 total \$2B. We project NPAs/loans to increase from 1.25% at the end of Q1 08 to 4.3% at the end of 2009. This figure is consistent with figures reported by banks such as BancTrust, which have a heavy presence in the Florida Panhandle.

b. Loans.

We assume that the loan portfolio is relatively flat over the next several quarters as residential and home equity loan writeoffs offset growth in other segments.

c. Deposits.

As we pointed out in Table 9, core deposits have been declining since the AmSouth acquisition. We project deposits to continue declining slightly in 2008, per the company's outlook, and forecast 2009 average deposits to be flat with 2008.

d. Net interest margin

We estimate that net interest margin on earning assets will shrink from 3.51% at the end of Q1 08 to 2.3% by the end of 2009 due to reduction in interest income from higher levels of NPAs, declining low cost deposits, and lower rates on loans as a result of recent Fed rate cuts.

e. Other items.

We forecast 10% Y/Y growth in non-interest income for the remaining quarters of 2008 and 2009. We estimate flat non-interest expense of \$830M per quarter for 2008 and 2009 per management guidance. Our tax rate assumption of 32% for both 2008 and 2009 is consistent with "street" projections.

9. Valuation.

Based on our assumptions, we forecast EPS of \$0.98 and \$0.23 in 2008 and 2009, respectively, versus consensus of \$2.01 and \$2.22. The primary reason for the differences between our forecasts and consensus estimates arise primarily from our loan loss estimates. The "street" projects loan loss provisions of about \$850M and \$750M, respectively, in 2008 and 2009, while we project \$1.1B in both years. The "street" projects that NPAs won't exceed 2% of loans in either 2008 or 2009, whereas we think NPAs/loans will exceed 4% in 2009. Our net chargeoff projections of 0.77% and 0.81%, respectively, in 2008 and 2009 are well above the 0.65% "street" projection for both years.

We estimate that Regions' tangible equity will decline from \$12.59 at the end of Q1 08 to slightly less than \$12 by the end of 2008, and to \$10.53 at the end of 2009. While the company trades at 1.7X tangible book today, we think the premium to tangible book will shrink as investors grasp the magnitude of the losses on loans. We set an initial target price of \$12, which is our year-end 2008 tangible book value projection.

Regions pays an annual dividend of \$1.52. We think that if our earnings projections are correct, Regions may have to eliminate or steeply cut the dividend. This would disappoint investors who hold shares for the income, and their selling may drive the price down further than we expect.

As noted earlier, we do not fully understand what is in “Other Assets” and have not applied any haircuts to this asset. However, given the magnitude of this asset class, which exceeds tangible equity, Other Assets may be a source of downside earning risk for Regions.

10. Financial projections.

a. Quarterly projections.

	Q1 08	Q2 08e	Q3 08e	Q4 08e	Q1 09e	Q2 09e	Q3 09e	Q4 09e
Net interest income	1,017,480	959,700	859,147	785,854	727,016	693,827	660,214	626,577
Provision for loan losses	181,000	251,261	305,103	358,945	358,945	358,945	224,340	149,560
Net int inc after PLL	836,480	708,439	554,044	426,909	368,072	334,882	435,874	477,016
Total non-interest income	908,303	766,481	802,058	806,276	826,556	843,129	882,264	886,903
Salaries & benefits	643,487	650,000	650,000	650,000	650,000	650,000	650,000	650,000
Net occupancy expense	106,665	105,000	105,000	105,000	105,000	105,000	105,000	105,000
Furniture & eqp. expense	79,236	75,000	75,000	75,000	75,000	75,000	75,000	75,000
MSR imp. (recapture)	42,000	-	-	-	-	-	-	-
Other	378,871	350,000	355,000	360,000	365,000	370,000	375,000	380,000
Total non-interest exp.	1,250,259	1,180,000	1,185,000	1,190,000	1,195,000	1,200,000	1,205,000	1,210,000
Income before taxes	494,524	294,920	171,102	43,185	(372)	(21,989)	113,138	153,920
Income taxes	157,814	94,374	54,753	13,819	(119)	(7,036)	36,204	49,254
Income from cont ops	336,710	200,546	116,349	29,366	(253)	(14,952)	76,934	104,665
Diluted shares	695,548	697,500	700,000	702,500	705,000	707,500	710,000	712,500
Diluted EPS from cont ops	0.48	0.29	0.17	0.04	(0.00)	(0.02)	0.11	0.15
Y/Y change								
	Q1 08	Q2 08e	Q3 08e	Q4 08e	Q1 09e	Q2 09e	Q3 09e	Q4 09e
Net interest income	-13%	-13%	-20%	-25%	-29%	-28%	-23%	-20%
Provision for loan losses	285%	319%	239%	0%	98%	43%	-26%	-58%
Net int inc after PLL	-25%	-32%	-44%	-38%	-56%	-53%	-21%	12%
Total non-interest income	30%	10%	10%	10%	-9%	10%	10%	10%
Salaries & benefits	6%	8%	12%	-4%	1%	0%	0%	0%
Net occupancy expense	14%	13%	-13%	-1%	-2%	0%	0%	0%
Furniture & eqp. Expense	9%	1%	1%	-7%	-5%	0%	0%	0%
MSR imp. (recapture)	4100%	-100%	-100%	-100%	-100%	n/a	n/a	n/a
Other	14%	7%	2%	-22%	-4%	6%	6%	6%
Total non-interest exp.	13%	12%	3%	-12%	-4%	2%	2%	2%
Income before taxes	-30%	-57%	-70%	-39%	n/a	n/a	-34%	256%
Income taxes	-33%	-59%	-69%	-7735%	n/a	n/a	-34%	256%
Income from cont ops	-29%	-56%	-70%	-59%	n/a	n/a	-34%	256%
Diluted shares	-5%	-3%	-1%	1%	1%	1%	1%	1%
Diluted EPS from cont ops	-25%	-55%	-70%	-59%	n/a	n/a	-35%	251%

As % of net interest income

	Q1 08	Q2 08e	Q3 08e	Q4 08e	Q1 09e	Q2 09e	Q3 09e	Q4 09e
Net interest income	100%	100%	100%	100%	100%	100%	100%	100%
Provision for loan losses	18%	26%	36%	46%	49%	52%	34%	24%
Net int inc after PLL	82%	74%	64%	54%	51%	48%	66%	76%
Total non-interest income	89%	80%	93%	103%	114%	122%	134%	142%
Salaries & benefits	63%	68%	76%	83%	89%	94%	98%	104%
Net occupancy expense	10%	11%	12%	13%	14%	15%	16%	17%
Furniture & eqp. expense	8%	8%	9%	10%	10%	11%	11%	12%
MSR imp. (recapture)	4%	0%	0%	0%	0%	0%	0%	0%
Other	37%	36%	41%	46%	50%	53%	57%	61%
Total non-interest exp.	123%	123%	138%	151%	164%	173%	183%	193%
Income before taxes	49%	31%	20%	5%	0%	-3%	17%	25%
Income taxes	16%	10%	6%	2%	0%	-1%	5%	8%
Income from cont ops	33%	21%	14%	4%	0%	-2%	12%	17%

b. Annual projections.

	2007	2008e	2009e
Net interest income	4,398,366	3,622,180	2,707,634
Provision for loan losses	555,000	1,096,309	1,091,790
Net int. inc after prov. for loan losses	3,843,366	2,525,871	1,615,844
Total non-interest income	2,855,835	3,283,118	3,438,853
Salaries & employee benefits	2,471,869	2,593,487	2,600,000
Net occupancy expense	413,711	421,665	420,000
Furniture & equipment expense	301,330	304,236	300,000
Impairment (recapture) of MSRs	6,000	42,000	-
Other	1,467,441	1,443,871	1,490,000
Total non-interest expense	4,660,351	4,805,259	4,810,000
Income before taxes	2,038,850	1,003,731	244,697
Income taxes	645,687	320,760	78,303
Income from cont ops	1,393,163	682,970	166,394
Diluted shares	712,870	698,887	708,750
Diluted EPS from cont ops	1.95	0.98	0.23

Y/Y change	2007	2008e	2009e
Net interest income	33%	-18%	-25%
Provision for loan losses	290%	98%	0%
Net int. inc after prov. for loan losses	21%	-34%	-36%
Total non-interest income	41%	15%	5%
Salaries & employee benefits	33%	5%	0%
Net occupancy expense	62%	2%	0%
Furniture & equipment expense	91%	1%	-1%
Impairment (recapture) of MSRs	n/a	600%	-100%
Other	58%	-2%	3%
Total non-interest expense	45%	3%	0%
Income before taxes	2%	-51%	-76%
Income taxes	4%	-50%	-76%
Income from cont ops	2%	-51%	-76%
Diluted shares	41%	-2%	1%
Diluted EPS from cont ops	-28%	-50%	-76%
As % of net interest income			
	2007	2008e	2009e
Net interest income	100%	100%	100%
Provision for loan losses	13%	30%	40%
Net int. inc after prov. for loan losses	87%	70%	60%
Total non-interest income	65%	91%	127%
Salaries & employee benefits	56%	72%	96%
Net occupancy expense	9%	12%	16%
Furniture & equipment expense	7%	8%	11%
Impairment (recapture) of MSRs	0%	1%	0%
Other	33%	40%	55%
Total non-interest expense	106%	133%	178%
Income before taxes	46%	28%	9%
Income taxes	15%	9%	3%
Income from cont ops	32%	19%	6%