

## To my fellow shareholders:

As Americans closed out 2008 in the midst of a rapidly declining economy, Regions also finished the year with results that were both disappointing and reflective of a turbulent operating environment. Investment banks, large national lenders, regional banks and community banks disappeared over the course of the year. No part of the financial services industry was immune. The speed of change and level of unpredictability in our industry was unprecedented, requiring government action on a scale never seen before.

In hindsight, the causes are clear. Easy consumer credit led to new buyers and to highly unconventional mortgages; commercial banks and government-sponsored agencies fueled the growth of residential real estate lending; and investment banks packaged and sold these riskier assets to investors, who had little transparency into what they were buying. After real estate prices peaked in March 2007, the subsequent decline of housing prices brought destructive results to the mortgage and credit markets. Ultimately, the destruction led to a capital and funding crisis that resulted in failed firms, federally-assisted acquisitions and investment banks converting into bank holding companies.

While Regions did not suffer the devastating results that larger financial services institutions experienced, the impact we felt was proportionate to our size and business mix. I recognize that this industry context is of little comfort to our shareholders.

### REGIONS REMAINS A SAFE HARBOR FOR CUSTOMER DEPOSITS

In my 2007 letter to shareholders, I wrote of how our three-year strategic plan and corporate-wide initiatives were designed to address the challenges we expected our industry to face in 2008. These challenges, I am confident in saying, exceeded everyone's expectations. Important, though, is that even while we made strategic adjustments to our operating processes and policies to address the emerging challenges, we remained keenly focused on our customers. Our associates endeavored to preserve the trust and relationships that are critical to our success and to our ability to deliver shareholder value.

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As a true crisis of confidence in the United States' banking system developed in the third and fourth quarters of 2008, we invested time and resources in communicating to customers that Regions remains a safe harbor for their deposits. In addition to being well capitalized by regulatory standards, Regions takes a comparatively conservative approach to banking. Unlike some, we have no exotic securities, no brokered loans, and almost no sub-prime loans in our portfolio, which has allowed us to serve customers from a more stable and relatively stronger position.

The FDIC demonstrated its confidence in Regions' stability and strength by selecting our company to acquire the deposits of two failing banks, the most recent on February 6, 2009. These acquisitions meant additional deposits and liquidity and an expanding presence in Atlanta, Georgia, a long-term strategic market for our franchise.

### 2008 RESULTS

Regions ended 2008 with results that reflected a very tough economic and credit environment, as well as actions taken to aggressively recognize and deal with problem assets. Another factor largely influencing our year-end results was a fourth quarter \$6 billion non-cash goodwill impairment charge. It is important to note that this charge did not impact our solid regulatory or tangible capital ratios, nor our earnings capacity for the future. Excluding the goodwill impairment and merger charges, we finished 2008 with full-year profit of \$514 million, or 74 cents per share.

In spite of the credit crunch that has accompanied the current economic recession, Regions is committed to working with customers to meet their credit needs without jeopardizing shareholder value. In fact, we grew loans 2% for the full year. Regions continues to be in the business of making quality loans that meet high standards for credit quality, full pricing and depository relationships.

Revenues from Regions' fee income-producing businesses increased during 2008 by 8% to \$3.1 billion. And, while our non-interest expenses were higher in 2008 compared to 2007, much of the increase was

credit-related costs tied to the turbulent operating environment.

Regions' deposit-gathering efforts were successful due in large part to the new LifeGreen® Checking and Savings products introduced in July of 2008. We experienced an increase in total customer deposits of 4% during the fourth quarter and are encouraged by the momentum this product is creating as we begin 2009.

Our non-performing assets and credit losses certainly reflect the challenging economic conditions of 2008, but remain below industry levels due to our consistent and prudent underwriting. Non-performing assets, as a percentage of total loans and repossessed assets, were 1.76% at December 31, 2008, compared to 0.90% a year earlier, while net charge-offs increased to 1.59% of average loans, up from 0.29% in 2007. We recently intensified our efforts to dispose of non-performers, selling or moving to held for sale approximately \$1 billion of these assets. These actions helped drive a 27% fourth quarter versus third quarter reduction in non-performing loans, the largest component of non-performing assets, to \$1.1 billion at the end of 2008. The aggressive action we took to deal with non-performing assets in 2008 will put us in a stronger position once the environment begins to improve.

We also made good progress in reducing the number of stressed assets in our loan portfolio. In fact, we reduced exposure to these troubled assets by \$3.1 billion in 2008. Our overarching credit message remains unchanged: we are focused on proactively identifying problem assets and disposing of

them as judiciously as possible — while, at the same time, making sure that reserve levels remain appropriate.

In times like these, capital strength is paramount. Last fall, the U.S. Treasury invested in many financial services institutions to strengthen capital levels and open up the credit markets. Participating in the U.S. Treasury's Capital Purchase Program raised our Tier 1 capital ratio from 7.5% to 10.4% — \$5 billion above the "well-capitalized" regulatory minimums. We finished the year with a tangible common

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equity ratio of 5.2%, which puts us around the median for our peer group. And, as the Treasury and Congress intended, we are using increased capital to strengthen our balance sheet and to prudently lend. In fact, during the fourth quarter, the government's investment supported our ability to commit \$16.5 billion in new and renewed loans and lines.

### **SERVING CUSTOMERS FROM A POSITION OF STRENGTH AND STABILITY**

While I am not satisfied with our 2008 results and understand our shareholders' disappointment, we enter a new year with a sense of confidence that comes from pursuing a clear purpose — to protect, preserve and strengthen our capital, liquidity and risk management.

Associates are focused on building stronger, broader customer relationships. To make this goal a reality, we will work to establish primary banking relationships with our customers through the cross-selling of products and services and growing deposits and fee-based revenue. And, of course, we will continue delivering the kind of high service quality that differentiates us from our competitors.

You can also count on us to do what is right for the communities we serve. Over the past year, we reached out to over 100,000 residential first mortgage and home equity

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customers to help them avoid hardship. Through our Customer Assistance Program, we took steps to renegotiate the terms of mortgages, keeping families in their homes. This program not only helps our customers, but it also allows Regions to maintain a foreclosure rate that is about half the national average.

Regions associates — more than 30,000 of them — come to work each day with a purpose to serve our customers. Each of them understands that while we may not be able to control the economy, we can focus on our customers and strive for performance excellence. They also understand that

delivering shareholder value and service quality begins by assisting the customer in front of them — helping them find the account or service that will keep or make Regions that customer's primary banking relationship. Regions' associates support our commitment to make life better for all of our stakeholders, as well as our commitment to maintain high ethical standards in how we operate.

I thank our associates for their hard work and commitment to our customers and shareholders. I would also like to express my gratitude to our Board of Directors for their valued perspective during a year that was sometimes difficult and always challenging. Let us hope that unemployment levels improve and housing values stabilize in 2009, and that valuations for financial services stocks, especially Regions, improve significantly.

Finally, I thank our shareholders for your confidence, continuing support and investment.



C. Dowd Ritter  
Chairman, President and  
Chief Executive Officer