REGIONS FINANCIAL CORP
Form 10-K
February 24, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 2010

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 000-50831

REGIONS FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**63-0589368**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1900 Fifth Avenue North, Birmingham, Alabama 35203

(Address of principal executive offices)

Registrant s telephone number, including area code: (205) 326-5807

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
8.875% Trust Preferred Securities of Regions Financing Trust III	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 þ 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 þ

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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

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, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

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 $8,081,116,041 as of June 30, 2010.

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 1,257,753,611 shares issued and outstanding as of February 15, 2011

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the Annual Meeting to be held on May 19, 2011 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, and any other written or oral statements made by or on behalf of Regions may include 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:

The Dodd-Frank Wall Street Reform and Consumer Protection Act became law on July 21, 2010, and a number of legislative, regulatory and tax proposals remain pending. Additionally, the U.S. Treasury and federal banking regulators continue to implement, but are also beginning to wind down, a number of programs to address capital and liquidity in the banking system. Proposed rules, including those that are part of the Basel III process, could require banking institutions to increase levels of capital. All of the foregoing may have significant effects on Regions and the financial services industry, the exact nature and extent of which cannot be determined at this time.

The impact of compensation and other restrictions imposed under the Troubled Asset Relief Program (TARP) until Regions repays the outstanding preferred stock and warrant issued under the TARP, including restrictions on Regions ability to attract and retain talented executives and associates.

Possible additional loan losses, impairment of goodwill and other intangibles, and adjustment of valuation allowances on deferred tax assets and the impact on earnings and capital.

Possible changes in interest rates may increase funding costs and reduce earning asset yields, thus reducing margins. Increases in benchmark interest rates would also increase debt service requirements for customers whose terms include a variable interest rate, which may negatively impact the ability of borrowers to pay as contractually obligated.

Possible changes in general economic and business conditions in the United States in general and in the communities Regions serves in particular, including any prolonging or worsening of the current unfavorable economic conditions, including unemployment levels.

Possible changes in the creditworthiness of customers and the possible impairment of the collectability of loans.

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

The current stresses in the financial and real estate markets, including possible continued deterioration in property values.

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.

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

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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 keep pace with technological changes.

Regions ability to effectively manage credit risk, interest rate risk, market risk, operational risk, legal risk, liquidity risk, and regulatory and compliance risk.

Regions ability to ensure adequate capitalization which is impacted by inherent uncertainties in forecasting credit losses.

The cost and other effects of material contingencies, including litigation contingencies, and any adverse judicial, administrative, or arbitral rulings or proceedings.

The effects of increased competition from both banks and non-banks.

The effects of geopolitical instability and risks such as terrorist attacks.

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

The effects of weather and natural disasters such as floods, droughts and hurricanes, and the effects of man-made disasters such as the Gulf of Mexico oil spill.

Possible downgrades in ratings issued by rating agencies.

Potential dilution of holders of shares of Regions common stock resulting from the U.S. Treasury s investment in TARP.

Possible changes in the speed of loan prepayments by Regions customers and loan origination or sales volumes.

Possible acceleration of prepayments on mortgage-backed securities due to low interest rates, and the related acceleration of premium amortization on those securities.

The effects of problems encountered by larger or similar financial institutions that adversely affect Regions or the banking industry generally.

Regions ability to receive dividends from its subsidiaries.

The effects of the failure of any component of Regions business infrastructure which is provided by a third party.

Changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other regulatory agencies.

The effects of any damage to Regions reputation resulting from developments related to any of the items identified above.

The words believe, expect, anticipate, project and similar expressions often signify forward-looking statements. You should not place undue reliance on any forward-looking statements, 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.

See also Item 1A. Risk Factors of this Annual Report on Form 10-K.

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 provides traditional commercial, retail and mortgage banking services, as well as other financial services in the fields of investment banking, asset management, trust, mutual funds,

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securities brokerage, insurance and other specialty financing. At December 31, 2010, Regions had total consolidated assets of approximately $132.4 billion, total consolidated deposits of approximately $94.6 billion and total consolidated stockholders equity of approximately $16.7 billion.

Regions is a Delaware corporation and on July 1, 2004, became the successor by merger to Union Planters Corporation and the former Regions Financial Corporation. Its principal executive offices are located at 1900 Fifth Avenue North, Birmingham, Alabama 35203, and its telephone number at that address is (205) 326-5807.

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, 2010, Regions operated approximately 2,100 ATMs and 1,772 banking offices in Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, South Carolina, Tennessee, Texas and Virginia.

The following chart reflects the distribution of branch locations in each of the states in which Regions conducts its banking operations.

	Branches
Alabama	244
Arkansas	100
Florida	397
Georgia	142
Illinois	68
Indiana	64
Iowa	13
Kentucky	16
Louisiana	118
Mississippi	147
Missouri	67
North Carolina	9
South Carolina	36
Tennessee	263
Texas	85
Virginia	3
Total	1,772

Other Financial Services Operations

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

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 also manages the delivery of trust services, which are provided pursuant to the trust powers of Regions Bank. Morgan Keegan employs approximately 1,200 financial advisors offering products and services from over 321 offices located in Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Kentucky, Louisiana, Maryland, Massachusetts, Mississippi, Missouri, New York, North Carolina, South Carolina, Tennessee, Texas and Virginia.

Regions Insurance Group, Inc., a subsidiary of Regions Financial Corporation, is an insurance broker that offers insurance products through its subsidiaries Regions Insurance, Inc., headquartered in Birmingham, Alabama, and Regions Insurance Services, Inc., headquartered in Memphis, Tennessee. Through its insurance brokerage operations in Alabama, Arkansas, Indiana, Louisiana, Missouri, Mississippi, Tennessee and Texas, Regions Insurance, Inc. offers insurance coverage for various lines of personal and commercial insurance, such as property, casualty, life, health and accident insurance. Regions Insurance Services, Inc. offers credit-related insurance products, such as title, term life, credit life, environmental, crop and mortgage insurance, as well as debt cancellation products to customers of Regions. With $108 million in annual revenues and offices in eight states, Regions Insurance Group, Inc. is one of the largest insurance brokers in the United States.

Regions has several subsidiaries and affiliates which are agents or reinsurers of credit life insurance products relating to the activities of certain affiliates of Regions. Regions Investment Services, Inc., which sells annuities and life insurance products to Regions Bank customers, is a wholly owned subsidiary of Regions Bank. In order to consolidate insurance related activities and the offering and distribution of insurance products, operationally Regions Investment Services, Inc. joined Regions Insurance Group, Inc. in 2010.

Regions Equipment Finance Corporation, a subsidiary of Regions Bank, provides domestic and international equipment financing products, focusing on commercial clients.

Acquisition Program

A substantial portion of the growth of Regions from its inception as a bank holding company in 1971 has been through the acquisition of other financial institutions, including commercial banks and thrift institutions, and the assets and deposits of those financial institutions. As part of its ongoing strategic plan, Regions periodically 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. Historically, 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 22 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

Regions and its subsidiaries are subject to the extensive regulatory framework applicable to bank holding companies and their subsidiaries. Regulation of financial institutions such as Regions and its subsidiaries is intended primarily for the protection of depositors, the Federal Deposit Insurance Corporation s (FDIC) Deposit Insurance Fund (the DIF) and the banking system as a whole, and generally is not intended for the protection of stockholders or other investors. Described below are the material elements of selected laws and regulations applicable to Regions and its subsidiaries. The descriptions are not intended to be complete and are qualified in their entirety by reference to the full text of the statutes and regulations described. Changes in applicable law or regulation, and in their interpretation and application by regulatory agencies and other governmental authorities, cannot be predicted, but they may have a material effect on the business and results of Regions and its subsidiaries.

Overview

Regions is registered with the Board of Governors of the Federal Reserve System (the Federal Reserve) as a bank holding company and has elected to be treated as a financial holding company 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.

Generally, the BHC Act provides for umbrella regulation of financial holding companies by the Federal Reserve and functional regulation of holding company subsidiaries by applicable regulatory agencies. The BHC Act, however, requires the Federal Reserve to examine any subsidiary of a bank holding company, other than a depository institution, engaged in activities permissible for a depository institution. The Federal Reserve is also granted the authority, in certain circumstances, to require reports of, examine and adopt rules applicable to any holding company subsidiary.

In general, the BHC Act limits the activities permissible for bank holding companies. Bank holding companies electing to be treated as financial holding companies, however, may engage in additional activities under the BHC Act as described below under Permissible Activities under the BHC Act. For a bank holding company to be eligible to elect financial holding company status, all of its subsidiary insured depository institutions must be well-capitalized and well-managed as described below under Regulatory Remedies Under the FDIA and must have received at least a satisfactory rating on such institution s most recent examination under the Community Reinvestment Act of 1977 (the CRA). Beginning in July 2011, a bank holding company s eligibility to elect financial holding company status will also depend upon the holding company being well-capitalized and well-managed. If a financial holding company fails to continue to meet any of the prerequisites for financial holding company status after engaging in activities not permissible for bank holding companies that have not elected to be treated as financial holding companies, 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 investments in companies engaged in activities permissible only for a bank holding company electing to be treated as a financial holding company.

Regions Bank is a member of the FDIC, and, as such, its deposits are insured by the FDIC to the extent provided by law. Regions Bank is an Alabama state-chartered bank and a member of the Federal Reserve System. It is generally subject to supervision and examination by both the Federal Reserve and the Alabama Department of Banking. 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, acquisitions, 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. Regions Bank is subject to numerous statutes and regulations that affect its business activities and operations, including various consumer protection laws and regulations. Additionally, commercial banks are affected significantly by the actions of the Federal Reserve as it attempts to control money and credit availability in order to influence the economy.

Many of Regions non-bank subsidiaries, such as Morgan Keegan, are also subject to regulation by various federal and state agencies. As a registered investment adviser and broker-dealer, Morgan Keegan and its subsidiaries are subject to regulation and examination by the Securities and Exchange Commissioner (SEC). Morgan Keegan and its subsidiaries are also subject to regulation and examination by state securities regulators as well as the Financial Industry Regulatory Authority (FINRA), the New York Stock Exchange (NYSE) and other self-regulatory organizations (SROs). All of these regulations may affect Morgan Keegan s manner of operation and profitability.

Recent Developments

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), which was enacted in July 2010, significantly restructures the financial regulatory regime in the United States, including through the creation of a new resolution authority, mandating higher capital and liquidity requirements, requiring banks to pay increased fees to regulatory agencies, and through numerous other provisions aimed at strengthening the sound operation of the financial services sector. The Dodd-Frank Act also creates a new systemic risk oversight body, the Financial Stability Oversight Council (FSOC). The FSOC will oversee and coordinate the efforts of the primary U.S. financial regulatory agencies (including the Federal Reserve, the FDIC and the SEC) in establishing regulations to address systemic financial stability concerns. The Dodd-Frank Act directs the FSOC to make recommendations to the Federal Reserve Board regarding supervisory requirements and prudential standards applicable to systemically important financial institutions (which we expect will include Regions), including capital, leverage, liquidity and risk-management requirements. The Dodd-Frank Act mandates that the requirements applicable to systemically important financial institutions be more stringent than those applicable to other financial companies.

In addition to the framework for systemic risk oversight implemented through the FSOC, the Dodd-Frank Act imposes heightened prudential requirements on bank holding companies with at least $50 billion in total consolidated assets, such as Regions, and requires the Federal Reserve to establish prudential standards for such large bank holding companies that are more stringent than those applicable to other bank holding companies, including standards for risk-based capital requirements and leverage limits, liquidity, risk-management requirements, resolution plan and credit exposure reporting, and concentration. The Federal Reserve has discretionary authority to establish additional prudential standards, on its own or at the FSOC s recommendation, regarding contingent capital, enhanced public disclosures, short-term debt limits, and otherwise as it deems appropriate. The Dodd-Frank Act also requires the Federal Reserve to conduct annual analyses of such bank holding companies to evaluate whether the companies have sufficient capital on a total consolidated basis necessary to absorb losses as a result of adverse economic conditions.

Title X of the Dodd-Frank Act provides for the creation of the Consumer Financial Protection Bureau (the CFPB), a new consumer financial services regulator. The CFPB is directed to prevent unfair, deceptive and abusive practices and ensure that all consumers have access to markets for consumer financial products and services, and that such markets are fair, transparent and competitive. The Dodd-Frank Act gives the CFPB authority to enforce and issue rules and regulations implementing existing consumer protection laws and responsibility for all such existing regulations. Depository institutions with assets exceeding $10 billion, such as Regions Bank, their affiliates, and other larger participants in the markets for consumer financial services (as determined by the CFPB) will be subject to direct supervision by the CFPB, including any applicable examination, enforcement and reporting requirements the CFPB may establish.

New laws or regulations or changes to existing laws and regulations (including changes in interpretation or enforcement) could materially adversely affect our financial condition or results of operations. As discussed further throughout this section, many aspects of the Dodd-Frank Act are subject to further rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on Regions and its subsidiaries or the financial services industry generally. In addition to the discussion in this section, see Risk Factors Recent legislation regarding the financial services industry may have a significant adverse effect on our operations for a discussion of the potential impact legislative and regulatory reforms may have on our results of operations and financial condition.

Permissible Activities under the BHC Act

In general, the BHC Act limits the activities permissible for bank holding companies to the business of banking, managing or controlling banks and such other activities as the Federal Reserve has determined to be so closely related to banking as to be properly incident thereto. A bank holding company electing to be treated as a financial holding company may also engage in a range of activities which are (i) financial in nature or incidental to such financial activity or (ii) complementary to a financial activity and which do not pose a substantial risk to the safety and soundness of a depository institution or to the financial system generally. These activities include securities dealing, underwriting and market making, insurance underwriting and agency activities, merchant banking and insurance company portfolio investments.

The BHC Act does not place territorial limitations on permissible non-banking activities of bank holding companies. 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.

Capital Requirements

Regions and Regions 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.

Risk-based Capital Standards. The risk-based capital standards are designed to make regulatory capital requirements more sensitive to differences in credit and market risk profiles among banks and financial 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 percent. At least half of the Total capital must be Tier 1 capital, which currently consists of qualifying common equity, qualifying noncumulative perpetual preferred stock (including related surplus), senior perpetual preferred stock issued to the U.S. Department of the Treasury (the U.S. Treasury) as part of the Troubled Asset Relief Program Capital Purchase Program (the CPP), minority interests relating to qualifying common or noncumulative perpetual preferred stock issued by a consolidated U.S. depository institution or foreign bank subsidiary, and certain restricted core capital elements, as discussed below, less goodwill and certain other intangible assets. Currently, Tier 2 capital may consist of, among other things, qualifying subordinated debt, mandatorily convertible debt securities, preferred stock and trust preferred securities not included in the definition of Tier 1 capital, and a limited amount of the allowance for loan losses. Non-cumulative perpetual preferred stock, trust preferred securities and other so-called restricted core capital elements are currently limited to 25 percent of Tier 1 capital. Pursuant to the Dodd-Frank Act, trust preferred securities will be phased-out of the definition of Tier 1 capital of bank holding companies having consolidated assets exceeding $500 million, such as Regions, over a three-year period beginning in January 2013.

The minimum guideline to be considered well-capitalized for Tier 1 capital and Total capital is 6.0 percent and 10.0 percent, respectively. At December 31, 2010, Regions consolidated Tier 1 capital ratio was 12.40 percent and its Total capital ratio was 16.35 percent. The elements currently comprising Tier 1 capital and Tier 2 capital and the minimum Tier 1 capital and Total capital ratios may be subject to change in the future, as discussed in greater detail below.

Basel I and II Standards. Regions currently calculates its risk-based capital ratios under guidelines adopted by the Federal Reserve based on the 1988 Capital Accord (Basel I) of the Basel Committee on Banking Supervision (the Basel Committee). In 2004, the Basel Committee published a new set of risk-based capital standards (Basel II) in order to update Basel I. Basel II provides two approaches for setting capital standards for credit risk an internal ratings-based approach tailored to individual institutions circumstances and a standardized approach that bases risk-weighting on external credit assessments to a much greater extent than permitted in the existing risk-based capital guidelines. Basel II also would set capital requirements for operational risk and refine the existing capital requirements for market risk exposures. A definitive final rule for implementing the advanced approaches of Basel II in the United States, which applies only to internationally active banking organizations, or core banks (defined as those with consolidated total assets of $250 billion or more or consolidated on-balance sheet foreign exposures of $10 billion or more) became effective on April 1, 2008. Other U.S. banking organizations may elect to adopt the requirements of this rule (if they meet applicable qualification requirements), but are not required to comply. The rule also allows a banking organization s primary federal supervisor to determine that application of the rule would not be appropriate in light of the bank s asset size, level of complexity, risk profile or scope of operations. Regions Bank is currently not required to comply with Basel II.

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In July 2008, the U.S. bank regulatory agencies issued a proposed rule that would provide banking organizations that do not use the advanced approaches with the option to implement a new risk-based capital framework. This framework would adopt the standardized approach of Basel II for credit risk, the basic indicator approach of Basel II for operational risk, and related disclosure requirements. While this proposed rule generally parallels the relevant approaches under Basel II, it diverges where United States markets have unique characteristics and risk profiles, most notably with respect to risk weighting residential mortgage exposures. Comments on the proposed rule were due to the agencies by October 27, 2008, but a definitive final rule has not been issued as of February 2011.

Leverage Requirements. Neither Basel I nor Basel II includes a leverage requirement as an international standard; however, the Federal Reserve has established minimum leverage ratio guidelines for bank holding companies to be considered well-capitalized. These guidelines provide for a minimum ratio of Tier 1 capital to average total assets, less goodwill and certain other intangible assets (the Leverage ratio), of 3.0 percent 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 4 percent. Regions Leverage ratio at December 31, 2010 was 9.30 percent.

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.

Basel III Standards. In December 2010, the Basel Committee released its final framework for strengthening international capital and liquidity regulation, now officially identified by the Basel Committee as Basel III. Basel III, when implemented by the U.S. bank regulatory agencies and fully phased-in, will require bank holding companies and their bank subsidiaries to maintain substantially more capital, with a greater emphasis on common equity. The Basel III final capital framework, among other things:

- introduces as a new capital measure Common Equity Tier 1 , or CET1 , specifies that Tier 1 capital consists of CET1 and Additional Tier 1 capital instruments meeting specified requirements, defines CET1 narrowly by requiring that most adjustments to regulatory capital measures be made to CET1 and not to the other components of capital, and expands the scope of the adjustments as compared to existing regulations;

- when fully phased in on January 1, 2019, requires banks to maintain:

  - as a newly adopted international standard, a minimum ratio of CET1 to risk-weighted assets of at least 4.5 percent, plus a 2.5 percent capital conservation buffer (which is added to the 4.5 percent CET1 ratio as that buffer is phased in, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7 percent);

  - a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0 percent, plus the capital conservation buffer (which is added to the 6.0 percent Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5 percent upon full implementation);

  - a minimum ratio of Total (that is, Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0 percent, plus the capital conservation buffer (which is added to the 8.0 percent total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5 percent upon full implementation);

  - as a newly adopted international standard, a minimum leverage ratio of 3.0 percent, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures (as the average for each quarter of the month-end ratios for the quarter); and

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provides for a countercyclical capital buffer , generally to be imposed when national regulators determine that excess aggregate credit growth becomes associated with a buildup of systemic risk, that would be a CET1 add-on to the capital conservation buffer in the range of 0 percent to 2.5 percent when fully implemented (potentially resulting in total buffers of between 2.5 percent and 5 percent).
The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

The implementation of the Basel III final framework will commence January 1, 2013. On that date, banking institutions will be required to meet the following minimum capital ratios:

3.5 percent CET1 to risk-weighted assets;

4.5 percent Tier 1 capital to risk-weighted assets; and

8.0 percent Total capital to risk-weighted assets.

The Basel III final framework provides for a number of new deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10 percent of CET1 or all such categories in the aggregate exceed 15 percent of CET1.

Implementation of the deductions and other adjustments to CET1 will begin on January 1, 2014 and will be phased-in over a five-year period (20 percent per year). The implementation of the capital conservation buffer will begin on January 1, 2016 at 0.625 percent and be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5 percent on January 1, 2019).

The U.S. banking agencies have indicated informally that they expect to propose regulations implementing Basel III in mid-2011 with final adoption of implementing regulations in mid-2012. Notwithstanding its release of the Basel III framework as a final framework, the Basel Committee is considering further amendments to Basel III, including the imposition of additional capital surcharges on globally systemically important financial institutions. In addition to Basel III, the Dodd-Frank Act requires or permits the Federal banking agencies to adopt regulations affecting banking institutions capital requirements in a number of respects, including potentially more stringent capital requirements for systemically important financial institutions. Accordingly, the regulations ultimately applicable to us may be substantially different from the Basel III final framework as published in December 2010.

The Dodd-Frank Act appears to require the Federal Reserve to adopt regulations imposing a continuing floor of the Basel I-based capital requirements in cases where the Basel II-based capital requirements and any changes in capital regulations resulting from Basel III otherwise would permit lower requirements. In December 2010, the Federal Reserve published for comment proposed regulations implementing this requirement.

Liquidity Requirements. Historically, regulation and monitoring of bank and bank holding company liquidity has been addressed as a supervisory matter, both in the U.S. and internationally, without required formulaic measures. The Basel III final framework requires banks and bank holding companies to measure their liquidity against specific liquidity tests that, although similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes, going forward will be required by regulation. One test, referred to as the liquidity coverage ratio (LCR), is designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity s expected net cash outflow for a 30-day time horizon (or, if greater, 25 percent of its expected total cash outflow) under an acute liquidity stress scenario. The other, referred to as the net stable funding ratio (NSFR), is designed to promote more medium- and long-term funding of the assets and activities of banking entities over a one-year time horizon. These requirements will incent banking entities to increase their holdings of U.S. Treasury securities and other sovereign debt as a component of assets and increase the use of long-term debt as a funding source. The LCR would be implemented subject to an observation period beginning in 2011, but would not be introduced as a requirement until January 1, 2015, and the NSFR would not be introduced as a requirement until January 1, 2018. These new standards are subject to further rulemaking and their terms may well change before implementation.

Capital Requirements of Regions Bank. Regions Bank is subject to substantially similar capital requirements as those applicable to Regions. As of December 31, 2010, Regions Bank was in compliance with applicable minimum capital requirements. Neither Regions nor Regions Bank has been advised by any federal banking agency of any specific minimum capital ratio requirement applicable to it as of December 31, 2010. 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 the FDIA below.

Given that the Basel III rules are subject to change and the scope and content of capital regulations that U.S. federal banking agencies may adopt under the Dodd-Frank Act is uncertain, we cannot be certain of the impact new capital regulations will have on our capital ratios.

Safety and Soundness Standards

Guidelines adopted by the federal bank regulatory agencies pursuant to the Federal Deposit Insurance Act, as amended (the FDIA), 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, these guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines. Additionally, 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 the FDIA. See Regulatory Remedies under the FDIA below. 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.

Regulatory Remedies under the FDIA

The FDIA establishes a system of regulatory remedies to resolve the problems of undercapitalized institutions. The federal banking regulators have established five capital categories (well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized) and must take certain mandatory supervisory actions, and are authorized to take other discretionary actions, with respect to institutions which are undercapitalized, significantly undercapitalized or critically undercapitalized. The severity of these mandatory and discretion supervisory actions depend upon the capital category in which the institution is placed. Generally, subject to a narrow exception, the FDIA requires the banking regulator to appoint a receiver or conservator for an institution that is critically undercapitalized. The federal bank regulatory agencies have specified by regulation the relevant capital levels for each category:

Well-Capitalized	Adequately Capitalized
Leverage ratio of 5 percent,	Leverage ratio of 4 percent,
Tier 1 capital ratio of 6 percent,	Tier 1 capital ratio of 4 percent, and
Total capital ratio of 10 percent, and	Total capital ratio of 8 percent.
Not subject to a written agreement, order, capital directive or regulatory remedy directive requiring a specific capital level.	

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Undercapitalized	**Significantly Undercapitalized**
Leverage ratio less than 4 percent,	Leverage ratio less than 3 percent,
Tier 1 capital ratio less than 4 percent, or	Tier 1 capital ratio less than 3 percent, or
Total capital ratio less than 8 percent.	Total capital ratio less than 6 percent.

Critically undercapitalized

Tangible equity to total assets less than 2 percent.

For purposes of these regulations, 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. An institution that is classified as well-capitalized based on its capital levels may be classified as adequately capitalized, and an institution that is adequately capitalized or undercapitalized based upon its capital levels may be treated as though it were undercapitalized or significantly undercapitalized, respectively, if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition or an unsafe or unsound practice warrants such treatment.

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 regulator. Under the FDIA, in order for the capital restoration plan to be accepted by the appropriate federal banking agency, a bank holding company must guarantee that a subsidiary depository institution will comply with its capital restoration plan, subject to certain limitations. The bank holding company must also provide appropriate assurances of performance. The obligation of a controlling bank holding company under the FDIA to fund a capital restoration plan is limited to the lesser of 5.0 percent 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. 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 may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets and cessation of receipt of deposits from correspondent banks. Critically undercapitalized depository institutions failing to submit or implement an acceptable capital restoration plan are subject to appointment of a receiver or conservator.

Payment of Dividends

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

If, in the opinion of a federal bank 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 bank regulatory 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 FDIA, 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 the FDIA above. 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.

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Payment of Dividends by Regions Bank. Under the Federal Reserve s Regulation H, Regions Bank may not, without the approval of the Federal Reserve, declare or pay a dividend to Regions if the total of all dividends declared in a calendar year exceeds the total of (a) Regions Bank s net income for that year and (b) its retained net income for the preceding two calendar years, less any required transfers to additional paid-in capital or to a fund for the retirement of preferred stock. As a result of Regions Bank s $975 million loss in 2009 and $252 million loss in 2010, Regions Bank cannot, without approval from the Federal Reserve, declare or pay a dividend to Regions until such time as Regions Bank is able to satisfy the criteria discussed in the preceding sentence. Given the losses in 2009 and 2010, Regions Bank may not be able to pay dividends to Regions in the near term without obtaining regulatory approval.

Under Alabama law, Regions Bank may not pay a dividend in excess of 90 percent of its net earnings until the bank s surplus is equal to at least 20 percent of capital. Regions Bank is also required by Alabama law to obtain approval of the Alabama Superintendent of Banking prior to the payment of dividends if the total of all dividends declared by Regions Bank in any calendar year will exceed the total of (a) Regions Bank s net earnings (as defined by statute) for that year, plus (b) its retained net earnings for the preceding two years, less any required transfers to surplus. Also, no dividends may be paid from Regions Bank s surplus without the prior written approval of the Alabama Superintendent of Banking.

Payment of Dividends by Regions. The ability of Regions to pay dividends to its stockholders is not totally dependent on the receipt of dividends from Regions Bank, as Regions has other cash available to make dividend payments. As of December 31, 2010, Regions had $6.9 billion of cash and cash equivalents on a consolidated basis, of which $3.8 billion is attributable to the parent company. These funds are available for corporate purposes, including debt service and to pay dividends to its stockholders. This is compared to an anticipated common dividend requirement, assuming current dividend payment levels, of approximately $50 million and preferred cash dividends of approximately $175 million for the full year 2011. Expected long-term borrowings maturities in 2011 are approximately $6.0 billion, of which approximately $1.0 billion is attributable to the parent company.

Although Regions currently has capacity to make common dividend payments in 2011, the payment of dividends by Regions and the dividend rate are subject to management review and approval by Regions Board of Directors on a quarterly basis. Regions dividend payments are also subject to the oversight of the Federal Reserve. Under temporary guidance issued by the Federal Reserve in November 2010, the dividend policy of large bank holding companies, such as Regions, is reviewed by the Federal Reserve based on capital plans and stress tests as submitted by the bank holding company, and will be assessed against, among other things, the bank holding company s ability to achieve the Basel III capital ratio requirements referred to above as they are phased in by U.S. regulators and any potential impact of the Dodd-Frank Act on the company s risk profile, business strategy, corporate structure or capital adequacy. The Federal Reserve s current guidance provides that, for large bank holding companies like Regions, dividend payout ratios exceeding 30 percent of after-tax net income will receive particularly close scrutiny.

Prior to November 14, 2011, unless Regions has redeemed all of the Fixed Rate Cumulative Perpetual Preferred Stock, Series A (Series A Preferred Stock), issued to the U.S. Treasury on November 14, 2008 or unless the U.S. Treasury has transferred all the preferred securities to a third party, the consent of the U.S. Treasury will be required for Regions to declare or pay any dividend or make any distribution on common stock other than (i) regular quarterly cash dividends of not more than $0.10 per share, as adjusted for any stock split, stock dividend, reverse stock split, reclassification or similar transaction, (ii) dividends payable solely in shares of common stock and (iii) dividends or distributions of rights or junior stock in connection with a stockholders rights plan. Regions has reduced its quarterly dividend to $0.01 per share and does not expect to increase its quarterly dividend above such level for the foreseeable future.

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Support of Subsidiary Banks

Under longstanding Federal Reserve policy which has been codified by the Dodd-Frank Act, Regions 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 Regions may not be inclined to provide it. In addition, any capital loans by a bank 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 bank holding company s bankruptcy, any commitment by the bank 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.

Cross-Guarantee Provisions

Each insured depository institution controlled (as defined in the BHC Act) by the same bank holding company can be held liable to the FDIC for any loss incurred, or reasonably expected to be incurred, by the FDIC due to the default of any other insured depository institution controlled by that holding company and for any assistance provided by the FDIC to any of those banks that is in danger of default. Such a cross-guarantee claim against a depository institution is generally superior in right of payment to claims of the holding company and its affiliates against that depository institution. At this time, Regions Bank is the only insured depository institution controlled by Regions for this purpose. If in the future, however, Regions were to control other insured depository institutions, such cross-guarantee claims would apply to all such insured depository institutions.

Transactions with Affiliates

There are various legal restrictions on the extent to which Regions and its non-bank subsidiaries may borrow or otherwise obtain funding from Regions Bank. In general, Sections 23A and 23B of the Federal Reserve Act and Federal Reserve Regulation W require that any covered transaction by Regions Bank (or its subsidiaries) with an affiliate must be secured by designated amounts of specified collateral and must be limited to (a) in the case of any single such affiliate, the aggregate amount of covered transactions of Regions Bank and its subsidiaries may not exceed 10 percent of the capital stock and surplus of Regions Bank, and (b) in the case of all affiliates, the aggregate amount of covered transactions of Regions Bank and its subsidiaries may not exceed 20 percent of the capital stock and surplus of Regions Bank. The Dodd-Frank Act significantly expands the coverage and scope of the limitations on affiliate transactions within a banking organization. For example, commencing in July 2011, the Dodd-Frank Act will require that the 10 percent of capital limit on covered transactions begin to apply to financial subsidiaries. Covered transactions are defined by statute to include, among other things, a loan or extension of credit, as well as a purchase of securities issued by an affiliate, a purchase of assets (unless otherwise exempted by the Federal Reserve) from the affiliate, the acceptance of securities issued by the affiliate as collateral for a loan, and the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate. All covered transactions, including certain additional transactions (such as transactions with a third party in which an affiliate has a financial interest), must be conducted on market terms.

FDIC Insurance Assessments

Deposit Insurance Assessments. Regions Bank pays deposit insurance premiums to the FDIC based on an assessment rate established by the FDIC. FDIC assessment rates generally depend upon a combination of regulatory ratings and financial ratios. Regulatory ratings reflect the applicable bank regulatory agency s evaluation of the financial institution s capital, asset quality, management, earnings, liquidity and sensitivity to risk (CAMELS). The assessment rate for large institutions with long-term debt issuer ratings, such as Regions, is currently determined using a combination of the institution s weighted average regulatory ratings, its long-term debt issuer ratings and the institution s financial ratios, each equally weighted. Assessment rates for institutions that are in the lowest risk category currently vary from seven to twenty-four basis points per $100 of insured deposits, and may be increased or decreased by the FDIC on a semi-annual basis. Such base assessment rates are subject to adjustments based upon the institution s ratio of (i) long-term unsecured debt to its domestic deposits, (ii) secured liabilities to domestic deposits and (iii) brokered deposits to domestic deposits (if greater than 10 percent).

In February 2011, the FDIC adopted a final rule (the New Assessment Rule) to revise the deposit insurance assessment system for large institutions. The New Assessment Rule creates a two scorecard system for large institutions, one for most large institutions that have more than $10 billion in assets, such as Regions Bank, and another for highly complex institutions that have over $50 billion in assets and are fully owned by a parent with over $500 billion in assets. Each scorecard will have a performance score and a loss-severity score that will be combined to produce a total score, which will be translated into an initial assessment rate. In calculating these scores, the FDIC will continue to utilize the bank s supervisory (CAMELS) ratings and will introduce certain new forward-looking financial measures to assess an institution s ability to withstand asset-related stress and funding-related stress. The New Assessment Rule also eliminates the use of risk categories and long-term debt issuer ratings for calculating risk-based assessments for institutions having more than $10 billion in assets. The FDIC will continue to have the ability under the New Assessment Rule to make discretionary adjustments to the total score, up or down, based upon significant risk factors that are not adequately captured in the scorecard. The total score will then translate to an initial base assessment rate on a non-linear, sharply-increasing scale. The New Assessment Rule preserves the adjustments to an institution s base assessment rates based on its long-term unsecured debt and brokered deposits (if greater than 10%) and creates a new adjustment based on the institution s holdings of long-term unsecured debt issued by a different insured depository institution. The New Assessment Rule eliminates the adjustment to an institution s base assessment rate based on the its secured liabilities. The final rule will be effective April 1, 2011.

Regions Bank s deposit insurance assessments are currently based on the total domestic deposits held by Regions Bank. The Dodd-Frank Act requires the FDIC to amend its regulations to base insurance assessments on the average consolidated assets less the average tangible equity of the insured depository institution during the assessment period. Under the New Assessment Rule, which implements these requirements effective April 1, 2011, assessments paid by Regions Bank are expected to increase.

On November 17, 2009, the FDIC implemented a final rule requiring insured institutions, such as Regions Bank, to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011 and 2012. Such prepaid assessments were paid on December 30, 2009, along with each institution s quarterly risk-based deposit insurance assessment for the third quarter of 2009 (assuming 5 percent annual growth in deposits between the third quarter of 2009 and the end of 2012 and taking into account, for 2011 and 2012, the annualized three basis point increase discussed below).

The FDIA establishes a minimum ratio of deposit insurance reserves to estimated insured deposits, the designated reserve ratio (the DRR), of 1.15 percent prior to September 2020 and 1.35 percent thereafter. On December 20, 2010, the FDIC issued a final rule setting the DRR at 2 percent. Because the DRR fell below 1.15 percent as of June 30, 2008, and was expected to remain below 1.15 percent the FDIC was required to establish and implement a Restoration Plan that would restore the reserve ratio to at least 1.15 percent within five years. In October 2008, the FDIC adopted such a restoration plan (the Restoration Plan). In February 2009, in light of the extraordinary challenges facing the banking industry, the FDIC amended the Restoration Plan to allow seven years for the reserve ratio to return to 1.15 percent. In May 2009, the FDIC adopted a final rule that imposed a five basis point special assessment on each institution s assets minus Tier 1 capital (as of June 30, 2009). Such special assessment was collected on September 30, 2009. In October 2009, the FDIC passed a final rule extending the term of the Restoration Plan to eight years. Such final rule also included a provision that implements a uniform three basis point increase in assessment rates, effective January 1, 2011, to help ensure that the reserve ratio returns to at least 1.15 percent within the eight year period called for by the Restoration Plan. In October 2010, the FDIC adopted a new restoration plan to ensure the DRR reaches 1.35 percent by September 2020. As part of the revised plan, the FDIC will forego the uniform three-basis point increase in assessment rates scheduled to take place in January 2011. The FDIC will, at least semi-annually, update its income and loss projections for the DIF and, if necessary, propose rules to further increase assessment rates. In addition, on January 12, 2010, the FDIC announced that it would seek public comment on whether banks with compensation plans that encourage risky behavior should be charged higher deposit assessment rates than such banks would otherwise be charged. See also Incentive Compensation below.

We cannot predict whether, as a result of an adverse change in economic conditions or other reasons, the FDIC will in the future further increase deposit insurance assessment levels. For more information, see the FDIC Premiums and Special Assessment section of Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation of this Annual Report on Form 10-K.

Under the 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.

FICO Assessments. In addition, the Deposit Insurance Funds Act of 1996 authorized the Financing Corporation (FICO) to impose assessments on DIF applicable deposits in order to service the interest on FICO s bond obligations from deposit insurance fund assessments. The amount assessed on individual institutions by FICO will be in addition to the amount, if any, paid for deposit insurance according to the FDIC s risk-related assessment rate schedules. FICO assessment rates may be adjusted quarterly to reflect a change in assessment base. The FICO annual assessment rate for the fourth quarter of 2010 was 1.04 cents per $100 deposits and will decline to 1.02 cents per $100 deposits for the first quarter of 2011. Regions Bank had a FICO assessment of $10 million in FDIC deposit premiums in 2010.

Acquisitions

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 or savings and loan association, if after such acquisition, the bank holding company will directly or indirectly own or control 5 percent or more of the voting shares of the institution; (2) it or any of its subsidiaries, other than a bank, may acquire all or substantially all of the assets of any bank or savings and loan association; or (3) it may merge or consolidate with any other bank holding company. Effective July 2011, financial holding companies and bank holding companies with consolidated assets exceeding $50 billion must (i) obtain prior approval from the Federal Reserve before acquiring certain nonbank financial companies with assets exceeding $10 billion and (ii) provide prior written notice to the Federal Reserve before acquiring direct or indirect ownership or control of any voting shares of any company having consolidated assets of $10 billion or more. Bank holding companies seeking approval to complete an acquisition must be well-capitalized and well-managed effective July 2011.

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. In addition, the Federal Reserve must take into account the institutions effectiveness in combating money laundering.

FDIC Temporary Liquidity Guarantee Program

In October 2008, the FDIC announced the Temporary Liquidity Guarantee Program (the TLGP), under which the FDIC would guarantee certain senior unsecured debt of FDIC-insured U.S. depository institutions and U.S. bank holding companies as well as non-interest bearing transaction account deposits at FDIC-insured U.S. depository institutions, unless such institutions opted out of the program. Regions and Regions Bank both participated in the TLGP. Although the guarantee of non-interest bearing transaction account deposits under the

TLGP ended on June 30, 2010, the Dodd-Frank Act provides for unlimited FDIC deposit insurance coverage on non-interest bearing transaction accounts at all insured institutions, regardless of participation in the TLGP, until January 1, 2013.

On December 11, 2008, Regions Bank issued and sold $3.5 billion aggregate principal amount of its senior bank notes guaranteed under the TLGP. Regions Bank issued and sold an additional $250 million aggregate principal amount of FDIC-guaranteed senior bank notes on December 16, 2008. Under the TLGP, the FDIC will pay the unpaid principal and interest on such FDIC-guaranteed debt instruments upon the uncured failure of Regions Bank to make a timely payment of principal or interest. Neither Regions nor Regions Bank is permitted to use the proceeds from the sale of securities guaranteed under the TLGP to prepay any of its other debt that is not guaranteed by the FDIC.

U.S. Treasury Capital Purchase Program

Pursuant to the CPP, on November 14, 2008, Regions issued and sold to the U.S. Treasury in a private offering, (i) 3.5 million shares of Series A Preferred Stock and (ii) a warrant (the Warrant) to purchase 48,253,677 shares of Regions common stock, at an exercise price of $10.88 per share, subject to certain anti-dilution and other adjustments, for an aggregate purchase price of $3.5 billion in cash. The securities purchase agreement, dated November 14, 2008, pursuant to which the securities issued to the U.S. Treasury under the CPP were sold, limits the payment of dividends on Regions common stock to $0.10 per share without prior approval of the U.S. Treasury, limits Regions ability to repurchase shares of its common stock (with certain exceptions, including the repurchase of our common stock to offset share dilution from equity-based compensation awards), grants the holders of the Series A Preferred Stock, the Warrant and the common stock of Regions to be issued under the Warrant certain registration rights in order to facilitate resale, and subjects Regions to certain of the executive compensation limitations included in the Emergency Economic Stabilization Act of 2008 (EESA), as amended by the American Recovery and Reinvestment Act of 2009 (ARRA).

Depositor Preference

Under federal law, depositors 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.

Incentive Compensation

Guidelines adopted by the federal banking agencies pursuant to the FDIA 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 June 2010, the Federal Reserve issued comprehensive guidance on incentive compensation policies (the Incentive Compensation Guidance) intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The Incentive Compensation Guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization s incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization s ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization s board of directors. Any deficiencies in compensation practices that are identified may be incorporated into the organization s supervisory ratings, which can affect its ability to make acquisitions or perform other actions. The Incentive Compensation Guidance provides that enforcement actions may be taken against a banking organization if its incentive compensation arrangements or related risk-management control or governance processes pose a risk to the organization s safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

In February 2011, the Federal Reserve and other federal banking agencies requested comments on a notice of proposed rulemaking designed to implement provisions of the Dodd-Frank Act prohibiting incentive compensation arrangements that would encourage inappropriate risk taking at a covered institution, which includes a bank or bank holding company with $1.0 billion or more of assets, such as Regions and Regions Bank. The proposed rule (i) prohibits incentive-based compensation arrangements that encourage executive officers, employees, directors or principal shareholders to expose the institution to inappropriate risks by providing excessive compensation (based on the standards for excessive compensation adopted pursuant to the FDIA) and (ii) prohibits incentive-based compensation arrangements for executive officers, employees, directors or principal shareholders that could lead to a material financial loss for the institution. The proposed rule requires covered institutions to establish policies and procedures for monitoring and evaluating their compensation practices. Institutions with consolidated assets of $50.0 billion or more, such as Regions, are subject to additional restrictions on compensation arrangements for their executive officers and any other persons indentified by the institution s board of directors as having the ability to expose the institution to substantial losses.

In addition, on January 12, 2010, the FDIC announced that it would seek public comment on whether banks with compensation plans that encourage risky behavior should be charged higher deposit assessment rates than such banks would otherwise be charged.

The scope and content of the U.S. banking regulators policies on incentive compensation are continuing to develop and are likely to continue evolving in the near future. It cannot be determined at this time whether compliance with such policies will adversely affect the ability of Regions and its subsidiaries to hire, retain and motivate their key employees.

Orderly Liquidation Authority

The Dodd-Frank Act creates the Orderly Liquidation Authority (OLA), a resolution regime for systemically important non-bank financial companies, including bank holding companies, under which the FDIC may be appointed receiver to liquidate such a company if the company is in danger of default and presents a systemic risk to U.S. financial stability. This determination must come after supermajority recommendations by the Federal Reserve and the FDIC and consultation between the Secretary of the U.S. Treasury and the President. This resolution authority is similar to the FDIC resolution model for depository institutions, with certain modifications to reflect differences between depository institutions and non-bank financial companies and to reduce disparities between the treatment of creditors claims under the U.S. Bankruptcy Code and in an orderly liquidation authority proceeding compared to those that would exist under the resolution model for insured depository institutions.

An Orderly Liquidation Fund will fund OLA liquidation proceedings through borrowings from the Treasury Department and risk-based assessments made, first, on entities that received more in the resolution than they would have received in liquidation to the extent of such excess, and second, if necessary, on bank holding companies with total consolidated assets of $50.0 billion or more, such as Regions. If an orderly liquidation is triggered, Regions could face assessments for the Orderly Liquidation Fund. We do not yet have an indication of the level of such assessments.

Financial Privacy

The federal banking regulators have adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to non-affiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a non-affiliated third party. These regulations affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. In addition, consumers may also prevent disclosure of certain information among affiliated companies that is assembled or used to determine eligibility for a product or service, such as that shown on consumer credit reports and asset and income information from applications. Consumers also have the option to direct banks and other financial institutions not to share information about transactions and experiences with affiliated companies for the purpose of marketing products or services.

Community Reinvestment Act

Regions Bank is subject to the provisions of the CRA. Under the terms of the CRA, Regions Bank has a continuing and affirmative obligation consistent with safe and sound operation to help meet the credit needs of its communities, including providing credit to individuals residing in 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 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.

USA PATRIOT Act

A focus of governmental policy relating to financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The USA PATRIOT Act of 2001 (the USA PATRIOT Act) broadened the application of anti-money laundering regulations to apply to additional types of financial institutions such as broker-dealers, investment advisors and insurance companies, and strengthened the ability of the U.S. Government to help prevent, detect and prosecute international money laundering and the financing of terrorism. The principal provisions of Title III of the USA PATRIOT Act require that regulated financial institutions, including state member banks: (i) establish an anti-money laundering program that includes training and audit components; (ii) comply with regulations regarding the verification of the identity of any person seeking to open an account; (iii) take additional required precautions with non-U.S. owned accounts; and (iv) perform certain verification and certification of money laundering risk for their foreign correspondent banking relationships. Failure of a financial institution to comply with the USA PATRIOT Act s requirements could have serious legal and reputational consequences for the institution. Regions banking, broker-dealer and insurance subsidiaries have augmented their systems and procedures to meet the requirements of these regulations and will continue to revise and update their policies, procedures and controls to reflect changes required by the USA PATRIOT Act and implementing regulations.

Office of Foreign Assets Control Regulation

The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These are typically known as the OFAC rules based on their administration by the U.S. Treasury Department Office of Foreign Assets Control (OFAC). The OFAC-administered sanctions targeting countries take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on U.S. persons engaging in financial transactions relating to, making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences.

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. Certain of Regions insurance company subsidiaries are subject to extensive regulatory supervision and to insurance laws and regulations requiring, among other things, maintenance of capital, record keeping, reporting and examinations.

Regulation of Morgan Keegan

Morgan Keegan is subject to regulation and examination by the SEC, FINRA, NYSE and other SROs. 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 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 Securities Exchange Act of 1934. 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 FINRA 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 over 40 states and the District of Columbia.

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.

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The Dodd-Frank Act contains several provisions which may affect Morgan Keegan s business, including registration of municipal advisors, increased regulation of investment advisors and conducting a study regarding the fiduciary duties of investment advisors. Morgan Keegan s business may be adversely affected by new rules and regulations issued by the SEC or SROs, the implementation of provisions of the Dodd-Frank Act applicable to Morgan Keegan, and any changes in the enforcement of existing laws and rules that affect its securities business.

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, mortgage companies and financial service operations of major commercial and retail corporations. Regions expects competition to intensify among financial services companies due to the recent consolidation of certain competing financial institutions and the conversion of certain investment banks to bank holding companies.

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, 2010, Regions and its subsidiaries had 27,829 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 Securities Exchange Act of 1934. These documents are made available on Regions website as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. Also available on the website are Regions (i) Corporate Governance Principles, (ii) Code of Business Conduct and Ethics, (iii) Code of Ethics for Senior Financial Officers, (iv) Expenditures Policy, and (v) the charters of its Nominating and Corporate Governance Committee, Audit Committee, Compensation Committee and Risk Committee.

Item 1A. ***Risk Factors***

Our businesses have been and may continue to be adversely affected by conditions in the financial markets and economic conditions generally.

The capital and credit markets since 2008 have experienced unprecedented levels of volatility and disruption. In some cases, the markets produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers underlying financial strength. Although the economic slowdown that the United States experienced has begun to reverse and the markets have generally improved, business activities across a wide range of industries continue to face serious difficulties due to the lack of consumer spending and the lack of liquidity in the global credit markets. Heightened unemployment levels have further increased these difficulties.

A sustained weakness or weakening in business and economic conditions generally or specifically in the principal markets in which we do business could have one or more of the following adverse effects on our business:

A decrease in the demand for loans and other products and services offered by us;

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- A decrease in the value of our loans held for sale or other assets secured by consumer or commercial real estate;

- An impairment of certain intangible assets, such as goodwill;

- A decrease in interest income from variable rate loans, due to potential reductions in interest rates; and

- An increase in the number of clients and counterparties who become delinquent, file for protection under bankruptcy laws or default on their loans or other obligations to us. An increase in the number of delinquencies, bankruptcies or defaults could result in a higher level of nonperforming assets, net charge-offs, provision for loan losses, and valuation adjustments on loans held for sale.

Overall, during the past three years, the general business environment has had an adverse effect on our business. Although the general business environment has shown some improvement, there can be no assurance that it will continue to improve. If economic conditions worsen or remain volatile, our business, financial condition and results of operations could be adversely affected.

Market developments may adversely affect our industry, business and results of operations.

Dramatic declines in the housing market during recent years, with falling home prices and increasing foreclosures, unemployment and under-employment, have negatively impacted the credit performance of real estate-related loans and resulted in, and may continue to result in, significant write-downs of asset values by us and other financial institutions, including government-sponsored entities and major commercial and investment banks. These write-downs, initially of mortgage-backed securities but spreading to credit default swaps and other securities and loans, have caused many financial institutions to seek additional capital, to reduce or eliminate dividends, to merge with larger and stronger institutions and, in some cases, to fail. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have reduced, and in some cases, ceased to provide funding to borrowers including financial institutions.

Further negative market developments may affect consumer confidence levels and may cause adverse changes in payment patterns, causing increases in delinquencies and default rates, which may impact our charge-offs and provisions for credit losses. Continuing economic deterioration that affects household or corporate incomes could also result in reduced demand for credit or fee-based products and services. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial services industry.

Our status as a non-investment grade issuer and any future reductions in our credit ratings may increase our funding costs or place limitations on business activities related to providing credit support to customers.

The major rating agencies regularly evaluate us and their ratings of our long-term debt based on a number of factors, including our financial strength and conditions affecting the financial services industry generally. Over the past two years, all of the major ratings agencies downgraded Regions and Regions Bank s credit ratings, and many of our ratings remain on negative watch or negative outlook. Negative watch, negative outlook or other similar terms mean that a future downgrade is possible. Most recently, Regions Senior ratings were downgraded to Ba3, BB+, BBB- and BBB by Moody s Investor Services, Standard & Poor s, Fitch Ratings and Dominion Bond Rating Service, respectively. Our ratings with Moody s Investor Services and Standard & Poor s are below investment grade.

In general, ratings agencies base their ratings on many quantitative and qualitative factors, including capital adequacy, liquidity, asset quality, business mix and level and quality of earnings, and we may not be able to maintain our current credit ratings. The ratings assigned to Regions and Regions Bank remain subject to change at any time, and it is possible that any ratings agency will take action to downgrade Regions, Regions Bank or both in the future.

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The decreases in our credit rating over the past two years, our status as a non-investment grade issuer and any future decrease in our credit ratings by one or more ratings agencies could impact our access to the capital markets or short-term funding or increase our financing costs, and thereby adversely affect Regions financial condition and liquidity. Where Regions Bank is providing forms of credit support such as letters of credit, standby lending arrangements or other forms of credit support, this recent decline and future declines may cause customers of Regions to seek replacement credit support from a higher rated institution and may limit our ability to compete for future business. Our counterparties are also sensitive to the risk of a ratings downgrade and have the ability to terminate or may be less likely to engage in transactions with us, or may only engage in transactions with us at a substantially higher cost. We cannot predict whether customer relationships or opportunities for future relationships could be adversely affected by customers who choose to do business with a higher rated institution. The inability to retain customers or to effectively compete for new business may have a material and adverse effect on Regions business, financial condition and results of operations.

Additionally, ratings agencies have themselves been subject to scrutiny arising from the financial crisis such that the rating agencies may make or may be required to make substantial changes to their ratings policies and practices. Such changes may, among other things, adversely affect the ratings of our securities or other securities in which we have an economic interest.

The value of our deferred tax assets could adversely affect our operating results and regulatory capital ratios.

As of December 31, 2010, Regions had approximately $1.4 billion in net deferred tax assets, of which $424 million was disallowed when calculating regulatory capital. Applicable banking regulations permit us to include these deferred tax assets, up to a maximum amount, when calculating Regions regulatory capital to the extent these assets will be realized based on future projected earnings within one year of the report date. The ability to realize these deferred tax assets during any year also includes the ability to apply these assets to offset any taxable income during the two previous years. Unless we anticipate generating sufficient taxable income in the future, we may be unable to include additional amounts related to our deferred tax assets as part of our regulatory capital. The inability to include deferred tax assets in our regulatory capital could significantly reduce our regulatory capital ratios.

Additionally, our deferred tax assets are subject to an evaluation of whether it is more likely than not that they will be realized for financial statement purposes. In making this determination we consider all positive and negative evidence available including the impact of recent operating results as well as potential carryback of tax to prior years taxable income, reversals of existing taxable temporary differences, tax planning strategies and projected earnings within the statutory tax loss carryover period. We have determined that the deferred tax assets are more likely than not to be realized at December 31, 2010 (except for $30 million related to state deferred tax assets for which we have established a valuation allowance). If we were to conclude that a significant portion of our deferred tax assets were not more likely than not to be realized, the required valuation allowance could adversely affect our financial position and results of operations.

We have been the subject of increased litigation which could result in legal liability and damage to our reputation.

We and certain of our subsidiaries have been named from time to time as defendants in various class actions and other litigation relating to their business and activities. Past, present and future litigation have included or could include claims for substantial compensatory or punitive damages or claims for indeterminate amounts of damages. We and certain of our subsidiaries are also involved from time to time in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding their business. These matters also could result in adverse judgments, settlements, fines, penalties, injunctions or other relief.

In addition, in recent years, a number of judicial decisions have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories, collectively termed lender liability. Generally, lender liability is founded on the premise that a lender has either violated a duty, whether implied or contractual, of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in the creation of a fiduciary duty owed to the borrower or its other creditors or shareholders.

Substantial legal liability or significant regulatory action against us or our subsidiaries could materially adversely affect our business, financial condition or results of operations or cause significant harm to our reputation. Additional information relating to litigation affecting Regions and our subsidiaries is discussed in Note 23 Commitments, Contingencies and Guarantees to the consolidated financial statements of this Annual Report on Form 10-K.

Further disruptions in the residential real estate market could adversely affect our performance.

As of December 31, 2010, investor real estate loans secured by land, single-family and condominium properties, plus home equity loans secured by second liens in Florida represented approximately 8 percent of our total loan portfolio. These portions of our loan portfolio have been under pressure for over three years and, due to weakening credit quality, we have increased our loan loss provision and our total allowance for credit losses. In addition, we have implemented several measures to support the management of these sections of the loan portfolio, including reassignment of experienced, key relationship managers to focus on work-out strategies for distressed borrowers.

While we expect that these actions will help mitigate the overall effects of the downward credit cycle, the weaknesses in these sections of our loan portfolio are expected to continue well into 2011. Accordingly, it is anticipated that our non-performing asset and charge-off levels will remain elevated.

Further, the effects of recent mortgage market challenges, combined with decreases in residential real estate market prices and demand, could result in further price reductions in home values, adversely affecting the value of collateral securing the residential real estate and construction loans that we hold, as well as loan originations and gains on sale of real estate and construction loans. Specifically, a significant portion of our residential mortgages and commercial real estate loan portfolios are composed of borrowers in the Southeastern United States, in which certain markets have been particularly adversely affected by declines in real estate value, declines in home sale volumes, and declines in new home building. For example, prices of Florida properties remain under significant pressure, with high unemployment levels relative to periods prior to 2008 and the continuing impact of the recent real estate downturn on the general economy. These factors could result in higher delinquencies and greater charge-offs in future periods, which would materially adversely affect our financial condition and results of operations. A decline in home values or overall economic weakness could also have an adverse impact upon the value of real estate or other assets which we own upon foreclosing on a loan.

Continuing weakness in the commercial real estate market could adversely affect our performance.

The fundamentals within the commercial real estate sector remain weak, under continuing pressure from reduced asset values, rising vacancies and reduced rents. As of December 31, 2010, approximately 19 percent of our loan portfolio consisted of investor real estate loans. Investor real estate loans secured by land, single-family and condominiums continue to be impacted by declining property values, especially in areas where Regions has significant lending activities, including Florida and north Georgia. The properties securing income-producing investor real estate loans are typically not fully leased at the origination of the loan. The borrower s ability to repay the loan is instead reliant upon additional leasing through the life of the loan or the borrower s successful operation of a business. Weak economic conditions may impair a borrower s business operations and typically slow the execution of new leases. Such economic conditions may also lead to existing lease turnover. As a result of these factors, vacancy rates for retail, office and industrial space may remain at elevated levels in 2011. High vacancy rates could result in rents falling further over the next several quarters. The combination of these factors could result in further deterioration in the fundamentals underlying the commercial real estate market and the deterioration of one or more loans we have made. Any such deterioration could adversely affect our financial condition and results of operations.

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Our profitability and liquidity may be affected by changes in economic conditions in the areas where our operations or loans are concentrated.

Our success depends to a certain extent on the general economic conditions of the geographic markets served by Regions Bank in the states of Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, South Carolina, Tennessee, Texas and Virginia. The local economic conditions in these areas have a significant impact on Regions Bank s commercial, real estate and construction loans, the ability of borrowers to repay these loans and the value of the collateral securing these loans. Adverse changes in the economic conditions of these geographical areas for over three years have had a negative impact on the financial results of our banking operations and may continue to have a negative effect on our business, financial condition and results of operations. Any future adverse changes may also negatively effect on our business, financial condition and results of operations.

Improvements in economic indicators disproportionately affecting the financial services industry may lag improvements in the general economy.

The improvement of certain economic indicators, such as unemployment and real estate asset values and rents, may continue to lag behind improvement in the overall economy. These economic indicators typically affect certain industries, such as real estate and financial services, more significantly. For example, improvements in commercial real estate fundamentals typically lag broad economic recovery by twelve to eighteen months. Our clients include entities active in these industries. Furthermore, financial services companies with a substantial lending business, like ours, are dependent upon the ability of their borrowers to make debt service payments on loans. Should unemployment or real estate asset values fail to recover for an extended period of time, our business, financial condition or results of operations could be adversely affected.

Negative perceptions associated with our continued participation in the U.S. Treasury s Capital Purchase Program may adversely affect our ability to retain customers, attract investors and compete for new business opportunities.

On November 14, 2008, we issued and sold 3,500,000 shares of Series A Preferred Stock and the Warrant to purchase up to 48,253,677 shares of our common stock to the U.S. Treasury as part of the CPP. Several financial institutions which also participated in the CPP (including some banks considered to be our peer banks) have exited, or have applied for permission to exit, the program. In order to repurchase one or both securities, in whole or in part, we must establish that we have satisfied all of the conditions to repurchase and must obtain the approval of the U.S. Treasury. There can be no assurance that we will be able to repurchase these securities from the U.S. Treasury. Our customers, employees and counterparties in our current and future business relationships may draw negative implications regarding the strength of Regions as a financial institution based on our continued participation in the CPP following the exit of one or more of our competitors or other financial institutions. Any such negative perceptions may impair our ability to effectively compete with other financial institutions for business or to retain high performing employees. If this were to occur, our business, financial condition, liquidity and results of operations may be adversely affected, perhaps materially.

The limitations on incentive compensation contained in the ARRA and its implementing regulations may adversely affect our ability to retain our highest performing employees.

Because we have not yet repurchased the U.S. Treasury s CPP investment, we remain subject to the restrictions on incentive compensation contained in the ARRA. On June 10, 2009, the U.S. Treasury released its interim final rule implementing the provisions of the ARRA and limiting the compensation practices at institutions in which the U.S. Treasury is invested. Financial institutions which have repurchased the U.S. Treasury s CPP investment are relieved of the restrictions imposed by the ARRA and its implementing regulations. Due to these restrictions, we may not be able to successfully compete with financial institutions that have exited the CPP to retain and attract high performing employees. If this were to occur, our business, financial condition and results of operations could be adversely affected, perhaps materially.

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Our participation in the U.S. Treasury s CPP imposes restrictions and obligations on us that limit our ability to increase dividends, repurchase shares of our common stock and access the equity capital markets.

Prior to November 14, 2011, unless we have redeemed all of the Series A Preferred Stock purchased by the U.S. Treasury as part of the CPP or the U.S. Treasury has transferred all of the Series A Preferred Stock to a third party, the agreement pursuant to which such securities were sold, among other things, limits the payment of dividends on our common stock to a quarterly dividend of $0.10 per share without prior regulatory approval, limits our ability to repurchase shares of our common stock (with certain exceptions, including the repurchase of our common stock to offset share dilution from equity-based compensation awards), and grants the holders of such securities certain registration rights which, in certain circumstances, impose lock-up periods during which we would be unable to issue equity securities. Regions has reduced its quarterly dividend to $0.01 per share and does not expect to increase its quarterly dividend above such level for the foreseeable future. In addition, unless we are able to redeem the preferred stock prior to November 15, 2013, the dividends on the preferred stock will increase substantially, from 5 percent ($175 million annually) to 9 percent ($315 million annually).

We are subject to extensive governmental regulation, which could have an adverse impact on our operations.

The banking industry is extensively regulated and supervised under both federal and state law. Regions and Regions Bank are subject to the regulation and supervision of the Federal Reserve, the FDIC and the Superintendent of Banking of the State of Alabama. These regulations are intended primarily to protect depositors, the public and the FDIC insurance fund, and not our shareholders. These regulations govern matters ranging from the regulation of certain debt obligations, changes in the control of bank holding companies and state-chartered banks, and the maintenance of adequate capital to the general business operations and financial condition of Regions Bank, including permissible types, amounts and terms of loans and investments, to the amount of reserves against deposits, restrictions on dividends, establishment of branch offices, and the maximum interest rate that may be charged by law. Additionally, certain subsidiaries of Regions, such as Morgan Keegan, are subject to regulation, supervision and examination by other regulatory authorities, such as the SEC, FINRA and state securities and insurance regulators, and our non-bank subsidiaries are subject to oversight by the Federal Reserve.

As a result, we are subject to changes in federal and state law, as well as regulations and governmental policies, income tax laws and accounting principles. Regulations affecting banks and other financial institutions are undergoing continuous review and frequently change, and the ultimate effect of such changes cannot be predicted. Regulations and laws may be modified at any time, and new legislation may be enacted that will affect us, Regions Bank and our subsidiaries. Any changes in any federal and state law, as well as regulations and governmental policies, income tax laws and accounting principles, could affect us in substantial and unpredictable ways, including ways which may adversely affect our business, financial condition or results of operations. Failure to appropriately comply with any such laws, regulations or principles could result in sanctions by regulatory agencies, civil money penalties or damage to our reputation, all of which could adversely affect our business, financial condition or results of operations. Our regulatory position is discussed in greater detail under the Capital Ratios section of Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation of this Annual Report on Form 10-K.

Recent legislation regarding the financial services industry may have a significant adverse effect on our operations.

The Dodd-Frank Act, which was signed into law on July 21, 2010, implements a variety of far-reaching changes and has been called the most sweeping reform of the financial services industry since the 1930s. Many of the provisions of the Dodd-Frank Act will directly affect our ability to conduct our business including:

- Imposition of higher prudential standards, including more stringent risk-based capital, leverage, liquidity and risk-management requirements, and numerous other requirements on systemically significant institutions, currently defined to include, among other things, all bank holding companies with assets of at least $50 billion (which would include Regions);

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- Establishment of the FSOC to identify and impose additional regulatory oversight of large financial firms;

- Mandates requiring the Federal Reserve to establish standards for determining whether interchange fees charged by certain financial institutions are reasonable and proportional to the costs incurred by such institutions;

- Imposition of additional costs and fees, including fees to be set by the Federal Reserve and charged to systemically significant institutions to cover the cost of regulating such institutions and any FDIC assessment made to cover the costs of any regular or special examination of Regions or its affiliates;

- Establishment of the CFPB with broad authority to implement new consumer protection regulations and to examine and enforce compliance with federal consumer laws;

- Application to bank holding companies of regulatory capital requirements similar to those applied to banks, which requirements exclude, on a phase-out basis, all trust preferred securities and cumulative preferred stock from Tier 1 capital (except for preferred stock issued under the U.S. Treasury s Troubled Asset Relief Program (TARP), such as the Series A Preferred Stock, which will continue to qualify as Tier 1 capital as long as it remains outstanding); and

- Establishment of new rules and restrictions regarding the origination of mortgages.

Many provisions in the Dodd-Frank Act remain subject to regulatory rule-making and implementation, the effects of which are not yet known. As a result, it is difficult to gauge the ultimate impact of certain provisions of the Dodd-Frank Act because the implementation of many concepts is left to regulatory agencies. For example, the CFPB is given the power to adopt new regulations to protect consumers and is given control over existing consumer protection regulations adopted by federal banking regulators.

The provisions of the Dodd-Frank Act and any rules adopted to implement those provisions as well as any additional legislative or regulatory changes may impact the profitability of our business activities and costs of operations, require that we change certain of our business practices, materially affect our business model or affect retention of key personnel, require us to raise additional regulatory capital, including additional Tier 1 capital, and could expose us to additional costs (including increased compliance costs). These and other changes may also require us to invest significant management attention and resources to make any necessary changes and may adversely affect our ability to conduct our business as previously conducted or our results of operations or financial condition.

We may need to raise additional debt or equity capital in the future; such capital may be dilutive to our existing shareholders or may not be available when needed or at all.

We may need to raise additional capital in the future to provide us with sufficient capital resources and liquidity to meet our commitments and business needs. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of our control, and our financial performance. The recent economic slowdown and loss of confidence in financial institutions may increase our cost of funding and limit our access to some of our customary sources of capital, including, but not limited to, inter-bank borrowings, repurchase agreements and borrowings from the discount window of the Federal Reserve. Additionally, our debt ratings are currently not investment grade according to some credit ratings agencies. As a non-investment grade issuer, our cost of funding and access to the capital markets may be further limited.

We cannot assure you that capital will be available to us on acceptable terms or at all. Any occurrence that may limit our access to the capital markets, such as a decline in the confidence of debt purchasers, depositors of Regions Bank or counterparties participating in the capital markets, our status as a non-investment grade issuer, or a further downgrade of our debt rating, may adversely affect our capital costs and our ability to raise capital and, in turn, our liquidity. An inability to raise additional capital on acceptable terms when needed could have a materially adverse effect on our business, financial condition or results of operations.

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Increases in FDIC insurance premiums may adversely affect our earnings.

Our deposits are insured by the FDIC up to legal limits and, accordingly, we are subject to FDIC deposit insurance assessments. We generally cannot control the amount of premiums we will be required to pay for FDIC insurance. High levels of bank failures over the past three years and increases in the statutory deposit insurance limits have increased resolution costs to the FDIC and put pressure on the DIF. In order to maintain a strong funding position and restore the reserve ratios of the DIF, the FDIC increased assessment rates on insured institutions, charged a special assessment to all insured institutions as of June 30, 2009 and required banks to prepay three years worth of premiums on December 30, 2009. If there are additional financial institution failures, we may be required to pay even higher FDIC premiums than the recently increased levels, or the FDIC may charge additional special assessments. Further, the FDIC recently increased the DIF s target reserve ratio to 2.0 percent of insured deposits following the Dodd-Frank Act s elimination of the 1.5 percent cap on the DIF s reserve ratio. Additional increases in our assessment rate may be required in the future to achieve this targeted reserve ratio. These recent increases in deposit assessments and any future increases, required prepayments or special assessments of FDIC insurance premiums may adversely affect our business, financial condition or results of operations.

Additionally, pursuant to the Dodd-Frank Act, the FDIC must amend its regulations regarding assessment for federal deposit insurance to base such assessments on the average total consolidated assets of the insured institution during the assessment period, less the average tangible equity of the institution during the assessment period. Currently, we are assessed only on deposit balances, and this change may result in a substantial increase in the base to which the assessment rate is applied. The FDIC adopted a rule implementing this change, as well as adopting a revised risk-based assessment calculation in February 2011. The FDIC has also proposed a rule tying assessment rates of FDIC-insured institutions to the institution s employee compensation programs. The exact nature and cumulative effect of these recent changes are not yet known, but they are expected to increase the amount of premiums we must pay for FDIC insurance. Any such increase may adversely affect our business, financial condition or results of operations.

The recent repeal of federal prohibitions on payment of interest on demand deposits could increase our interest expense.

All federal prohibitions on the ability of financial institutions to pay interest on demand deposit accounts were repealed as part of the Dodd-Frank Act. As a result, beginning on July 21, 2011, financial institutions could commence offering interest on demand deposits to compete for clients. We do not yet know what interest rates or products other institutions may offer. Our interest expense will increase and our net interest margin will decrease if we begin offering interest on demand deposits to attract additional customers or maintain current customers. Consequently, our business, financial condition or results of operations may be adversely affected, perhaps materially.

We may be subject to more stringent capital requirements.

Regions and Regions Bank are each subject to capital adequacy guidelines and other regulatory requirements specifying minimum amounts and types of capital which each of Regions and Regions Bank must maintain. From time to time, the regulators implement changes to these regulatory capital adequacy guidelines. If we fail to meet these minimum capital guidelines and other regulatory requirements, our financial condition would be materially and adversely affected. In light of proposed changes to regulatory capital requirements contained in the Dodd-Frank Act and the regulatory accords on international banking institutions formulated by the Basel Committee and implemented by the Federal Reserve, we likely will be required to satisfy additional, more stringent, capital adequacy standards. The ultimate impact of the new capital and liquidity standards on us cannot be determined at this time and will depend on a number of factors, including the treatment and implementation by the U.S. banking regulators. These requirements, however, and any other new regulations, could adversely affect our ability to pay dividends, or could require us to reduce business levels or to raise capital, including in ways that may adversely affect our financial condition or results of operations. For more

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information concerning our compliance with capital requirements, see the Bank Regulatory Capital Requirements section of Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation of this Annual Report on Form 10-K.

If an orderly liquidation of a systemically important non-bank financial company were triggered, we could face assessments for the Orderly Liquidation Fund.

The Dodd-Frank Act creates a new mechanism, the OLA, for liquidation of systemically important nonbank financial companies, including bank holding companies. The OLA is administered by the FDIC and is based on the FDIC s bank resolution model. The Secretary of the U.S. Treasury may trigger a liquidation under this authority only after consultation with the President of the United States and after receiving a recommendation from the boards of the FDIC and the Federal Reserve upon a two-thirds vote. Liquidation proceedings will be funded by the Orderly Liquidation Fund, which will borrow from the U.S. Treasury and impose risk-based assessments on covered financial companies. Risk-based assessments would be made, first, on entities that received more in the resolution than they would have received in the liquidation to the extent of such excess, and second, if necessary, on, among others, bank holding companies with total consolidated assets of $50 billion or more, such as Regions. Any such assessments may adversely affect our business, financial condition or results of operations.

Proposed rules regulating the imposition of debit card income may adversely affect our operations.

The Dodd-Frank Act gives the Federal Reserve the authority to establish rules regarding interchange fees charged by payment card issuers for transactions in which a person uses certain types of debit cards, requiring that such fees be reasonable and proportional to the cost incurred by the issuer with respect to such transaction, subject to a possible adjustment to account for costs incurred in connection with the issuer s fraud prevention policies. On December 16, 2010, the Federal Reserve requested comment on a proposed rule which would take effect on July 21, 2011 and which, if enacted, would significantly impact the amount of interchange fees collected by Regions Bank. The proposed rule contains two alternative restrictions on the permissible level of interchange fees: a uniform restriction of 12 cents per transaction and an issuer-specific restriction containing a safe harbor of 7 cents per transaction and a cap of 12 cents per transaction. Neither alternative makes a distinction between PIN or signature transactions, and under both alternatives, the interchange fee will be much lower than the 44 cents per transaction which is the average amount charged for all debit transactions according to the Federal Reserve s study on interchange transactions. The restrictions on interchange fees contained in the proposed rule would be applicable to all debit card issuers who, together with their affiliates, possess more than $10 billion in assets, such as Regions Bank, and do not include adjustments associated with costs resulting from compliance with the issuer s fraud prevention policies, which are expected to be included at a later date.

The proposed rule would also prohibit issuers and payment card networks from restricting the number of payment card networks on which an electronic debit transaction may be processed to: (1) one network; or (2) two or more networks that are owned, controlled or operated by affiliates or networks affiliated with the issuer. To implement the network exclusivity restrictions of the proposed rule, the Federal Reserve has offered two alternative methods for comment. One alternative (Alternative A) prohibits networks and issuers from limiting the number of payment card networks available for processing an electronic debit transaction to fewer than two unaffiliated networks, regardless of the means by which a transaction may be authorized. The other alternative (Alternative B) prohibits networks and issuers from limiting the number of networks available for processing an electronic debit transaction to fewer than two unaffiliated networks for each method by which a transaction may be authorized. In the event the Federal Reserve adopts Alternative B, considerable costs and immense operational complexity will be associated with its implementation.

In 2010, Regions Bank collected $346 million in debit card income, and without mitigating actions this amount could potentially be negatively impacted going forward. Based on the current proposed rule, Regions Bank s revenues resulting from debit card income would likely be reduced to approximately one quarter of

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current levels, absent any mitigating actions, based on the 12 cent alternative described above. While the final regulations are not yet known, they may have an adverse effect on our business, financial condition or results of operations.

We are a holding company and depend on our subsidiaries for dividends, distributions and other payments.

We are a legal entity separate and distinct from our banking and other subsidiaries. Our principal source of cash flow, including cash flow to pay dividends to our stockholders and principal and interest on our outstanding debt, is dividends from Regions Bank. There are statutory and regulatory limitations on the payment of dividends by Regions Bank to us, as well as by us to our stockholders. Regulations of both the Federal Reserve and the State of Alabama affect the ability of Regions Bank to pay dividends and other distributions to us and to make loans to us. Due to losses recorded at Regions Bank during 2009 and 2010, under the Federal Reserve s rules, Regions Bank may not be able to pay dividends to us in the near term without first obtaining regulatory approval. If Regions Bank is unable to make dividend payments to us and sufficient cash or liquidity is not otherwise available, we may not be able to make dividend payments to our common and preferred stockholders or principal and interest payments on our outstanding debt. See the Stockholders Equity section of Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation of this Annual Report on Form 10-K. In addition, our right to participate in a distribution of assets upon a subsidiary s liquidation or reorganization is subject to the prior claims of the subsidiary s creditors.

If we experience greater credit losses than anticipated, our earnings may be adversely affected.

As a lender, we are exposed to the risk that our customers will be unable to repay their loans according to their terms and that any collateral securing the payment of their loans may not be sufficient to assure repayment. Credit losses are inherent in the business of making loans and could have a material adverse effect on our operating results. Our credit risk with respect to our real estate and construction loan portfolio will relate principally to the creditworthiness of corporate borrowers and the value of the real estate serving as security for the repayment of loans. Our credit risk with respect to our commercial and consumer loan portfolio will relate principally to the general creditworthiness of businesses and individuals within our local markets.

We make various assumptions and judgments about the collectability of our loan portfolio and provide an allowance for estimated credit losses based on a number of factors. We believe that our allowance for credit losses is adequate. However, if our assumptions or judgments are wrong, our allowance for credit losses may not be sufficient to cover our actual credit losses. We may have to increase our allowance in the future in response to the request of one of our primary banking regulators, to adjust for changing conditions and assumptions, or as a result of any deterioration in the quality of our loan portfolio. The actual amount of future provisions for credit losses cannot be determined at this time and may vary from the amounts of past provisions.

The value of our goodwill and other intangible assets may decline in the future.

As of December 31, 2010, we had $5.6 billion of goodwill and $385 million of other intangible assets. A significant decline in our expected future cash flows, a significant adverse change in the business climate, slower growth rates or a significant and sustained decline in the price of our common stock, any or all of which could be materially impacted by many of the risk factors discussed herein, may necessitate our taking charges in the future related to the impairment of our goodwill. Future regulatory actions could also have a material impact on assessments of goodwill for impairment. Additionally, if the fair values of our net assets improves at a faster rate than the market value of our Banking/Treasury reporting unit, we may also have to take charges related to the impairment of our goodwill. If we were to conclude that a future write-down of our goodwill and other intangible assets is necessary, we would record the appropriate charge, which could have a material adverse effect on our results of operations.

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Rapid and significant changes in market interest rates may adversely affect our performance.

Most of our assets and liabilities are monetary in nature and subject us to significant risks from changes in interest rates. Our profitability depends to a large extent on our net interest income, and changes in interest rates can impact our net interest income as well as the valuation of our assets and liabilities.

Our current one-year interest rate sensitivity position is asset sensitive, meaning that an immediate or gradual increase in interest rates would likely have a positive cumulative impact on Regions twelve-month net interest income. Alternatively, an immediate or gradual decrease in rates over a twelve-month period would likely have a negative impact on twelve-month net interest income. However, like most financial institutions, our results of operations are affected by changes in interest rates and our ability to manage interest rate risks. Changes in market interest rates, or changes in the relationships between short-term and long-term market interest rates, or changes in the relationships between different interest rate indices, can affect the interest rates charged on interest-earning assets differently than the interest rates paid on interest-bearing liabilities. This difference could result in an increase in interest expense relative to interest income, or a decrease in our interest rate spread. For a more detailed discussion of these risks and our management strategies for these risks, see the Net Interest Income and Margin and Market Risk Interest Rate Risk sections of Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation of this Annual Report on Form 10-K. Our net interest margin depends on many factors that are partly or completely out of our control, including competition, federal economic monetary and fiscal policies, and general economic conditions. Despite our strategies to manage interest rate risks, changes in interest rates can still have a material adverse impact on our business, financial condition and results of operations.

Additionally, Regions portfolio segments, particularly investor real estate, include products where terms are tied to benchmark interest rates, such as LIBOR. An increasing interest rate environment would increase debt service requirements for borrowers with these types of products. Such increases may impact the borrowers ability to pay as contractually obligated.

The performance of our investment portfolio is subject to fluctuations due to changes in interest rates and market conditions.

Changes in interest rates can negatively affect the performance of most of our investments. Interest rate volatility can reduce unrealized gains or create unrealized losses in our portfolios. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions, and other factors beyond our control. Fluctuations in interest rates affect our returns on, and the market value of, our investment securities.

The fair market value of the securities in our portfolio and the investment income from these securities also fluctuate depending on general economic and market conditions. In addition, actual net investment income and cash flows from investments that carry prepayment risk, such as mortgage-backed and other asset-backed securities, may differ from those anticipated at the time of investment as a result of interest rate fluctuations. See the Securities section of Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation of this Annual Report on Form 10-K.

Hurricanes and other weather-related events, as well as man-made disasters, could cause a disruption in our operations or other consequences that could have an adverse impact on our results of operations.

A significant portion of our operations are located in the areas bordering the Gulf of Mexico and the Atlantic Ocean, regions that are susceptible to hurricanes. Such weather events can cause disruption to our operations and could have a material adverse effect on our overall results of operations. We maintain hurricane insurance, including coverage for lost profits and extra expense; however, there is no insurance against the disruption to the markets that we serve that a catastrophic hurricane could produce. Further, a hurricane in any of our market areas could adversely impact the ability of borrowers to timely repay their loans and may adversely impact the value of any collateral held by us. Man-made disasters and other events connected with the Gulf of Mexico or Atlantic Ocean, such as the recent Gulf oil spill, could have similar effects. Some of the states in which we operate have in recent years experienced extreme droughts. The severity and impact of future hurricanes, droughts and other weather-related events are difficult to predict and may be exacerbated by global climate change. The effects of past or future hurricanes, droughts and other weather-related events could have an adverse effect on our business, financial condition or results of operations.

Industry competition may have an adverse effect on our success.

Our profitability depends on our ability to compete successfully. We operate in a highly competitive environment. Certain of our competitors are larger and have more resources than we do. In our market areas, we face competition from other commercial banks, savings and loan associations, credit unions, internet banks, finance companies, mutual funds, insurance companies, brokerage and investment banking firms, and other financial intermediaries that offer similar services. Some of our non-bank competitors are not subject to the same extensive regulations that govern Regions or Regions Bank and may have greater flexibility in competing for business. Regions expects competition to intensify among financial services companies due to the recent consolidation of certain competing financial institutions and the conversion of certain investment banks to bank holding companies. Additionally, the Dodd-Frank Act eliminated certain restrictions on the ability of banking institutions to open branches across state lines, a change which may also cause competition among financial services companies to intensify. Should competition in the financial services industry intensify, Regions ability to market its products and services and to retain or compete for new business may be adversely affected. Consequently, our business, financial condition or results of operations may also be adversely affected.

Maintaining or increasing market share may depend on market acceptance and regulatory approval of new products and services.

Our success depends, in part, on the ability to adapt products and services to evolving industry standards. There is increasing pressure to provide products and services at lower prices. This can reduce net interest income and noninterest income from fee-based products and services. In addition, the widespread adoption of new technologies could require us to make substantial capital expenditures to modify or adapt existing products and services or develop new products and services. We may not be successful in introducing new products and services in response to industry trends or developments in technology, or those new products may not achieve market acceptance. As a result, we could lose business, be forced to price products and services on less advantageous terms to retain or attract clients, or be subject to cost increases. As a result, our business, financial condition or results of operations may be adversely affected.

Consumers may decide not to use banks to complete their financial transactions.

Technology and other changes are allowing parties to use alternative methods to complete financial transactions that historically have involved banks. For example, consumers can now maintain funds in brokerage accounts or mutual funds that would have historically been held as bank deposits. Consumers can also complete transactions such as paying bills or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as disintermediation, could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. Any resulting loss of deposits could impact our cost of funding, and, together with any lost income generated by this loss of business, could adversely affect our business, financial condition or results of operations.

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services companies are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. As a result, defaults by, or even rumors or questions about, one or more financial services companies, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated if the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due us. There is no assurance that any such losses would not materially and adversely affect our business, financial condition or results of operations.

Changes in the policies of monetary authorities and other government action could adversely affect our profitability.

The results of operations of Regions are affected by credit policies of monetary authorities, particularly the Federal Reserve. The instruments of monetary policy employed by the Federal Reserve include open-market operations in U.S. government securities, changes in the discount rate or the federal funds rate on bank borrowings, and changes in reserve requirements against bank deposits. In view of changing conditions in the national economy and in the money markets, we cannot predict possible future changes in interest rates, deposit levels, and loan demand on our business and earnings. Furthermore, ongoing military operations around the world, including those in response to terrorist attacks, may result in currency fluctuations, exchange controls, market disruption and other adverse effects, any of which may negatively impact our business, financial condition or results of operations.

We need to stay current on technological changes in order to compete and meet customer demands.

The financial services market, including banking services, is undergoing rapid changes with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and may enable us to reduce costs. Our future success may depend, in part, on our ability to use technology to provide products and services that provide convenience to customers and to create additional efficiencies in our operations. Some of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. As a result, our ability to effectively compete to retain or acquire new business may be impaired, and our business, financial condition or results of operations, may be adversely affected.

We are subject to a variety of operational risks, including reputational risk, legal risk and compliance risk, and the risk of fraud or theft by employees or outsiders, which may adversely affect our business and results of operations.

We are exposed to many types of operational risks, including reputational risk, legal and compliance risk, the risk of fraud or theft by employees or outsiders, and unauthorized transactions by employees or operational errors, including clerical or record-keeping errors or those resulting from faulty or disabled computer or telecommunications systems. Negative public opinion can result from our actual or alleged conduct in any number of activities, including lending practices, corporate governance and acquisitions and from actions taken by government regulators and community organizations in response to those activities. Negative public opinion can adversely affect our ability to attract and keep customers and can expose us to litigation and regulatory action. Actual or alleged conduct by Regions can result in negative public opinion about our other business. Negative public opinion could also affect our credit ratings, which are important to our access to unsecured wholesale borrowings.

If personal, non-public, confidential or proprietary information of customers in our possession were to be mishandled or misused, we could suffer significant regulatory consequences, reputational damage and financial loss. Such mishandling or misuse could include, for example, if such information were erroneously provided to parties who are not permitted to have the information, either by fault of our systems, employees, or counterparties, or where such information is intercepted or otherwise inappropriately taken by third parties.

Because the nature of the financial services business involves a high volume of transactions, certain errors may be repeated or compounded before they are discovered and successfully rectified. Our necessary dependence upon automated systems to record and process transactions and our large transaction volume may further increase the risk that technical flaws or employee tampering or manipulation of those systems will result in losses that are difficult to detect. We also may be subject to disruptions of our operating systems arising from events that are wholly or partially beyond our control (for example, computer viruses or electrical or telecommunications outages, or natural disasters, disease pandemics or other damage to property or physical assets) which may give rise to disruption of service to customers and to financial loss or liability. We are further exposed to the risk that our external vendors may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors by their respective employees as we are) and to the risk that we (or our vendors) business continuity and data security systems prove to be inadequate. The occurrence of any of these risks could result in a diminished ability of us to operate our business (for example, by requiring us to expend significant resources to correct the defect), as well as potential liability to clients, reputational damage and regulatory intervention, which could adversely affect our business, financial condition or results of operations, perhaps materially.

We rely on other companies to provide key components of our business infrastructure.

Third parties provide key components of our business operations such as data processing, recording and monitoring transactions, online banking interfaces and services, Internet connections and network access. While we have selected these third party vendors carefully, we do not control their actions. Any problems caused by these third parties, including those resulting from disruptions in communication services provided by a vendor, failure of a vendor to handle current or higher volumes, failure of a vendor to provide services for any reason or poor performance of services, could adversely affect our ability to deliver products and services to our customers and otherwise conduct our business. Financial or operational difficulties of a third party vendor could also hurt our operations if those difficulties interfere with the vendor s ability to serve us. Replacing these third party vendors could also create significant delay and expense. Accordingly, use of such third parties creates an unavoidable inherent risk to our business operations.

Our customers may pursue alternatives to bank deposits which could force us to rely on relatively more expensive sources of funding.

An outflow of deposits because customers seek investments with higher yields or greater financial stability, prefer to do business with our competitors, or otherwise could force us to rely more heavily on borrowings and other sources of funding to fund our business and meet withdrawal demands, adversely affecting our net interest margin. We may also be forced, as a result of any outflow of deposits, to rely more heavily on equity to fund our business, resulting in greater dilution of our existing shareholders. As a result, our business, financial condition or results of operations may be adversely affected.

Our reported financial results depend on management s selection of accounting methods and certain assumptions and estimates.

Our accounting policies and assumptions are fundamental to our reported financial condition and results of operations. Our management must exercise judgment in selecting and applying many of these accounting policies and methods so they comply with generally accepted accounting principles and reflect management s judgment of the most appropriate manner to report our financial condition and results. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which may be reasonable under the circumstances, yet may result in our reporting materially different results than would have been reported under a different alternative.

Certain accounting policies are critical to presenting our reported financial condition and results. They require management to make difficult, subjective or complex judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions or estimates. These critical accounting policies include: the allowance for credit losses; intangible assets; mortgage servicing rights; and income taxes. Because of the uncertainty of estimates involved in these matters, we may be required to do one or more of the following: significantly increase the allowance for credit losses and/or sustain credit losses that are significantly higher than the reserve provided; recognize significant impairment on our goodwill, other intangible assets and deferred tax asset balances; or significantly increase our accrued income taxes.

Changes in our accounting policies or in accounting standards could materially affect how we report our financial results and condition.

From time to time, the Financial Accounting Standards Board and SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in us restating prior period financial statements.

We depend on the accuracy and completeness of information about clients and counterparties.

In deciding whether to extend credit or enter into other transactions with clients and counterparties, we may rely on information furnished by or on behalf of clients and counterparties, including financial statements and other financial information. We also may rely on representations of clients and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors if made available. If this information is inaccurate, we may be subject to regulatory action, reputational harm or other adverse effects on the operation of our business, our financial condition and our results of operations.

We are exposed to risk of environmental liability when we take title to property.

In the course of our business, we may foreclose on and take title to real estate. As a result, we could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination or may be required to investigate or clean up hazardous or toxic substances or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. If we become subject to significant environmental liabilities, our financial condition or results of operations could be adversely affected.

Our information systems may experience an interruption or security breach.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems. While we have policies and procedures designed to prevent or limit the effect of the possible failure, interruption or security breach of our information systems, there can be no assurance that any such failure, interruption or security breach will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failure, interruption or security breach of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability.

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The market price of shares of our common stock will fluctuate.

The market price of our common stock could be subject to significant fluctuations due to a change in sentiment in the market regarding our operations or business prospects. Such risks may be affected by:

- Operating results that vary from the expectations of management, securities analysts and investors;
- Developments in our business or in the financial sector generally;
- Regulatory changes affecting our industry generally or our business and operations;
- The operating and securities price performance of companies that investors consider to be comparable to us;
- Announcements of strategic developments, acquisitions and other material events by us or our competitors;
- Expectations of or actual equity dilution;
- Changes in the credit, mortgage and real estate markets, including the markets for mortgage-related securities; and
- Changes in global financial markets and global economies and general market conditions, such as interest or foreign exchange rates, stock, commodity, credit or asset valuations or volatility.

Stock markets in general and our common stock in particular have shown considerable volatility in the recent past. The market price of our common stock may continue to be subject to similar market fluctuations that may be unrelated to our operating performance or prospects. Increased volatility could result in a decline in the market price of our common stock.

We may not pay dividends on your common stock.

Holders of shares of our common stock are only entitled to receive such dividends as our board of directors may declare out of funds legally available for such payments. Although we have historically declared cash dividends on our common stock, we are not required to do so and may reduce or eliminate our common stock dividend in the future. This could adversely affect the market price of our common stock. Also, participation in the CPP limits our ability to increase our dividend or to repurchase our common stock for so long as any securities issued under such program remain outstanding, as discussed in greater detail in the Restrictions on Dividends and Repurchase of Stock section of Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities of this Annual Report on Form 10-K. Regions has reduced its quarterly dividend to $0.01 per share and does not expect to increase its quarterly dividend above such level for the foreseeable future.

Regions is also subject to statutory and regulatory limitations on our ability to pay dividends on our common stock. For example, it is the policy of the Federal Reserve that bank holding companies should generally pay dividends on common stock only out of earnings, and only if prospective earnings retention is consistent with the organization s expected future needs, asset quality, and financial condition. Recently issued temporary guidance from the Federal Reserve states that our dividend policies will be assessed, among other things, against our ability to achieve Basel III capital ratio requirements. Moreover, the Federal Reserve will closely scrutinize any dividend payout ratios exceeding 30 percent of after-tax net income.

Anti-takeover laws and certain agreements and charter provisions may adversely affect share value.

Certain provisions of state and federal law and our certificate of incorporation may make it more difficult for someone to acquire control of us without our Board of Directors approval. Under federal law, subject to certain exemptions, a person, entity or group must notify the federal banking agencies before acquiring control of a bank holding company. Acquisition of 10 percent or more of any class of voting stock of a bank holding company or state member bank, including shares of our common stock, creates a rebuttable presumption that the acquirer controls the bank holding company or state member bank. Also, as noted under the Supervision and Regulation section of Item 1. of this Annual Report on Form 10-K, a bank holding company must obtain the prior approval of the Federal Reserve before, among other things, acquiring direct or indirect ownership or control of more than 5 percent of the voting shares of any bank, including Regions Bank. There also are provisions in our certificate of incorporation that may be used to delay or block a takeover attempt. As a result, these statutory provisions and provisions in our certificate of incorporation could result in Regions being less attractive to a potential acquirer.

Future issuances of additional equity securities could result in dilution of your ownership.

We may determine from time to time to issue additional equity securities to raise additional capital, support growth, or to make acquisitions. Further, we may issue stock options or other stock grants to retain and motivate our employees. These issuances of our securities could dilute the voting and economic interests of our existing shareholders.

Future equity offerings could impair the value of our deferred tax assets and adversely affect our capital ratios.

Our ability to utilize our deferred tax assets to offset future taxable income may be significantly limited if we experience an ownership change as defined in section 382 of the Internal Revenue Code of 1986, as amended (the Code). In general, an ownership change will occur if there is a cumulative change in our ownership by 5 percent shareholders (as defined in the Code) that exceeds 50 percent (as defined in the Code) over a rolling three-year period. Any corporation experiencing an ownership change will generally be subject to an annual limitation on its deferred tax assets prior to the ownership change equal to the value of such corporation immediately before the ownership change, multiplied by the long-term tax-exempt rate (subject to certain adjustments). The annual limitation would be increased each year to the extent that there is an unused limitation in a prior year. The limitation arising from an ownership change under section 382 of the Code on our ability to utilize our deferred tax assets would depend on the value of Regions stock at the time of the ownership change. As a result, future investments by new or existing 5 percent shareholders or issuances of common equity could materially increase the risk that we could experience an ownership change in the future. If we were to experience an ownership change under section 382 of the Code for any reason, the value of our deferred tax assets may be impaired and may cause a decrease in our financial position, results of operations and regulatory capital ratios.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

Regions corporate headquarters occupy the main banking facility of Regions Bank, located at 1900 Fifth Avenue North, Birmingham, Alabama 35203.

At December 31, 2010, Regions Bank, Regions banking subsidiary, operated 1,772 banking offices. Regions provides investment banking and brokerage services from over 321 offices of Morgan Keegan. At December 31, 2010, 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 on Form 10-K for a list of the states in which Regions Bank branches and Morgan Keegan s offices are located.

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Item 3. ***Legal Proceedings***

Information required by this item is set forth in Note 23 Commitments, Contingencies and Guarantees in the Notes to the Consolidated Financial Statements which are included in Item 8. of this Annual Report on Form 10-K.

Executive Officers of the Registrant

Information concerning the Executive Officers of Regions is set forth under Item 10. Directors, Executive Officers and Corporate Governance of this Annual Report on Form 10-K.

Item 4. ***(Removed and Reserved).***

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PART II

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

Regions common stock, par value $.01 per share, is listed for trading on the New York Stock Exchange under the symbol RF. Quarterly high and low sales prices of and cash dividends declared on Regions common stock are set forth in Table 28 Quarterly Results of Operations of Management s Discussion and Analysis of Financial Condition and Results of Operations , which is included in Item 7. of this Annual Report on Form 10-K. As of February 15, 2011, there were 76,455 holders of record of Regions common stock (including participants in the Computershare Investment Plan for Regions Financial Corporation).

Restrictions on the ability of Regions Bank to transfer funds to Regions at December 31, 2010, are set forth in Note 13 Regulatory Capital Requirements and Restrictions to the consolidated financial statements, which are included in Item 8. of this Annual Report on Form 10-K. A discussion of certain limitations on the ability of Regions Bank to pay dividends to Regions and the ability of Regions to pay dividends on its common stock is set forth in Item 1. Business under the heading Supervision and Regulation Payment of Dividends of this Annual Report on Form 10-K.

The following table presents information regarding issuer purchases of equity securities during the fourth quarter of 2010.

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
October 1, 2010 October 31, 2010		$		23,072,300
November 1, 2010 November 30, 2010				23,072,300
December 1, 2010 December 31, 2010				23,072,300
Total		$		23,072,300

On January 18, 2007, Regions Board of Directors authorized the repurchase of 50 million shares of Regions common stock through open market or privately negotiated transactions and announced the authorization of this repurchase. As indicated in the table above, approximately 23.1 million shares remain available for repurchase under the existing plan. As discussed in the Supervision and Regulation section of Item 1. Business of this Annual Report on Form 10-K, the Company s ability to repurchase its common stock is limited by the terms of the Purchase Agreement between Regions and the U.S. Treasury. Under the CPP, prior to the earlier of (i) November 14, 2011, or (ii) the date on which the Series A Preferred Stock is redeemed in whole or the U.S. Treasury has transferred all of the Series A Preferred Stock to unaffiliated third parties, the consent of the U.S. Treasury is required to repurchase any shares of common stock except in connection with benefit plans in the ordinary course of business and certain other limited exceptions.

Restrictions on Dividends and Repurchase of Stock

Holders of Regions common stock are only entitled to receive such dividends as Regions board of directors may declare out of funds legally available for such payments. Furthermore, holders of Regions common stock are subject to the prior dividend rights of any holders of Regions preferred stock then outstanding. As of December 31, 2010, there were 3,500,000 shares of Regions Fixed Rate Cumulative Perpetual Preferred Stock Series A (the Series A Preferred Stock) with liquidation amount of $1,000 per share, issued and outstanding. Under the terms of the Series A Preferred Stock, Regions ability to declare and pay dividends on or repurchase Regions common stock will be subject to restrictions in the event Regions fails to declare and pay (or set aside for payment) full dividends on the Series A Preferred Stock.

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

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

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PERFORMANCE GRAPH

Set forth below is a graph comparing the yearly percentage change in the cumulative total return of Regions common stock against the cumulative total return of the S&P 500 Index and the S&P Banks Index for the past five years. This presentation assumes that the value of the investment in Regions common stock and in each index was $100 and that all dividends were reinvested.

	Cumulative Total Return					
	12/31/2005	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010
Regions	$ 100.00	$ 114.92	$ 76.26	$ 27.47	$ 18.84	$ 25.07
S&P 500 Index	100.00	115.79	122.16	76.96	97.33	111.99
S&P Banks Index	100.00	115.64	89.40	56.62	52.81	63.96

Item 6. ***Selected Financial Data***

The information required by Item 6. is set forth in Table 1 Financial Highlights of Management s Discussion and Analysis of Financial Condition and Results of Operations , which is included in Item 7. of this Annual Report on Form 10-K.

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Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

Item 7A. ***Quantitative and Qualitative Disclosures about Market Risk***
INTRODUCTION

EXECUTIVE SUMMARY

Management believes the following points summarize several of the most relevant items necessary for an understanding of the financial aspects of Regions Financial Corporation s (Regions or the Company) business, particularly regarding its 2010 results. Cross references to more detailed information regarding each topic within Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and the consolidated financial statements are included. This summary is intended to assist in understanding the information provided, but should be read in conjunction with the entire MD&A and consolidated financial statements, as well as the other sections of this Annual Report on Form 10-K.

Credit The distressed economy has increased the risk of default for many loan types. Regions entered 2008 with a concentration in investor real estate products in its Southeastern footprint. Loans extended to real estate developers or investors where repayment depends on sales of real estate, especially those loans secured by land, single-family developments and condominiums, experienced the most credit pressure. Income producing investor real estate, including loans secured by multi-family and retail developments, also came under pressure. Additionally, the risk profile of home equity products, particularly second lien mortgages in Florida, increased as real estate values fell and unemployment increased in that state. In 2010, credit risk began to moderate. However, an elevated provision for loan losses of $2.9 billion was the catalyst for the net loss available to common shareholders of $763 million in 2010. Internally criticized loans and total non-accrual loans while still elevated, migrated in favorable directions during 2010. Management is encouraged by these trends and is cautiously optimistic that credit metrics will continue to trend favorably. However, unemployment remains high throughout Regions footprint, property valuations continue to be pressured, and credit costs are expected to remain elevated, as compared to historical levels. Management has therefore maintained the allowance for credit losses at $3.3 billion to cover losses inherent in the loan portfolio. For more information, refer to the following additional sections within this Form 10-K:

2010 Overview discussion in MD&A

Discussion of Allowance for Credit Losses within the Critical Accounting Policies and Estimates section of MD&A

Other Real Estate Owned discussion within the Non-Interest Expense section of MD&A

Loans discussion within the Balance Sheet Analysis section of MD&A

Credit Risk section of MD&A

Note 5 Allowance for Credit Losses to the consolidated financial statements

Liquidity At the end of 2010, Regions had interest-bearing deposits in other banks of $4.9 billion, which primarily consist of deposits at the Federal Reserve. Additionally, the loan-to-deposit ratio was 88 percent. Regions policy is to maintain a sufficient level of funding to meet projected cash needs, including all debt service, dividends, and maturities for the subsequent two years at the parent company and for acceptable periods at the bank and other affiliates. The Company s funding and contingency planning does not rely on unsecured sources, although these markets are periodically tested to ensure they are available. Maturities of loans and securities provide a constant flow of funds available for cash needs. At December 31, 2010, the Company s borrowing capacity with the Federal Reserve Discount Window was $16.6 billion based on available collateral. Borrowing capacity with the FHLB was $1.2 billion based on available collateral at the same date. The Company also has a bank note program and has issued senior and subordinated notes at the parent company level. Management believes the

Company s liquidity position is solid and appropriate. For more information, refer to the following additional sections within this Form 10-K:

Discussion of Short-Term Borrowings within the Balance Sheet Analysis section of MD&A

Discussion of Long-Term Borrowings within the Balance Sheet Analysis section of MD&A

Ratings section of MD&A

Liquidity Risk section of MD&A

Note 11 Short-Term Borrowings to the consolidated financial statements

Note 12 Long-Term Borrowings to the consolidated financial statements

Note 23 Commitments, Contingencies and Guarantees to the consolidated financial statements

Interest Rate Risk In the fourth quarter of 2010, the net interest margin expanded to 3.00 percent, largely due to a mix shift from time deposits to lower cost deposit products. Deposit costs decreased from 1.35 percent in 2009 to 0.78 percent in 2010, and stood at 0.64 percent for the fourth quarter of 2010. However, the margin continues to be negatively affected by a persistently low interest rate environment, non-performing asset levels, and maintenance of conservative balance sheet liquidity levels. Additionally, management expects the net interest margin to be pressured in the near term due in part to the recent portfolio rebalancing activity undertaken to further the Company s capital and liquidity goals. Over the longer term, the eventual rise of benchmark interest rates will have a favorable impact on the net interest margin. The Company entered into an additional series of interest rate swaps to mitigate the risk to interest income if rates continue to remain low in the near term. These swaps offer this protection while reducing asset sensitivity through 2012. Management's 2009 decision to de-risk the securities portfolio also impacts the net interest margin. At December 31, 2010, the securities portfolio almost exclusively consisted of agency guaranteed residential mortgage-backed securities. Management expects to achieve a higher margin over the long term as excess liquidity is reinvested, the securities portfolio is repositioned, disciplined loan pricing is emphasized, the composition of the loan portfolio is migrated toward more consumer products and an advantageous deposit mix is maintained. For more information, refer to the following additional sections within this Form 10-K:

2010 Overview discussion in MD&A

Net Interest Income and Margin section of MD&A

Interest Rate Risk section of MD&A

Regulatory Capital Regions ability to maintain appropriate levels of capital is critical to its safety and soundness. At December 31, 2010, Regions Tier 1 capital and Tier 1 common ratios were 12.40 percent and 7.85 percent, respectively. On a Basel III pro forma basis, the corresponding Basel III ratios, based on Regions current understanding of the guidelines, are 7.62 percent and 11.35 percent, respectively, above the respective Basel III minimums of 7 percent and 8.5 percent. Regions capital planning process is executed by management, overseen by the Board of Directors, and supervised by banking regulators. The process utilizes a base case, multiple adverse cases and a growth forecast. For more information, refer to the following additional sections within this Form 10-K:

2010 Overview discussion in MD&A

Bank Regulatory Capital Requirements section of MD&A

Note 13 Regulatory Capital Requirements and Restrictions to the consolidated financial statements

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GENERAL

The following discussion and financial information is presented to aid in understanding Regions financial position and results of operations. The emphasis of this discussion will be on the years 2010, 2009 and 2008; in addition, financial information for prior years will also be presented when appropriate. Certain amounts in prior year presentations have been reclassified to conform to the current year presentation, except as otherwise noted.

Regions profitability, like that of many other financial institutions, is dependent on its ability to generate revenue from net interest income and non-interest income sources. Net interest income is the difference between the interest income Regions receives on interest-earning assets, such as loans and securities, and the interest expense Regions pays on interest-bearing liabilities, principally deposits and borrowings. Regions net interest income is impacted by the size and mix of its balance sheet components and the interest rate spread between interest earned on its assets and interest paid on its liabilities. Non-interest income includes fees from service charges on deposit accounts, brokerage, investment banking, capital markets, and trust activities, mortgage servicing and secondary marketing, insurance activities, and other customer services which Regions provides. Results of operations are also affected by the provision for loan losses and non-interest expenses such as salaries and employee benefits, occupancy, professional fees, FDIC insurance, other real estate owned and other operating expenses, including income taxes. In 2010, Regions non-interest expense included a $200 million regulatory charge related to Morgan Keegan & Company, Inc. (Morgan Keegan). In 2008, Regions non-interest expense included a non-cash $6.0 billion goodwill impairment charge.

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

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

Acquisitions

The acquisitions of banks and other financial services companies have historically contributed significantly to Regions growth. The acquisitions of other financial services companies have also allowed Regions to better diversify its revenue stream and to offer additional products and services to its customers. From time to time, Regions evaluates potential bank and non-bank acquisition candidates.

In February, 2009, Regions acquired from the Federal Deposit Insurance Corporation (FDIC) approximately $285 million in deposits from a failed bank headquartered in Henry County, Georgia. Under the terms of the agreement with the FDIC, Regions assumed operations of the bank s four branches and provides banking services to its former customers.

In September, 2008, Regions acquired from the FDIC approximately $900 million of deposits, primarily time deposits, from a failed bank headquartered in Alpharetta, Georgia. Under the terms of the agreement with the FDIC, Regions assumed operations of the bank s four branches and provides banking services to its former customers.

On January 1, 2008, Regions Insurance Group, Inc., a subsidiary of Regions Financial Corporation, acquired certain assets of Barksdale Bonding and Insurance, Inc., a multi-line insurance agency headquartered in Jackson, Mississippi. In addition, in December 2008, Morgan Keegan acquired Revolution Partners, LLC, a Boston-based investment banking boutique specializing in mergers and acquisitions and private capital advisory services for the technology industry.

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During 2007, Regions acquired two financial services entities. On January 2, 2007, Regions Insurance Group, Inc. acquired certain assets of Miles & Finch, Inc., a multi-line insurance agency headquartered in Kokomo, Indiana. On June 15, 2007, Morgan Keegan acquired Shattuck Hammond Partners LLC, an investment banking and financial advisory firm headquartered in New York, New York.

On November 4, 2006, Regions merged with AmSouth Bancorporation (AmSouth), headquartered in Birmingham, Alabama. In the stock-for-stock merger, 0.7974 shares of Regions were exchanged, on a tax-free basis, for each share of AmSouth common stock. AmSouth had total assets of approximately $58 billion (including goodwill) and operated in six states at the time of the merger. This transaction was accounted for as a purchase of 100 percent of the voting interests of AmSouth by Regions and, accordingly, financial results for periods prior to November 4, 2006 have not been restated.

Regions incurred approximately $822 million in one-time pre-tax merger-related costs to bring the two companies together. Regions recorded $185 million of such costs in goodwill during 2006. This amount was subsequently adjusted down by $3 million in 2007. The majority of merger costs flowed directly through the statements of operations. These included $201 million, $351 million, and $89 million in pre-tax merger expenses during 2008, 2007 and 2006, respectively. No merger expenses related to the AmSouth transaction were recorded after the third quarter of 2008.

Dispositions

During the first quarter of 2007, through sales to three separate buyers, Regions completed the divestiture of 52 former AmSouth branches having approximately $2.7 billion in deposits and $1.7 billion in loans. These divestitures were required in markets where the merger may have affected competition.

On March 30, 2007, Regions sold its wholly-owned non-conforming mortgage origination subsidiary, EquiFirst Corporation (EquiFirst) for an initial sales price of approximately $76 million. The business related to EquiFirst has been accounted for as discontinued operations and the results are presented separately on the consolidated statements of operations for all periods presented. Resolution of the sales price was completed in October 2008, and resulted in an after-tax loss of approximately $10 million. As of December 31, 2010, Regions has approximately $51 million in book value of sub-prime loans retained from the disposition of EquiFirst in 2007, down from the year-end 2009 balance of $61 million. Management has considered the credit quality of these loans in the calculation of the allowance for loan losses.

Business Segments

Regions provides traditional commercial, retail and mortgage banking services, as well as other financial services in the fields of investment banking, asset management, trust, mutual funds, securities brokerage, insurance and other specialty financing. Regions carries out its strategies and derives its profitability from the following business segments:

Banking/Treasury

Regions primary business is providing traditional commercial, retail and mortgage banking services to its customers. Regions banking subsidiary, Regions Bank, operates as an Alabama state-chartered bank with branch offices in Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, South Carolina, Tennessee, Texas and Virginia. The Treasury function includes the Company s securities portfolio and other wholesale funding activities. In 2010, Regions banking and treasury operations reported a loss of $433 million, as credit and credit-related costs continued to pressure this business segment.

Investment Banking/Brokerage/Trust

Regions provides investment banking, brokerage and trust services in 321 offices of Morgan Keegan, a subsidiary of Regions and one of the largest investment firms based in the South. Its lines of business include private client, retail brokerage services, fixed-income capital markets, equity capital markets, trust, and asset management. In 2010, Morgan Keegan s operations reported a loss of $116 million, which was driven by a $200 million regulatory charge.

Insurance

Regions provides insurance-related services through Regions Insurance Group, Inc., a subsidiary of Regions. Regions Insurance Group is one of the 25 largest insurance brokers in the country. The insurance segment includes all business associated with insurance coverage for various lines of personal and commercial insurance, such as property, casualty, life, health and accident insurance. The insurance segment also offers credit-related insurance products, such as term life, credit life, environmental, crop and mortgage insurance, as well as debt cancellation products to customers of Regions. Insurance activities contributed $10 million of net income in 2010.

Merger Charges and Discontinued Operations

The reportable segment designated Merger Charges and Discontinued Operations includes merger charges related to the AmSouth acquisition and the results of EquiFirst for the periods presented. These amounts are excluded from other reportable segments because management reviews the results of the other reportable segments excluding these items.

During 2010, minor reclassifications were made from the Banking/Treasury segment to the Insurance segment to more appropriately present management s current view of the segments. Prior year disclosures have been adjusted to conform to the 2010 presentation. See Note 22 Business Segment Information to the consolidated financial statements for further information on Regions business segments.

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Table 1 Financial Highlights

	2010	2009	2008	2007	2006
	(In millions, except per share data)				
EARNINGS SUMMARY					
Interest income	$ 4,689	$ 5,332	$ 6,563	$ 8,074	$ 5,649
Interest expense	1,257	1,997	2,720	3,676	2,341
Net interest income	3,432	3,335	3,843	4,398	3,308
Provision for loan losses	2,863	3,541	2,057	555	142
Net interest income (loss) after provision for loan losses	569	(206)	1,786	3,843	3,166
Non-interest income	3,531	3,755	3,073	2,856	2,030
Non-interest expense	4,985	4,751	10,792	4,660	3,204
Income (loss) before income taxes from continuing operations	(885)	(1,202)	(5,933)	2,039	1,992
Income tax expense (benefit)	(346)	(171)	(348)	646	619
Income (loss) from continuing operations	(539)	(1,031)	(5,585)	1,393	1,373
Income (loss) from discontinued operations before income taxes			(18)	(217)	(32)
Income tax expense (benefit)			(7)	(75)	(13)
Income (loss) from discontinued operations			(11)	(142)	(19)
Net income (loss)	$ (539)	$ (1,031)	$ (5,596)	$ 1,251	$ 1,354
Income (loss) from continuing operations available to common shareholders	$ (763)	$ (1,261)	$ (5,611)	$ 1,393	$ 1,373
Net income (loss) available to common shareholders	$ (763)	$ (1,261)	$ (5,622)	$ 1,251	$ 1,354
Earnings (loss) per common share from continuing operations basic	$ (0.62)	$ (1.27)	$ (8.07)	$ 1.97	$ 2.74
Earnings (loss) per common share from continuing operations diluted	(0.62)	(1.27)	(8.07)	1.95	2.71
Earnings (loss) per common share basic	(0.62)	(1.27)	(8.09)	1.77	2.70
Earnings (loss) per common share diluted	(0.62)	(1.27)	(8.09)	1.76	2.67
Return on average tangible common stockholders equity (non-GAAP)	(9.29)%	(14.92)%	(71.29)%	15.12%	22.18%
Return on average common stockholders equity	(5.47)	(8.82)	(28.81)	6.24	10.94
Return on average total assets, (non-GAAP)	(0.56)	(0.88)	(3.90)	0.90	1.41
BALANCE SHEET SUMMARY					
At year-end					
Loans, net of unearned income	$ 82,864	$ 90,674	$ 97,419	$ 95,379	$ 94,551
Assets	132,351	142,318	146,248	141,042	143,369
Deposits	94,614	98,680	90,904	94,775	101,228
Long-term debt	13,190	18,464	19,231	11,325	8,643
Stockholders equity	16,734	17,881	16,813	19,823	20,701
Average balances					
Loans, net of unearned income	86,660	94,523	97,601	94,372	64,766
Assets	135,955	142,759	143,947	138,757	95,800
Deposits	96,489	94,612	90,077	95,725	67,466
Long-term debt	15,547	18,588	13,510	9,698	6,856
Stockholders equity	17,444	17,773	19,939	20,036	12,369
SELECTED RATIOS					
Tangible common stockholders equity to tangible assets (non-GAAP)	6.04%	6.22%	5.43%	6.13%	6.81%
Allowance for loan losses as a percentage of loans, net of unearned income	3.84	3.43	1.87	1.39	1.12
Allowance for credit losses as a percentage of loans, net of unearned income	3.93	3.52	1.95	1.45	1.17

Efficiency Ratio (non-GAAP)	71.83	72.08	64.97	58.83	56.44
Tier 1 common (non-GAAP)	7.85	7.15	6.57	NM	NM
Tier 1 capital	12.40	11.54	10.38	7.29	8.07
Total capital	16.35	15.78	14.64	11.25	11.54
COMMON STOCK DATA					
Cash dividends declared per common share	$ 0.04	$ 0.13	$ 0.96	$ 1.46	$ 1.40
Stockholders common equity per share	10.62	11.97	19.53	28.58	28.36
Market value at year end	7.00	5.29	7.96	23.65	37.40
Market price range:					
High	9.33	9.07	25.84	38.17	39.15
Low	5.12	2.35	6.41	22.84	32.37
Total trading volume	6,381	8,747	3,411	912	301
Dividend payout ratio	NM	NM	NM	82.49	51.85
Shareholders of record at year-end (actual)	76,996	81,166	83,600	85,060	84,877
Weighted-average number of common shares outstanding					
Basic	1,227	989	695	708	502
Diluted	1,227	989	695	713	507

(1) Beginning in 2010, tangible ratios are computed net of deferred taxes associated with intangible assets. Prior periods have been revised to conform with current presentation.

(2) NM Not meaningful

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2010 OVERVIEW

Regions reported a net loss available to common shareholders of $763 million or $0.62 per diluted common share in 2010. Significant drivers of 2010 results include an elevated provision for loan losses and other real estate expenses, as well as a $200 million regulatory charge related to Morgan Keegan. These items were partially offset by higher net interest income.

Net interest income was $3.4 billion in 2010 compared to $3.3 billion in 2009. The net interest margin (taxable-equivalent basis) was 2.90 percent in 2010, compared to 2.67 percent during 2009. The margin improvement was driven primarily by a decrease of 60 basis points in the cost of interest-bearing liabilities, while being partially offset by a 30 basis point decline in the overall yield on interest earning assets. This dynamic reflected efforts to improve deposit costs and pricing on loans, while managing the challenges posed by a low interest rate environment. Long-term interest rates in particular remained low in 2010, pressuring yields on fixed-rate loan and securities portfolios, and contributed to the decline in the yield on taxable securities from 4.78 percent in 2009 to 3.66 percent in 2010. The overall costs of deposits improved from 1.35 percent in 2009 to 0.78 percent in 2010, although short-term interest rates (e.g. Fed Funds) remained relatively stable. The product mix of deposits improved as well, as declines in higher cost certificates of deposits accompanied increases in other low cost checking, savings and money market products.

Although the net interest margin increased in 2010, the factors that have pressured it are likely to persist, including those directly and indirectly associated with the erosion of economic and industry conditions since late 2007. These factors include a continuation of a low level of interest rates, higher costs of new debt issuances, elevated non-performing asset levels and costs associated with managing to prudent levels of liquidity risk. The combination of these factors may even lead to a modest decline in margin in the near term from 3.00 percent in the fourth quarter of 2010. Additionally, management expects the net interest margin to be pressured in the near term due in part to the recent portfolio rebalancing activity to further the Company s capital and liquidity goals. However, Regions balance sheet is in an asset sensitive position such that if economic conditions were to improve more rapidly, thereby resulting in a rise in interest rates, the net interest margin would likely respond favorably.

Net charge-offs totaled $2.8 billion, or 3.22 percent of average loans in 2010 compared to $2.3 billion, or 2.38 percent of average loans in 2009. The increased loss rate reflected seasoning of losses as the Company moves through the credit cycle as well as the impact of opportunistic asset dispositions which increased charge-offs and decreased average loan balances. Non-performing assets decreased $494 million between December 31, 2009 and December 31, 2010 to $3.9 billion.

The provision for loan losses is used to maintain the allowance for loan losses at a level that, in management s judgment, is adequate to cover losses inherent in the loan portfolio as of the balance sheet date. During 2010, the provision for loan losses decreased to $2.9 billion compared to $3.5 billion in 2009. The allowance for credit losses was $3.3 billion, or 3.93 percent of loans, at December 31, 2010 as compared to $3.2 billion, or 3.52 percent of loans, at December 31, 2009. The stabilization in the level of the allowance reflects moderating credit trends.

Non-interest income decreased to $3.5 billion in 2010 from $3.8 billion in 2009. The year-over-year decrease was due primarily to several items impacting 2009 with a lower or no corresponding impact on 2010. These 2009 items include gains from terminations of leveraged leases, which were largely offset by income taxes, a gain on extinguishment of debt realized in connection with the Company s issuance of common stock in exchange for trust preferred securities, and gains related to transactions in Visa stock. Lower mortgage income, resulting from market valuation adjustments for mortgage servicing rights and related derivatives, also drove the year-over-year decline. The decreases were largely offset by higher gains from sales of securities in 2010, as well as increases in non-interest income attributable to service charges and brokerage, investment banking and capital markets income. The impact of Regulation E on service charges was less than anticipated; however, the Company expects increased pressure on fee-based revenues in light of pending regulatory changes. See Table 2 GAAP to Non-GAAP Reconciliation and Table 5 Non-Interest Income for further details.

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Non-interest expense from continuing operations totaled $5.0 billion in 2010 compared to $4.8 billion in 2009. The year-over-year increase was driven largely by a $200 million nondeductible regulatory charge related to Morgan Keegan, losses on early extinguishments of debt related to prepayment of Federal Home Loan Bank advances, and increased FDIC premiums. Higher salaries and employee benefits and credit-related costs such as other-real-estate-owned expense also contributed to the increase. These items were partially offset by lower other-than-temporary impairment on securities and a 2009 FDIC special assessment which did not repeat in 2010. See Table 8 Non-Interest Expense (including Non-GAAP Reconciliation) for further details.

Total loans decreased by $7.8 billion, or 8.6 percent in 2010, driven primarily by a strategic decision to lower exposure to investor real estate. Decreases in residential first mortgage, home equity, and indirect loans also contributed to the year-over-year decrease primarily resulting from consumers decisions to de-leverage. Total deposits decreased $4.1 billion in 2010 to $94.6 billion at December 31, 2010, primarily due to maturities of time deposits. However, low-cost customer deposits increased $4.7 billion, or 7 percent in 2010.

Regions Tier 1 common and Tier 1 capital ratios were 7.85 percent and 12.40 percent at December 31, 2010. Pro forma calculations indicate that the corresponding Basel III ratios, based on Regions current understanding of the guidelines, are approximately 7.62 percent and 11.35 percent, above the respective Basel III minimums of 7 percent and 8.5 percent.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) which was signed into law on July 21, 2010 provides some level of clarity regarding how the industry and Regions specific business will be affected moving forward. However, provisions in the Dodd-Frank Act remain subject to regulatory rule-making and implementation, and it will be some time before the business implications are completely defined. Proposed rules regarding regulation of interchange income would have a significant negative impact on non-interest revenues if adopted as drafted. In 2010, Regions collected $346 million in debit card income. Based on the current proposed rule, absent any mitigating actions, revenues from debit card income would likely be reduced to approximately one quarter of current levels, assuming a cap of 12 cents per transaction. Non-interest expenses (e.g., FDIC insurance premiums, compliance costs, and other regulatory fees) will also be negatively impacted by provisions included in the legislation. Additionally, trust preferred securities will be phased out as an allowable component of Tier 1 capital over a three-year period beginning in 2013.

Table 2 GAAP to Non-GAAP Reconciliation presents computations of earnings and certain other financial measures excluding merger, goodwill impairment and regulatory charges, including efficiency ratio , average tangible common stockholders equity , end of period tangible common stockholders equity and Tier 1 common equity , all of which are non-GAAP. Merger, goodwill impairment and regulatory charges are included in financial results presented in accordance with generally accepted accounting principles (GAAP). Regions believes the exclusion of merger, goodwill impairment and regulatory charges in expressing earnings and certain other financial measures, including earnings per common share, excluding merger, goodwill impairment and regulatory charges and return on average tangible common stockholders equity, excluding merger, goodwill impairment and regulatory charges provides a meaningful base for period-to-period and company-to-company comparisons, which management believes will assist investors in analyzing the operating results of the Company and predicting future performance. These non-GAAP financial measures are also used by management to assess the performance of Regions business, because management does not consider these charges to be relevant to ongoing operating results. Management and the Board of Directors utilize these non-GAAP financial measures as follows:

- Preparation of Regions operating budgets
- Monthly financial performance reporting
- Monthly close-out flash reporting of consolidated results (management only)
- Presentations to investors of Company performance

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Regions believes that presenting these non-GAAP financial measures will permit investors to assess the performance of the Company on the same basis as that applied by management and the Board of Directors. The third quarter of 2008 was the final quarter for merger charges related to the AmSouth acquisition.

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

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

Tier 1 common equity is often expressed as a percentage of risk-weighted assets. Under the risk-based capital framework, a bank s balance sheet assets and credit equivalent amounts of off-balance sheet items are assigned to one of four broad risk categories. The aggregated dollar amount in each category is then multiplied by the risk weighting assigned to that category. The resulting weighted values from each of the four categories are added together and this sum is the risk-weighted assets total that, as adjusted, comprises the denominator of certain risk-based capital ratios. Tier 1 capital is then divided by this denominator (risk-weighted assets) to determine the Tier 1 capital ratio. Adjustments are made to Tier 1 capital to arrive at Tier 1 common equity (non-GAAP). Tier 1 common equity is also divided by the risk-weighted assets to determine the Tier 1 common equity ratio. The amounts disclosed as risk-weighted assets are calculated consistent with banking regulatory requirements.

Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied and are not audited. To mitigate these limitations, Regions has policies and procedures in place to identify and address expenses that qualify for non-GAAP presentation, including authorization and system controls to ensure accurate period-to-period comparisons. Although these non-GAAP financial measures are frequently used by stakeholders in the evaluation of a company, they have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analyses of results as reported under GAAP. In particular, a measure of earnings that excludes the merger, goodwill impairment and regulatory charges does not represent the amount that effectively accrues directly to stockholders (i.e., the merger, goodwill impairment and regulatory charges are a reduction to earnings and stockholders equity).

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The following tables provide: 1) a reconciliation of net income (loss) available to common shareholders (GAAP) to net income (loss) available to common shareholders, excluding merger, goodwill impairment and regulatory charges (non-GAAP), 2) a reconciliation of earnings (loss) per common share (GAAP) to earnings (loss) per common share, excluding merger, goodwill impairment and regulatory charges (non-GAAP), 3) a reconciliation of non-interest expense (GAAP) to adjusted non-interest expense (non-GAAP), 4) a reconciliation of non-interest income (GAAP) to adjusted non-interest income (non-GAAP), 5) computation of adjusted total revenue (non-GAAP), 6) computation of the efficiency ratio (non-GAAP), 7) a reconciliation of return on average assets (GAAP) to return on average assets, excluding merger, goodwill impairments and regulatory charges (non-GAAP), 8) a reconciliation of average and ending stockholders equity (GAAP) to average and ending tangible common stockholders equity with and without merger, goodwill impairment and regulatory charges (non-GAAP), and 9) a reconciliation of stockholders equity (GAAP) to Tier 1 capital (regulatory) and to Tier 1 common equity (non-GAAP).

Table 2 GAAP to Non-GAAP Reconciliation

		For Years Ended December 31 2010	2009	2008	2007	2006
		(In millions, except per share data)				
INCOME (LOSS)						
Net income (loss) from continuing operations (GAAP)		$ (539)	$ (1,031)	$ (5,585)	$ 1,393	$ 1,373
Preferred dividends and accretion (GAAP)		(224)	(230)	(26)		
Net income (loss) from continuing operations available to common shareholders (GAAP)		(763)	(1,261)	(5,611)	1,393	1,373
Net income (loss) from discontinued operations, net of tax (GAAP)				(11)	(142)	(19)
Net income (loss) available to common shareholders (GAAP)	A	$ (763)	$ (1,261)	$ (5,622)	$ 1,251	$ 1,354
Income (loss) from continuing operations available to common shareholders (GAAP)		$ (763)	$ (1,261)	$ (5,611)	$ 1,393	$ 1,373
Merger-related charges, pre-tax						
Salaries and employee benefits				134	159	66
Net occupancy expense				4	34	3
Furniture and equipment expense				5	5	1
Other				58	153	19
Total merger-related charges, pre-tax				201	351	89
Merger-related charges, net of tax				125	219	60
Goodwill impairment				6,000		
Regulatory charge		200				
Income from continuing operations, excluding merger, goodwill impairment and regulatory charges (non-GAAP)	B	$ (563)	$ (1,261)	$ 514	$ 1,612	$ 1,433
Weighted-average diluted shares	C	1,227	989	695	713	507
Earnings (loss) per common share diluted (GAAP)	A/C	$ (0.62)	$ (1.27)	$ (8.09)	$ 1.76	$ 2.67
Earnings per common share from continuing operations, excluding merger, goodwill impairment and regulatory charges diluted (non-GAAP)	B/C	$ (0.46)	$ (1.27)	$ 0.74	$ 2.26	$ 2.83

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		For Years Ended December 31				
		2010	2009	2008	2007	2006
		(In millions, except per share data)				
EFFICIENCY RATIO						
Non-interest expense (GAAP)		$ 4,985	$ 4,751	$ 10,792	$ 4,660	$ 3,204
Adjustments:						
Merger-related charges				(201)	(351)	(89)
Goodwill impairment				(6,000)		
Regulatory charge		(200)				
Mortgage servicing rights impairment				(85)	(6)	(16)
Loss on extinguishment of debt		(108)		(66)		
FDIC special assessment			(64)			
Securities impairment, net		(2)	(75)	(23)	(7)	
Branch consolidation costs		(8)	(53)			
Adjusted non-interest expense (non-GAAP)	D	$ 4,667	$ 4,559	$ 4,417	$ 4,296	$ 3,099
Net interest income, taxable-equivalent basis (GAAP)		$ 3,464	$ 3,367	$ 3,880	$ 4,437	$ 3,469
Non-interest income (GAAP)		3,531	3,755	3,073	2,856	2,030
Adjustments:						
Securities (gains) losses, net		(394)	(69)	(92)	9	(8)
Leveraged lease termination gains		(78)	(587)			
Visa-related gains			(80)	(63)		
Gain on early extinguishment of debt			(61)			
Gain on sale of mortgage loans		(26)				
Adjusted non-interest income (non-GAAP)		3,033	2,958	2,918	2,865	2,022
Adjusted total revenue (non-GAAP)	E	$ 6,497	$ 6,325	$ 6,798	$ 7,302	$ 5,491
Efficiency ratio (non-GAAP)	D/E	71.83%	72.08%	64.97%	58.83%	56.44%
RETURN ON AVERAGE ASSETS						
Average assets (GAAP)	F	$ 135,955	$ 142,759	$ 143,947	$ 138,757	$ 95,800
Return on average assets (GAAP)	A/F	-0.56%	-0.88%	-3.90%	0.90%	1.41%
Return on average assets, excluding merger, goodwill impairment and regulatory charges (non-GAAP)	B/F	-0.41%	-0.88%	0.36%	1.16%	1.50%
RETURN ON AVERAGE TANGIBLE COMMON STOCKHOLDERS EQUITY(1)						
Average stockholders equity (GAAP)		$ 17,444	$ 17,773	$ 19,939	$ 20,036	$ 12,369
Average intangible assets (GAAP)		6,003	6,122	11,949	12,130	6,450
Average deferred tax liability related to intangibles (GAAP)		(255)	(286)	(321)	(370)	(185)
Average preferred equity (GAAP)		3,479	3,487	425		
Average tangible common stockholders equity (non-GAAP)	G	$ 8,217	$ 8,450	$ 7,886	$ 8,276	$ 6,104
Average stockholders equity, excluding discontinued operations (GAAP)		$ 17,444	$ 17,773	$ 19,939	$ 20,013	$ 12,215
Average intangible assets, excluding discontinued operations (GAAP)		6,003	6,122	11,949	12,130	6,450
Average deferred tax liability related to intangibles (GAAP)		(255)	(286)	(321)	(370)	(185)
Average preferred equity (GAAP)		3,479	3,487	425		
Average tangible common equity, excluding discontinued operations (non-GAAP)	H	$ 8,217	$ 8,450	$ 7,886	$ 8,253	$ 5,950
Return on average tangible common equity (non-GAAP)	A/G	-9.29%	-14.92%	-71.29%	15.12%	22.18%

Return on average tangible common equity, excluding discontinued operations, merger, goodwill impairment and regulatory charges (non-GAAP)	B/H	-6.85%	-14.92%	6.52%	19.53%	24.08%

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		For Years Ended December 31				
		2010	2009	2008	2007	2006
		(In millions, except per share data)				
TANGIBLE COMMON RATIOS(1)						
Ending stockholders equity (GAAP)		$ 16,734	$ 17,881	$ 16,813	$ 19,823	$ 20,701
Less: Ending intangible assets (GAAP)		5,946	6,060	6,186	12,252	12,133
Ending deferred tax liability related to intangibles (GAAP)		(240)	(269)	(303)	(339)	(401)
Ending preferred equity (GAAP)		3,380	3,602	3,307		
Ending tangible common stockholders equity (non-GAAP)	I	$ 7,648	$ 8,488	$ 7,623	$ 7,910	$ 8,969
Ending total assets (GAAP)		132,351	142,318	146,248	141,042	143,369
Less: Ending intangible assets (GAAP)		5,946	6,060	6,186	12,252	12,133
Ending deferred tax liability related to intangibles (GAAP)		(240)	(269)	(303)	(339)	(401)
Ending tangible assets (non-GAAP)	J	$ 126,645	$ 136,527	$ 140,365	$ 129,129	$ 131,637
End of period shares outstanding	K	1,256	1,193	691	694	730
Tangible common stockholders equity to tangible assets (non-GAAP)	I/J	6.04%	6.22%	5.43%	6.13%	6.81%
Tangible common book value per share (non-GAAP)	I/K	$ 6.09	$ 7.11	$ 11.03	$ 11.40	$ 12.29
TIER 1 COMMON RISK-BASED RATIO						
Stockholders equity (GAAP)		$ 16,734	$ 17,881	$ 16,813		
Accumulated other comprehensive (income) loss		260	(130)	8		
Non-qualifying goodwill and intangibles		(5,706)	(5,792)	(5,864)		
Disallowed deferred tax assets(2)		(424)	(947)			
Disallowed servicing assets		(27)	(25)	(16)		
Qualifying non-controlling interests		92	91	91		
Qualifying trust preferred securities		846	846	1,036		
Tier 1 capital (regulatory)		11,775	11,924	12,068		
Qualifying non-controlling interests		(92)	(91)	(91)		
Qualifying trust preferred securities		(846)	(846)	(1,036)		
Preferred stock		(3,380)	(3,602)	(3,307)		
Tier 1 common equity (non-GAAP)	L	$ 7,457	$ 7,385	$ 7,634		
Risk-weighted assets (regulatory)	M	94,966	103,330	116,251		
Tier 1 common risk-based ratio (non-GAAP)	L/M	7.85%	7.15%	6.57%		

(1) Beginning in 2010, tangible ratios are computed net of deferred taxes associated with intangible assets. Prior periods have been revised to conform with current presentation.

(2) Only one year of projected future taxable income may be applied in calculating deferred tax assets for regulatory capital purposes.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In preparing financial information, management is required to make significant estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses for the periods shown. The accounting principles followed by Regions and the methods of applying these principles conform with accounting principles generally accepted in the U.S. and general banking practices. Estimates and assumptions most significant to Regions are related primarily to the allowance for credit losses, fair value measurements, intangible assets (goodwill and other identifiable intangible assets), mortgage servicing rights and income taxes, and are summarized in the following discussion and in the notes to the consolidated financial statements.

Allowance for Credit Losses

The allowance for credit losses (allowance) consists of the allowance for loan losses and the reserve for unfunded credit commitments. These two components reflect management s judgment of probable credit losses

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inherent in the portfolio and unfunded credit commitments at the balance sheet date. A full discussion of these estimates and other factors are included in the Allowance for Credit Losses section within the discussion of credit risk, found in a later section of this report, and Note 5 Allowance for Credit Losses to the consolidated financial statements.

The allowance is sensitive to a variety of internal factors, such as portfolio performance and assigned risk ratings, as well as external factors, such as interest rates and the general health of the economy. Management reviews different assumptions for variables that could result in increases or decreases in probable inherent credit losses, which may materially impact Regions estimate of the allowance and results of operations.

Management s estimate of the allowance for the commercial and investor real estate portfolio segments could be affected by estimates of losses inherent in various product types as a result of fluctuations in the general economy, developments within a particular industry, or changes in an individual s credit due to factors particular to that credit, such as competition, management or business performance. A 10 percent increase or decrease in the estimated loss rates on all pools of loans with similar risk characteristics would change estimated inherent losses by approximately $180 million. For residential real estate mortgages, home equity lending and other consumer-related loans, individual products are reviewed on a group basis or in loan pools (e.g., residential real estate mortgage pools). Losses can be affected by such factors as collateral value, loss severity, the economy and other uncontrollable factors. A 10 percent increase or decrease in the estimated loss rates on these loans would change estimated inherent losses by approximately $55 million.

Additionally, the estimate of the allowance for the entire portfolio may change due to modifications in the mix and level of loan balances outstanding and general economic conditions, as evidenced by changes in real estate demand and values, interest rates, unemployment rates, bankruptcy filings, fluctuations in the gross domestic product, and the effects of weather and natural disasters such as droughts and hurricanes. Each has the ability to result in actual loan losses that could differ from originally estimated amounts.

The pro forma inherent loss analysis presented above demonstrates the sensitivity of the allowance to key assumptions. This sensitivity analysis does not reflect an expected outcome.

Fair Value Measurements

A portion of the Company s assets and liabilities is carried at fair value, with changes in fair value recorded either in earnings or accumulated other comprehensive income (loss). These include trading account assets, securities available for sale, mortgage loans held for sale, mortgage servicing rights and derivatives (net). From time to time, the estimation of fair value also affects other loans held for sale, which are recorded at the lower of cost or fair value. Fair value determination is also relevant for certain other assets such as foreclosed property and other real estate, which are recorded at the lower of the recorded investment in the loan/property or fair value, less estimated costs to sell the property. For example, the fair value of other real estate is determined based on recent appraisals by third parties and other market information, less estimated selling costs. Adjustments to the appraised value are made if management becomes aware of changes in the fair value of specific properties or property types. The determination of fair value also impacts certain other assets that are periodically evaluated for impairment using fair value estimates, including goodwill, other identifiable intangible assets and impaired loans.

Fair value is generally defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) as opposed to the price that would be paid to acquire the asset or received to assume the liability (an entry price), in an orderly transaction between market participants at the measurement date under current market conditions. While management uses judgment when determining the price at which willing market participants would transact when there has been a significant decrease in the volume or level of activity for the asset or liability in relation to normal market activity, management s objective is to determine the point within the range of fair value estimates that is most representative of a sale to a third-party financial investor under current market conditions. The value to the Company if the asset or liability were held to maturity is not included in the fair value estimates.

A fair value measure should reflect the assumptions that market participants would use in pricing the asset or liability, including the assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset and the risk of nonperformance. Fair value is measured based on a variety of inputs the Company utilizes. Fair value may be based on quoted market prices for identical assets or liabilities traded in active markets (Level 1 valuations). If market prices are not available, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market are used (Level 2 valuations). Where observable market data is not available, the valuation is generated from model-based techniques that use significant assumptions not observable in the market, but observable based on Company-specific data (Level 3 valuations). These unobservable assumptions reflect the Company s own estimates for assumptions that market participants would use in pricing the asset or liability. Valuation techniques typically include option pricing models, discounted cash flow models and similar techniques, but may also include the use of market prices of assets or liabilities that are not directly comparable to the subject asset or liability.

See Note 21 Fair Value Measurements to the consolidated financial statements for a detailed discussion of determining fair value.

Intangible Assets

Regions intangible assets consist primarily of the excess of cost over the fair value of net assets of acquired businesses (goodwill) and other identifiable intangible assets (primarily core deposit intangibles). Goodwill totaled $5.6 billion at both December 31, 2010 and 2009 and is allocated to each of Regions reportable segments (each a reporting unit), at which level goodwill is tested for impairment on an annual basis or more often if events and circumstances indicate impairment may exist (refer to Note 1 Significant Accounting Policies to the consolidated financial statements for further discussion of when Regions tests goodwill for impairment). Adverse changes in the economic environment, declining operations of the reporting unit, or other factors could result in a decline in the estimated implied fair value of goodwill. If the estimated implied fair value is less than the carrying amount, a loss would be recognized to reduce the carrying amount to the estimated implied fair value.

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

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

	4th Quarter 2010	3rd Quarter 2010	2nd Quarter 2010	1st Quarter 2010	4th Quarter 2009
Discount Rate	15%	16%	16%	16%	18%

The decrease in discount rate from the fourth quarter 2009 test to the first quarter 2010 test was driven primarily by a reduction in the company-specific risk premium, which was lowered as a result of updated forecasts that reduced uncertainty from the projected cash flows.

In the fourth quarter of 2010, Regions reduced the company-specific component of its discount rate to reflect several positive factors that occurred during the period, as well as factors which reduced the uncertainty of future cash flow projections. Specifically, the Company earned a profit and experienced improving credit metrics, including lower non-performing assets and lower gross inflows of non-performing loans than in the third quarter of 2010. Additionally, Regions experienced lower levels of criticized loans, a leading indicator of loan losses (see Note 5 Allowance for Credit Losses to the consolidated financial statements for further details, including a definition of criticized loans.) The Company also completed its three-year strategic plan, which reflected improving credit trends and included additional clarity around future cash flows that were driven by a proposed rule issued by the Federal Reserve governing debit card income and the announcements in the fourth quarter of 2010 and January of 2011 of pending non-distressed, orderly sales of financial institutions of comparable size and/or footprint to Regions. Additionally, the Basel Committee finalized its capital framework, which provided additional clarity on future equity requirements that impact the projections of future cash flows. In the judgment of management, these factors outweighed the downgrades of Regions debt to below investment grade during the fourth quarter of 2010, as well as new rules which are expected to increase FDIC insurance premiums.

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

Refer to the discussion of intangible assets in Note 1 Summary of Significant Accounting Policies to the consolidated financial statements for a discussion of these approaches and Note 8 Intangible Assets for a discussion of the assumptions. The fair values of assets and liabilities are determined using an exit price concept. Refer to the discussion of fair value in Note 1 Summary of Significant Accounting Policies and Note 21 Fair Value Measurements to the consolidated financial statements for discussions of the exit price concept and the determination of fair values of financial assets and liabilities.

In the fourth quarter of 2008, Regions performed its goodwill impairment tests for the Banking/Treasury reporting unit, which resulted in an implied fair value of goodwill of approximately $4.7 billion and a goodwill impairment charge of $6.0 billion. Throughout 2009 and continuing into the first half of 2010, in the Banking/Treasury reporting unit, the credit quality of Regions loan portfolio declined, which contributed to increased losses as well as elevated non-performing loan levels. Accordingly, Regions performed tests of goodwill for impairment during each quarter of 2010 and during the second, third and fourth quarters of 2009 in a manner consistent with the test conducted in the fourth quarter of 2008. The long-term fair value of equity was determined using both income and market approaches (discussed in Note 8 Intangible Assets of the consolidated financial statements). The results of these calculations continued to indicate that the fair value of the Banking/Treasury reporting unit was less than its carrying amount. As of December 31, 2010, the carrying amount and fair value of the Banking/Treasury reporting unit were $11.9 billion and $8.0 billion, respectively, while the carrying amount of goodwill for the reporting unit was $4.7 billion. Therefore, Step Two of the goodwill impairment test was performed. In Step Two, the fair values of the reporting unit s assets and liabilities, including the loan portfolio, intangible assets, time deposits, debt, and others were calculated. Once the fair values were determined, deferred tax adjustments were calculated as applicable. The after-tax effects of the Step Two adjustments, which were primarily write-downs of assets to fair value, exceeded any reductions in the value of common equity determined in Step One; therefore, the results were no impairment for the Banking/Treasury reporting unit. Since the second quarter of 2009, the fair values of net assets and liabilities of the Banking/Treasury reporting unit have increased faster than the value of this reporting unit. Should the fair values of net assets continue to increase more rapidly than the fair value of this reporting unit, goodwill could be impaired in future periods.

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Specific factors as of the date of filing the financial statements that could negatively impact the assumptions used in assessing goodwill for impairment include: disparities in the level of fair value changes in net assets compared to equity; adverse business trends resulting from litigation and/or regulatory actions; increasing FDIC premiums; higher loan losses; lengthened forecasts of unemployment in excess of 10 percent beyond 2012; future increased minimum regulatory capital requirements above current thresholds (refer to Note 14 Regulatory Capital Requirements and Restrictions to the consolidated financial statements for a discussion of current minimum regulatory requirements); future federal rules and regulations resulting from the Dodd-Frank Act; and/or a protraction in the current low level of interest rates beyond 2012.

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

Impact to the Carrying Value of Goodwill
Banking/Treasury Reporting Unit

Change in Discount Rate	Estimated Amount of Impairment (In millions)
+ 2%	$ (a)
+ 3%	(464)
+ 4%	(939)
Change in Tangible Book Value Multipliers (b)	
- 53%	$ (a)
Improvement in Loan Fair Values	
+ 2.7 Percentage Points	$ (a)
+ 3.0 Percentage Points	(172)
+ 4.0 Percentage Points	(680)

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

(b) Represents a 53 percent decline in both tangible book value multipliers of 1.0x and 1.3x for the public company method and the transaction method, respectively. The 1.0x multiplier for the public company method is before the 30 percent control premium utilized for this metric. See Note 8 for further details.

Impact to Step One Conclusion
Investment Banking/Brokerage/Trust and Insurance Reporting Units

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

(c) For Investment Banking/Brokerage/Trust, represents the percent decline in both tangible book value multipliers of 1.6x and 2.1x for the public company method and the transaction method, respectively. The 1.6x multiplier for the public company method is before the 30 percent control premium utilized for this metric. See Note 8 for further details.

(d) For Insurance, represents the percent decline in the 17.3x multiplier for the last twelve months of net income and is before the 30 percent control premium utilized for this metric. See Note 8 for further details.

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

Other identifiable intangible assets, primarily core deposit intangibles, are reviewed at least annually for events or circumstances which could impact the recoverability of the intangible asset, such as loss of core deposits, increased competition or adverse changes in the economy. To the extent another identifiable intangible asset is deemed unrecoverable; an impairment loss would be recorded to reduce the carrying amount. These events or circumstances, if they occur, could be material to Regions operating results for any particular reporting period but the potential impact cannot be reasonably estimated.

Mortgage Servicing Rights

Regions estimates the fair value of its mortgage servicing rights in order to record them at fair value on the balance sheet. Although sales of mortgage servicing rights do occur, mortgage servicing rights do not trade in an active market with readily observable market prices and the exact terms and conditions of sales may not be readily available, and are therefore Level 3 valuations in the fair value hierarchy previously discussed. Specific characteristics of the underlying loans greatly impact the estimated value of the related mortgage servicing rights. As a result, Regions stratifies its mortgage servicing portfolio on the basis of certain risk characteristics, including loan type and contractual note rate, and values its mortgage servicing rights using discounted cash flow modeling techniques. These techniques require management to make estimates regarding future net servicing cash flows, taking into consideration historical and forecasted mortgage loan prepayment rates and discount rates. Changes in interest rates, prepayment speeds or other factors impact the fair value of mortgage servicing rights which impacts earnings. Based on a hypothetical sensitivity analysis, Regions estimates that a reduction in primary mortgage market rates of 25 basis points and 50 basis points would reduce the December 31, 2010 fair value of mortgage servicing rights by approximately 6.1 percent ($16 million) and 12.7 percent ($34 million), respectively. Conversely, 25 basis point and 50 basis point increases in these rates would increase the December 31, 2010 fair value of mortgage servicing rights by approximately 5.6 percent ($15 million) and 10.7 percent ($28 million), respectively.

The pro forma fair value analysis presented above demonstrates the sensitivity of fair values to hypothetical changes in primary mortgage rates. This sensitivity analysis does not reflect an expected outcome. Refer to the Mortgage Servicing Rights discussion in the Balance Sheet analysis section found later in this report.

Income Taxes

Accrued income taxes are reported as a component of other assets in the consolidated balance sheets and reflect management s estimate of income taxes to be paid or received.

Deferred income taxes represent the amount of future income taxes to be paid or received and are accounted for using the asset and liability method. The net balance is reported in other assets in the consolidated balance sheets. The Company determines the realization of the net deferred tax asset based upon an evaluation of the four possible sources of taxable income: 1) the future reversals of taxable temporary differences; 2) future taxable income exclusive of reversing temporary differences and carryforwards; 3) taxable income in prior carryback years; and 4) tax-planning strategies. In projecting future taxable income, the Company utilizes forecasted pre-tax earnings, adjusts for the estimated book-tax differences and incorporates assumptions, including the amounts of income allocable to taxing jurisdictions. These assumptions require significant judgment and are consistent with the plans and estimates the Company uses to manage the underlying businesses. The realization of the deferred tax assets could be reduced in the future if these estimates are significantly different than forecasted. For a detailed discussion of realization of deferred tax assets, refer to the Income Taxes section found later in this report.

The Company is subject to income tax in the U.S. and multiple state and local jurisdictions. The tax laws and regulations in each jurisdiction may be interpreted differently in certain situations, which could result in a range of outcomes. Thus, the Company is required to exercise judgment regarding the application of these tax laws and regulations. In the event a dispute with a taxing authority arises, the Company will evaluate and recognize tax liabilities related to the tax uncertainties. Due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is different from the current estimate of the tax liabilities.

The Company s estimate of accrued income taxes, deferred income taxes and income tax expense can also change in any period as a result of new legislative or judicial guidance impacting tax positions, as well as changes in income tax rates. Any changes, if they occur, can be significant to the Company s financial position, results of operations or cash flows.

OPERATING RESULTS

GENERAL

Regions reported a net loss available to common shareholders of $763 million in 2010, compared to a net loss available to common shareholders of $1.3 billion in 2009. The lower loss in 2010 was primarily reflective of moderation in credit quality within the Company s loan portfolio. However, the provision for loan losses remained elevated.

NET INTEREST INCOME AND MARGIN

Net interest income (interest income less interest expense) is Regions principal source of income and is one of the most important elements of Regions ability to meet its overall performance goals. Net interest income on a taxable-equivalent basis increased 3 percent to $3.5 billion in 2010 from $3.4 billion in 2009 despite a decrease in the level of average earning assets, from $125.9 billion in 2009 to $119.3 billion in 2010. The increase in the net interest margin to 2.90 percent in 2010 from 2.67 percent in 2009 was sufficient to offset the impact of the smaller balance sheet size.

Comparing 2010 to 2009, interest-earning asset yields were lower, decreasing 30 basis points on average. However, interest-bearing liability rates were also lower, declining by 60 basis points, which was more than enough improvement in funding costs to offset the drop in interest-earning asset yields. As a result, the net interest rate spread increased 30 basis points to 2.58 percent in 2010 as compared to 2.28 percent in 2009.

Continued low levels of long-term interest rates affected interest-earning asset yields through their influence on the behavior and pricing of fixed-rate loans and securities. Longer-term rates remained at historical low levels and fluctuated throughout the year. The yield on the benchmark 10-year U.S. Treasury note ranged from a high of 4.01 percent to a low of 2.41 percent, and for the year decreased 55 basis points, ending the year at 3.30 percent. Persistently low long-term rates can incent fixed-rate borrowers to accelerate reductions or prepayments of existing loans, often at lower rates of interest. This results in pressure on yields for portfolios that have a significant concentration of fixed-rate loans. The taxable investment securities portfolio, which contains significant residential fixed-rate exposure, for example, decreased in yield from 4.78 percent in 2009 to 3.66 percent in 2010.

The negative influence of low, long-term interest rates on net interest margin, however, was offset by improvements in liability costs. The Federal Funds rate and the Prime Rate, which are influential drivers of loan and deposit pricing on the shorter end of the yield curve, remained low at approximately 0.25 percent and 3.25 percent, respectively, throughout 2010, essentially unchanged from the previous year-end level. Despite the lack of movement in short-term rates compared to historic lows, deposit costs improved considerably from 1.35 percent in 2009 to 0.78 percent in 2010. There was substantial improvement in costs in every deposit category, including average money market accounts which declined from 0.84 percent to 0.43 percent, and yet experienced an increase in average total balance from $21.4 billion in 2009 to $26.8 billion in 2010. The improvement in overall deposit cost was also attributable to a less costly mix of deposits. For example, average time deposits declined from $32.7 billion in 2009 to $26.2 billion in 2010. Meanwhile, average non-interest bearing customer deposits increased from $20.7 billion in 2009 to $24.0 billion in 2010.

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Table 3 Consolidated Average Daily Balances and Yield/Rate Analysis presents a detail of net interest income (on a fully taxable-equivalent basis) the net interest margin, and the net interest spread.

Table 3 Consolidated Average Daily Balances and Yield/Rate Analysis

	2010			2009			2008		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
	(Dollars in millions; yields on taxable-equivalent basis)								
Assets									
Interest-earning assets:									
Federal funds sold and securities purchased under agreements to resell	$ 694	$ 3	0.43%	$ 503	$ 3	0.60%	$ 868	$ 18	2.07%
Trading account assets	1,236	44	3.56	1,599	65	4.07	1,473	66	4.48
Securities:									
Taxable	23,854	873	3.66	20,221	966	4.78	16,897	828	4.90
Tax-exempt	44	1	2.27	460	29	6.30	754	61	8.09
Loans held for sale	1,281	39	3.04	1,655	55	3.32	664	36	5.42
Loans, net of unearned income(1)(2)	86,660	3,734	4.31	94,523	4,218	4.46	97,601	5,562	5.70
Other interest-earning assets	5,548	27	0.49	6,927	28	0.40	1,873	29	1.55
Total interest-earning assets	119,317	4,721	3.96	125,888	5,364	4.26	120,130	6,600	5.49
Allowance for loan losses	(3,187)			(2,240)			(1,413)		
Cash and due from banks	2,105			2,245			2,522		
Other non-earning assets	17,720			16,866			22,708		
	$ 135,955			$ 142,759			$ 143,947		
Liabilities and Stockholders Equity									
Interest-bearing liabilities:									
Savings accounts	$ 4,459	4	0.09	$ 3,984	5	0.13	$ 3,744	4	0.11
Interest-bearing transaction accounts	14,404	32	0.22	14,347	40	0.28	15,058	127	0.84
Money market accounts	26,753	116	0.43	21,434	181	0.84	18,269	326	1.78
Money market accounts foreign	601	1	0.17	1,139	3	0.26	2,828	47	1.66
Time deposits customer	26,236	601	2.29	32,617	1,045	3.20	28,301	1,099	3.88
Total customer deposits interest-bearing	72,453	754	1.04	73,521	1,274	1.73	68,200	1,603	2.35
Time deposits non customer	54	1	1.85	122	2	1.64	2,083	75	3.60
Other foreign deposits				312	1	0.32	2,074	46	2.22
Total treasury deposits interest-bearing	54	1	1.85	434	3	0.69	4,157	121	2.91
Total interest-bearing deposits	72,507	755	1.04	73,955	1,277	1.73	72,357	1,724	2.38
Federal funds purchased and securities sold under agreements to repurchase	2,284	3	0.13	3,166	12	0.38	7,697	171	2.22
Other short-term borrowings	963	7	0.73	5,229	42	0.80	8,704	198	2.27
Long-term borrowings	15,547	492	3.16	18,588	666	3.58	13,510	627	4.64
Total interest-bearing liabilities	91,301	1,257	1.38	100,938	1,997	1.98	102,268	2,720	2.66
Net interest spread			2.58%			2.28%			2.83%
Customer deposits non-interest-bearing	23,982			20,657			17,720		

Other liabilities	3,228			3,391			4,020		
Stockholders' equity	17,444			17,773			19,939		
	$ 135,955			$ 142,759			$ 143,947		
Net interest income/margin on a taxable-equivalent basis(3)		$ 3,464	2.90%		$ 3,367	2.67%		$ 3,880	3.23%

1. Loans, net of unearned income include non-accrual loans for all periods presented.
2. Interest income includes loan fees of $36 million, $30 million and $50 million for the years ended December 31, 2010, 2009 and 2008, respectively.
3. The computation of taxable-equivalent net interest income is based on the stautory federal income tax rate of 35%, adjusted for applicable state income taxes net of the related federal tax benefit.
4. Total deposit costs may be calculated by dividing total interest expense on deposits by the sum of interest-bearing deposits and non-interest bearing deposits. The rates for total deposit costs equal 0.78 percent, 1.35 percent and 1.91 percent for the twelve months ended December 31, 2010, 2009 and 2008, respectively.

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Table 4 Volume and Yield/Rate Variances

	2010 Compared to 2009 Change Due to			2009 Compared to 2008 Change Due to		
	Volume	Yield/ Rate	Net	Volume	Yield/ Rate	Net
	(Taxable equivalent basis in millions)					
Interest income on:						
Federal funds sold and securities purchased under agreements to resell	$ 1	$ (1)	$	$ (6)	$ (9)	$ (15)
Trading account assets	(14)	(7)	(21)	5	(6)	(1)
Securities:						
Taxable	156	(249)	(93)	159	(21)	138
Tax-exempt	(16)	(12)	(28)	(20)	(12)	(32)
Loans held for sale	(12)	(4)	(16)	37	(18)	19
Loans, net of unearned income	(342)	(142)	(484)	(171)	(1,173)	(1,344)
Other interest-earning assets	(6)	5	(1)	33	(34)	(1)
Total interest-earning assets	(233)	(410)	(643)	37	(1,273)	(1,236)
Interest expense on:						
Savings accounts	1	(2)	(1)		1	1
Interest-bearing transaction accounts		(8)	(8)	(6)	(81)	(87)
Money market accounts	38	(103)	(65)	49	(194)	(145)
Money market accounts foreign	(1)	(1)	(2)	(18)	(26)	(44)
Time deposits customer	(181)	(263)	(444)	154	(208)	(54)
Total customer deposits interest-bearing	(143)	(377)	(520)	179	(508)	(329)
Time deposits non customer	(1)		(1)	(46)	(27)	(73)
Other foreign deposits	(1)		(1)	(22)	(23)	(45)
Total treasury deposits interest-bearing	(2)		(2)	(68)	(50)	(118)
Total interest-bearing deposits	(145)	(377)	(522)	111	(558)	(447)
Federal funds purchased and securities sold under agreements to repurchase	(3)	(6)	(9)	(66)	(93)	(159)
Other short-term borrowings	(31)	(4)	(35)	(60)	(96)	(156)
Long-term borrowings	(102)	(72)	(174)	202	(163)	39
Total interest-bearing liabilities	(281)	(459)	(740)	187	(910)	(723)
Increase (decrease) in net interest income	$ 48	$ 49	$ 97	$ (150)	$ (363)	$ (513)

Notes:

1. The change in interest not due solely to volume or yield/rate has been allocated to the volume column and yield/rate column in proportion to the relationship of the absolute dollar amounts of the change in each.
2. The computation of taxable-equivalent net interest income is based on the statutory federal income tax rate of 35 percent, adjusted for applicable state income taxes net of the related federal tax benefit.

Net interest income and interest-rate spread are also affected by the actions taken to manage interest rate risk. As described in the Market Risk-Interest Rate Risk section of MD&A, Regions employs multiple tools in order to manage the risk of variability in net interest income attributable to changes in interest rates. Among these tools are interest rate derivatives. In 2010, net interest income attributable to interest rate derivatives for hedging purposes was $515 million versus $526 million in 2009.

The mix of interest-earning assets can also affect the interest rate spread. Regions primary types of interest-earning assets are loans and investment securities. Certain types of interest-earning assets have historically generated larger spreads, for example, loans typically generate larger spreads than other assets, such as securities, Federal funds sold or securities purchased under agreement to resell. However, in 2010, the spread on loans remained depressed due to lower interest rates and a higher level of loans on non-accrual status. Average interest-earning assets at December 31, 2010 totaled $119.3 billion, a decrease of $6.6 billion as compared to the prior year, or 5 percent. While average earning assets declined during 2010, the mix changed somewhat, reflecting higher securities balances on average and a decline in average loans due to decreased loan demand and run-off of investor real estate.

Also affecting the interest rate spread was a continued elevated amount of interest-bearing deposits in other banks (included in other interest-earning assets in Table 3), primarily the Federal Reserve Bank, as a result of the Company s liquidity management process. These funds generate a significantly lower spread than loans or securities. Average loans as a percentage of average interest-earning assets were 73 percent in 2010 and 75 percent in 2009. The categories, which are comprised of interest-earning assets, are shown in Table 3 Consolidated Average Daily Balances and Yield/Rate Analysis .

The proportion of average interest-earning assets to average total assets measures the effectiveness of management s efforts to invest available funds into the most profitable interest-earning vehicles and represented 88 percent for both 2010 and 2009. This measure was consistent with the prior year as the overwhelming majority of the decline in total assets in 2010 was in interest-earning assets. Funding for Regions interest-earning assets comes from interest-bearing and non-interest-bearing sources. Another significant factor affecting the net interest margin is the percentage of interest-earning assets funded by interest-bearing liabilities. The percentage of average interest-earning assets funded by average interest-bearing liabilities was 77 percent in 2010 and 80 percent in 2009, also affected by the aforementioned increase in deposits in other banks.

Table 4 Volume and Yield/Rate Variances provides additional information with which to analyze the changes in net interest income.

Provision for Loan Losses

The provision for loan losses is used to maintain the allowance for loan losses at a level that, in management s judgment, is adequate to cover losses inherent in the portfolio at the balance sheet date. During 2010, the provision for loan losses was $2.9 billion and net charge-offs were $2.8 billion. This compares to a provision for loan losses of $3.5 billion and net charge-offs of $2.3 billion in 2009. The decrease in the provision over charge-offs reflects moderating credit quality.

For further discussion and analysis of the total allowance for credit losses, see the Risk Management section found later in this report. See also Note 5 Allowance for Credit Losses to the consolidated financial statements.

NON-INTEREST INCOME

Non-interest income represents fees and income derived from sources other than interest-earning assets. Table 5 Non-Interest Income provides a detail of the components of non-interest income. Non-interest income totaled $3.5 billion in 2010 compared to $3.8 billion in 2009. The decrease in non-interest income is primarily due to revenue generated from unwinding certain leveraged lease transactions in 2009. However, this decrease in revenue was offset by a reduction in the related income tax expense, resulting in an insignificant aggregate impact to net income. Excluding the leveraged lease terminations, results reflected an increase in service charges income, brokerage, investment banking and capital markets income, and securities gains. Offsetting these increases, mortgage income declined, resulting from market valuation adjustments for mortgage servicing rights and related derivatives. Non-interest income (excluding securities transactions and leveraged lease gains) as a percent of total revenue (on a fully taxable-equivalent basis) was 44 percent in 2010 and 2009.

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Table 5 Non-Interest Income

	Year Ended December 31 2010	2009 (In millions)	2008
Service charges on deposit accounts	$ 1,174	$ 1,156	$ 1,148
Brokerage, investment banking and capital markets	1,059	989	1,027
Mortgage income	247	259	138
Trust department income	196	191	234
Securities gains (losses), net	394	69	92
Insurance commissions and fees	104	105	110
Leveraged lease termination gains	78	587	
Gain on early extinguishment of debt		61	
Visa-related gains		80	63
Commercial credit fee income	76	70	68
Bank-owned life insurance	88	74	78
Other miscellaneous income	115	114	115
	$ 3,531	$ 3,755	$ 3,073

Service Charges on Deposit Accounts

Income from service charges on deposit accounts increased 2 percent and totaled $1.2 billion in both 2010 and 2009. This modest increase was due to a higher level of customer transactions and new account growth that began in 2009 and continued into 2010. These factors were slightly offset by policy changes, as well as changes related to Regulation E. Service charges will continue to be negatively impacted going forward by the policy changes and new regulations.

Interchange income, which is included in service charges on deposit accounts, will be impacted by the Federal Reserve s rulemaking required by section 1075 of the Dodd-Frank Act. In December 2010, the Federal Reserve issued a proposed rule that would establish debit card interchange fee standards based upon one of two proposed alternatives. One alternative is an issuer-specific standard with a safe harbor set at 7 cents per transaction. The other alternative is a stand-alone cap set at 12 cents per transaction. Neither alternative makes a distinction between PIN or signature transactions and under both alternatives, the interchange fee will be much lower than 44 cents per transaction which is the average amount charged for all debit transactions according to the Federal Reserve s study on interchange transactions. Total revenues from debit card income at Regions were $346 million in 2010 and without mitigating actions could potentially be negatively impacted going forward. Based on the current proposed rule, Regions Bank s revenues from interchange fees would likely be reduced to approximately one quarter of current levels, based on the 12 cent alternative described above. While the final regulations are not yet known, they may have an adverse affect on Regions business, financial condition or results of operations.

Brokerage, Investment Banking and Capital Markets and Trust Department Income

Regions primary source of brokerage, investment banking and capital markets and trust revenue is its subsidiary, Morgan Keegan. Morgan Keegan s revenues are predominantly recorded in the brokerage, investment banking and capital markets, as well as trust department income lines of the consolidated statements of operations, while a smaller portion is reported in other non-interest income. As of December 31, 2010, Morgan Keegan employed approximately 1,200 financial advisors. Morgan Keegan contributed $1.3 billion in total revenues in both 2010 and 2009.

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Total brokerage, investment banking and capital markets revenues increased 7 percent to $1.1 billion in 2010 from $989 million in 2009, primarily due to an increase in the investment banking and private client brokerage services divisions. Results for 2010 reflect strength in these divisions, which is due in part to strategic acquisitions that were made in specialized industries in recent years. Customer and trust assets under management were approximately $80.0 billion and $77.0 billion, respectively, at year-end 2010 compared to approximately $75.5 billion and $70.0 billion, respectively, at year-end 2009. The rise in assets under management is primarily driven by a higher amount of asset inflows and higher end-of-period asset valuations than in the prior year.

Revenues from the private client division increased 15 percent to $476 million, and accounted for 36 percent of Morgan Keegan s total revenue in 2010, compared to $415 million or 32 percent in 2009. Fixed-income capital markets revenues decreased $38 million to $322 million, as compared to $360 million in 2009, although revenues remained higher than in previous years, driven by institutional customers demand for government, mortgage-backed and municipal securities. Equity capital markets revenue was negatively impacted by the financial turmoil beginning in late 2008 and continuing through 2010. Equity capital markets revenues totaled $55 million in 2010, compared to $59 million in 2009. Investment banking revenues increased $47 million to $151 million as the division had success within its specialized industries, such as oil and gas, healthcare and technology. Trust revenues increased 7 percent to $211 million in 2010, impacted by higher average asset valuations. The asset management division produced $15 million of revenue in 2010 compared to $39 million in 2009, pressured by a lower amount of fees from commissions.

Morgan Keegan s net income was negatively affected during 2010 by a $200 million regulatory charge related to certain funds previously administered by Morgan Keegan and Morgan Asset Management. This charge is nondeductible for income tax purposes. See Note 23 Commitments, Contingencies and Guarantees to the consolidated financial statements for further information.

See Note 22 Business Segment Information for details of net income contributed by Morgan Keegan for the years ended December 31, 2010, 2009 and 2008 and Table 6 Morgan Keegan Revenue by Division which illustrates Morgan Keegan s revenues by division for the years ended December 31, 2010, 2009 and 2008.

Table 6 Morgan Keegan Revenue by Division

	Year Ended December 31							
	Private Client	Fixed-Income Capital Markets	Equity Capital Markets	Investment Banking	Regions MK Trust	Asset Management	Interest and Other	Total
	(Dollars in millions)							
2010								
Gross revenue	$ 476	$ 322	$ 55	$ 151	$ 211	$ 15	$ 89	$ 1,319
Percent of gross revenue	36.1%	24.4%	4.2%	11.4%	16.0%	1.1%	6.8%	
2009								
Gross revenue	$ 415	$ 360	$ 59	$ 104	$ 197	$ 39	$ 108	$ 1,282
Percent of gross revenue	32.4%	28.1%	4.6%	8.1%	15.4%	3.0%	8.4%	
2008								
Gross revenue	$ 440	$ 266	$ 58	$ 158	$ 270	$ 31	$ 117	$ 1,340
Percent of gross revenue	32.8%	19.9%	4.3%	11.8%	20.2%	2.3%	8.7%	

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Mortgage Income

Mortgage income is generated through the origination and servicing of mortgage loans for long-term investors and sales of mortgage loans in the secondary market. Mortgage income decreased $12 million, or 5 percent to $247 million in 2010. The decrease was primarily driven by lower mortgage origination volume in 2010 as compared to 2009 due to decreased refinance activity during 2010 as compared to 2009. Mortgage originations totaled $8.2 billion in 2010 as compared to $9.6 billion in 2009. However, the decrease in origination income was partially offset by market valuation adjustments for mortgage servicing rights and related derivatives which added $16 million and $13 million to mortgage income in 2010 and 2009, respectively. See Note 21 Fair Value of Financial Instruments to the consolidated financial statements for further detail.

Effective January 1, 2009, Regions made an election to prospectively change the policy for accounting for residential mortgage servicing rights from the amortization method to the fair value measurement method. Under the fair value measurement method, servicing assets are measured at fair value each period with changes in fair value recorded as a component of mortgage banking income. Regions uses various derivative instruments to mitigate the effect of changes in the fair value of its mortgage servicing rights. Beginning in the fourth quarter of 2009, the Company also began using trading assets to mitigate the impact of changes in the fair value of its mortgage servicing rights. Because changes in value of trading assets are reported in brokerage income, and because earnings on these assets are reported in net interest income, the total effect of mortgage servicing rights and related hedging instruments impacts several line items in the statements of operations, as illustrated in Table 7.

Table 7 Categorization of Income Related to Mortgage Servicing Rights and Related Hedging Instruments

	2010	2009
	(In millions)	
Net interest income	$ 3	$ 20
Brokerage income	4	4
Mortgage income	16	13
	$ 23	$ 37

At December 31, 2010, Regions servicing portfolio totaled $41.7 billion, $26.0 billion of which was serviced for third parties. At December 31, 2009, the servicing portfolio totaled $39.7 billion, $23.3 billion of which was serviced for third parties.

During 2008, the Company sold mortgage servicing rights on approximately $3.4 billion of Government National Mortgage Association (GNMA) loans and recognized a loss of $15 million, including transaction costs. The Company did not sell any mortgage servicing rights in 2010 or 2009.

Securities Gains (Losses), Net

Regions reported net gains of $394 million from the sale of securities available for sale in 2010, as compared to net gains of $69 million in 2009. In 2010, the company repositioned its securities portfolio and sold $9.9 billion to mitigate prepayment risk and extended the duration on the investment portfolio. In 2009, the company significantly reduced its exposure in non-agency investment securities, collateralized mortgage-backed securities and municipal bonds and through these measures sold $5.4 billion and incurred some losses on the sales. The Company s gains were due to increased sales activity within the available for sale category as part of the Company s asset/liability management strategies. The proceeds from the sales in 2010 and 2009 were reinvested in U.S. government agency mortgage-backed securities classified as available for sale. Refer to the Securities section in the Balance Sheet Analysis for further discussion.

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In January 2011, Regions sold approximately $1.5 billion in securities, primarily agency mortgage-backed securities, and recognized a net pre-tax gain of approximately $52 million.

Leveraged Lease Termination Gains

A 2008 settlement with the IRS negatively impacted the economics of Regions leveraged lease portfolio. In addition, there was a mutual desire with lessees to terminate certain leases within this portfolio. Accordingly, the Company decided to terminate certain of these leases in 2010 and 2009, resulting in gains of $78 million and $587 million, respectively. However, these gains were essentially offset by related income tax expense of $74 million and $589 million, respectively, resulting in a minimal impact to net income.

Gain on Early Extinguishment of Debt

During 2009, Regions completed an exchange of common shares for outstanding 6.625 percent Trust Preferred Securities issued by Regions Financing Trust II (the Trust). In connection with this exchange, the Company recognized a gain on extinguishment of junior subordinated debt issued to the Trust. The extinguishment resulted in an increase to non-interest income of $61 million in 2009. For further details, see Note 14 Stockholders Equity and Comprehensive Income (Loss) to the consolidated financial statements.

Visa-Related Gains

In early 2008, Visa executed an initial public offering (IPO) of common stock and, in connection with the IPO, Regions ownership interest in Visa was converted into approximately 3.8 million shares of Class B common stock. In late 2008, Regions recognized a $63 million gain upon the redemption of these shares. In 2009, Regions sold its remaining Visa Class B common stock resulting in an $80 million gain. For further details, see Note 23 Commitments, Contingencies, and Guarantees to the consolidated financial statements.

Bank-Owned Life Insurance

Bank-owned life insurance income increased 19 percent to $88 million in 2010, compared to $74 million in 2009. This increase is primarily due to changes in crediting rates related to the insurance policies.

NON-INTEREST EXPENSE

The following section contains a discussion of non-interest expense from continuing operations. The largest components of non-interest expense are salaries and employee benefits, net occupancy expense and furniture and equipment expense. Non-interest expense in 2010 included a $200 million regulatory charge. Non-interest expense, excluding the regulatory charge, increased $34 million, or 1 percent, to $4.8 billion in 2010. Non-interest expense in 2008 included a $6.0 billion non-cash goodwill impairment charge and merger-related charges totaling $201 million.

Table 8 Non-Interest Expense (including Non-GAAP reconciliation) presents major non-interest expense components, both including and excluding the regulatory charge, merger-related charges and goodwill impairment, for the years ended December 31, 2010, 2009 and 2008. Management believes Table 8 is useful in evaluating trends in non-interest expense. Note that merger-related charges as shown in this table relate to Regions acquisition of AmSouth in November 2006. See Table 2 GAAP to Non-GAAP Reconciliation and the text preceding it for further discussion of non-GAAP financial measures.

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Table 8 Non-Interest Expense (including Non-GAAP reconciliation)

	As Reported (GAAP)		
	2010	2009	2008
		(In millions)	
Salaries and employee benefits	$ 2,318	$ 2,269	$ 2,356
Net occupancy expense	448	454	442
Furniture and equipment expense	304	311	335
Professional and legal fees	303	309	214
Amortization of core deposit intangibles	107	120	134
Other real estate owned expense	209	175	103
Marketing	68	75	97
Goodwill impairment			6,000
Other-than-temporary impairments	2	75	23
Mortgage servicing rights impairment			85
FDIC special assessment		64	
FDIC premiums	220	163	15
Loss on early extinguishment of debt	108		66
Regulatory charge	200		
Other miscellaneous expenses	698	736	922
	$ 4,985	$ 4,751	$ 10,792

	Regulatory Charge, Merger-Related Charges and Goodwill Impairment		
	2010	2009	2008
		(In millions)	
Salaries and employee benefits	$	$	$ 134
Net occupancy expense			4
Furniture and equipment expense			5
Professional and legal fees			7
Amortization of core deposit intangibles			
Other real estate owned expense			
Marketing			13
Goodwill impairment			6,000
Other-than-temporary impairments			
Mortgage servicing rights impairment			
FDIC special assessment			
FDIC premiums			
Loss on early extinguishment of debt			
Regulatory charge	200		
Other miscellaneous expenses			38
	$ 200	$	$ 6,201

	As Adjusted (Non-GAAP)		
	2010	2009	2008
		(In millions)	
Salaries and employee benefits	$ 2,318	$ 2,269	$ 2,222
Net occupancy expense	448	454	438
Furniture and equipment expense	304	311	330
Professional and legal fees	303	309	207

Amortization of core deposit intangibles	107	120	134
Other real estate owned expense	209	175	103
Marketing	68	75	84
Goodwill impairment			
Other-than-temporary impairments	2	75	23
Mortgage servicing rights impairment			85
FDIC special assessment		64	
FDIC premiums	220	163	15
Loss on early extinguishment of debt	108		66
Regulatory charge			
Other miscellaneous expenses	698	736	884
	$ 4,785	$ 4,751	$ 4,591

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Salaries and Employee Benefits

Total salaries and employee benefits increased $49 million, or 2 percent, in 2010. The year-over-year increase in salaries and employee benefits cost is due to higher pension and 401(k) expense as explained below. Although salaries and benefits expense increased, headcount was reduced approximately 2 percent in 2010. At December 31, 2010, Regions had 27,829 employees compared to 28,509 at December 31, 2009.

Regions provides employees who meet established employment requirements with a benefits package that includes 401(k), pension, and medical, life and disability insurance plans. New enrollment in the Regions pension plan ended effective December 31, 2000. New enrollment in the legacy AmSouth pension plan ended effective with the merger date, November 4, 2006. Former AmSouth employees enrolled as of November 4, 2006 continue to be active in the plan, but no additional participants will be added. Effective September 30, 2007, the two pension plans merged into one plan. Regions 401(k) plan includes a company match of eligible employee contributions. The Company temporarily suspended the pension service credit and the company match for eligible employee contributions in early 2009; however, the Company restored these benefits in January 2010. The temporary suspensions contributed to the increase in salaries and employee benefits in 2010 as compared to 2009. See Note 17 Pension and Other Employee Benefit Plans to the consolidated financial statements for further details.

There are various incentive plans in place in many of Regions lines of business that are tied to the performance levels of employees. At Morgan Keegan, commissions and incentives are a key component of compensation, which is typical in the brokerage and investment banking industry. In general, incentives are used to reward employees for selling products and services, for productivity improvements and for achievement of corporate financial goals. These achievements are determined through a review of profitability and risk management. Regions long-term incentive plan provides for the granting of stock options, restricted stock, restricted stock units and performance shares. See Note 16 Share-Based Payments to the consolidated financial statements for further information.

Net Occupancy Expense

Net occupancy expense includes rents, depreciation and amortization, utilities, maintenance, insurance, taxes, and other expenses of premises occupied by Regions and its affiliates. Occupancy expense decreased $6 million, or 1 percent, in 2010 primarily due to charges incurred in 2009 associated with the decision to consolidate 121 branches.

Furniture and Equipment Expense

Furniture and equipment expense decreased $7 million to $304 million in 2010. This decrease is primarily due to branch consolidation charges of $7 million incurred in 2009.

Professional and Legal Fees

Professional and legal fees are comprised of amounts related to legal, consulting and other professional fees. These fees decreased $6 million to $303 million in 2010, reflecting a reduction in the level of legal expenses incurred at Morgan Keegan and credit-related legal costs in 2010. Legal expenses, however, remained elevated in 2010. Refer to Note 23 Commitments, Contingencies and Guarantees to the consolidated financial statements for additional information.

Amortization of Core Deposit Intangibles

The premium paid for core deposits in an acquisition is considered to be an intangible asset that is amortized on an accelerated basis over its useful life. As a result, amortization of core deposit intangibles decreased 11 percent to $107 million in 2010 compared to $120 million in 2009.

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Other Real Estate Owned Expense

Other real estate owned (OREO) expenses include the cost of adjusting foreclosed properties to fair value after these assets have been classified as OREO and net gains and losses on sales of properties, as well as other costs to maintain the property such as property taxes, security, and grounds maintenance. Through Regions efforts to sell foreclosed properties, OREO balances decreased $153 million to $454 million in 2010 compared to $607 million in 2009. OREO expense increased $34 million to $209 million in 2010 compared to $175 million in 2009, primarily driven by valuation declines resulting from further deterioration of the housing and real estate markets. See Note 9 Foreclosed Properties to the consolidated financial statements for more information.

Other-Than-Temporary Impairments (OTTI)

OTTI decreased $73 million during 2010 to $2 million compared to $75 million in 2009. The 2009 charges are net of the non-credit portion recorded in accumulated other comprehensive income (loss). Other-than-temporary impairment charges were minimal in 2010 due to the Company s efforts to de-risk the portfolio and the resulting portfolio composition. Refer to Note 3 Securities to the consolidated financial statements for further discussion.

FDIC Premiums and Special Assessment

FDIC premiums increased in 2010 by $57 million to $220 million. The increases resulted from higher premium rates applied to a higher level of insured deposit balances. On October 7, 2008, the FDIC increased the rates banks pay for deposit insurance, while at the same time making adjustments to the system that determines the rate a bank pays the FDIC. Under this and additional proposals, the assessment rate schedule was raised on January 1, 2009. The bank regulatory agencies ratings, comprised of Regions Bank s capital, asset quality, management, earnings, liquidity and sensitivity to risk, along with its long-term debt issuer ratings and financial ratios are the primary factors in determining FDIC insurance premiums.

During early 2009, Regions utilized its remaining assessment credits, which had previously offset a substantial portion of premium cost. Regions qualified for a credit of approximately $110 million, which was applied toward premiums in 2009, 2008 and 2007, thereby exhausting the credit. Under existing federal regulations, every FDIC-insured institution will pay some level of deposit insurance assessments regardless of the level of the designated reserve ratio. Regions incurred a $64 million special assessment in 2009 to help replenish the Deposit Insurance Fund. Additionally, the FDIC required all institutions to prepay, by December 31, 2009, estimated assessments for all of 2010, 2011 and 2012 based on the 2009 fourth quarter assessment rate.

In February 2011, the FDIC adopted a final rule (the New Assessment Rule) to revise the deposit insurance assessment system for large institutions. The New Assessment Rule changed the assessment base from deposits as the basis and utilizes a risk-based approach which calculates the assessment using average consolidated assets minus average tangible equity. Implementation of the New Assessment Rule is expected to result in an increase in FDIC expense beginning in the second quarter of 2011. For a more detailed discussion of the FDIC insurance assessment methodology and proposed changes, see the Supervision and Regulation FDIC Insurance Assessments section of Item 1. Business of this Annual Report on Form 10-K.

Loss on Early Extinguishment of Debt

During 2010, Regions prepaid approximately $2.0 billion of FHLB advances, realizing a $108 million pre-tax loss on early extinguishment. These extinguishments were part of the Company s asset/liability management process.

Regulatory Charge

On April 7, 2010, the SEC, a joint state task force of securities regulators from Alabama, Kentucky, Mississippi, and South Carolina and FINRA announced that they were commencing administrative proceedings against Morgan Keegan, Morgan Asset Management and certain of their employees for violations of federal and state securities laws and NASD rules relating to certain funds previously administered by Morgan Keegan and Morgan Asset Management. Based on the status of settlement negotiations, Regions believed that a loss on the matter was probable and reasonably estimable. Accordingly, at June 30, 2010, Morgan Keegan recorded a non-tax deductible $200 million charge representing the estimate of probable loss. Settlement negotiations and trial preparations are ongoing. Refer to Note 23 Commitments, Contingencies and Guarantees to the consolidated financial statements for additional information.

Other Miscellaneous Expenses

Other miscellaneous expenses include communications, postage, supplies, credit-related costs and business development services. Other miscellaneous expenses decreased $38 million to $698 million in 2010. The decline in 2010 was driven by various categories, including those listed above.

INCOME TAXES

The Company s income tax benefit for 2010 was $346 million compared to a tax benefit of $171 million in 2009, resulting in an effective tax rate of 39.1 percent and 14.2 percent, respectively. The increase in income tax benefit reflects the impact of the decline in the number and amount of leveraged lease terminations offset by the recognition of the nondeductible regulatory charge and the decrease in the consolidated pre-tax loss.

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

At December 31, 2010, the Company reported a net deferred tax asset of $1.4 billion. Of this amount, $960 million was generated from differences between the financial statement carrying amounts and the corresponding tax bases of assets and liabilities, of which a significant portion relates to the allowance for loan losses. These net deferred tax assets have not yet reduced taxable income and therefore, do not have a set expiration date. The remaining $427 million net deferred tax asset balance relates to tax carryforwards that have defined expiration dates which are typically 15 or 20 years from the date of creation. Of the $427 million, $92 million of this deferred tax asset is related to tax carryforwards that have expiration dates prior to the tax year 2023, and a valuation allowance of $14 million exists against these amounts.

Management s determination of the realization of the net deferred tax asset is based upon an evaluation of the four possible sources of taxable income: 1) the future reversals of taxable temporary differences; 2) future taxable income exclusive of reversing temporary differences and carryforwards; 3) taxable income in prior carryback years; and 4) tax-planning strategies. In making a conclusion, management has evaluated all available positive and negative evidence impacting these sources of taxable income. The primary sources of positive and negative evidence impacting taxable income are summarized below.

Positive Evidence

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

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Reversals of taxable temporary differences The Company anticipates that future reversals of taxable temporary differences, including the accretion of taxable temporary differences related to leveraged leases acquired in the AmSouth merger, can absorb up to approximately $1.0 billion of deferred tax assets.

Creation of future taxable income At December 31, 2010, the Company utilized all taxable income in prior carryback years. The Company has projected future taxable income that will be sufficient to absorb the remaining deferred tax assets after the reversal of future taxable temporary differences. The taxable income forecasting process utilizes the forecasted pre-tax earnings and adjusts for book-tax differences that will be exempt from taxation, primarily tax-exempt interest income and bank-owned life insurance, as well as temporary book-tax differences including the allowance for loan losses. The projections relied upon for this process are consistent with those used in the goodwill impairment test and are sourced from the Company s economic forecasting process.

Strong capital position At December 31, 2010, the Company had a Tier 1 capital ratio of 12.40 percent, substantially above the 6.0 percent minimum standard to be well capitalized. Also, the Total capital ratio of 16.35 percent substantially exceeds the 10.0 percent minimum standard to be well capitalized. The Company s Tier 1 common ratio (non-GAAP) was 7.85 percent at December 31, 2010 (see Table 2 GAAP to Non-GAAP Reconciliation for further details). The Board of Governors of the Federal Reserve System has identified 4 percent as the level of Tier 1 common capital sufficient to withstand adverse economic scenarios.

Ability to implement tax-planning strategies The Company has the ability to implement tax planning strategies to maximize the realization of deferred tax assets, such as the sale of appreciated assets. As an example, during 2010, the Company reported net pre-tax gains of $394 million from the sale of securities available for sale. At December 31, 2010, the Company s portfolio of securities available for sale had $283 million of gross unrealized pre-tax gains which could absorb $108 million of deferred tax assets, which management would consider being a tax planning strategy to maximize the realization of the deferred tax assets.

Negative Evidence

Cumulative loss position The Company is currently in a three-year cumulative loss position. Excluding the $6.0 billion goodwill impairment charge during 2008 and the $200 million regulatory charge taken in 2010, as these items were nondeductible for tax purposes, the cumulative pre-tax loss position for 2008 through 2010 is $1.8 billion. The cumulative loss has resulted from the unprecedented provision for loan losses of $8.5 billion during these periods, which management believes will continue to stabilize in future periods. During 2010, the provision for loan losses decreased $678 million to $2.9 billion, as compared to the provision for loan losses of $3.5 billion in 2009. Additionally, Regions reported positive net income available to common shareholders for the fourth quarter of 2010, providing positive evidence regarding the Company s earnings.

The Company believes the positive evidence, when considered in its entirety, outweighs the negative evidence of recent pre-tax losses.

See Note 1 Summary of Significant Accounting Policies and Note 19 Income Taxes to the consolidated financial statements for additional information about income taxes.

BALANCE SHEET ANALYSIS

At December 31, 2010, Regions reported total assets of $132.4 billion compared to $142.3 billion at the end of 2009, a decrease of approximately $10.0 billion or 7 percent. The balance sheet decline reflects a decrease in loans outstanding, primarily investor real estate balances, as well as a decrease in trading account assets.

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Loans

Average loans, net of unearned income, represented 73 percent of average interest-earning assets for the year ended December 31, 2010 compared to 75 percent of average interest-earning assets for the year ended December 31, 2009. Lending at Regions is generally organized along three portfolio segments: commercial (including commercial and industrial, and owner occupied commercial real estate mortgage and construction loans), investor real estate loans (commercial real estate mortgage and construction loans) and consumer loans (residential first mortgage, home equity, indirect and other consumer loans).

Regions manages loan growth with a focus on risk management and risk-adjusted return on capital. However, loan balances have declined between years as a result of decreased loan demand in response to economic pressures and management s efforts to reduce riskier loan portfolios, such as investor real estate.

Table 9 illustrates a year-over-year comparison of loans by loan type and Table 10 provides information on selected loan maturities.

Table 9 Loan Portfolio

	2010	2009	2008
		(In millions, net of unearned income)	
Commercial and industrial	$ 22,540	$ 21,547	$ 23,596
Commercial real estate mortgage owner occupied	12,046	12,054	11,722
Commercial real estate construction owner occupied	470	751	1,605
Total commercial	35,056	34,352	36,923
Commercial investor real estate mortgage	13,621	16,109	14,486
Commercial investor real estate construction	2,287	5,591	9,029
Total investor real estate	15,908	21,700	23,515
Residential first mortgage	14,898	15,632	15,839
Home equity	14,226	15,381	16,130
Indirect	1,592	2,452	3,854
Other consumer	1,184	1,157	1,158
Total consumer	31,900	34,622	36,981
	$ 82,864	$ 90,674	$ 97,419

	2007	2006
	(In millions, net of unearned income)	
Commercial and industrial	$ 20,907	$ 24,145
Commercial real estate(1)	23,107	19,646
Commercial real estate construction(1)	13,302	14,121
Residential first mortgage	16,960	15,584
Home equity	14,962	14,889
Indirect	3,938	4,038
Other consumer	2,203	2,128
	$ 95,379	$ 94,551

(1) Breakout of commercial real estate mortgage and construction between owner occupied and investor categories is not available for periods prior to 2008.

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Table 10 Selected Loan Maturities

	Loans Maturing			
	Within One Year	After One But Within Five Years	After Five Years	Total
	(In millions)			
Commercial and industrial	$ 6,441	$ 11,772	$ 4,327	$ 22,540
Commercial real estate mortgage owner-occupied	2,027	6,181	3,838	12,046
Commercial real estate construction owner occupied	70	113	287	470
Total commercial	8,538	18,066	8,452	35,056
Commercial investor real estate mortgage	7,054	5,814	753	13,621
Commercial investor real estate construction	1,765	474	48	2,287
Total investor real estate	8,819	6,288	801	15,908
	$ 17,357	$ 24,354	$ 9,253	$ 50,964

	Predetermined Rate	Variable Rate
	(In millions)	
Due after one year but within five years	$ 6,187	$ 18,167
Due after five years	4,405	4,848
	$ 10,592	$ 23,015

Note: Table 10 excludes residential first mortgage, home equity, indirect and other consumer loans.

The following sections describe the composition of the portfolio classes in Table 9 and explain variations in balances from the 2009 year-end. See the Credit Risk section later in this report for discussion of risk characteristics in these categories and Regions management of those risks.

Commercial The Commercial category includes commercial and industrial, representing loans to commercial customers for use in normal business operations to finance working capital needs, equipment purchases and other expansion projects. Commercial also includes owner-occupied commercial real estate loans to operating businesses, which are loans for long-term financing of land and buildings, and are repaid by cash flow generated by business operations. Owner-occupied construction loans are made to commercial businesses for the development of land or construction of a building where the repayment is derived from revenues generated from the business of the borrower. During 2010, total commercial loan balances increased 2 percent, initially driven by growth experienced in certain specialty lending groups such as healthcare and energy in the Texas, Tennessee and Georgia markets. These industries have higher capital needs. Later in 2010, the growth continued more broadly across other categories and markets.

Investor Real Estate Loans for real estate development are repaid through cash flow related to the operation, sale or refinance of the property. This portfolio segment includes extensions of credit to real estate developers or investors where repayment is dependent on the sale of real estate or income generated from the real estate collateral. A portion of Regions investor real estate portfolio segment is comprised of loans secured by residential product types (land, single-family and condominium loans) within Regions markets. Additionally, this category includes loans made to finance income-producing properties such as apartment buildings, office and industrial buildings, and retail shopping centers. The investor real estate loan segment decreased $5.8 billion from 2009 balances primarily due to strategic decisions to reduce the concentration in investor real estate in response to credit risk and economic pressure. Regions goal is to reduce the investor real estate portfolio segment below one hundred percent of Regions Bank s risk-based capital, which would have been approximately $14 billion as of December 31, 2010. A full discussion of these developments is included in the Credit Risk section later in this report.

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Residential First Mortgage Residential first mortgage loans represent loans to consumers to finance a residence. These loans are typically financed over a 15 to 30 year term and, in most cases, are extended to borrowers to finance their primary residence. These loans experienced a $734 million decline to $14.9 billion in 2010, primarily due to a $965 million sale of residential first mortgages in the fourth quarter of 2010 in order to improve the Company s capital and liquidity profile. Lower mortgage origination volume due to decreased net new refinance activity in 2010 as compared to 2009 also contributed to the decrease. Mortgage originations totaled $8.2 billion in 2010 as compared to $9.6 billion in 2009. Also, property values continued to decline, new and used home sales remained at historically low levels and credit markets contracted in general. See the Credit Risk section later in this report for additional discussion.

Home Equity Home equity lending includes both home equity loans and lines of credit. This type of lending, which is secured by a first or second mortgage on the borrower s residence, allows customers to borrow against the equity in their home. Real estate market values as of the time the loan or line is secured directly affect the amount of credit extended and, in addition, changes in these values impact the depth of potential losses. The vast majority of Regions home equity lending balances was originated through its branch network. During 2010, home equity balances decreased $1.2 billion to $14.2 billion, driven by the continued general decline in demand and lower property valuations across the Company s operating footprint. During 2010, credit quality within the home equity portfolio continued to reflect pressure. Charge-offs during 2010 were elevated, but relatively stable as compared to 2009. The majority of the credit losses from this portfolio are related to loans where the collateral is a second lien located in Florida. A full discussion of these developments is included in the Credit Risk section later in this report.

Indirect Indirect lending, which is lending initiated through third-party business partners, is largely comprised of loans made through automotive dealerships. This portfolio class decreased $860 million or 35 percent in 2010, reflecting the 2008 suspension of new originations within the indirect auto lending business and the 2007 suspension of the marine and recreational vehicle lending business. Beginning in late 2010, the Company re-entered the indirect auto lending business.

Other Consumer Other consumer loans include direct consumer installment loans, overdrafts and other revolving credit, and educational loans. Other consumer loans totaled $1.2 billion at December 31, 2010, relatively unchanged from the prior year.

Loans Held for Sale

At December 31, 2010, loans held for sale totaled $1.5 billion, consisting of $1.2 billion of residential real estate mortgage loans and $304 million of non-performing investor real estate loans. At December 31, 2009, loans held for sale also totaled $1.5 billion, consisting of $783 million of residential real estate mortgage loans, $411 million of student loans and $317 million of non-performing investor real estate loans. The level of residential real estate mortgage and student loans held for sale fluctuates depending on the timing of origination and sale to third parties.

Allowance for Credit Losses

The allowance for credit losses represents management s estimate of credit losses inherent in both the loan portfolio and unfunded credit commitments as of the balance sheet date. The allowance consists of two components: the allowance for loans losses, which is recorded as a contra-asset to loans, and the reserve for unfunded credit commitments, which is recorded in other liabilities. At December 31, 2010, the allowance for credit losses totaled $3.3 billion or 3.93 percent of loans, net of unearned income, compared to $3.2 billion or 3.52 percent at year-end 2009. See Allowance for Credit Losses in the Credit Risk section found later in this report for a detailed discussion of the allowance.

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Securities

Regions utilizes the securities portfolio to manage liquidity, interest rate risk, and regulatory capital, as well as to take advantage of market conditions to generate a favorable return on investments without undue risk. The portfolio consists primarily of high-quality mortgage-backed and asset-backed securities. Securities represented 18 percent of total assets at December 31, 2010 compared to 17 percent at December 31, 2009. In 2010, total securities, which are almost entirely classified as available for sale, decreased $787 million, or 3 percent.

The Market Risk-Interest Rate Risk section, found later in this report, further explains Regions interest rate risk management practices. The weighted-average yield earned on securities, less equities, was 3.42 percent in 2010 and 4.22 percent in 2009. Table 11 Securities illustrates the carrying values of total securities by category.

Table 11 Securities

	2010	2009	2008
		(In millions)	
U.S. Treasury securities	$ 96	$ 57	$ 901
Federal agency securities	21	51	1,705
Obligations of states and political subdivisions	30	70	757
Mortgage-backed securities:			
Residential agency	21,857	22,700	12,353
Residential non-agency	22	36	1,239
Commercial agency	112	21	757
Commercial non-agency	100		
Other debt securities	27	21	21
Equity securities	1,048	1,144	1,164
	$ 23,313	$ 24,100	$ 18,897

From time to time, Regions sells securities classified as available for sale as part of the Company s asset/liability management strategy. As part of this process, in the first quarter of 2010, Regions sold approximately $1.4 billion of residential agency securities available for sale and recognized a gain of approximately $59 million. The proceeds were reinvested into newer issue residential agency securities with slightly longer durations. Additionally, during the fourth quarter of 2010, Regions repositioned its agency mortgage-backed securities portfolio in order to mitigate prepayment risk associated with that portfolio. Regions sold approximately $8.2 billion of available for sale securities which primarily consisted of agency mortgage-backed securities. A gain of approximately $333 million was recognized on the sale. Proceeds from the fourth quarter sales were reinvested in similar agency securities with lower coupons and longer durations.

Regions continually analyzes relative value to the Company across fixed income asset classes. The current portfolio weighting to agency mortgage-backed securities is not optimal over a longer horizon. Agency mortgage-backed securities have an advantageous credit and liquidity profile, but also carry more prepayment risk than other types of securities. Regions expects to prudently balance these benefits and risks by expanding asset classes during 2011 and 2012, as appropriate opportunities arise.

Net unrealized gains and losses in the securities available for sale portfolio are included in stockholders equity as accumulated other comprehensive income or loss, net of tax. At December 31, 2010, securities available for sale included a net unrealized gain of $120 million, which represented the difference between the estimated fair value of these securities as of year-end and their amortized cost. The net unrealized gain represents $283 million in gross unrealized gains and $163 million in gross unrealized losses. At December 31, 2009, securities available for sale included a net unrealized gain of $431 million, comprised of $495 million in gross unrealized gains and $64 million in gross unrealized losses.

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The Company reviews its securities portfolio on a regular basis to determine if there are any conditions indicating that a security has other-than-temporary impairment. Factors considered in this determination include the length of time and the extent to which the market value has been below cost, the credit standing of the issuer, Regions intent to sell and whether it is more likely than not that the Company will have to sell the security before its market value recovers. During 2010, Regions recognized, in earnings, approximately $2 million of securities impairments, related to equity and other debt securities. During 2009, Regions recognized, in earnings, approximately $75 million of securities impairments, related primarily to non-agency residential mortgage-backed securities, equity securities, and a single municipal issuer. See Note 3 Securities to the consolidated financial statements for further details.

In January 2011, Regions sold approximately $1.5 billion in securities, primarily agency mortgage-backed securities, and recognized a net pre-tax gain of approximately $52 million.

Maturity Analysis The average life of the securities portfolio (excluding equities) at December 31, 2010 was estimated to be 6.6 years, with a duration of approximately 3.4 years. These metrics compare with an estimated average life of 3.9 years, with a duration of approximately 1.9 years for the portfolio at December 31, 2009. Table 12 Relative Contractual Maturities and Weighted-Average Yields for Securities provides additional details.

Table 12 Relative Contractual Maturities and Weighted-Average Yields for Securities

	Within One Year	After One But Within Five Years	Securities Maturing After Five But Within Ten Years	After Ten Years	Total
			(Dollars in millions)		
Securities:					
U.S. Treasury securities	$ 11	$ 80	$ 5	$	$ 96
Federal agency securities	3	7	7	4	21
Obligations of states and political subdivisions	2	6	3	19	30
Mortgage-backed securities					
Residential agency		172	1,412	20,273	21,857
Residential non-agency				22	22
Commercial			54	58	112
Commercial non-agency		35	15	50	100
Other debt securities	4	10	2	11	27
	$ 20	$ 310	$ 1,498	$ 20,437	$ 22,265
Weighted-average yield	6.65%	4.06%	3.56%	3.40%	3.42%

Notes:

1. The weighted-average yields are calculated on the basis of the yield to maturity based on the book value of each security. Weighted-average yields on tax-exempt obligations have been computed on a fully taxable-equivalent basis using a tax rate of 35 percent. Taxable-equivalent adjustments for the calculation of yields amounted to $0 as of December 31, 2010. Yields on tax-exempt obligations have not been adjusted for the non-deductible portion of interest expense used to finance the purchase of tax-exempt obligations.
2. Federal Reserve Bank stock, Federal Home Loan Bank stock, and equity stock of other corporations held by Regions are not included in the table above.

Portfolio Quality Regions investment policy emphasizes credit quality and liquidity. Securities rated in the highest category by nationally recognized rating agencies and securities backed by the U.S. Government and government sponsored agencies, both on a direct and indirect basis, represented approximately 99 percent of the investment portfolio at December 31, 2010. All other securities rated below AAA, not backed by the U.S.

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Government or government sponsored agencies, or which are not rated represented less than one percent of total securities at year-end 2010. During 2009, due to the potential for downside price risk, the Company substantially eliminated its exposure in non-agency commercial mortgage-backed securities, non-agency residential mortgage-backed securities and municipal bonds. This was done in order to reduce credit risk within the portfolio. Regions increased its liquidity availability by reinvesting the proceeds in agency securities, including securities backed by GNMA.

Cash and Cash Equivalents

Cash and cash equivalents include cash and due from banks, interest-bearing deposits in other banks (including the Federal Reserve Bank), and Federal funds sold and securities purchased under agreements to resell (which have a life of 90 days or less). At December 31, 2010, these assets totaled $6.9 billion as compared to $8.0 billion at December 31, 2009. The year-over-year decrease was primarily driven by a reduction in Regions interest-bearing deposits in other banks, primarily lower balances in its Federal Reserve Bank account.

Trading Account Assets

Trading account assets decreased $1.9 billion to $1.1 billion at December 31, 2010. The trading account assets are primarily held at Morgan Keegan. Also included in trading account assets are securities held in rabbi trusts related to deferred compensation plans. Trading account assets are carried at market value with changes in market value reflected in the consolidated statements of operations. At the end of 2009, Regions increased holdings of U.S. Treasury and Federal agency securities held for the purpose of hedging mortgage servicing rights (see Table 7 Impact of Mortgage Servicing Rights and Related Hedging Instruments for further discussion). The Company exited these positions in early 2010, driving the decrease in trading account assets. Table 13 Trading Account Assets provides a detail by type of security.

Table 13 Trading Account Assets

	December 31 2010	December 31 2009
	(In millions)	
Trading account assets:		
U.S. Treasury and Federal agency securities	$ 370	$ 2,447
Obligations of states and political subdivisions	355	264
Other securities	391	328
	$ 1,116	$ 3,039

Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation and amortization, as applicable. Premises and equipment at December 31, 2010 decreased $99 million to $2.6 billion compared to year-end 2009. This decrease primarily resulted from the depreciation on the premises and equipment.

Goodwill

Goodwill totaled $5.6 billion at both December 31, 2010 and 2009. Refer to the Critical Accounting Policies section earlier in this report for detailed discussions of the Company s methodology for testing goodwill for impairment. Refer to Note 1 Summary of Significant Accounting Policies and Note 8 Intangible Assets to the consolidated financial statements, for the methodologies and assumptions used in Step One of the goodwill impairment test. Refer to Note 21 Fair Value Measurements to the consolidated financial statements, for the fair value measurements of certain assets and liabilities and the valuation methodology of such pricing, which is also used for testing goodwill for impairment.

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Mortgage Servicing Rights

Mortgage servicing rights at December 31, 2010 totaled $267 million compared to $247 million at December 31, 2009. A summary of mortgage servicing rights is presented in Note 6 Servicing of Financial Assets to the consolidated financial statements. The balances shown represent the right to service mortgage loans that are owned by other investors. Mortgage servicing rights are presented at fair value as of December 31, 2010 and 2009.

On January 1, 2009, Regions began accounting for mortgage servicing rights at fair market value with any changes to fair value being recorded within mortgage income. Also, in early 2009, Regions entered into derivative and trading asset transactions to mitigate the impact of market value fluctuations related to mortgage servicing rights. However, derivative instruments entered into in the future could be materially different from the current risk profile of Regions current portfolio. See the Mortgage Income section earlier in this report for detail regarding the effect of mortgage servicing rights and related hedging items on Regions consolidated statement of operations.

Other Identifiable Intangible Assets

Other identifiable intangible assets, consisting primarily of core deposit intangibles, totaled $385 million at December 31, 2010 compared to $503 million at December 31, 2009. The year-over-year decline is mainly the result of amortization. Regions noted no indicators of impairment for any other identifiable intangible assets. See Note 8 Intangible Assets to the consolidated financial statements for further information.

Other Assets

Other assets increased $1.5 billion to $9.4 billion as of December 31, 2010. Securities sold but not yet settled near the end of 2010 primarily drove the increase. Net deferred income tax assets also contributed to the year-over-year increase, a portion of which resulted from sales of available for sale securities, which previously carried a deferred tax liability related to their unrealized gain. The increases were partially offset by amortization of prepaid FDIC premiums and reduced foreclosed properties balances.

DEPOSITS

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

Deposits are Regions primary source of funds, providing funding for 81 percent of average interest-earning assets in 2010 and 75 percent of average interest-earning assets in 2009. Table 14 Deposits details year-over-year deposits on a period-ending basis. Total deposits as of year-end 2010 decreased $4.1 billion, or 4 percent, compared to year-end 2009. The overall decrease in deposits was primarily driven by decreases in customer time deposit accounts as a result of maturities. These decreases were partially offset by increases in domestic money market accounts. There has also been a shift from interest-bearing transaction accounts to non-interest-bearing demand accounts during the year. Regions continues to deepen and retain existing customer relationships, as well as develop new relationships through client acquisition, new checking products and money market rate offers.

Customer deposits, which are total deposits excluding deposits used for wholesale funding purposes, decreased by 4 percent to $94.6 billion on an ending basis during 2010. Decreases in customer time deposit accounts were the main source of decline. Growth in domestic money market accounts offset the decline. In 2008, the banking industry experienced very high deposit pricing due to liquidity concerns thereby accentuating pricing pressure on Regions and the industry as a whole. However, in 2009 and continuing into 2010, due to additional liquidity in the market, pricing rationale largely returned, enabling Regions to increase its low-cost customer deposits and reduce its total deposit costs from 1.35 percent in 2009 to 0.78 percent in 2010.

Table 14 Deposits

	2010	2009	2008
		(In millions)	
Non-interest-bearing demand	$ 25,733	$ 23,204	$ 18,457
Savings accounts	4,668	4,073	3,663
Interest-bearing transaction accounts	13,423	15,791	15,022
Money market accounts domestic	27,420	23,291	19,471
Money market accounts foreign	569	766	1,812
Low-cost deposits	71,813	67,125	58,425
Time deposits	22,784	31,468	32,369
Customer deposits	94,597	98,593	90,794
Corporate Treasury deposits			
Time deposits	17	87	110
Total deposits	$ 94,614	$ 98,680	$ 90,904

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

Within customer deposits, non-interest-bearing deposits increased $2.5 billion to $25.7 billion, driven by an increase in non-interest bearing deposits from commercial and small businesses and a mix shift from interest-bearing transaction accounts which decreased 15 percent to $13.4 billion. Non-interest-bearing deposits accounted for approximately 27 percent of total deposits at year-end 2010 as compared to 24 percent at year-end 2009. Savings balances increased $595 million to $4.7 billion, generally reflecting growing savings trends, spurred by economic uncertainty.

Domestic money market products, which exclude foreign money market accounts, are one of Regions most significant funding sources. These balances increased 18 percent in 2010 to $27.4 billion or 29 percent of total deposits, compared to 24 percent of total deposits in 2009 and 21 percent of total deposits in 2008. Money market accounts steadily increased throughout 2010. Also, foreign money market accounts decreased $197 million, or 26 percent, to $569 million in 2010.

Included in customer time deposits are certificates of deposit and individual retirement accounts. The balance of customer time deposits decreased 28 percent in 2010 to $22.8 billion compared to $31.5 billion in 2009. The decrease was primarily due to maturities with minimal reinvestment by customers as a result of a decline in rates offered on these products. Customer time deposits accounted for 24 percent of total deposits in 2010 compared to 32 percent in 2009.

Consistent with 2009, total treasury deposits, which are used mainly for overnight funding purposes, remained at low levels in 2010 as the Company continued to utilize customer-based funding and other sources. The Company s choice of overnight funding sources is dependent on the Company s particular funding needs and the relative attractiveness of each source.

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The sensitivity of Regions deposit rates to changes in market interest rates is reflected in Regions average interest rate paid on interest-bearing deposits. The rate paid on interest-bearing deposits decreased to 1.04 percent in 2010 from 1.73 percent in 2009, driven by the expiration of time deposits, the positive mix shift to lower customer products, and continuation of the low interest rate environment throughout 2010. Table 15 Maturity of Time Deposits of $100,000 or More presents maturities of time deposits of $100,000 or more at December 31, 2010 and 2009.

Table 15 Maturity of Time Deposits of $100,000 or More

	2010	2009
	(In millions)	
Time deposits of $100,000 or more, maturing in:		
3 months or less	$ 1,878	$ 3,521
Over 3 through 6 months	1,396	1,332
Over 6 through 12 months	1,898	2,442
Over 12 months	3,679	5,349
	$ 8,851	$ 12,644

SHORT-TERM BORROWINGS

See Note 11 Short-Term Borrowings to the consolidated financial statements for a summary of these borrowings at December 31, 2010 and 2009.

COMPANY FUNDING SOURCES

Federal funds purchased and securities sold under agreements to repurchase used for funding purposes totaled $782 million at December 31, 2010, compared to $478 million at year-end 2009. The level of Federal funds purchased and securities sold under agreements to repurchase can fluctuate significantly on a day-to-day basis, depending on funding requirements and which sources of funds are used to satisfy those needs. All such arrangements are considered typical of the banking and brokerage industries and are accounted for as borrowings.

As another source of funding, the Company utilized short-term borrowings through the issuance of FHLB advances. FHLB borrowings are used to satisfy short-term and long-term borrowing needs and can also fluctuate between periods. Short-term FHLB borrowings totaled $500 million at December 31, 2010 compared to $1.0 billion at December 31, 2009. The Company continues to utilize FHLB borrowings as a means to reduce overnight funding and diversify into slightly longer-term maturities at preferable rates. See Note 12 Long-Term Borrowings , to the consolidated financial statements for further discussion of Regions borrowing capacity with the FHLB.

As of December 31, 2010, Regions had $118 million outstanding in the Federal Reserve s Treasury, Tax, and Loan Program, compared to $7 million at December 31, 2009. At December 31, 2010, Regions could borrow a maximum of approximately $16.6 billion from the Federal Reserve Bank Discount Window. See Note 4 Loans to the consolidated financial statements for further detail and discussion of loans pledged to the Federal Reserve Bank at December 31, 2010 and 2009.

Other short-term borrowings totaled $95 million at December 31, 2010 compared to $0 at December 31, 2009. This balance includes certain lines of credit that Morgan Keegan maintains with unaffiliated banks. The lines of credit provided for maximum borrowings of $640 million at December 31, 2010 and $585 million December 31, 2009.

During 2008, Regions was an active participant in the Federal Reserve s Term Auction Facility (TAF) program, which was designed to address pressures in short-term funding markets, Regions continued to participate in TAF in the first half of 2009 but completely exited the program in July of 2009.

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Table 16 Selected Short-Term Borrowings Data provides selected information for certain short-term borrowings used for funding purposes for years 2010, 2009, and 2008. In past years, data for Federal funds purchased and securities sold under agreements to repurchase for both company-funding purposes and customer-related borrowings was presented in the aggregate. Prior year amounts in Table 16 have been revised to conform to current year presentation.

Table 16 Selected Short-Term Borrowings Data

	2010	2009	2008
		(Dollars in millions)	
Federal funds purchased:			
Balance at year end	$ 19	$ 30	$ 35
Average outstanding (based on average daily balances)	68	441	3,384
Maximum amount outstanding at any month-end	106	2,011	5,583
Weighted-average interest rate at year end	0.1%	0.1%	0.1%
Weighted-average interest rate on amounts outstanding during the year (based on average daily balances)	0.1%	0.2%	2.7%
Securities sold under agreements to repurchase:			
Balance at year end	$ 763	$ 448	$ 428
Average outstanding (based on average daily balances)	456	724	803
Maximum amount outstanding at any month-end	1,151	1,445	1,107
Weighted-average interest rate at year end	0.3%	0.4%	1.9%
Weighted-average interest rate on amounts outstanding during the year (based on average daily balances)	0.2%	0.9%	2.8%
Term Auction Facility:			
Balance at year end	$	$	$ 10,000
Average outstanding (based on average daily balances)		3,003	5,925
Maximum amount outstanding at any month-end		10,000	13,000
Weighted-average interest rate at year end	%	%	1.1%
Weighted-average interest rate on amounts outstanding during the year (based on average daily balances)	%	0.3%	2.0%

CUSTOMER-RELATED BORROWINGS

Repurchase agreements are also offered as commercial banking products as short-term investment opportunities for customers. The balance totaled $1.9 billion at December 31, 2010 compared to $1.4 billion at December 31, 2009. The level of these borrowings can fluctuate significantly on a day-to-day basis.

Regions, through Morgan Keegan, maintains two types of liabilities for its brokerage customers that are classified as short-term borrowings since Morgan Keegan pays its customers interest related to these liabilities. The brokerage customer position liability represents liquid funds in the customers brokerage accounts. The short-sale liability represents trading obligations to deliver to customers securities at a predetermined date and price. Balances due to brokerage customers totaled $324 million at December 31, 2010 as compared to $424 million at December 31, 2009. The short-sale liability was $174 million at December 31, 2010 compared to $266 million at December 31, 2009. The balance of these liabilities fluctuates frequently based on customer activity.

Customer collateral decreased $68 million to $10 million at December 31, 2010 from $78 million at December 31, 2009. This balance includes cash collateral posted by customers related to derivative transactions by swap customers of Morgan Keegan.

LONG-TERM BORROWINGS

Regions long-term borrowings consist primarily of FHLB borrowings, subordinated notes, senior notes and other long-term notes payable. Total long-term borrowings decreased $5.3 billion to $13.2 billion at December 31, 2010. See Note 12 Long-Term Borrowings to the consolidated financial statements for further discussion and detailed listing of outstandings and rates.

Membership in the FHLB system provides access to a source of lower-cost funds. As of December 31, 2010, Regions had total long-term FHLB advances of $3.7 billion, compared to $7.4 billion at December 31, 2009. During 2010, Regions prepaid approximately $2 billion of FHLB advances, realizing $108 million in pre-tax losses on early extinguishment. These extinguishments were part of the company s asset/liability management process. The remaining decrease between years was due to maturities. Long-term FHLB structured advances have stated maturities during 2011, but are convertible quarterly at the option of the FHLB. The convertible feature provides that after a specified date in the future, the advances will remain at a fixed rate, or Regions will have the option to either pay off the advance or convert from a fixed rate to a variable rate based on the LIBOR index. The FHLB structured advances had a weighted-average interest rate of 2.5% at December 31, 2010 and 3.1% at December 31, 2009. Other FHLB advances at December 31, 2010, 2009 and 2008 had a weighted-average interest rate of 1.0%, 3.4% and 3.8%, respectively, with maturities of one to nineteen years. FHLB borrowings are contingent upon the amount of collateral pledged to the FHLB. Regions has pledged certain residential first mortgage loans on one-to-four family dwellings and home equity lines of credit as collateral for the FHLB advances outstanding. See Note 4 Loans to the consolidated financial statements for loans pledged to the FHLB at December 31, 2010 and 2009. Additionally, membership in the FHLB requires an institution to hold FHLB stock, and Regions held $419 million at December 31, 2010 and $473 million at December 31, 2009. Regions borrowing availability with the FHLB as of December 31, 2010, based on assets available for collateral at that date, was $1.2 billion.

As of December 31, 2010, Regions had outstanding subordinated notes totaling $4.3 billion, essentially unchanged from December 31, 2009. Regions subordinated notes consist of ten issues with interest rates ranging from 4.85% to 7.75%. All issuances of these notes are, by definition, subordinated and subject in right of payment of both principal and interest to the prior payment in full of all senior indebtedness of the Company, which is generally defined as all indebtedness and other obligations of the Company to its creditors, except subordinated indebtedness. Payment of the principal of the notes may be accelerated only in the case of certain events involving bankruptcy, insolvency proceedings or reorganization of the Company. The subordinated notes described above qualify as Tier 2 capital under Federal Reserve guidelines. None of the subordinated notes are redeemable prior to maturity.

In October 2008, the FDIC announced a new program the Temporary Liquidity Guarantee Program (TLGP) to strengthen confidence and encourage liquidity in the banking system by guaranteeing newly issued senior unsecured debt of banks, thrifts and certain holding companies, and by providing full coverage of non-interest bearing deposit transaction accounts, regardless of dollar amount. Under the original rules, certain newly issued senior unsecured debt with maturities greater than 30 days issued on or before June 30, 2009, would be backed by the full faith and credit of the U.S. government through June 30, 2012. The FDIC s payment obligation under the guarantee for eligible senior unsecured debt would be triggered by a payment default. The guarantee is limited to 125 percent of senior unsecured debt as of September 30, 2008 that was scheduled to mature before June 30, 2009. This includes Federal funds purchased, promissory notes, commercial paper and certain types of inter-bank funding. Participants were charged a 50-100 basis point fee to protect their new debt issues which varies depending on the maturity date. Additionally, participants could elect to pay a fee of 37.5 basis points on their TLGP capacity for the right to issue non-guaranteed debt during the program. This fee was non-refundable and used to offset the guarantee fee for issuances until exhausted. In December 2008, Regions Bank completed an offering of $3.75 billion of qualifying senior bank notes covered by the TLGP. Payment of principal and interest on the notes will be guaranteed by the full faith and credit of the United States pursuant to the TLGP. At December 31, 2010, approximately $2 billion of this offering remained outstanding and will mature in December 2011.

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As of December 31, 2010, Regions had senior debt and bank notes totaling $3.8 billion, compared to $5.3 billion at December 31, 2009. In June 2010 and December 2010, approximately $250 million and $2 billion of senior notes, respectively, matured. During 2010, Regions issued $250 million (par value) of 4.875 percent senior notes due April 2013 and $500 million (par value) of 5.75 percent senior notes due June 2015.

At December 31, 2010 and 2009, Regions had $843 million of junior subordinated notes (JSNs) bearing interest rates ranging from 6.625 percent to 8.875 percent. JSNs were issued to affiliated trusts, which contemporaneously issued trust preferred securities which Regions guaranteed.

Other long-term debt was $383 million at December 31, 2010 and $454 million at December 31, 2009, and had weighted-average interest rates of 2.6% and 2.9%, respectively, and a weighted-average maturity of 5.1 years and 5.3 years, respectively. As of December 31, 2010, Regions has $55 million included in other long-term debt in connection with a seller-lessee transaction with continuing involvement compared to $59 million as of December 31, 2009. Approximately $200 million related to term repurchase agreements is also included in other long-term debt at both December 31, 2010 and 2009. These arrangements are considered typical of the banking industry and are accounted for as borrowings.

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

Regions Bank Note program allows Regions Bank to issue up to $20 billion aggregate principal amount of bank notes outstanding at any one time. No issuances have been made under this program as of December 31, 2010. Notes issued under the program may be senior notes with maturities from 30 days to 15 years and subordinated notes with maturities from 5 years to 30 years. These notes are not deposits and they are not insured or guaranteed by the FDIC.

Regions borrowing availability with the Federal Reserve Bank Discount Window as of December 31, 2010, based on assets available for collateral at that date, was $16.6 billion.

Regions may, from time to time, consider opportunistically retiring its outstanding issued securities, including subordinated debt, trust preferred securities and preferred shares in privately negotiated or open market transactions for cash or common shares.

RATINGS

During 2010, Regions experienced rating actions by Standard & Poor s Corporation (S&P), Moody s Investors Service, Fitch Ratings and Dominion Bond Rating Service (DBRS). The agencies downgraded obligations of Regions Financial Corporation and Regions Bank. In general, ratings agencies base their ratings on many quantitative and qualitative factors, including capital adequacy, liquidity, asset quality, business mix, probability of government support, and level and quality of earnings. Any downgrade in credit ratings by one or more ratings agencies may impact Regions in several ways, including, but not limited to, Regions access to the capital markets or short-term funding, borrowing cost and capacity, collateral requirements, acceptability of its letters of credit, funding of variable rate demand notes (VRDNs), as well as FDIC insurance costs, thereby potentially adversely impacting Regions financial condition and liquidity.

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Table 17 Credit Ratings reflects the debt ratings information of Regions Financial Corporation and Regions Bank by S&P, Moody s Investors Service, Fitch Ratings and DBRS at December 31, 2010 and 2009.

Table 17 Credit Ratings

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

* Not Prime

	As of December 31, 2009			
	Standard & Poor s	Moody s	Fitch	DBRS
Regions Financial Corporation				
Senior notes	BBB	Baa3	BBB+	AL
Subordinated notes	BBB-	Ba1	BBB	BBBH
Junior subordinated notes	BB	Ba2	BBB-	BBBH
Regions Bank				
Short-term debt	A-2	P-2	F2	R-1L
Long-term bank deposits	BBB+	Baa1	A-	A
Long-term debt	BBB+	Baa1	BBB+	A
Subordinated debt	BBB	Baa2	BBB	AL

On November 1, 2010, Moody s Investors Service downgraded the ratings of 10 large U.S. regional banks, including Regions, after reducing its government support assumptions for these entities. The rationale for the downgrades reflects Moody s view that the likelihood of government support for these institutions is lower now that the U.S. Banking system has moved beyond the financial crisis. Shortly following the downgrade by Moody s, Regions Financial Corporation and Regions Bank received downgrades from each of the other ratings agencies, citing concerns regarding Regions credit quality, specifically commercial real estate loan exposures and unfavorable geographic concentrations, and the related implications for its capital, as the primary determinants of the ratings actions.

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

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

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STOCKHOLDERS EQUITY

Stockholders equity decreased to $16.7 billion at year-end 2010 versus $17.9 billion at year-end 2009. In 2010, net losses reduced stockholders equity by $539 million, cash dividends declared reduced stockholders equity by $49 million for common stock and $187 million for preferred stock, and changes in accumulated other comprehensive income decreased equity by $390 million.

On May 7, 2009, the final results of the Federal Reserve s Supervisory Capital Assessment Program (SCAP) were released requiring Regions to submit a capital plan to its regulators detailing the steps to be utilized to increase total Tier 1 common equity by $2.5 billion, of which at least $0.4 billion had to be new Tier 1 equity (see Table 2 GAAP to Non-GAAP Reconciliation and Table 18 Capital Ratios for further discussion).

The Company s public equity offering of common stock, announced May 20, 2009, resulted in the issuance of 460 million shares at $4 per share, generating proceeds of approximately $1.8 billion, net of issuance costs.

The Company also issued 287,500 shares of mandatory convertible preferred stock, Series B (Series B shares), generating net proceeds of approximately $278 million. Accrued dividends on the Series B shares reduced retained earnings by $12 million and $19 million during 2010 and 2009, respectively. In November 2009, a single investor converted approximately 20,000 Series B shares to common shares as allowed under the original transaction documents. On June 18, 2010, as allowed by the terms of the Series B shares, Regions initiated an early conversion of all of the remaining outstanding Series B shares. Dividends accrued and unpaid at the conversion date were settled through issuance of common shares in accordance with the original document. No Series B shares were outstanding at December 31, 2010. Approximately 63 million common shares were issued in the conversion and dividend settlement.

In addition to the offerings mentioned above, in 2009 the Company also exchanged approximately 33 million common shares for $202 million of outstanding 6.625 percent trust preferred securities issued by Regions Financing Trust II (the Trust). The trust preferred securities were exchanged for junior subordinated notes issued by the Company to the Trust. The Company recognized a pre-tax gain of approximately $61 million on the extinguishment of the junior subordinated notes. The increase in shareholders equity related to the debt for common share exchange was approximately $135 million, net of issuance costs.

These public offerings along with other capital raising efforts resulted in Regions fully meeting the Tier 1 common equity capital and exceeding the Tier 1 capital requirements prescribed by the SCAP (see Table 2 GAAP to Non-GAAP Reconciliation for further discussion).

At December 31, 2010, Regions had 23.1 million common shares available for repurchase through open market transactions under an existing share repurchase authorization. There were no treasury stock purchases through open market transactions during 2010 or 2009. The Company s ability to repurchase its common stock is limited by the terms of the Purchase Agreement between Regions and the U.S. Treasury entered into on November 14, 2008, pursuant to the U.S. Treasury s Capital Purchase Program (CPP). See Part II, Item 5 (Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities) for more information.

Regions ratio of stockholders equity to total assets was 12.6 percent at both December 31, 2010 and December 31, 2009. Regions ratio of tangible common stockholders equity (stockholders equity less goodwill and other identifiable intangibles and the related deferred tax liability) to total tangible assets was 6.04 percent at December 31, 2010 compared to 6.22 percent at December 31, 2009 (see Table 2 GAAP to Non-GAAP Reconciliation for further discussion). The decrease between years was a result of the change in accumulated other comprehensive income and the reduction in tangible assets.

In 2010, Regions decreased its annual dividend to $0.04 per common share, compared to $0.13 in 2009 and $0.96 in 2008. Regions does not expect to increase its quarterly dividend above $0.01 per common share for the foreseeable future.

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BANK REGULATORY CAPITAL REQUIREMENTS

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

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

The minimum standard for the ratio of total capital to risk-weighted assets is 8 percent. At least 50 percent of that capital level must consist of common equity, undivided profits and non-cumulative perpetual preferred stock, senior perpetual preferred stock issued to the U.S. Treasury under the CPP, minority interests relating to qualifying common or noncumulative perpetual preferred stock issued by a consolidated U.S. depository institution or foreign bank subsidiary, less goodwill and certain other intangibles (Tier 1 capital). The remainder (Tier 2 capital) may consist of a limited amount of other preferred stock, mandatorily convertible securities, subordinated debt, and a limited amount of the allowance for loan losses. The sum of Tier 1 capital and Tier 2 capital is total risk-based capital or total capital. However, under the Collins Amendment, which was passed as a section of the Dodd-Frank Act, trust preferred securities will be eliminated as an element of Tier 1 capital. This disallowance of trust preferred securities will be phased in from January 1, 2013 to January 1, 2016. Debt or equity instruments issued to the Federal government as part of the CPP are exempt from the Collins Amendment. As of December 31, 2010, Regions has $846 million of trust preferred securities that are subject to the Collins Amendment and $3.5 billion of preferred equity that is exempt from the Collins Amendment.

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

In connection with the SCAP, banking regulators began supplementing their assessment of the capital adequacy of a bank based on a variation of Tier 1 capital, known as Tier 1 common equity. While not codified, analysts and banking regulators have assessed Regions capital adequacy using the tangible common stockholders equity and/or the Tier 1 common equity measure. Because tangible common stockholders equity and Tier 1 common equity are not formally defined by GAAP or codified in the federal banking regulations, these measures are considered to be non-GAAP financial measures and other entities may calculate them differently than Regions disclosed calculations (see Table 2 GAAP to Non-GAAP Reconciliation for further details).

Regions Tier 1 common and Tier 1 capital ratios were 7.85 percent and 12.40 percent as of December 31, 2010. Regions is evaluating the anticipated impact of Basel III, which will begin in 2013 and is expected to be fully phased-in on January 1, 2019 . The Company s pro forma Tier 1 common and Tier 1 capital ratios, based on Regions current understanding of the guidelines, are approximately 7.62 and 11.35 percent, above the Basel III minimums of 7 percent for Tier 1 common and 8.5 percent for Tier 1 capital. Regions also expects to meet the Basel III liquidity coverage ratio in its current form. However, there is still need for clarification of the Basel III rules as well as interpretation and implementation by U.S. banking regulators, so the ultimate impact on Regions is not completely known at this point. See the Supervision and Regulation Capital Requirements subsection of the Business section and the Risk Factors section of this Annual Report on Form 10-K for more information.

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The following chart summarizes the applicable bank regulatory capital requirements. Regions capital ratios at December 31, 2010 and December 31, 2009 substantially exceeded all regulatory requirements.

Table 18 Capital Ratios

	2010	2009
	(Dollars in millions)	
Risk-based capital:		
Stockholders equity (GAAP)	$ 16,734	$ 17,881
Accumulated other comprehensive (income) loss	260	(130)
Non-qualifying goodwill and intangibles	(5,706)	(5,792)
Disallowed deferred tax assets(1)	(424)	(947)
Disallowed servicing assets	(27)	(25)
Qualifying non-controlling interests	92	91
Qualifying trust preferred securities	846	846
Tier 1 capital	11,775	11,924
Qualifying subordinated debt	2,418	2,907
Adjusted allowance for loan losses(2)	1,213	1,316
Other	121	155
Tier 2 capital	3,752	4,378
Total capital	$ 15,527	$ 16,302
Risk-weighted assets (regulatory)	$ 94,966	$ 103,330
Capital ratios:		
Tier 1 common risk-based ratio (non-GAAP)	7.85%	7.15%
Tier 1 capital to total risk-weighted assets	12.40	11.54
Total capital to total risk-weighted assets	16.35	15.78
Leverage	9.30	8.90
Stockholders equity to total assets	12.64	12.56
Common stockholders equity to total assets	10.09	10.03
Tangible common equity to tangible assets (non-GAAP)(3)	6.04	6.22

(1) Only one year of projected future taxable income may be applied in calculating deferred tax assets for regulatory capital purposes.
(2) Includes $119 million and $128 million in 2010 and 2009, respectively, associated with reserves recorded for off-balance sheet credit exposures, including derivatives.
(3) Beginning in 2010, tangible ratios are computed net of deferred taxes associated with intangible assets. Prior periods have been revised to conform with current presentation.

See Note 13 Regulatory Capital Requirements and Restrictions to the consolidated financial statements for further details. As of December 31, 2010, Regions Bank had the requisite capital levels to qualify as well capitalized.

OFF-BALANCE SHEET ARRANGEMENTS

Regions has certain variable interests in unconsolidated variable interest entities (i.e., Regions is not the primary beneficiary). Regions owns the common stock of subsidiary business trusts, which have issued mandatorily redeemable preferred capital securities (trust preferred securities) in the aggregate of $1 billion at the time of issuance. These trusts meet the definition of a variable interest entity of which Regions is not the primary beneficiary; the trusts only assets are junior subordinated debentures issued by Regions, which were acquired by the trusts using the proceeds from the issuance of the trust preferred securities and common stock. The junior subordinated debentures are included in long-term borrowings (see Note 12 Long-Term Borrowings

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to the consolidated financial statements) and Regions equity interests in the business trusts are included in other assets. For regulatory reporting and capital adequacy purposes, the Federal Reserve Board has indicated that such trust preferred securities will continue to constitute Tier 1 capital. Additional discussion regarding the status of capital treatment for these instruments is included in the Supervision and Regulation Capital Requirements section of Item 1 of this Annual Report on Form 10-K.

Also, Regions periodically invests in various limited partnerships that sponsor affordable housing projects, which are funded through a combination of debt and equity. Regions maximum exposure to loss as of December 31, 2010 was $893 million, which included $196 million in unfunded commitments to the partnerships. Additionally, Regions has short-term construction loans or letters of credit commitments with the partnerships totaling $213 million as of December 31, 2010. The funded portion of these loans and letters of credit was $61 million at December 31, 2010. The funded portion is included with loans on the consolidated balance sheets. See Note 2 Variable Interest Entities to the consolidated financial statements for further discussion.

EFFECTS OF INFLATION

The majority of assets and liabilities of a financial institution are monetary in nature; therefore, a financial institution differs greatly from most commercial and industrial companies, which have significant investments in fixed assets or inventories that are greatly impacted by inflation. However, inflation does have an important impact on the growth of total assets in the banking industry and the resulting need to increase equity capital at higher than normal rates in order to maintain an appropriate equity-to-assets ratio. Inflation also affects other expenses that tend to rise during periods of general inflation.

Management believes the most significant potential impact of inflation on financial results is a direct result of Regions ability to manage the impact of changes in interest rates. Management attempts to maintain an essentially balanced position between rate-sensitive assets and liabilities in order to minimize the impact of interest rate fluctuations on net interest income. However, this goal can be difficult to completely achieve in times of rapidly changing rate structure and is one of many factors considered in determining the company s interest rate positioning. The Company is asset sensitive as of December 31, 2010. Refer to Table 19 Interest Rate Sensitivity for additional details on Regions interest rate sensitivity.

EFFECTS OF DEFLATION

A period of deflation would affect all industries, including financial institutions. Potentially, deflation could lead to lower profits, higher unemployment, lower production and deterioration in overall economic conditions. In addition, deflation could depress economic activity and impair bank earnings through increasing the value of debt while decreasing the value of collateral for loans. If the economy experienced a severe period of deflation, then it could depress loan demand, impair the ability of borrowers to repay loans and sharply reduce bank earnings.

Management believes the most significant potential impact of deflation on financial results is a direct result of Regions ability to maintain a high amount of capital to cushion against future losses. In addition, the Company can utilize certain risk management tools to help the bank maintain its balance sheet strength even if a deflationary scenario were to develop.

RISK MANAGEMENT

Risk identification and risk management are key elements in the overall management of Regions. Management believes the primary risk exposures are market risk, liquidity risk, counterparty risk and credit risk. Market risk is the price and earnings variability (mainly reductions) arising from adverse changes in 1) the fair values of financial instruments due to changes in interest rates, exchange rates, commodity prices, equity prices or the credit quality of debt securities and/or 2) the impact to net interest income based on changes in interest rates and the associated impact on prepayments. Regions market risk is made up of three components: interest rate risk, prepayment risk, and capital markets and brokerage-related risks (primarily associated with Morgan Keegan). Interest rate risk is the risk to net interest income due to the impact of movements in interest rates. Prepayment risk is the risk that borrowers may repay their loans or other debt earlier than at their stated maturities. The Company, primarily through Morgan Keegan, is also subject to various market-related risks associated with its brokerage and market-related activities. Liquidity risk relates to Regions ability to fund present and future obligations. Counterparty risk represents the risk that a counterparty will not comply with its contractual obligations. Credit risk represents the risk that parties indebted to Regions fail to perform as contractually obligated. Regions primary credit risk arises from the possibility that borrowers may not be able to repay loans, and to a lesser extent, the failure of securities issuers and counterparties to perform as contractually required.

Management follows a formal policy to evaluate and document the key risks facing each line of business, how those risks can be controlled or mitigated, and how management monitors the controls to ensure that they are effective. Separate from risk acceptance, there is an independent risk assessment and reporting program. To ensure that risks within the company are presented and appropriately addressed, the Board has designated a Risk Committee of outside directors. The Risk Committee s focus is on Regions overall risk profile and the committee receives reports from the Company quarterly. Additionally, Regions Internal Audit Division performs ongoing, independent reviews of the risk management process which are reported to the Audit Committee of the Board of Directors.

Some of the more significant processes used to manage and control these and other risks are described in the remainder of this report. External factors beyond management s control may result in losses despite risk management efforts.

MARKET RISK INTEREST RATE RISK

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

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

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

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

Exposure to Interest Rate Movements As of December 31, 2010, Regions was moderately asset sensitive to both gradual and instantaneous rate shifts as compared to the base case for the measurement horizon ending in December 2011. Regions continues to observe that the pace of economic recovery is at risk of being slow, which may result in a continuation of this period of low interest rates. To partially offset the adverse impact on net interest income and net interest margin attributable to an extended period of low interest rates, Regions entered into a series of receive-fixed interest rate swaps. These instruments have a final maturity in December 2012. The table below summarizes Regions position, and the scenarios are inclusive of all interest-rate risk hedging activities. Note that where scenarios would indicate negative interest rates, a minimum of zero is applied.

Table 19 Interest Rate Sensitivity

Gradual Change in Interest Rates	**Estimated Annual Change in Net Interest Income December 31, 2010 (In millions)**	
+200 basis points	$	168
+100 basis points		100
-100 basis points		(65)
Instantaneous Change in Interest Rates		
+200 basis points	$	225
+100 basis points		146
-100 basis points		(133)

Interest rate movements may also have an impact on the value of Regions securities portfolio, which can directly impact the carrying value of shareholders equity. Regions from time to time may hedge these price movements with derivatives (as discussed below). However, at December 31, 2010, Regions had no designations of hedges to mitigate price movements of securities.

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

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

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

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

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

The primary objective of Regions hedging strategies is to mitigate the impact of interest rate changes, from an economic perspective, on net interest income and the net present value of its balance sheet. The overall effectiveness of these hedging strategies is subject to market conditions, the quality of Regions execution, the accuracy of its valuation assumptions, counterparty credit risk and changes in interest rates. As a result, Regions hedging strategies may be ineffective in mitigating the impact of interest rate changes on its earnings. See Note 20 Derivative Financial Instruments and Hedging Activities to the consolidated financial statements for a tabular summary of Regions year-end derivatives positions and further discussion.

On January 1, 2009, Regions began accounting for mortgage servicing rights at fair market value with any changes to fair value being recorded within mortgage income. Also, in early 2009, Regions entered into derivative and balance sheet transactions to mitigate the impact of market value fluctuations related to mortgage servicing rights. Derivative instruments entered in the future could be materially different from the current risk profile of Regions current portfolio.

MARKET RISK PREPAYMENT RISK

Regions, like most financial institutions, is subject to changing prepayment speeds on mortgage-related assets under different interest rate environments. Prepayment risk is a significant risk to earnings and specifically to net interest income. For example, mortgage loans and other financial assets may be prepaid by a debtor, so that the debtor may refinance its obligations at lower rates. As loans and other financial assets prepay in a falling rate environment, Regions must reinvest these funds in lower-yielding assets. Prepayments of assets carrying higher rates reduce Regions interest income and overall asset yields. Conversely, in a rising rate environment, these assets will prepay at a slower rate, resulting in opportunity cost by not having the cash flow to reinvest at higher rates. Prepayment risk can also impact the value of securities and the carrying value of equity. Regions greatest exposures to prepayment risks primarily rest in its mortgage-backed securities portfolio, the mortgage fixed-rate loan portfolio and the mortgage servicing asset, all of which tend to be sensitive to interest rate movements. Prepayments on mortgage-backed securities increased during 2010 due to the favorable mortgage interest rate environment that existed for the majority of the year. However, tighter lending standards, decreased home prices, and lingering uncertainty surrounding the economic environment restrained otherwise higher prepayment speeds. Regions also has prepayment risk that would be reflected in non-interest income in the form of servicing income on loans sold. Regions actively monitors prepayment exposure as part of its overall net interest income forecasting and interest rate risk management. In particular, because interest rates are currently relatively low, Regions is actively managing exposure to declining prepayments that are expected to coincide with increasing interest rates in both the loan and securities portfolios.

MARKET RISK BROKERAGE AND OTHER MARKET ACTIVITY RISK

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

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

Morgan Keegan trades for its own account in corporate and tax-exempt securities and U.S. Government agency and Government-sponsored securities. Most of these transactions are entered into to facilitate the execution of customers orders to buy or sell these securities. In addition, it trades certain equity securities in order to make a market in these securities. Morgan Keegan s trading activities require the commitment of capital. All principal transactions place the subsidiary s capital at risk. Profits and losses are dependent upon the skills of employees and market fluctuations. In order to mitigate the risks of carrying inventory and as part of other normal brokerage activities, Morgan Keegan assumes short positions on securities.

In the normal course of business, Morgan Keegan enters into underwriting and forward and future commitments. At December 31, 2010, the notional amount of forward commitments was approximately $312 million. Morgan Keegan typically settles its position by entering into equal but opposite contracts and, as such, the contract amounts do not necessarily represent future cash requirements. Settlement of the transactions relating to such commitments is not expected to have a material effect on Regions consolidated financial position. Transactions involving future settlement give rise to market risk, which represents the potential gain or loss that can be caused by a change in the market value of a particular financial instrument. Regions exposure to market risk is determined by a number of factors, including the size, composition and diversification of positions held, the absolute and relative levels of interest rates, and market volatility.

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

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Interest rate risk at Morgan Keegan arises from the exposure of holding interest-sensitive financial instruments such as government, corporate and municipal bonds, and certain preferred equities. Morgan Keegan manages its exposure to interest rate risk by setting and monitoring limits and, where feasible, entering into offsetting positions in securities with similar interest rate risk characteristics. Securities inventories recorded in trading account assets on the consolidated balance sheets, are marked to market, and, accordingly, there are no unrecorded gains or losses in value. While a significant portion of the securities inventories have contractual maturities in excess of five years, these inventories, on average, turn over in excess of twelve times per year. Accordingly, the exposure to interest rate risk inherent in Morgan Keegan s securities inventories is less than that of similar financial instruments held by firms in other industries. Morgan Keegan s equity securities inventories are exposed to risk of loss in the event of unfavorable price movements. Also, Morgan Keegan is subject to credit risk arising from non-performance by trading counterparties, customers and issuers of debt securities owned. This risk is managed by imposing and monitoring position limits, monitoring trading counterparties, reviewing security concentrations, holding and marking to market collateral, and conducting business through clearing organizations that guarantee performance. Morgan Keegan regularly participates in the trading of some derivative securities for its customers; however, this activity does not involve Morgan Keegan acquiring a significant position or commitment in these products and this trading is not a significant portion of Morgan Keegan s business.

Morgan Keegan has been an underwriter and dealer in auction rate securities. See Note 23 Commitments, Contingencies and Guarantees to the consolidated financial statements for more details regarding regulatory action related to Morgan Keegan auction rate securities. As of December 31, 2010, customers of Morgan Keegan owned approximately $54 million of auction rate securities, and Morgan Keegan held approximately $161 million of auction rate securities on the balance sheet.

To manage trading risks arising from interest rate and equity price risks, Regions uses a Value at Risk (VAR) model along with other risk management methods to measure the potential fair value the Company could lose on its trading positions given a specified statistical confidence level and time-to-liquidate time horizon. The end-of-period VAR was approximately $805 thousand at December 31, 2010 and $1 million at December 31, 2009. Maximum daily VAR utilization during 2010 was $2 million and average daily VAR during the same period was $3 million.

LIQUIDITY RISK

Liquidity is an important factor in the financial condition of Regions and affects Regions ability to meet the borrowing needs and deposit withdrawal requirements of its customers. Table 20 Contractual Obligations summarizes Regions contractual cash obligations at December 31, 2010. Regions intends to fund obligations primarily through cash generated from normal operations. In addition to these obligations, Regions has obligations related to potential litigation contingencies (see Note 23 Commitments, Contingencies and Guarantees to the consolidated financial statements for additional discussion of the Company s funding requirements).

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

In order to ensure an appropriate level of liquidity is maintained, Regions performs specific procedures including scenario analyses and stress testing at the bank, holding company and affiliate levels. Regions policy is to maintain a sufficient level of funding to meet projected cash needs, including all debt service, dividends, and maturities, for the subsequent two years at the parent company and acceptable periods for the bank and other affiliates. The Company s funding and contingency planning does not currently include any reliance on

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unsecured sources. However, Regions has continued to test those markets and has entered them only when opportunistic borrowing is available. Regions has chosen to focus on using short-term secured sources of funding.

Table 20 Contractual Obligations

Payments Due By Period

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	Less than 1 Year					083
ferred uity 000,000 ass A ts), 11% K (10)				12/10/2014		3,3
mmon uity 000,000 ts) (10)				12/10/2014		572
						19,(
G althcare, C	Diagnostic Imaging Centers					
nior cured an (4)		11.49%	(L +9.00%)	3/1/2019	3/1/2024	12,
ferred uity (09 Class nits)) (13)				3/1/2019		2,3(
						12,

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued
March 31, 2019
(Dollar amounts in thousands)

Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
Total Affiliate Investments						97,610	120,199	117,431	67.3
Control Investment									
MTE Holding Corp. (4)	Travel Trailer and Camper Manufacturing								
Subordinated Loan (to Mirage Trailers, LLC, a controlled, consolidated subsidiary of MTE Holding Corp.)		14.10% cash / 1.5% PIK	(L +11.50%)	11/25/2015	11/25/2020	$7,323	$7,299	$7,322	4.2 %
Common Equity (554 shares)				11/25/2015			3,069	2,824	1.6
						7,323	10,368	10,146	5.8
Total Control Investment						7,323	10,368	10,146	5.8
Total Investments						$431,329	$454,361	$437,667	251.2%

(1) Equity ownership may be held in shares or units of companies affiliated with the portfolio company. The Company's investments are generally classified as "restricted securities" as such term is defined under Regulation S-X Rule 6-03(f) or Securities Act Rule 144.

(2) Substantially all of the investments that bear interest at a variable rate are indexed to LIBOR (L), and reset monthly, quarterly, or semi-annually. Variable-rate loans with an aggregate cost of $344,896 include LIBOR reference rate floor provisions of generally 1% to 2%; at March 31, 2019, the reference rate on all such instruments was above the stated floors. For each investment, the Company has provided the spread over the reference rate and current interest rate in effect at March 31, 2019. Unless otherwise noted, all investments with a stated PIK rate require interest payments with the issuance of additional securities as payment of the entire PIK provision.

(3) Fair value was determined using significant unobservable inputs for all of the Company's investments. See Note 5 for further details.

(4)

Investments (or portion thereof) held by SBIC I LP. All other investments pledged as collateral under the PWB Credit Facility.

(5) Elgin Fasteners Group became contractually due on August 27, 2018. The lending group entered into a forbearance agreement to extend the maturity through September 26, 2019. The investment shall continue to accrue interest as the borrower has continued to make interest and amortization payments.

(6) Investment was on non-accrual status as of March 31, 2019, meaning the Company has ceased recognizing all or a portion of income on the investment. See Note 4 for further details.

(7) Structured Finance Notes are considered CLO subordinated debt positions. CLO subordinated debt positions are entitled to recurring distributions which are generally equal to the remaining cash flow of payments made by underlying securities less contractual payments to debt holders and fund expenses.

(8) The Company has entered into a contractual arrangement with co lenders whereby, subject to certain conditions, it has agreed to receive its payment after the repayment of certain co lenders pursuant to a payment waterfall. The table below provides additional details as of March 31, 2019:

Portfolio Company	Reported Interest Rate	Interest Rate per Credit Agreement	Additional Interest per Annum
Carolina Lubes, Inc.	10.61%	10.05%	0.56%
Cenexel Clinical Holding (F/K/A JBR Clinical Research, Inc.)	10.61%	9.05%	1.56%
Chemical Resources Holdings, Inc.	10.88%	8.77%	2.11%
DRS Imaging Services, LLC	12.23%	10.80%	1.43%
OnSite Care, PLLC	10.34%	8.74%	1.60%

(9) The rate disclosed is an estimated effective yield based upon the current projection of the amount and timing of distributions in addition to the estimated amount and timing of terminal principal payments. Effective yields for the Company's Structured Finance Note investments are monitored and evaluated at each reporting date. The estimated yield and investment cost may ultimately not be realized.

(10) Non-income producing.

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued
March 31, 2019
(Dollar amounts in thousands)

(11)The interest rate on these investments contains a PIK provision, whereby the issuer has the option to make interest payments in cash or with the issuance of additional securities as payment of the entire PIK provision. The interest rate in the schedule represents the current interest rate in effect for these investments. The following table provides additional details on these PIK investments, including the maximum annual PIK interest rate allowed as of March 31, 2019:

Portfolio Company	Investment Type	Range of PIK Option	Range of Cash Option	Maximum PIK Rate Allowed
Community Intervention Services, Inc.	Subordinated Loan	0% or 6.00%	13.00% or 7.00%	6.00%
Eblens Holdings, Inc.	Subordinated Loan	0% or 1.00%	13.00% or 12.00%	1.00%
Master Cutlery, LLC	Senior Secured Loan	0% to 13.00%	13.00% to 0%	13.00%
TRS Services, LLC	Senior Secured Loan	0% or 1.00%	10.84% or 1.00%	1.00%

(12) Represents expiration date of the warrants.
(13) All or portion of investment held by a wholly-owned subsidiary subject to income tax.
(14) The PIK provision is reset at the beginning of each interest period equal to the excess of reference rate over the reference rate floor of 1.00%. The PIK interest rate in the schedule represents the current PIK interest rate in effect.
(15) Maximum interest rate allowable under the terms of this investment is 13.50%.
(16) Amortized cost reflects accretion of effective yield less any cash distributions received or entitled to be received from CLO Structured Finance Note investments.
(17) Maturity represents the contractual maturity date of the structured finance notes. Expected maturity and cash flows, not contractual maturity and cash flows, were utilized in deriving the effective yield of the investments.
(18) Commitment fee on undrawn funds.

See Notes to Consolidated Financial Statements.

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments
December 31, 2018
(Dollar amounts in thousands)

Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
Non-control/Non-affiliate Investments									
BayMark Health Services	Outpatient Mental Health and Substance Abuse Centers								
Senior Secured Loan		10.60%	(L +8.25%)	3/22/2018	3/1/2025	$ 4,000	$ 3,964	$ 3,933	2.2 %
Brookfield WEC Holdings Inc.,	Business to Business Electronic Markets								
Senior Secured Loan		9.27%	(L +6.75%)	12/6/2018	8/3/2026	1,959	1,959	1,914	1.1
Carolina Lubes, Inc. (4)	Automotive Oil Change and Lubrication Shops								
Senior Secured Loan (8)		10.24%	(L +7.82%)	8/23/2017	8/23/2022	20,840	20,705	20,839	11.9
Senior Secured Loan (Revolver) (7)		9.65%	(L +7.25%)	8/23/2017	8/23/2022	—	(11)	—	—
						20,840	20,694	20,839	11.9
Cirrus Medical Staffing, Inc. (4)	Temporary Help Services								
Senior Secured Loan		11.05%	(L +8.25%)	3/5/2018	10/19/2022	12,926	12,779	12,732	7.3
Senior Secured Loan (Revolver) (7)		11.05%	(L +8.25%)	3/5/2018	10/19/2022	1,280	1,280	1,261	0.7
						14,206	14,059	13,993	8.0
Community Intervention Services, Inc. (4) (6) (10) (11)	Outpatient Mental Health and Substance Abuse Centers								
Subordinated Loan		7.0% cash / 6.0% PIK	N/A	7/16/2015	1/16/2021	9,060	7,639	—	—

Confie Seguros Holdings II Co.	Insurance Agencies and Brokerages								
Senior Secured Loan		11.24%	(L +8.50%)	7/7/2015	11/1/2025	9,678	9,489	9,290	5.3
Constellis Holdings, LLC	Other Justice, Public Order, and Safety Activities								
Senior Secured Loan		11.52%	(L +9.00%)	4/28/2017	4/21/2025	9,950	9,832	9,437	5.4
Convergint Technologies	Security Systems Services (except Locksmiths)								
Senior Secured Loan		9.27%	(L +6.75%)	9/28/2018	2/2/2026	3,481	3,422	3,327	1.9

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued
December 31, 2018
(Dollar amounts in thousands)

Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
Davis Vision, Inc.	Direct Health and Medical Insurance Carriers								
Senior Secured Loan		9.28%	(L +6.75%)	7/17/2018	12/1/2025	$ 5,854	$ 5,700	$5,570	3.2 %
DuPage Medical Group	Offices of Physicians, Mental Health Specialists								
Senior Secured Loan		9.50%	(L +7.00%)	8/22/2017	8/15/2025	10,098	10,185	9,771	5.6
Eblens Holdings, Inc.	Shoe Store								
Subordinated Loan (11)		12.0% cash / 1.00% PIK	N/A	7/13/2017	1/13/2023	8,920	8,855	8,821	5
Common Equity (71,250 Class A units) (10)				7/13/2017			713	722	0.4
						8,920	9,568	9,543	5.4
Elgin Fasteners Group	Bolt, Nut, Screw, Rivet, and Washer Manufacturing								
Senior Secured Loan		9.30%	(L +6.50%)	10/31/2011	8/27/2018	3,645	3,645	3,509	2.0
Envocore Holding, LLC (FKA LRI Holding, LLC) (4)	Electrical Contractors and Other Wiring Installation Contractors								
Senior Secured Loan		12.05%	(L +9.25%)	6/30/2017	6/30/2022	17,344	17,212	16,821	9.6
Preferred Equity (238,095 Series B				6/30/2017			300	300	0.2

units) (10)									
Preferred Equity (13,315 Series C units) (10)				8/13/2018			13	13	—
						17,344	17,525	17,134	9.8
Excelin Home Health, LLC	Home Health Care Services								
Senior Secured Loan		12.31%	(L +9.50%)	10/25/2018	4/25/2024	4,250	4,168	4,168	2.4
GGC Aerospace Topco L.P.	Other Aircraft Parts and Auxiliary Equipment Manufacturing								
Senior Secured Loan		11.49%	(L +8.75%)	12/29/2017	9/8/2024	5,000	4,894	4,033	2.3
Common Equity (368,852 Class A units) (10)				12/29/2017			450	104	0.1
Common Equity (40,984 Class B units) (10)				12/29/2017			50	4	—
						5,000	5,394	4,141	2.4
GOBP Holdings, Inc.,	Supermarkets and Other Grocery (except Convenience) Stores								
Senior Secured Loan		10.05%	(L +7.25%)	10/17/2018	10/22/2026	1,400	1,386	1,349	0.8

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OFS Capital Corporation and Subsidiaries

Consolidated Schedule of Investments - Continued
December 31, 2018
(Dollar amounts in thousands)

Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
Hyland Software, Inc.	Software Publishers								
Senior Secured Loan		6.02%	(L +3.50%)	10/24/2018	7/1/2024	$ 173	$ 173	$ 166	0.1 %
Senior Secured Loan		9.52%	(L +7.00%)	10/24/2018	7/7/2025	2,601	2,620	2,534	1.4
						2,774	2,793	2,700	1.5
Inergex Holdings	Other Computer Related Services								
Senior Secured Loan		9.39%	(L +7.00%)	10/1/2018	10/1/2024	13,092	12,904	12,904	7.4
Senior Secured Loan (Revolver) (7)		0.50%		10/1/2018	10/1/2024	—	(27)	—	—
						13,092	12,877	12,904	7.4
JBR Clinical Research, Inc. (4) (8)	Research and Development in the Social Sciences and Humanities								
Senior Secured Loan		9.10%	(L +6.71%)	8/2/2018	8/2/2023	29,943	29,693	29,016	16.5
MAI Holdings, Inc. (4)	Printing Machinery and Equipment Manufacturing								
Senior Secured Loan		9.50%	N/A	6/21/2018	6/1/2023	5,000	5,000	4,841	2.8
My Alarm Center, LLC (4) (10) (13)	Security Systems Services (except Locksmiths)								
Preferred Equity (1,485 Class A units), 8% PIK				7/14/2017			1,571	1,536	0.9
Preferred Equity (1,198 Class B units)				7/14/2017			1,198	—	—
Preferred Equity (335				9/12/2018			325	1,038	0.6

Class Z units) 25% PIK Common Equity (64,149 units)				7/14/2017			—	—	—
							3,094	2,574	1.5
Online Tech Stores, LLC (4)	Stationery and Office Supplies Merchant Wholesalers								
Subordinated Loan		10.50% cash / 1.0% PIK	N/A	2/1/2018	8/1/2023	16,150	15,882	15,785	8.9
OnSite Care, PLLC (4) (8)	Home Health Care Services								
Senior Secured Loan		10.22%	(L +7.85%)	8/10/2018	8/10/2023	7,100	7,035	7,008	4.0
Parfums Holding Company, Inc.	Cosmetics, Beauty Supplies, and Perfume Stores								
Senior Secured Loan		11.56%	(L +8.75%)	11/16/2017	6/30/2025	6,320	6,334	6,292	3.6

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Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
Pelican Products, Inc.	Unlaminated Plastics Profile Shape Manufacturing								
Senior Secured Loan		10.13%	(L +7.75%)	9/24/2018	5/1/2026	$ 6,055	$ 6,060	$ 5,901	3.4 %
Performance Team LLC (4)	General Warehousing and Storage								
Senior Secured Loan		12.52%	(L +10.00%)	5/24/2018	11/24/2023	20,300	20,118	20,647	11.7
PM Acquisition LLC	All Other General Merchandise Stores								
Senior Secured Loan		11.50% cash / 2.50% PIK	N/A	9/30/2017	10/29/2021	5,512	5,431	5,217	3.0
Common Equity (499 units) (10) (13)				9/30/2017			499	137	0.1
						5,512	5,930	5,354	3.1
Resource Label Group, LLC	Commercial Printing (except Screen and Books)								
Senior Secured Loan		10.90%	(L +8.50%)	6/7/2017	11/26/2023	4,821	4,767	4,772	2.7
Rocket Software, Inc.	Software Publishers								
Senior Secured Loan		6.77%	(L +4.25%)	11/20/2018	11/19/2025	670	667	645	0.4
Senior Secured Loan		10.77%	(L +8.25%)	11/20/2018	11/19/2026	5,187	5,136	5,046	2.9
						5,857	5,803	5,691	3.3
RPLF Holdings, LLC	Software Publishers								

(10) (13) Common Equity (254,110 Class A units)				1/17/2018			254	291	0.2
Sentry Centers Holdings, LLC	Other Professional, Scientific, and Technical Services								
Senior Secured Loan (14)		13.50%	(L +11.50%)	1/25/2016	7/24/2020	8,855	8,802	8,753	5.0
Common Equity (5,000 Series C units) (10) (13)				3/31/2014		—	500	983	0.6
						8,855	9,302	9,736	5.6
Southern Technical Institute, LLC (4) (6) (10)	Colleges, Universities, and Professional Schools								
Subordinated Loan		6.00% PIK	N/A	6/27/2018	12/31/2021	1,517	—	—	—
Other				6/27/2018		—	—	—	—
						1,517	—	—	—

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OFS Capital Corporation and Subsidiaries

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Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
SSH Group Holdings, Inc.,	Child Day Care Services								
Senior Secured Loan		6.77%	(L +4.25%)	7/26/2018	7/30/2025	$ 982	$ 979	$ 920	0.5 %
Senior Secured Loan		10.77%	(L +8.25%)	7/26/2018	7/30/2026	7,216	7,147	6,839	3.9
						8,198	8,126	7,759	4.4
Stancor, L.P. (4) (10)	Pump and Pumping Equipment Manufacturing								
Preferred Equity (1,250,000 Class A units), 8% PIK				8/19/2014		—	1,501	1,416	0.8
STS Operating, Inc.	Industrial Machinery and Equipment Merchant Wholesalers								
Senior Secured Loan		6.77%	(L +4.25%)	5/16/2018	12/11/2024	638	637	602	0.3
Senior Secured Loan		10.52%	(L +8.00%)	5/15/2018	4/30/2026	9,073	9,069	8,484	4.8
						9,711	9,706	9,086	5.1
The Escape Game, LLC (4)									
Senior Secured Loan	Other amusement and recreation industries	11.27%	(L +8.75%)	12/22/2017	12/22/2022	7,000	6,958	6,855	3.9
Senior Secured Loan (Delayed Draw) (7)		11.22%	(L +8.75%)	7/20/2018	12/22/2022	3,733	3,733	3,656	2.1
						10,733	10,691	10,511	6.0
Truck Hero, Inc.	Truck Trailer Manufacturing								
Senior Secured Loan		10.76%	(L +8.25%)	5/30/2017	4/21/2025	7,014	6,977	6,808	3.9

United Biologics Holdings, LLC (4) (10)	Medical Laboratories								
Preferred Equity (151,787 units)				7/26/2012		—	9	20	—
Warrants (29,374 units)				7/26/2012	3/5/2022	—	82	25	—
						—	91	45	—
Wand Intermediate I LP	Automotive Body, Paint, and Interior Repair and Maintenance								
Senior Secured Loan		9.84%	(L +7.25%)	5/14/2018	9/19/2022	3,770	3,802	3,747	2.1
Wastebuilt Environmental Solutions, LLC.	Industrial Supplies Merchant Wholesalers								
Senior Secured Loan		11.27%	(L +8.75%)	10/11/2018	10/11/2024	7,000	6,858	6,858	3.9

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Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
Other							$ 900	$ 89	0.1 %
Total Non-control/Non-affiliate Investments						309,401	302,223	297,749	169.9
Affiliate Investments									
3rd Rock Gaming Holdings, LLC	Software Publishers								
Senior Secured Loan		10.30%	(L +7.50%)	3/13/2018	3/12/2023	21,626	21,353	20,023	11.4
Common Equity (2,547,250 units) (10) (13)				3/13/2018		—	2,547	1,073	0.6
						21,626	23,900	21,096	12.0
Contract Datascan Holdings, Inc. (4)	Office Machinery and Equipment Rental and Leasing								
Subordinated Loan		11.50%	N/A	8/5/2015	2/5/2021	8,000	7,990	8,000	4.6
Preferred Equity (3,061 Series A shares), 10% PIK				8/5/2015		—	4,944	6,652	3.8
Common Equity (11,273 shares) (10)				6/28/2016		—	104	2,313	1.3
						8,000	13,038	16,965	9.7
DRS Imaging Services, LLC	Data Processing, Hosting, and Related Services								
Senior Secured Loan (4) (8)		12.23%	(L +9.42%)	3/8/2018	11/20/2023	10,860	10,774	10,617	6.1
Common Equity (1,135 units) (10) (13)				3/8/2018		—	1,135	1,197	0.7
						10,860	11,909	11,814	6.8
Master Cutlery, LLC (4) (6) (10)	Sporting and Recreational Goods and Supplies Merchant								

	Wholesalers								
Subordinated Loan (11)		13.00% PIK	N/A	4/17/2015	4/17/2020	5,229	4,764	850	0.5
Preferred Equity (3,723 Series A units), 8% PIK				4/17/2015		—	3,483	—	—
Common Equity (15,564 units)				4/17/2015		—	—	—	—
						5,229	8,247	850	0.5
NeoSystems Corp. (4) (10)	Other Accounting Services								
Preferred Equity (521,962 convertible shares), 10% PIK				8/14/2014		—	1,537	2,250	1.3

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Consolidated Schedule of Investments - Continued
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Portfolio Company (1) Investment Type	Industry	Interest Rate (2)	Spread Above Index (2)	Initial Acquisition Date	Maturity	Principal Amount	Amortized Cost	Fair Value (3)	Percent of Net Assets
Pfanstiehl Holdings, Inc. (4)	Pharmaceutical Preparation Manufacturing								
Subordinated Loan		10.50%	N/A	1/1/2014	9/29/2022	$3,788	$3,814	$3,788	2.2 %
Common Equity (400 Class A shares)				1/1/2014		—	217	8,360	4.8
						3,788	4,031	12,148	7.0
Professional Pipe Holdings, LLC	Plumbing, Heating, and Air-Conditioning Contractors								
Senior Secured Loan		12.77%	(L +10.25%)	3/23/2018	3/23/2023	7,779	7,647	7,466	4.3
Common Equity (1,414 Class A units) (10)				3/23/2018		—	1,414	769	0.4
						7,779	9,061	8,235	4.7
TRS Services, LLC (4) (11)	Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance								
Senior Secured Loan		11.27% cash / 1.0% PIK	(L +8.75%)	12/10/2014	12/10/2019	14,681	14,617	14,446	8.3
Preferred Equity (329,266 Class AA units), 15%				6/30/2016		—	465	473	0.3

PIK Preferred Equity (3,000,000 Class A units), 11% PIK (10)				12/10/2014		—	3,374	826	0.5
Common Equity (3,000,000 units) (10)				12/10/2014		—	572	—	—
						14,681	19,028	15,745	9.1
Total Affiliate Investments						71,967	90,751	89,103	51.1
Control Investment									
MTE Holding Corp. (4)	Travel Trailer and Camper Manufacturing								
Subordinated Loan (to Mirage Trailers, LLC, a controlled, consolidated subsidiary of MTE Holding Corp.)		14.00% cash / 1.50% PIK	(L +11.50%)	11/25/2015	11/25/2020	7,296	7,268	7,296	4.2
Common Equity (554 shares)				11/25/2015		—	3,069	2,649	1.5
						7,296	10,337	9,945	5.7
Total Control Investment						7,296	10,337	9,945	5.7
Total Investments						$388,670	$413,311	$396,797	226.7%

(1) Equity ownership may be held in shares or units of companies affiliated with the portfolio company. The Company's investments are generally classified as "restricted securities" as such term is defined under Regulation S-X Rule 6-03(f) or Securities Act Rule 144.

(2) Substantially all of the investments that bear interest at a variable rate are indexed to LIBOR (L), and reset monthly, quarterly, or semi-annually. Variable-rate loans with an aggregate cost of $316,260 include LIBOR reference rate floor provisions of generally 1% to 2%. At December 31, 2018, the reference rate on all such instruments was above the stated floors. For each investment, the Company has provided the

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spread over the reference rate and current interest rate in effect at December 31, 2018. Unless otherwise noted, all investments with a stated PIK rate require interest payments with the issuance of additional securities as payment of the entire PIK provision.

(3) Fair value was determined using significant unobservable inputs for all of the Company's investments. See Note 5 for further details.

(4) Investments (or portion thereof) held by SBIC I LP. All other investments pledged as collateral under the PWB Credit Facility.

(5) Elgin Fasteners Group became contractually due on August 27, 2018. The lending group entered into a forbearance agreement to extend the maturity through September 26, 2019. The investment shall continue to accrue interest as the borrower has continued to make interest and amortization payments.

(6) Investment was on non-accrual status as of December 31, 2018, meaning the Company has ceased recognizing all or a portion of income on the investment. See Note 5 for further details.

(7) Subject to unfunded commitments. See Note 6 for further details.

(8) The Company has entered into a contractual arrangement with co lenders whereby, subject to certain conditions, it has agreed to receive its principal payment after the repayment of certain co lenders pursuant to a payment waterfall. The table below provides additional details as of December 31, 2018:

Portfolio Company	Reported Interest Rate	Interest Rate per Credit Agreement	Additional Interest per Annum
Carolina Lubes, Inc.	10.24%	9.65%	0.59%
DRS Imaging Services, LLC	12.23%	10.80%	1.43%
JBR Clinical Research, Inc.	9.10%	8.64%	0.46%
OnSite Care, PLLC	10.22%	8.60%	1.62%

(9) Reserved.

(10) Non-income producing.

(11) The interest rate on these investments contains a PIK provision, whereby the issuer has the option to make interest payments in cash or with the issuance of additional securities as payment of the entire PIK provision. The interest rate in the schedule represents the current interest rate in effect for these investments. The following table provides additional details on these PIK investments, including the maximum annual PIK interest rate allowed as of December 31, 2018

Portfolio Company	Investment Type	Range of PIK Option	Range of Cash Option	Maximum PIK Rate Allowed
Community Intervention Services, Inc.	Subordinated Loan	0% or 6.00%	13.00% or 7.00%	6.00%
Eblens Holdings, Inc.	Subordinated Loan	0% or 1.00%	14.00% or 12.00%	1.50%
Master Cutlery, LLC	Senior Secured Loan	0% to 13.00%	13.00% to 0%	13.00%
TRS Services, LLC	Senior Secured Loan	0% or 1.00%	11.25% or 1.00%	1.00%

(12) Represents expiration date of the warrants.

(13) All or portion of investment held by a wholly-owned subsidiary subject to corporate income tax. See Note 8 for further details.

(14) Maximum interest rate allowable under the terms of this investment is 13.50%

See Notes to Consolidated Financial Statements.

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Notes to Consolidated Financial Statements
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Note 1. Organization

OFS Capital Corporation, a Delaware corporation, is an externally managed, closed-end, non-diversified management investment company. The Company has elected to be regulated as a BDC under the 1940 Act. In addition, for income tax purposes, the Company has elected to be treated as a RIC under Subchapter M of the Code.

The Company’s objective is to provide stockholders with current income and capital appreciation primarily through debt investments and, to a lesser extent, equity investments primarily in middle-market companies principally in the United States. OFS Advisor manages the day-to-day operations of, and provides investment advisory services to the Company.

In addition, OFS Advisor serves as the investment adviser for HPCI, a non-traded BDC with an investment strategy and objective similar to the Company. OFS Advisor also serves as the investment adviser for OCCI, a non-diversified, externally managed, closed-end management investment company that has registered as an investment company under the 1940 Act that primarily invests in the equity tranche of CLOs.

The Company may make investments directly or through SBIC I LP. SBIC I LP is subject to SBA regulatory requirements, including: limitations on the businesses and industries in which it can invest; requirements to invest at least 25% of its regulatory capital in eligible smaller businesses, as defined under the SBIC Act; limitations on the financing terms of investments; and capitalization thresholds that may limit distributions to the Company. SBIC I LP is subject to periodic audits and examinations of its financial statements.

Note 2. Summary of Significant Accounting Policies

Basis of presentation: The Company is an investment company as defined in the accounting and reporting guidance under ASC Topic 946, Financial Services–Investment Companies. The accompanying interim consolidated financial statements of the Company and related financial information have been prepared in accordance with GAAP for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Articles 6, 10 and 12 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for annual financial statements. However, in the opinion of management, the consolidated financial statements include all adjustments, consisting only of normal and recurring accruals and adjustments, necessary for fair presentation as of and for the periods presented. Certain amounts in the prior period financial statements have been reclassified to conform to the current year presentation. These consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018. The results of operations for any interim period are not necessarily indicative of the results of operations to be expected for the full year.

Significant Accounting Policies: The following information supplements the description of significant accounting policies contained in Note 2 to the Company's consolidated financial statements included in the Company's 2018 Form 10-K.

Investments: The Company acquired Structured Finance Notes of CLO investment vehicles. In valuing such investments, the Company considers the indicative prices provided by a recognized industry pricing service as a primary source, and the implied yield of such prices, supplemented by actual trades executed in the market at or around period-end, as well as the indicative prices provided by broker-dealers. The Company also considers the operating metrics of the CLO vehicle, including compliance with collateralization tests as well as defaults, restructuring activity, and prepayments on the outstanding loans, if any.

Interest income: Interest income from investments in Structured Finance Notes is recognized on the basis of the estimated effective yield to expected redemptions utilizing assumed cash flows in accordance with ASC Sub-topic 325-40, Beneficial Interests in Securitized Financial Assets. The Company monitors the expected cash flows from its Structured Finance Notes and the effective yield is determined and updated periodically.

Use of estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.
Concentration of credit risk: Aside from its debt instruments, including investments in Structured Finance Notes of CLOs, financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash deposits at financial institutions. At various times during the year, the Company may exceed the federally insured limits. The Company places cash deposits only with high credit quality institutions, which OFS Advisor believes will mitigate the risk of loss due to credit risk. The amount of loss due to credit risk from debt investments if borrowers fail to perform according to the terms of the contracts, and the collateral or other security for those instruments proved to be of no value to the Company, is equal to the

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Company's recorded investment in debt instruments and the unfunded loan commitments as disclosed in Note 6. The amount of loss due to credit risk from investments in Structured Finance Notes, if underlying funds and managers fail to perform according to the terms of the indentures and collateral management agreements, and the collateral or other security for those instruments proved to be of no value to the Company is equal to the Company's recorded investment in Structured Finance Notes.

New Accounting Standards: In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820), Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement, which eliminates, adds and modifies certain disclosure requirements for fair value measurements. The amendments are effective for all entities for fiscal years beginning after December 15, 2019, with early adoption permitted. The Company adopted this guidance effective September 30, 2018.

The Company did not adopt any other new accounting pronouncements during the three months ended March 31, 2019 that had, or is expected to have, a material impact on the Company's consolidated financial statements.

The following table discusses recently issued ASUs, as issued by the FASB yet to be adopted by the Company:

Standard	Description	Effect of Adoption on the Financial Statements
Standards that are not yet adopted		
ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment	Removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill.	Annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early application is permitted. The adoption of ASU 2017-04 is not expected to have a material effect on the Company's consolidated financial statements.

Note 3. Related Party Transactions

Investment Advisory and Management Agreement: OFS Advisor manages the day-to-day operations of, and provides investment advisory services to, the Company pursuant to the Investment Advisory Agreement. The continuation of the Investment Advisory Agreement was most recently approved by the Board on April 4, 2019. Under the terms of the Investment Advisory Agreement, which are in accordance with the 1940 Act and subject to the overall supervision of the Company’s Board, OFS Advisor is responsible for sourcing potential investments, conducting research and diligence on potential investments and equity sponsors, analyzing investment opportunities, structuring investments, and monitoring investments and portfolio companies on an ongoing basis.

OFS Advisor’s services under the Investment Advisory Agreement are not exclusive to the Company and OFS Advisor is free to furnish similar services to other entities, including other funds affiliated with OFS Advisor, so long as its services to the Company are not impaired. OFS Advisor also serves as the investment adviser or collateral manager to CLO funds and other companies, including HPCI and OCCI.

OFS Advisor receives fees for providing services, consisting of two components: a base management fee and an incentive fee. The base management fee is calculated at an annual rate of 1.75% and based on the average value of the Company’s total assets (other than cash but including assets purchased with borrowed amounts and assets owned by any consolidated entity) at the end of the two most recently completed calendar quarters, adjusted for any share issuances or repurchases during the quarter. OFS Advisor has elected to exclude the value of the intangible asset and goodwill resulting from the SBIC Acquisition from the base management fee calculation.

The incentive fee has two parts. The first part ("Income Incentive Fee") is calculated and payable quarterly in arrears based on the Company’s pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees such as commitment, origination and sourcing, structuring, diligence and consulting fees or other fees that the Company receives from portfolio companies but excluding fees for providing managerial assistance) accrued during the calendar quarter, minus operating expenses for the quarter (including the base management fee, any expenses payable under the Administration Agreement (defined below) and any interest expense and dividends paid on any outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest or dividend

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feature (such as OID, debt instruments with PIK interest, equity investments with accruing or PIK dividend and zero coupon securities), accrued income that the Company has not yet received in cash.
Pre-incentive fee net investment income is expressed as a rate of return on the value of the Company’s net assets (defined as total assets less indebtedness and before taking into account any incentive fees payable during the period) at the end of the immediately preceding calendar quarter and adjusted for any share issuances or repurchases during such quarter.
The incentive fee with respect to pre-incentive fee net income is 20.0% of the amount, if any, by which the pre-incentive fee net investment income for the immediately preceding calendar quarter exceeds a 2.0% (which is 8.0% annualized) hurdle rate and a “catch-up” provision measured as of the end of each calendar quarter. Under this provision, in any calendar quarter, OFS Advisor receives no incentive fee until the net investment income equals the hurdle rate of 2.0%, but then receives, as a “catch-up,” 100.0% of the pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.5%. The effect of this provision is that, if pre-incentive fee net investment income exceeds 2.5% in any calendar quarter, OFS Advisor will receive 20.0% of the pre-incentive fee net investment income.
Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Because of the structure of the incentive fee, it is possible that the Company may pay an incentive fee in a quarter in which the Company incurs a loss. For example, if the Company receives pre-incentive fee net investment income in excess of the quarterly minimum hurdle rate, the Company will pay the applicable incentive fee even if the Company has incurred a loss in that quarter due to realized and unrealized capital losses. The Company’s net investment income used to calculate this part of the incentive fee is also included in the amount of the Company’s gross assets used to calculate the base management fee. These calculations are appropriately prorated for any period of less than three months.
The second part of the incentive fee (the “Capital Gain Fee”) is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory Agreement, as of the termination date), and equals 20.0% of the Company’s aggregate realized capital gains, if any, on a cumulative basis from the date of the election to be a BDC through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation through the end of such year, less all previous amounts paid in respect of the Capital Gain Fee.
The Company accrues the Capital Gain Fee if, on a cumulative basis, the sum of net realized capital gains and (losses) plus net unrealized appreciation and (depreciation) is positive. If, on a cumulative basis, the sum of net realized capital gains (losses) plus net unrealized appreciation (depreciation) decreases during a period, the Company will reverse any excess Capital Gain Fee previously accrued such that the amount of Capital Gains Fee accrued is no more than 20% of the sum of net realized capital gains (losses) plus net unrealized appreciation (depreciation).
On May 1, 2018, OFS Advisor agreed to irrevocably waive the receipt of $22 in Income Incentive Fees (based on net investment income) related to net investment income, that it would otherwise be entitled to receive under the Investment Advisory Agreement for the three months ended March 31, 2018. As a result of the voluntary fee waiver, the Company incurred Income Incentive Fee expense of $714 for the three months ended March 31, 2018, which is equal to the Income Incentive Fee expense the Company incurred for the three months ended December 31, 2017. The voluntary fee waiver did not include Capital Gain Fees, which was $0 for the three months ended March 31, 2018.
License Agreement: The Company entered into a license agreement with OFSAM under which OFSAM has agreed to grant the Company a non-exclusive, royalty-free license to use the name “OFS.”
Administration Agreement: OFS Services furnishes the Company with office facilities and equipment, necessary software licenses and subscriptions, and clerical, bookkeeping and record keeping services at such facilities pursuant to the Administration Agreement. Under the Administration Agreement, OFS Services performs, or oversees the performance of, the Company’s required administrative services, which include being responsible for the financial

records that the Company is required to maintain and preparing reports to its stockholders and all other reports and materials required to be filed with the SEC or any other regulatory authority. In addition, OFS Services assists the Company in determining and publishing its net asset value, oversees the preparation and filing of its tax returns and the printing and dissemination of reports to its stockholders, and generally oversees the payment of the Company's expenses and the performance of administrative and professional services rendered to the Company by others. Under the Administration Agreement, OFS Services also provides managerial assistance on the Company's behalf to those portfolio companies that have accepted the Company's offer to provide such assistance. Payment under the Administration Agreement is equal to an amount based upon the Company's allocable portion of OFS Services's overhead in performing its obligations under the Administration Agreement, including, but not limited to, rent, information technology services and the Company's allocable portion of the cost of its officers, including its chief executive officer, chief financial officer, chief compliance officer, chief accounting officer and their respective staffs. To

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the extent that OFS Services outsources any of its functions, the Company will pay the fees associated with such functions on a direct basis without profit to OFS Services.

Expenses recognized for the three months ended March 31, 2019 and 2018, under agreements with OFS Advisor and OFS Services are presented below:

	Three Months Ended March 31,	
	2019	2018
Base management fees	$1,843	$1,360
Incentive fees:		
Income Incentive Fee	1,163	736
Capital Gain Fee	—	—
Incentive fee waiver	—	(22)
Administration fee expense	437	583

Note 4. Investments

As of March 31, 2019, the Company had loans to 46 portfolio companies, of which 88% were senior secured loans and 12% were subordinated loans, at fair value, as well as equity investments in 15 of these portfolio companies. The Company also held equity investments in five portfolio companies in which it did not hold a debt investment and two investments in Structured Finance Notes. At March 31, 2019, the Company's investments consisted of the following:

	Amortized Cost	Percentage of Total Amortized Cost	Percentage of Total Net Assets	Fair Value	Percentage of Total Fair Value	Percentage of Total Net Assets
Senior secured debt investments [1]	$348,021	76.5 %	199.7%	$340,939	78.0 %	195.8%
Subordinated debt investments	56,323	12.4	32.3	44,806	10.2	25.7
Preferred equity	21,243	4.7	12.2	15,407	3.5	8.8
Common equity and warrants	13,419	3.0	7.7	20,781	4.7	11.9
Total debt and equity investments	439,006	96.6	251.9	421,933	96.4	242.2
Structured Finance Notes	15,355	3.4	8.8	15,734	3.6	9.0
Total investments	$454,361	100.0%	260.7%	$437,667	100.0%	251.2%

(1) Includes debt investments, typically referred to as unitranche, in which we have entered into contractual arrangements with co lenders whereby, subject to certain conditions, we have agreed to receive our principal payments after the repayment of certain co lenders pursuant to a payment waterfall. Amortized cost and fair value of these investments were $74,237 and $74,195, respectively.

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As of March 31, 2019, all of the Company's debt and equity investments were domiciled in the United States. Geographic composition is determined by the location of the corporate headquarters of the portfolio company. The industry compositions of the Company's debt and equity investment portfolio was as follows:

	Amortized Cost	Percentage of Total Amortized Cost	Percentage of Total Net Assets	Fair Value	Percentage of Total Fair Value	Percentage of Total Net Assets
Administrative and Support and Waste Management and Remediation Services						
Security Systems Services (except Locksmiths)	$ 6,518	1.5%	3.7 %	$5,692	1.3%	3.3 %
Temporary Help Services	12,725	2.9	7.3	12,598	3.0	7.2
Arts, Entertainment, and Recreation						
Other amusement and recreation industries	13,028	3.0	7.5	12,774	3.0	7.3
Construction						
Electrical Contractors and Other Wiring Installation Contractors	17,306	3.9	9.9	15,849	3.8	9.1
Plumbing, Heating, and Air-Conditioning Contractors	8,836	2.0	5.1	9,047	2.1	5.2
Education Services						
Colleges, Universities, and Professional Schools	—	—	—	—	—	—
Finance and Insurance						
Direct Health and Medical Insurance Carriers	5,705	1.3	3.3	5,749	1.4	3.3
Insurance Agencies and Brokerages	9,495	2.2	5.4	9,417	2.2	5.4
Health Care and Social Assistance						
Child Day Care Services	8,127	1.9	4.7	8,073	1.9	4.6
Diagnostic Imaging Centers	14,175	3.2	8.1	14,175	3.4	8.1
Home Health Care Services	11,210	2.6	6.4	11,155	2.6	6.4
Medical Laboratories	91	—	0.1	38	—	—
Offices of Physicians, Mental Health Specialists	10,181	2.3	5.8	10,079	2.4	5.8
Outpatient Mental Health and Substance Abuse Centers	11,605	2.6	6.7	3,960	0.9	2.3
Information						
Data Processing, Hosting, and Related Services	11,915	2.7	6.8	12,314	2.9	7.1
Software Publishers	33,669	7.7	19.4	31,521	7.5	18.2
Manufacturing						
Bolt, Nut, Screw, Rivet, and Washer Manufacturing	3,591	0.8	2.1	3,427	0.8	2.0
Commercial Printing (except Screen and Books)	4,769	1.1	2.7	4,739	1.1	2.7
Custom Compounding of Purchased Resins	15,377	3.5	8.8	15,378	3.6	8.8
Other Aircraft Parts and Auxiliary Equipment Manufacturing	5,398	1.2	3.1	4,146	1.0	2.4
Pharmaceutical Preparation Manufacturing	4,030	0.9	2.3	12,748	3.0	7.3
Printing Machinery and Equipment Manufacturing	5,000	1.1	2.9	2,950	0.7	1.7
Pump and Pumping Equipment Manufacturing	1,501	0.3	0.9	1,350	0.3	0.8

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	Amortized Cost	Percentage of Total Amortized Cost	Percentage of Total Net Assets	Fair Value	Percentage of Total Fair Value	Percentage of Total Net Assets
Travel Trailer and Camper Manufacturing	10,368	2.4	5.9	10,146	2.4	5.8
Truck Trailer Manufacturing	6,978	1.6	4.0	6,895	1.6	4.0
Unlaminated Plastics Profile Shape Manufacturing	6,060	1.4	3.5	5,982	1.4	3.4
Other Services (except Public Administration)						
Automotive Oil Change and Lubrication Shops	20,562	4.8	11.8	20,920	5.1	12.0
Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance	19,056	4.3	10.9	14,634	3.5	8.4
Professional, Scientific, and Technical Services						
Administrative Management and General Management Consulting Services	6,058	1.4	3.5	6,058	1.4	3.5
Other Accounting Services	1,575	0.4	0.9	2,250	0.5	1.3
Other Computer Related Services	13,401	3.1	7.7	13,294	3.2	7.6
Other Professional, Scientific, and Technical Services	9,305	2.1	5.3	9,917	2.4	5.7
Research and Development in the Social Sciences and Humanities	22,283	5.1	12.8	22,059	5.2	12.7
Public Administration						
Other Justice, Public Order, and Safety Activities	9,836	2.2	5.6	9,442	2.2	5.4
Real Estate and Rental and Leasing						
Office Machinery and Equipment Rental and Leasing	13,197	3.0	7.6	14,677	3.5	8.4
Retail Trade						
Cosmetics, Beauty Supplies, and Perfume Stores	6,333	1.4	3.6	6,352	1.5	3.6
Shoe store	9,594	2.2	5.5	9,656	2.3	5.5
Supermarkets and Other Grocery (except Convenience) Stores	1,387	0.3	0.8	1,403	0.3	0.8
All Other General Merchandise Stores	5,923	1.3	3.4	5,302	1.3	3.0
Transportation and Warehousing						
General Warehousing and Storage	20,128	4.6	11.7	20,502	4.9	11.8
Wholesale Trade						
Business to Business Electronic Markets	1,959	0.4	1.1	1,969	0.5	1.1
Industrial Machinery and Equipment Merchant Wholesalers	9,703	2.2	5.6	9,565	2.3	5.5
Industrial Supplies Merchant Wholesalers	6,865	1.6	3.9	6,878	1.6	3.9
Sporting and Recreational Goods and Supplies Merchant Wholesalers	8,247	1.9	4.7	732	0.2	0.4
Stationary & Office Supply Merchant Wholesaler	15,936	3.6	9.1	16,121	3.8	9.3
Total debt and equity investments	$439,006	100.0%	251.9%	$421,933	100.0%	242.1%
Structured Finance Notes	15,355	—	8.8 %	15,734	—	9.0 %
Total investments	$454,361	100.0%	260.7%	$437,667	100.0%	251.1%

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As of December 31, 2018, the Company had loans to 44 portfolio companies, of which 88% were senior secured loans and 12% were subordinated loans, at fair value, as well as equity investments in 13 of these portfolio companies. The Company also held an equity investment in six portfolio companies in which it did not hold a debt investment.

At December 31, 2018, the Company's debt and equity investments consisted of the following:

	Amortized Cost	Percentage of Total Amortized Cost	Percentage of Total Net Assets	Fair Value	Percentage of Total Fair Value	Percentage of Total Net Assets
Senior secured debt investments	$ 325,873	78.8 %	186.2 %	$ 319,017	80.4 %	182.3 %
Subordinated debt investments	56,212	13.6	32.1	44,540	11.2	25.4
Preferred equity	19,620	4.7	11.2	14,613	3.7	8.4
Common equity and warrants	11,606	2.8	6.6	18,627	4.7	10.6
Total	$ 413,311	100.0 %	236.1 %	$ 396,797	100.0 %	226.7 %

At December 31, 2018, all of the Company's debt and equity investments were domiciled in the United States. The industry compositions of the Company's debt and equity investment portfolio were as follows:

	Amortized Cost	Percentage of Total Amortized Cost	Percentage of Total Net Assets	Fair Value	Percentage of Total Fair Value	Percentage of Total Net Assets
Administrative and Support and Waste Management and Remediation Services						
Security Systems Services (except Locksmiths)	$ 6,516	1.6 %	3.7 %	$ 5,901	1.5 %	3.4 %
Temporary Help Services	14,059	3.4	8.0	13,993	3.5	8.0
Arts, Entertainment, and Recreation						
Other Amusement and Recreation Industries	10,691	2.6	6.1	10,511	2.6	6.0
Construction						
Electrical Contractors and Other Wiring Installation Contractors	17,525	4.2	10.0	17,134	4.3	9.8
Plumbing, Heating, and Air-Conditioning Contractors	9,061	2.2	5.2	8,235	2.1	4.7
Education Services						
Colleges, Universities, and Professional Schools	—	—	—	—	—	—
Finance and Insurance						
Direct Health and Medical Insurance Carriers	5,700	1.4	3.3	5,570	1.4	3.2
Insurance Agencies and Brokerages	9,489	2.3	5.4	9,290	2.3	5.3
Health Care and Social Assistance						
Child Day Care Services	8,126	2.0	4.6	7,759	2.0	4.4
Home Health Care Services	11,203	2.7	6.4	11,176	2.8	6.4
Medical Laboratories	91	—	0.1	45	—	—
Offices of Physicians, Mental Health Specialists	10,185	2.5	5.8	9,771	2.5	5.6
Outpatient Mental Health and Substance Abuse Centers	11,603	2.8	6.6	3,933	1.0	2.2
Information						
Data Processing, Hosting, and Related Services	11,909	2.9	6.8	11,814	3.0	6.7
Software Publishers	32,750	7.9	18.6	29,778	7.5	16.9

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	Amortized Cost	Percentage of Total Amortized Cost	Percentage of Total Net Assets	Fair Value	Percentage of Total Fair Value	Percentage of Total Net Assets
Manufacturing						
Bolt, Nut, Screw, Rivet, and Washer Manufacturing	3,645	0.9	2.1	3,509	0.9	2.0
Commercial Printing (except Screen and Books)	4,767	1.2	2.7	4,772	1.2	2.7
Other Aircraft Parts and Auxiliary Equipment Manufacturing	5,394	1.3	3.1	4,141	1.0	2.4
Pharmaceutical Preparation Manufacturing	4,031	1.0	2.3	12,148	3.1	6.9
Printing Machinery and Equipment Manufacturing	5,000	1.2	2.9	4,841	1.2	2.8
Pump and Pumping Equipment Manufacturing	1,501	0.4	0.9	1,416	0.4	0.8
Travel Trailer and Camper Manufacturing	10,337	2.5	5.9	9,945	2.5	5.7
Truck Trailer Manufacturing	6,977	1.7	4.0	6,808	1.7	3.9
Unlaminated Plastics Profile Shape Manufacturing	6,060	1.5	3.5	5,901	1.5	3.4
Other Services (except Public Administration)						
Automotive Body, Paint, and Interior Repair and Maintenance	3,802	0.9	2.2	3,747	0.9	2.1
Automotive Oil Change and Lubrication Shops	20,694	5.0	11.8	20,839	5.3	11.9
Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance	19,028	4.6	10.9	15,745	4.0	9.0
Professional, Scientific, and Technical Services						
Other Accounting Services	1,537	0.4	0.9	2,250	0.6	1.3
Other Computer Related Services	12,877	3.1	7.4	12,904	3.3	7.4
Other Professional, Scientific, and Technical Services	9,302	2.3	5.3	9,736	2.5	5.6
Research and Development in the Social Sciences and Humanities	29,693	7.2	17.0	29,016	7.3	16.5
Public Administration						
Other Justice, Public Order, and Safety Activities	9,832	2.4	5.6	9,437	2.4	5.4
Real Estate and Rental and Leasing						
Home Health Equipment Rental	900	0.2	0.5	89	—	0.1
Office Machinery and Equipment Rental and Leasing	13,038	3.2	7.4	16,965	4.3	9.7
Retail Trade						
Cosmetics, Beauty Supplies, and Perfume Stores	6,334	1.5	3.6	6,292	1.6	3.6
Shoe store	9,568	2.2	5.5	9,543	2.4	5.5
Supermarkets and Other Grocery (except Convenience) Stores	1,386	0.3	0.8	1,349	0.3	0.8
All Other General Merchandise Stores	5,930	1.4	3.4	5,354	1.2	3.1
Transportation and Warehousing						

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	Amortized Cost	Percentage of Total Amortized Cost	Net Assets	Fair Value	Percentage of Total Fair Value	Net Assets
General Warehousing and Storage	20,118	4.9	11.5	20,647	5.2	11.8
Wholesale Trade						
Business to Business Electronic Markets	1,959	0.5	1.1	1,914	0.5	1.1
Industrial Machinery and Equipment Merchant Wholesalers	9,706	2.3	5.5	9,086	2.3	5.2
Industrial Supplies Merchant Wholesalers	6,858	1.7	3.9	6,858	1.7	3.9
Sporting and Recreational Goods and Supplies Merchant Wholesalers	8,247	2.0	4.7	850	0.2	0.5
Stationery and Office Supplies Merchant Wholesalers	15,882	3.7	9.1	15,785	4.0	9.0
	$413,311	100.0%	236.1%	$396,797	100.0%	226.7%

When there is reasonable doubt that principal, cash interest, or PIK interest will be collected, loan investments are placed on non-accrual status and the Company will generally cease recognizing cash interest, PIK interest, or Net Loan Fee amortization, as applicable. Interest accruals and Net Loan Fee amortization are resumed on non-accrual investments only when they are brought current with respect to principal, interest and when, in the judgment of management, the investments are estimated to be fully collectible as to all principal. The aggregate amortized cost and fair value of loans on non-accrual status with respect to all interest and Net Loan Fee amortization was $12,403 and $732, respectively, at March 31, 2019, and $12,403 and $850 at December 31, 2018, respectively.

In August 2018, the Elgin Fasteners Group senior secured loan became contractually due. The lending group entered into a forbearance agreement with respect to the maturity date through September 26, 2019, subject to other terms and conditions. The investment will continue to accrue interest as the borrower has continued to make interest and amortization payments.

On January 31, 2019, Maverick Healthcare Equity, LLC was acquired in a purchase transaction. Proceeds from this transaction were insufficient to redeem the class of equity held by the Company. Accordingly, the Company recognized a net loss of $89, which is comprised of $900 realized loss net of $811 unrealized loss reversal, in the three months ended March 31, 2019.

Note 5. Fair Value of Financial Instruments

The Company's investments are valued at fair value as determined in good faith by management under the supervision, and review and approval of the Board.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values are determined with models or other valuation techniques, valuation inputs, and assumptions market participants would use in pricing an asset or liability. Valuation inputs are organized in a hierarchy that gives the highest priority to prices for identical assets or liabilities quoted in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of inputs in the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

Level 2: Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include: (i) quoted prices for similar assets or liabilities in active markets,

(ii) quoted prices for identical or similar assets or liabilities in markets that are not active, (iii) inputs other than quoted prices that are observable for the asset or liability, and (iv) inputs that are derived principally from or corroborated by observable market data.
Level 3: Unobservable inputs for the asset or liability, and situations where there is little, if any, market activity for the asset or liability at the measurement date.

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The inputs into the determination of fair value are based upon the best information under the circumstances and may require significant judgment or estimation by management. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

Beginning in the first quarter of 2019 and with the addition of Structured Finance Notes to the Company's portfolio, the Company values Structure Finance Notes at non-binding indicative bid ("NBIB") prices. In valuing such investments, the Company considers the indicative prices provided by a recognized industry pricing service as a primary source, and the implied yield of such prices, supplemented by actual trades executed in the market at or around period-end, as well as the indicative prices provided by broker-dealers. The Company also considers the operating metrics of the CLO vehicle, including compliance with collateralization tests as well as defaults, restructuring activity and prepayment, and prepayments on the outstanding loans, if any. The Company engages a third-party valuation firm to provide assistance to the Company's Board in valuing our investments, which they will evaluate and consider in determining fair value.

There were no transfers among Level 1, 2 and 3 for the three months ended March 31, 2019 and 2018.

Due to the inherent uncertainty of determining the fair value of Level 3 investments, the fair value of the investments may differ significantly from the values that would have been used had a ready market or observable inputs existed for such investments and may differ materially from the values that may ultimately be received or settled. Further, such investments are generally subject to legal and other restrictions, or otherwise are less liquid than publicly traded instruments. If the Company were required to liquidate a portfolio investment in a forced or liquidation sale, the Company might realize significantly less than the value at which such investment had previously been recorded. The Company's investments are subject to market risk. Market risk is the potential for changes in the value due to market changes. Market risk is directly impacted by the volatility and liquidity in the markets in which the investments are traded.

The following tables provide quantitative information about valuation techniques and the Company's significant inputs to the Company's Level 3 fair value measurements as of March 31, 2019 and December 31, 2018. In addition to the techniques and inputs noted in the tables below, according to the Company's valuation policy, the Company may also use other valuation techniques and methodologies when determining the Company's fair value measurements. The table below is not intended to be exhaustive, but rather provides information on the significant Level 3 inputs as they relate to the Company's fair value measurements.

	Fair Value at March 31, 2019 (1)	Valuation technique	Unobservable inputs	Range (Weighted average)
Debt investments:				
Senior secured	$309,451	Discounted cash flow	Discount rates	6.27% - 19.86% (12.43%)
	31,488	Transaction Price		
Subordinated	36,751	Discounted cash flow	Discount rates	6.57% - 15.44% (11.61%)
	8,055	Enterprise value	EBITDA multiples	4.25x - 6.00x (5.25x)
Structured Finance Notes:				

Subordinated notes	15,734	Market quotes	NBIB	75.5% - 84.5% (80.0%)
Equity investments:				
Preferred equity	10,839	Enterprise value	EBITDA multiples	4.75x - 8.5x (7.39x)
	2,259	Enterprise value	Reocurring monthly revenue	38.0x - 42.0x (40.0x)
	2,309	Transaction Price		
Common equity and warrants	18,968	Enterprise value	EBITDA multiples	4.00x - 11.5x (9.50x)
	1,813	Transaction Price		

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	Fair Value at December 31, 2018 (1)	Valuation technique	Unobservable inputs	Range (Weighted average)
Debt investments:				
Senior secured	$ 295,087	Discounted cash flow	Discount rates	6.94% - 19.70% (12.49%)
	23,930	Transaction Price		
Subordinated	36,394	Discounted cash flow	Discount rates	7.16% - 15.40% (7.21%)
	8,146	Market approach	EBITDA multiples	3.50x - 7.65x (5.10x)
Equity investments				
Preferred equity	12,039	Market approach	EBITDA multiples	4.50x - 8.50x (7.42x)
	2,574	Market approach	Reoccurring Monthly Revenue	38.0x - 42.0x (40.0x)
Common equity and warrants	18,627	Market approach	EBITDA multiples	3.50x - 11.00x (8.68x)

Averages in the preceding two tables were weighted by the fair value of the related instruments.
Changes in market credit spreads or events impacting the credit quality of the underlying portfolio company (both of which could impact the discount rate), as well as changes in EBITDA and/or EBITDA multiples, among other things, could have a significant impact on fair values, with the fair value of a particular debt investment susceptible to change in inverse relation to the changes in the discount rate. Changes in EBITDA and/or EBITDA multiples, as well as changes in the discount rate, could have a significant impact on fair values, with the fair value of an equity investment susceptible to change in tandem with the changes in EBITDA and/or EBITDA multiples, and in inverse relation to changes in the discount rate. Due to the wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company’s disclosures and those of other companies may not be meaningful.

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The following tables present changes in investments measured at fair value using Level 3 inputs for the three months ended March 31, 2019 and March 31, 2018.

	Three Months Ended March 31, 2019					
	Senior Secured Debt Investments	Subordinated Debt Investments	Preferred Equity	Common Equity and Warrants	Structured Finance Notes	Total
Level 3 assets, January 1, 2019	$319,017	$ 44,540	$14,613	$ 18,627	$—	$396,797
Net realized gain (loss) on investments	73	—	(900)	—	—	(827)
Net unrealized appreciation (depreciation) on investments	(225)	155	(829)	341	379	(179)
Amortization of Net Loan Fees	157	21	—	—	—	178
Accretion of interest income on structured-finance notes	—	—	—	—	467	467
Capitalized PIK interest and dividends	71	90	214	—	—	375
Purchase and origination of portfolio investments	44,187	—	2,309	1,813	15,321	63,630
Proceeds from principal payments on portfolio investments	(6,013)	—	—	—	—	(6,013)
Sale and redemption of portfolio investments	(16,328)	—	—	—	—	(16,328)
Proceeds from distributions received from portfolio investments	—	—	—	—	(433)	(433)
Level 3 assets, March 31, 2019	$340,939	$ 44,806	$15,407	$ 20,781	$15,734	$437,667

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	Three Months Ended March 31, 2018				
	Senior Secured Debt Investments	Subordinated Debt Investments	Preferred Equity	Common Equity and Warrants	Total
Level 3 assets, January 1, 2018	$195,112	$ 51,198	$19,200	$11,989	277,499
Net realized gain (loss) on investments	401	—	60	(541)	(80)
Net unrealized appreciation (depreciation) on investments	(122)	(1,400)	(1,112)	2,398	(236)
Amortization of Net Loan Fees	245	30	—	—	275
Capitalized PIK interest, dividends	263	110	339	—	712
Purchase and origination of portfolio investments	72,350	20,930	2,547	2,381	98,208
Proceeds from principal payments on portfolio investments	(7,828)	(5,197)	—	—	(13,025)
Sale and redemption of portfolio investments	(27,097)	—	(578)	(214)	(27,889)
Level 3 assets, March 31, 2018	$233,324	$ 65,671	$20,456	$16,013	$335,464

The net unrealized appreciation (depreciation) reported in the Company's consolidated statements of operations for the three months ended March 31, 2019 and 2018, attributable to the Company's Level 3 assets still held at those respective period ends was as follows:

	Period ended March 31,	
	2019	2018
Senior secured debt investments	$(280)	$(75)
Subordinated debt investments	155	(1,400)
Preferred equity	(1,640)	(1,112)
Common equity and warrants	341	1,944
Structured Finance Notes	379	—
Net unrealized depreciation on investments held	$(1,045)	$(643)

OFS Capital Corporation and Subsidiaries

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Other Financial Assets and Liabilities

GAAP requires disclosure of the fair value of financial instruments for which it is practical to estimate such value. The Company believes that the carrying amounts of its other financial instruments such as cash, receivables and payables approximate the fair value of such items due to the short maturity of such instruments. The PWB Facility is a variable rate instrument and fair value is approximately book value.

The following tables present the fair value measurements of the Company's debt and indicate the fair value hierarchy of the significant unobservable inputs utilized by the Company to determine such fair values as of March 31, 2019 and December 31, 2018:

	March 31, 2019			
Description	Level 1	Level 2	Level 3 (1)	Total
PWB Facility	$—	$ —	$35,750	$35,750
OFS Capital Corporation 6.375% Notes due 2025	50,760	—	—	50,760
OFS Capital Corporation 6.5% Notes due 2025	48,176	—	—	48,176
SBA-guaranteed debentures	—	—	150,086	150,086
Total debt, at fair value	$98,936	$ —	$185,836	$284,772

	December 31, 2018			
Description	Level 1	Level 2	Level 3 (1)	Total
PWB Facility	$—	$ —	$12,000	$12,000
OFS Capital Corporation 6.375% Notes due 2025	48,500	—	—	48,500
OFS Capital Corporation 6.5% Notes due 2025	46,603	—	—	46,603
SBA-guaranteed debentures	—	—	147,956	147,956
Total debt, at fair value	$95,103	$ —	$159,956	$255,059

(1) For Level 3 measurements, fair value is estimated by discounting remaining payments using current market rates for similar instruments at the measurement date and considering such factors as the legal maturity date.

The following are the carrying values and fair values of the Company's debt as of March 31, 2019 and December 31, 2018:

	As of March 31, 2019		As of December 31, 2018	
Description	Carrying Value	Fair Value	Carrying Value	Fair Value
PWB Facility	$35,750	$35,750	$12,000	$12,000
OFS Capital Corporation 6.375% Notes due 2025	48,440	50,760	48,377	48,500
OFS Capital Corporation 6.5% Notes due 2025	46,909	48,176	46,849	46,603
SBA-guaranteed debentures	147,692	150,086	147,600	147,956
Total debt, at fair value	$278,791	$284,772	$254,826	$255,059

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Note 6. Commitments and Contingencies
The Company has the following unfunded commitments to portfolio companies as of March 31, 2019:

Name of Portfolio Company	Investment Type	Commitment
Carolina Lubes, Inc.	Senior Secured Loan (Revolver)	$ 2,920
Cirrus Medical Staffing, Inc.	Senior Secured Loan (Revolver)	1,383
Inergex Holdings, LLC	Senior Secured Loan (Revolver)	1,359
The Escape Game, LLC	Senior Secured Loan (Delayed Draw)	933
TTG Healthcare, LLC	Senior Secured Loan (Delayed Draw)	2,775
		$ 9,370

From time to time, the Company is involved in legal proceedings in the normal course of its business. Although the outcome of such litigation cannot be predicted with any certainty, management is of the opinion, based on the advice of legal counsel, that final disposition of any litigation should not have a material adverse effect on the financial position of the Company as of March 31, 2019.
Additionally, the Company is subject to periodic inspection by regulators to assess compliance with applicable BDC regulations and the SBIC I LP is subject to periodic inspections by the SBA.
In the normal course of business, the Company enters into contracts and agreements that contain a variety of representations and warranties that provide for general indemnification. The Company’s maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not occurred. The Company believes the risk of any material obligation under these indemnifications to be low.
Note 7. Borrowings
SBA Debentures: The SBA Debentures issued by SBIC I LP and other SBA regulations generally restrict assets held by SBIC I LP. On a stand-alone basis, SBIC I LP held $249,494 and $251,060 in assets at March 31, 2019, and December 31, 2018, respectively, which accounted for approximately 54% and 57% of the Company’s total consolidated assets, respectively. These assets can not be pledged under any debt obligation of the Company.
PWB Credit Facility: The Company had up to $50,000 of available credit under its PWB Credit Facility maturing January 31, 2020, of which $35,750 was drawn as of March 31, 2019. The average dollar amount of borrowings outstanding during the three months ended March 31, 2019 and 2018, were $23,602 and $22,379, respectively. The effective interest rate on the PWB Credit Facility was 6.58% at March 31, 2019. Availability under the PWB Credit Facility as of March 31, 2019 was $14,250 based on the stated advance rate of 50% of the borrowing base.
On April 10, 2019, the BLA was amended to, among other things: (i) increase the maximum amount available from $50.0 million to $100.0 million; (ii) change the interest rate from a variable rate of Prime Rate plus a 0.75% margin to a variable rate of Prime Rate plus a 0.25% margin (with a floor of 5.25%); (iii) extend the maturity date from January 31, 2020 to February 28, 2021; (iv) increase the minimum quarterly net investment income covenant from $2.0 million to $3.0 million; (v) reduce the statutory asset coverage ratio test from 200% to 150%; and (vi) add a total liabilities to Net Asset Value (as defined in the Secured Revolver Amendment) covenant of 300%.
Unsecured Notes: The Company has Unsecured Notes with an aggregate outstanding principal of $98,525. The Unsecured Notes are direct unsecured obligations and rank equal in right of payment with all current and future unsecured indebtedness of the Company. Because the Unsecured Notes are not secured by any of the Company's assets, they are effectively subordinated to all existing and future secured unsubordinated indebtedness (or any indebtedness that is initially unsecured as to which the Company subsequently grant a security interest), to the extent of the value of the assets securing such indebtedness, including, without limitation, borrowings under the PWB Credit Facility.

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Interest expense for the three months ended March 31, 2019 and 2018 on the Company's outstanding borrowings is presented below:

	Three Months Ended March 31, 2019	2018
SBA Debentures	$1,267	$1,267
PWB Credit Facility	462	367
Unsecured Notes Due April 2025	860	—
Unsecured Notes Due October 2025	866	—
Total interest expense	$3,455	$1,634
Average dollar borrowings	$272,007	$172,259
Average interest rate	4.98 %	3.71 %

Note 8. Federal Income Tax

The Company has elected to be taxed as a RIC under Subchapter M of the Code. The determination of the tax attributes of the Company's distributions is made annually as of the end of its fiscal year based on its ICTI and distributions for the full year.

The Company records reclassifications to its capital accounts for permanent and temporary differences between the GAAP and tax treatment of components of income and the bases of assets and liabilities.

The tax-basis cost of investments and associated tax-basis gross unrealized appreciation (depreciation) inherent in the fair value of investments as of March 31, 2019, and December 31, 2018, were as follows:

	March 31, 2019	December 31, 2018
Tax-basis amortized cost of investments	$449,597	$ 408,715
Tax-basis gross unrealized appreciation on investments	18,537	18,426
Tax-basis gross unrealized depreciation on investments	(30,467)	(30,344)
Tax-basis net unrealized appreciation (depreciation) on investments	(11,930)	(11,918)
Fair value of investments	$437,667	$ 396,797

For further information, see the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

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Note 9. Financial Highlights

The following is a schedule of financial highlights for the three months ended March 31, 2019 and 2018:

	Three Months Ended March 31, 2019			2018		
Per share operating performance:						
Net asset value per share at beginning of period	$	13.10		$	14.12	
Distributions	(0.34		)	(0.71		)
Net investment income (4)	0.36			0.29		
Net realized gain (loss) on non-control/non-affiliate investments (4)	(0.06		)	0.03		
Net realized loss on affiliate investments (4)	—			(0.04		)
Net unrealized appreciation (depreciation) on non-control/non-affiliate investments (4)	0.05			(0.12		)
Net unrealized appreciation (depreciation) on affiliate investments (4)	(0.08		)	0.09		
Net unrealized appreciation on control investment (4)	0.01			0.01		
Net asset value per share at end of period	$	13.04		$	13.67	
Per share market value, end of period	$	11.75		$	11.22	
Total return based on market value (1)	14.1		%	0.3		%
Total return based on net asset value (2)	2.4		%	2.0		%
Shares outstanding at end of period	13,361,134			13,348,774		
Weighted average shares outstanding	13,357,464			13,340,502		
Ratio/Supplemental Data (in thousands except ratios)						
Average net asset value (3)	$	174,654		$	185,395	
Net asset value at end of period	$	174,258		$	182,453	
Net investment income	$	4,828		$	3,816	
	17.2		%	11.2		%

Ratio of total expenses, net to average net assets (5) (7)				
Ratio of net investment income to average net assets (5) (8)	11.1	%	8.2	%
Portfolio turnover (6)	5.5	%	13.5	%

(1) Calculation is ending market value less beginning market value, adjusting for distributions reinvested at prices based on the Company's dividend reinvestment plan for the respective distributions.

(2) Calculation is ending net asset value less beginning net asset value, adjusting for distributions reinvested at the Company's dividend reinvestment plan for the respective distributions.

(3) Based on the average of the net asset value at the beginning of the indicated period and the preceding calendar quarter.

(4) Calculated on the average share method.

(5) Annualized.

(6) Portfolio turnover rate is calculated using the lesser of period-to-date sales and principal payments or period-to-date purchases over the average of the invested assets at fair value.

(7) Ratio of total expenses before incentive fee waiver to average net assets was 11.2% for the three months ended March 31, 2018.

(8) Ratio of net investment income before incentive fee waiver to average net assets was 8.2% for the three months ended March 31, 2018.

Note 10. Capital Transactions

Distributions: The Company intends to distribute to stockholders, on a quarterly basis, substantially all of its net investment income. In addition, although the Company intends to distribute at least annually net realized capital gains, net of taxes if any, out of assets legally available for such distribution, the Company may also retain such capital gains for investment through a deemed distribution.

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The Company may be limited in its ability to make distributions due to the BDC asset coverage requirements of the 1940 Act. The Company’s ability to make distributions may also be affected by SBIC I LP's distributions to the Company, which are governed by SBA regulations. Net assets of SBIC I LP were $101,292, and consolidated cash at March 31, 2019 includes $12,943 held by SBIC I LP, of which $11,031 was available for distribution to the Company. The following table summarizes distributions declared and paid for the three months ended March 31, 2019 and 2018:

Date Declared	Record Date	Payment Date	Amount Per Share	Cash Distribution	DRIP Shares Issued	DRIP Shares Value
Three Months Ended March 31, 2018						
February 12, 2018 [1]	March 22, 2018	March 29, 2018	$ 0.37	$ 4,886	4,459	$ 50
February 27, 2018	March 22, 2018	March 29, 2018	0.34	4,490	4,098	46
			$ 0.71	$ 9,376	$8,557	$ 96
Three Months Ended March 31, 2019						
March 5, 2019	March 22, 2019	March 29, 2019	$ 0.34	$ 4,497	3,797	$ 45
			$ 0.34	$ 4,497	$3,797	$ 45

(1) Special dividend representing undistributed net long-term capital gains realized by the Company in 2017.

Distributions in excess of the Company’s current and accumulated ICTI would be treated first as a return of capital to the extent of the stockholder’s tax basis, and any remaining distributions would be treated as a capital gain. The determination of the tax attributes of the Company’s distributions is made annually as of the end of its fiscal year based upon its ICTI for the full year and distributions paid for the full year. Therefore, a determination made on a quarterly basis may not be representative of the actual tax attributes of the Company’s distributions for a full year. Each year, a statement on Form 1099-DIV identifying the tax character of distributions is mailed to the Company’s stockholders.

Stock repurchase program:

The Company maintains a Stock Repurchase Program under which the Company may acquire up to $10.0 million of its outstanding common stock. No shares of common stock were repurchased under the Stock Repurchase Program during the three months ended March 31, 2019 and 2018, respectively.

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Note 11. Consolidated Schedule of Investments In and Advances To Affiliates

		Period ended March 31, 2019									
Name of Portfolio Company	Investment Type (1)	Net Realized Gain (Loss)	Net change in unrealized appreciation/(depreciation)	Interest & PIK Interest	Dividends	Fees	Total Income (2)	December 31, 2018, Fair Value	Gross Additions (3)	Gross Reductions (4)	March 31, 2019, Fair Value (5)
Control Investment											
MTE Holding Corp.	Subordinated Loan	$ —	$ (5)	$ 286	$ —	$ 15	$ 301	$ 7,296	$ 31	$ (5)	$ 7,322
	Common Equity	—	175	—	—	—	—	2,649	175	—	2,824
		—	170	286	—	15	301	9,945	206	(5)	10,146
Total Control Investment		—	170	286	—	15	301	9,945	206	(5)	10,146
Affiliate Investments											
3rd Rock Gaming Holdings, LLC	Senior Secured Loan	—	318	573	—	—	573	20,023	333	(125)	20,231
	Preferred Equity (6)	—	172	—	—	—	—	1,073	172	—	1,245
		—	490	573	—	—	573	21,096	505	(125)	21,476
Chemical Resources Holdings, Inc.	Senior Secured Loan	—	—	281	—	204	485	—	13,565	—	13,565
	Common Equity (6)	—	—	—	—	—	—	—	1,813	—	1,813
		—	—	281	—	204	485	—	15,378	—	15,378
Contract Datascan Holdings, Inc.	Subordinated Loan	—	(1)	225	—	—	225	8,000	1	(1)	8,000
	Preferred Equity A (7)	—	(133)	158	—	—	158	6,652	158	(133)	6,677
	Common Equity (6)	—	(2,313)	—	—	—	—	2,313	—	(2,313)	—
		—	(2,447)	383	—	—	383	16,965	159	(2,447)	14,677
DRS Imaging Services, LLC	Senior Secured Loan	—	35	337	—	—	337	10,617	40	—	10,657
	Common Equity (6)	—	460	—	—	—	—	1,197	460	—	1,657
		—	495	337	—	—	337	11,814	500	—	12,314
		—	(118)	—	—	—	—	850	—	(118)	732

Master Cutlery, LLC	Subordinated Loan (6)										
	Preferred Equity (6)	___	—	—	—	—	—	—	—	—	
	Common Equity (6)	___	—	—	—	—	—	—	—	—	
		—	(118)	—	—	—	—	850	—	(118)	732
NeoSystems Corp.	Convertible Preferred Stock (7)	—	(38)	38	—	—	38	2,250	38	(38)	2,250

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(Dollar amounts in thousands, except per share data)

		Period ended March 31, 2019									
Name of Portfolio Company	Investment Type (1)	Net Realized Gain (Loss)	Net change in unrealized appreciation/(depreciation)	Interest & PIK Interest	Dividends	Fees	Total Income (2)	December 31, 2018, Fair Value	Gross Additions (3)	Gross Reductions (4)	March 31, 2019, Fair Value (5)
Pfanstiehl Holdings, Inc	Subordinated Loan	—	2	96	—	—	96	3,788	2	(2)	3,788
	Class A Common Equity	—	600	—	173	—	173	8,360	600	—	8,960
		—	602	96	173	—	269	12,148	602	(2)	12,748
Professional Pipe Holdings, LLC	Senior Secured Loan	—	52	259	—	—	259	7,466	64	(236)	7,294
	Common Equity (6)	—	984	—	—	—	—	769	984	—	1,753
		—	1,036	259	—	—	259	8,235	1,048	(236)	9,047
TRS Services, Inc.	Senior Term Loan	—	(276)	476	—	—	476	14,446	62	(327)	14,181
	Class AA Units in IGT Holdings, LLC (7)	—	(38)	18	—	—	18	473	18	(38)	453
	Class A Units in IGT Holdings, LLC (6)	—	(826)	—	—	—	—	826	—	(826)	—
	Common Equity (6)	—	—	—	—	—	—	—	—	—	—
		—	(1,140)	494	—	—	494	15,745	80	(1,191)	14,634
TTG Healthcare, LLC	Senior Secured Loan	—	—	124	—	1	125	—	11,866	—	11,866
	Preferred Equity (6)	—	—	—	—	—	—	—	2,309	—	2,309
		—	—	124	—	1	125	—	14,175	—	14,175
Total Affiliate Investments		—	(1,120)	2,585	173	205	2,963	89,103	32,485	(4,157)	117,431
		$—	$(950)	$2,871	$173	$220	$3,264	$99,048	$32,691	$(4,162)	$127,577

Total Control
and Affiliate
Investments

(1) Principal balance of debt investments and ownership detail for equity investments are shown in the consolidated schedule of investments. The Company's investments are generally classified as "restricted securities" as such term is defined under Regulation S-X Rule 6-03(f) or Securities Act Rule 144.
(2) Represents the total amount of interest, fees or dividends included in income for the three months ended March 31, 2019, that an investment was included in Control or Affiliate Investment categories, respectively.
(3) Gross additions include increases in cost basis resulting from a new portfolio investment, PIK interest, fees and dividends, accretion of OID, and net increases in unrealized net appreciation or decreases in net unrealized depreciation.
(4) Gross reductions include decreases in the cost basis of investments resulting from principal repayments and sales, if any, and net decreases in net unrealized appreciation or net increases in unrealized depreciation.
(5) Fair value was determined using significant unobservable inputs. See Note 5 for further details.
(6) Non-income producing.
(7) Dividends credited to income include dividends contractually earned but not declared.

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Note 12. Subsequent Events Not Disclosed Elsewhere

On April 30, 2019, the Company’s Board declared a distribution of $0.34 per share for the second quarter of 2019, payable on June 28, 2019, to stockholders of record as of June 21, 2019.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations
The following analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes thereto contained elsewhere in this Quarterly Report on Form 10-Q.
Overview
We are an externally managed, closed-end, non-diversified management investment company and have elected to be treated as a BDC under the 1940 Act, which imposes certain investment restrictions on our portfolio. Our investment activities are managed by OFS Advisor; and OFS Services, an affiliate of OFS Advisor, provides the administrative services necessary for us to operate. In exchange for these services we pay OFS Advisor a base management fee and an incentive fee and we pay OFS Services an administration fee. The base management fee, incentive fee, and the administration fee represents a substantial portion of our total expenses.
Our investment objective is to provide our stockholders with both current income and capital appreciation primarily through debt investments and, to a lesser extent, equity investments in middle-market companies in the United States. We believe that these middle-market companies represent a significant growth segment of the U.S. economy and often require substantial capital investments to grow. Middle-market companies have historically constituted the bulk of our portfolio companies since inception. We believe that this market segment will continue to produce significant investment opportunities for us.
We execute our investment strategy, in part, through SBIC I LP, a licensee under the SBA's SBIC program. The SBIC license allows SBIC I LP to receive SBA-guaranteed debenture funding, subject to the issuance of a leverage commitment by the SBA and other customary procedures. SBA leverage funding is subject to SBIC I LP’s payment of certain fees to the SBA, and the ability of SBIC I LP to draw on the leverage commitment is subject to its compliance with SBA regulations and policies, including an audit by the SBA. For additional information regarding the regulation of SBIC I LP, see "Item 1. Business—Regulation—Small Business Investment Company Regulation” in our Annual Report on Form 10-K for the year ended December 31, 2018. On a stand-alone basis, SBIC I LP held approximately $249.5 million and $251.6 million in assets at March 31, 2019 and December 31, 2018, respectively, which accounted for approximately 54% and 57% of our total consolidated assets, respectively.
We generate revenue in the form of interest income on debt investments, and capital gains and dividend income from our equity investments. Our debt investments typically have a term of three to eight years and bear interest at fixed and floating rates. As of March 31, 2019, floating rate and fixed rate loans comprised 88% and 12%, respectively, of our current debt investment portfolio at fair value. Our Structured Finance Notes comprise 3.6% of our portfolio at fair value. We expect to make quarterly distributions, such that we distribute substantially all of our ICTI. In addition, although we intend to distribute at least annually net realized capital gains, net of taxes if any, out of assets legally available for such distributions, we may also retain such capital gains for investment through a deemed distribution. Further, we have elected to be taxed as a RIC under the Code. As a RIC, we are not required to pay corporate-level federal income taxes on any income that we distribute to our stockholders from our ICTI. We are required to recognize ICTI in circumstances in which we have not received a corresponding payment in cash. For example, we hold debt obligations that are treated under applicable tax rules as issued at a discount and debt instruments with PIK interest, and we must include in ICTI each year the portion of the discount and PIK interest that accrues for that year (as it accrues over the life of the obligation), irrespective of the fact the cash representing such income is received by us in that taxable year. The continued recognition of non-cash ICTI may cause difficulty in meeting the Annual Distribution Requirement. We may be required to sell investments at times and/or at prices we would not consider advantageous, raise additional debt or equity capital, or forgo new investment opportunities to meet this requirement. If we are not able to obtain cash from other sources, we may fail to qualify for RIC tax treatment and thus become subject to corporate-level income tax.
The 1940 Act generally prohibits us from incurring indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). On March 23, 2018, the Consolidated Appropriations Act of 2018, which includes the SBCAA, was signed into law. The SBCAA amends the 1940 Act to permit a BDC to reduce the required minimum asset coverage ratio applicable to it from 200% to 150%, subject to certain requirements described therein.

On May 3, 2018, the Board, including a “required majority” (as such term is defined in Section 57(o) of the 1940 Act) of the Board, approved the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act, as amended by the SBCAA. As a result, the asset coverage ratio test applicable to us will be decreased from 200% to 150%, effective May 3, 2019. Additionally, we received exemptive relief from the SEC effective November 26, 2013, which allows us to exclude our SBA guaranteed debentures from the definition of senior securities in the statutory asset coverage ratio under the 1940 Act.

We may borrow money when the terms and conditions available are favorable to do so and are aligned with our investment strategy and portfolio composition. The use of borrowed funds or the proceeds of preferred stock to make investments would have its own specific benefits and risks, and all of the costs of borrowing funds or issuing preferred stock would be borne by holders of our common stock. For a discussion of the risks associated with leverage, see “Item 1A. Risk Factors—Risks Related to our Business and Structure" in our Annual Report on Form 10-K for the year ended December 31, 2018 as supplemented by our other reports filed with the SEC. As a BDC, we may need to raise additional capital, which will expose us to risks, including the typical risks associated with leverage. For additional overview information on the Company, see "Item 1. Business" in our Annual Report on Form 10-K for the year ended December 31, 2018.

Critical Accounting Policies and Significant Estimates

Our critical accounting policies and estimates are those relating to revenue recognition and fair value estimates. Management has discussed the development and selection of each critical accounting policy and estimate with the Audit Committee of the Board. For descriptions of our revenue recognition and fair value policies, see "Item 8. Financial Statements - Notes to Financial Statements - Note 2" and "Management's Discussion and Analysis - Critical Accounting Policies and Significant Estimates" in our Annual Report on Form 10-K for the year ended December 31, 2018.

Fair value estimates. As of March 31, 2019, approximately 95% of our total assets were carried at fair value, which was generally measured using the discounted cash flow or market-approach valuation techniques. Our discounted cash flow valuations involve a determination of a discount rate commensurate with the risk inherent of each investment. Management uses two primary methods to estimate discount rates: the weighted-average cost of capital method, which is a method based upon a hypothetical recapitalization of the entity given its current operating performance and current market conditions; and a hypothetical debt rating method, which assigns a surrogate debt rating to the entity based on known industry standards for assigning such ratings and then estimates the discount rate based on observed market yields for actual rated debt. Management may also use a relative value method to estimate yields, which involves measuring the discount rate of non-traded subject debt investments based on an expected or assumed relationship between NBIB or observed prices on traded debt and the subject debt for a portfolio company. All three methods generally involve calibration of the internal rate of return on the subject investment at close or purchase date to the observable inputs utilized in each method as of or near that date. These methods generally produce a range of discount rates, and management, under the supervision of the Board, generally selects the midpoint of the range for fair value measures. Such midpoint values may be further limited based on the portfolio company's ability to prepay the investment without penalty.

Our market approach valuations, generally applied to equity investments and investments in non-performing debt, involve a determination of an enterprise value multiple to a financial performance metric for the portfolio company, generally EBITDA. These determinations are based on identification of a comparable set of publicly traded companies and determination of a public-to-private liquidity adjustment factor, generally through calibration to transaction prices in the subject investment instrument. This method generally produces a range of multiplier values and management, under the supervision of the Board, generally select the midpoint of the range for fair value measures.

The following table illustrates the impact of our fair value measures if we selected the low or high end of the range of values for all investments at March 31, 2019 (dollar amounts in thousands):

Investment Type	Fair Value at March 31, 2019	Range of Fair Value Low-end	High-end
Debt investments:			
Senior secured	$309,451	$303,987	$314,926
Senior secured (valued at Transaction Prices)	31,488	31,488	31,488
Subordinated	44,806	44,112	45,504
Investment:			
Structured finance notes	15,734	15,439	16,030
Equity investments:			
Preferred equity	13,098	11,749	13,926
Preferred equity (valued at Transaction Prices)	2,309	2,309	2,309
Common equity and warrants	18,968	15,450	22,923
Common equity and warrants (valuated at Transaction Prices)	1,813	1,813	1,813
	$437,667	$426,347	$448,919

Related Party Transactions

We have entered into a number of business relationships with affiliated or related parties, including the following:

- The Investment Advisory Agreement with OFS Advisor to manage our operating and investment activities. Under the Investment Advisory Agreement we have agreed to pay OFS Advisor an annual base management fee based on the average value of our total assets (other than cash but including assets purchased with borrowed amounts and including assets owned by any consolidated entity) as well as an incentive fee based on our investment performance. See "Item 1–Financial Statements–Note 3".
- The Administration Agreement with OFS Services, an affiliate of OFS Advisor, to provide us with the office facilities and administrative services necessary to conduct our operations. See "Item 1–Financial Statements–Note 3.
- A license agreement with OFSAM, the parent company of OFS Advisor, under which OFSAM has agreed to grant us a non-exclusive, royalty-free license to use the name "OFS." Under this agreement, we have a right to use the "OFS" name for so long as OFS Advisor or one of its affiliates remains our investment adviser. Other than with respect to this limited license, we have no legal right to the "OFS" name. This license agreement will remain in effect for so long as the Investment Advisory Agreement with OFS Advisor is in effect.

OFS Advisor's services under the Investment Advisory Agreement are not exclusive to us and OFS Advisor is free to furnish similar services to other entities, including other funds affiliated with OFS Advisor, so long as its services to us are not impaired. OFS Advisor also serves as the investment adviser to CLO funds and other assets, including HPCI and OCCI. Additionally, OFS Advisor expects to provide sub-advisory services to CIM Real Assets & Credit Fund, a newly organized externally managed registered investment company that intends to operate as an interval fund that expects to invest primarily in a combination of real estate, credit and related investments.

The 1940 Act generally prohibits BDCs from making certain negotiated co-investments with certain affiliates absent an order from the SEC permitting the BDC to do so. On October 12, 2016, we received the Order from the SEC to permit us to co-invest in portfolio companies with certain BDCs, registered investment companies and private funds managed by OFS Advisor, or any adviser that controls, is controlled by, or is under common control with, OFS Adviser and is registered as an investment adviser under the Advisers Act, in a manner consistent with our investment strategy as well as applicable law, including the terms and conditions of the Order. Pursuant to the Order, we are generally permitted to participate in a co-investment transaction if a "required majority" (as defined in Section 57(o) of the 1940 Act) of our independent directors makes certain conclusions in connection with a co-investment transaction, including that (1) the terms of the transaction, including the consideration to be paid, are reasonable and fair to us and our stockholders and do not involve overreaching of us or our stockholders on the part of any person concerned and (2) the transaction is consistent with the interests of our stockholders and is consistent with our investment objective and strategies. We have applied for a new exemptive order, which, if granted, would supersede the Order and would permit us greater flexibility to enter into co-investment transactions. There can be no assurance that we will obtain such new exemptive relief from the SEC.

Portfolio Composition and Investment Activity

Portfolio Composition

As of March 31, 2019, the fair value of our debt investment portfolio totaled $385.7 million in 46 portfolio companies, of which 88% and 12% were senior secured loans and subordinated loans, respectively, and approximately $36.2 million in equity investments, at fair value, in 15 portfolio companies in which we also held debt investments. We also have five portfolio companies in which we solely held an equity investment, as well as two investments in Structured Finance Notes. We had unfunded commitments of $9.4 million to five portfolio companies at March 31, 2019. Set forth in the tables and charts below is selected information with respect to our portfolio as of March 31, 2019 and December 31, 2018.

The following table summarizes the composition of our portfolio of direct investments in the debt and equity securities of portfolio companies as of March 31, 2019, and December 31, 2018 (dollar amounts in thousands):

	March 31, 2019		December 31, 2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Senior secured debt investments [(1)]	$348,021	$340,939	$325,873	$319,017
Subordinated debt investments	56,323	44,806	56,212	44,540
Preferred equity	21,243	15,407	19,620	14,613
Common equity and warrants	13,419	20,781	11,606	18,627
Total direct investments in the debt and equity securities of portfolio companies	$439,006	$421,933	$413,311	$396,797
Total number of portfolio companies	51	51	50	50

(1) Includes debt investments in which we have entered into contractual arrangements with co lenders whereby, subject to certain conditions, we have agreed to receive our principal payments after the repayment of certain co lenders pursuant to a payment waterfall. The aggregate amortized cost and fair value of these investments was $74,237 and $74,195 at March 31, 2019, respectively, and $68,207 and $67,480, at December 31, 2018, respectively

The following table shows the composition of our portfolio of direct investments in the debt and equity securities of portfolio companies by geographic region at amortized cost and fair value and as a percentage of total debt and equity investments; the geographic composition is determined by the location of the portfolio companies' corporate headquarters (dollar amounts in thousands):

	Amortized Cost				Fair Value			
	March 31, 2019		December 31, 2018		March 31, 2019		December 31, 2018	
South - US	$124,774	28.4 %	$124,795	30.2 %	$121,536	28.8 %	$123,344	31.1 %
Northeast - US	169,168	38.6	109,899	26.6	151,302	35.8	92,570	23.4
West - US	95,292	21.7	124,991	30.2	93,120	22.1	120,788	30.4
Midwest - US	49,772	11.3	53,626	13.0	55,975	13.3	60,095	15.1
Total	$439,006	100.0%	$413,311	100.0%	$421,933	100.0%	$396,797	100.0%

As of March 31, 2019, our investment portfolio's three largest industries by fair value, were (1) Manufacturing (16.1%), (2) Professional, Scientific, and Technical Services (12.7%), and (3) Health Care and Social Assistance (11.2%), totaling approximately 40.0% of the investment portfolio. For a full summary of our investment portfolio by industry, see "Item 1–Financial Statements–Note 4."

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The following table presents our debt investment portfolio by investment size as of March 31, 2019, and December 31, 2018 (dollar amounts in thousands):

	Amortized Cost				Fair Value			
	March 31, 2019		December 31, 2018		March 31, 2019		December 31, 2018	
Up to $4,000	$20,932	5.2 %	$24,785	6.4 %	$28,433	7.4 %	$25,117	6.9 %
$4,001 to $7,000	73,858	18.3	66,756	17.5	65,992	17.1	60,151	16.5
$7,001 to $10,000	92,236	22.8	92,389	24.2	76,713	19.9	92,687	25.5
$10,001 to $13,000	45,552	11.3	44,527	11.7	57,974	15.0	34,032	9.4
Greater than $13,000	171,766	42.4	153,628	40.2	156,633	40.6	151,570	41.7
Total	$404,344	100.0%	$382,085	100.0%	$385,745	100.0%	$363,557	100.0%

The following table displays the composition of our performing debt investment and Structured Finance Note portfolio by weighted average yield as of March 31, 2019, and December 31, 2018:

	March 31, 2019				December 31, 2018			
Weighted Ave. Yield (1)	Senior Secured Debt	Subordinated Debt	Structured Finance Notes	Total	Senior Secured Debt	Subordinated Debt	Structured Finance Notes	Total
Less than 8%	1.7 %	— %	— %	1.4 %	0.7 %	— %	— %	0.7 %
8% - 10%	8.3	—	—	7.1	22.5	—	—	19.8
10% - 12%	57.0	26.9	—	51.6	42.9	26.9	—	41.0
12% - 14%	28.9	56.5	—	30.8	29.5	56.5	—	32.7
Greater than 14%	4.1	16.6	100.0	9.1	4.4	16.6	—	5.8
Total	100.0%	100.0 %	100.0 %	100.0%	100.0%	100.0 %	— %	100.0%
Weighted average yield - performing debt and Structured Finance Note investments (1)	11.46%	12.84 %	16.50 %	11.80%	11.33%	12.74 %	— %	11.50%
Weighted average yield - total debt and Structured Finance Note investments (2)	11.46%	10.02 %	16.50 %	11.45%	11.33%	9.93 %	— %	11.12%

(1) The weighted average yield on our performing debt and Structured Finance Note investments is computed as (a) the sum of (i) the annual stated accruing interest on debt investments plus the annualized accretion of Net Loan Fees; and (ii) the annual effective yield on Structured Finance Notes divided by (b) amortized cost of our debt and Structured Finance Note investments, excluding debt investments in non-accrual status as of the balance sheet date.
(2) The weighted average yield on our total debt and Structured Finance Note investments is computed as (a) the sum of (i) the annual stated accruing interest plus the annualized accretion of Net Loan Fees and (ii) plus the annual effective yield on Structured Finance Notes divided by (b) amortized cost of our debt and Structured Finance Note investments, including debt investments in non-accrual status as of the balance sheet date.

The weighted average yield on total investments was 10.74% and 10.49% at March 31, 2019 and December 31, 2018, respectively. Weighted average yield on total investments is computed as (a) the sum of (i) the annual stated accruing interest on our debt investments at the balance sheet date plus the annualized accretion of Net Loan Fees, (ii) the effective yield on our performing preferred equity investments, and (iii) the annual effective yield on Structured Finance Notes, divided by (b) amortized cost of our total investment portfolio, including assets in non-accrual status as of the balance sheet date. The weighted average yield of our investments is not the same as a return on investment for our stockholders but, rather, the gross investment income from our investment portfolio before the payment of all of our fees and expenses. There can be no assurance that the weighted average yield will remain at its current level.

The weighted average yield on performing direct investments in portfolio-company debt securities increased slightly to 11.80% at March 31, 2019, from 11.50% at December 31, 2018.

As of March 31, 2019, and December 31, 2018, floating rate loans at fair value were 88% and 87% of our debt portfolio of direct investments in the debt securities of portfolio companies, respectively, and fixed rate loans at fair value were 12% and 13% of this portfolio, respectively.

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Investment Activity

The following is a summary of our direct investment activity for the three months ended March 31, 2019 (dollar amounts in millions).

	Debt Investments	Equity Investments
Investments in new portfolio companies	$ 31.5	$ 4.1
Investments in existing portfolio companies		
Follow-on investments	9.9	—
Delayed draw and revolver funding	2.8	—
Total investments in existing portfolio companies	12.7	—
Total investments in new and existing portfolio companies	$ 44.2	$ 4.1
Number of new portfolio company investments	3	2
Number of existing portfolio company investments	7	—
Proceeds/distributions from principal payments/ equity investments	$ 6.0	$ —
Proceeds from investments sold or redeemed	16.3	—
Total proceeds from principal payments, equity distributions and investments sold	$ 22.3	$ —

Notable investments in new portfolio companies during the three months ended March 31, 2019, include Chemical Resources Holdings, Inc. ($13.6 million senior secured loan and $1.8 million in common equity) and TTG Healthcare, LLC ($11.9 million senior secured loan and $2.3 million preferred equity).

The weighted-average yield of direct debt investments in new portfolio companies during the three months ended March 31, 2019 was 11.9%.

We also invested $15.3 million in Structure Finance Notes with a weighted average annual effective yield of 16.50% during the three months ended March 31, 2019.

The following is a summary of our direct investment activity for the three months ended March 31, 2018 (dollar amounts in millions).

	Debt Investments	Equity Investments
Investments in new portfolio companies	$ 68.4	$ 4.6
Investments in existing portfolio companies		
Follow-on investments	23.5	0.3
Delayed draw and revolver funding	1.4	—
Total investments in existing portfolio companies	24.9	0.3
Total investments in new and existing portfolio companies	$ 93.3	$ 4.9
Number of new portfolio company investments	7	4
Number of existing portfolio company investments	5	1
Proceeds/distributions from principal payments/ equity investments	13.0	—
Proceeds from investments sold or redeemed	27.1	1.1
Total proceeds from principal payments, equity distributions and investments sold	40.1	1.1

Notable investments in new portfolio companies during the three months ended March 31, 2018, included Online Tech Stores, LLC ($16.1 million subordinated loan) and 3rd Rock Gaming, LLC ($21.6 million senior secured loan and $2.5 million common equity).

Our level of investment activity may vary substantially from period to period depending on various factors, including, but not limited to, the amount of debt and equity capital available to middle market companies, the level of merger and acquisition activity, the general economic environment and the competitive environment for the types of investments we make.

We categorize direct investments in the debt securities of portfolio companies into seven risk categories based on relevant information about the ability of borrowers to service their debt. For additional information regarding our risk categories, see “Item 1. Business–Portfolio Review/Risk Monitoring” in our Annual Report on Form 10-K for the year ended December 31, 2018. The following table shows the classification of our direct investments in the debt securities of portfolio companies by credit risk rating as of March 31, 2019 and December 31, 2018 (dollar amounts in thousands):

	Debt Investments, at Fair Value			
Risk Category	March 31, 2019		December 31, 2018	
1 (Low Risk)	$—	— %	$—	— %
2 (Below Average Risk)	3,788	1.0	3,788	1.0
3 (Average)	328,390	85.1	329,635	90.7
4 (Special Mention)	52,835	13.7	29,284	8.1
5 (Substandard)	—	—	—	—
6 (Doubtful)	732	0.2	850	0.2
7 (Loss)	—	—	—	—
	$385,745	100.0%	$363,557	100.0%

Changes in the distribution of our debt investments across risk categories were a result of new debt investments, the receipt of amortization payments on existing debt investments, repayment of certain debt investments in full, changes in the fair value of our existing debt investments, realized gains on the sale of investments, as well as the change in PM Acquisitions, LLC, Envocore Holdings, LLC and MAI Holdings, Inc. from risk category 3 to risk category 4, with an total amortized cost and fair value of $27.4 million and $23.9 million, respectively, and other investment activity.

Non-Accrual Loans

When there is reasonable doubt that principal, cash interest, or PIK interest will be collected, loan investments are placed on non-accrual status and the Company will generally cease recognizing cash interest, PIK interest, or Net Loan Fee amortization, as applicable. Interest accruals and Net Loan Fee amortization are resumed on non-accrual investments only when they are brought current with respect to principal, interest and when, in the judgment of management, the investments are estimated to be fully collectible as to all principal. The aggregate amortized cost and fair value of loans on non-accrual status with respect to all interest and Net Loan Fee amortization was $12,403 and $732, respectively, at March 31, 2019, and $12,403 and $850, respectively, at December 31, 2018.

In August 2018, the Elgin Fasteners Group senior secured loan became contractually due. The lending group entered into a forbearance agreement with respect to the maturity date through September 26, 2019, subject to other terms and conditions. The investment will continue to accrue interest as the borrower has continued to make interest and amortization payments.

Results of Operations

Key Financial Measures

The following is a discussion of the key financial measures that management employs in reviewing the performance of our operations.

Total Investment Income. We generate revenue in the form of interest income on direct debt investments in portfolio companies and Structured Finance Notes, as well as dividend income from our equity investments. Our direct debt investments in portfolio companies typically have a term of three to eight years and bear interest at fixed and floating rates. As of March 31, 2019, floating rate and fixed rate loans comprised 88% and 12%, respectively, of our direct debt investments in portfolio companies at fair value; however, in accordance with our investment strategy, we expect that over time the proportion of fixed rate loans will continue to increase. In some cases, our direct debt investments in portfolio companies provide for PIK interest, or PIK dividends (meaning interest or dividends paid in the form of additional principal amount of the loan or equity security instead of in cash). We also generate revenue in the form of management, valuation, and other contractual fees, which is recognized as the related services are rendered. In the general course of business, we receive certain fees from portfolio companies that are non-recurring in nature. Such non-recurring fees include prepayment fees on certain loans repaid prior to their scheduled due date, which are recognized as earned when received, and syndication fees for sourcing, structuring, and arranging the lending group, which are recognized as earned upon closing of the investment. Net Loan Fees are capitalized, and accreted or amortized over the life of the loan as interest income. When we receive principal payments on a loan in an amount that exceeds its amortized cost, we will also recognize the excess principal payment as income in the period it is received.

Expenses. Our primary operating expenses include interest expense due under our outstanding borrowings, the payment of fees to OFS Advisor under the Investment Advisory Agreement, our allocable portion of overhead expenses under the Administration Agreement and other operating costs described below. Additionally, we will pay interest expense on any outstanding debt under any new credit facility or other debt instrument we may enter into. We will bear all other out-of-pocket costs and expenses of our operations and transactions, whether incurred by us directly or on our behalf by a third party, including:

- the cost of calculating our net asset value, including the cost of any third-party valuation services;
- the cost of effecting sales and repurchases of shares of our common stock and other securities;
- fees payable to third parties relating to making investments, including out-of-pocket fees and expenses associated with performing due diligence and reviews of prospective investments;
- transfer agent and custodial fees;
- out-of-pocket fees and expenses associated with marketing efforts;
- federal and state registration fees and any stock exchange listing fees;
- U.S. federal, state and local taxes;
- independent directors' fees and expenses;
- brokerage commissions;
- fidelity bond, directors' and officers' liability insurance and other insurance premiums;
- direct costs, such as printing, mailing and long-distance telephone;
- fees and expenses associated with independent audits and outside legal costs;
- costs associated with our reporting and compliance obligations under the 1940 Act and other applicable U.S. federal and state securities laws; and
- other expenses incurred by either OFS Services or us in connection with administering our business.

Net Gain (Loss) on Investments. Net gain (loss) on investments consists of the sum of: (a) realized gains and losses from the sale of debt or equity securities, or the redemption of equity securities; and (b) net unrealized appreciation or depreciation on debt and equity investments. In the period in which a realized gain or loss is recognized, such gain or loss will generally be offset by the reversal of accumulated net unrealized appreciation or depreciation, and the net gain recognized in that period will generally be smaller. The accumulated net unrealized appreciation or depreciation on debt securities is also reversed when those investments are redeemed or paid off prior to maturity. In such instances, the reversal of accumulated unrealized appreciation or depreciation will be reported as a net loss or gain, respectively, and may be partially offset by the acceleration of any premium or discount on the debt security, which is reported in interest income, and any prepayment fees on the debt security, which is reported in fee income.

We do not believe that our historical operating performance is necessarily indicative of our future results of operations that we expect to report in future periods. We are primarily focused on investments in middle-market companies in the United States, including debt investments and, to a lesser extent, equity investments, including warrants and other minority equity securities, which differs to some degree from our historical investment concentration, in senior secured loans to middle-market companies in the United States. Moreover, as a BDC and a RIC, we will also be subject to certain constraints on our operations, including, but not limited to, limitations imposed by the 1940 Act and the Code. In addition, SBIC I L.P. is subject to regulation and oversight by SBA. For the reasons described above, the results of operations described below may not necessarily be indicative of the results we expect to report in future periods.

Net increase in net assets resulting from operations can vary substantially from period to period for various reasons, including the recognition of realized gains and losses and unrealized appreciation and depreciation. As a result, annual comparisons of net increase in net assets resulting from operations may not be meaningful.

Comparison of the three months ended March 31, 2019, and 2018

Consolidated operating results for the three months ended March 31, 2019 and 2018, are as follows (in thousands):

	Three Months Ended March 31,	
	2019	2018
Investment income		
Interest income:		
Cash interest income (including accretion of interest on Structured Finance Notes)	$10,980	$7,713
Net Loan Fee amortization	178	275
Other interest income	76	94
Total interest income	11,234	8,082
PIK income:		
PIK interest income	161	373
Preferred equity PIK dividends	215	339
Total PIK income	376	712
Dividend income:		
Common equity dividends	173	163
Total dividend income	173	163
Fee income:		
Management, valuation and syndication	562	33
Prepayment and other fees	—	13
Total fee income	562	46
Total investment income	12,345	9,003
Total expenses, net	7,517	5,187
Net investment income	4,828	3,816
Net loss on investments	(1,096)	(323)
Net increase in net assets resulting from operations	$3,732	$3,493

Interest and PIK income by debt investment type for the three months ended March 31, 2019 and 2018, is summarized below (in thousands):

	Three Months Ended March 31,	
	2019	2018
Interest income and PIK interest income:		
Senior secured debt investments	$9,547	$6,615
Subordinated debt investments	1,380	2,214
Structured Finance Notes	468	—
Total interest income and PIK interest income	11,395	8,829
Plus purchased premiums (less Net Loan Fees) accelerations	25	(12)

Recurring interest income and PIK interest income	$11,420	$8,817

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Investment Income

We consider our interest income on direct debt investments to portfolio companies, other than acceleration of Net Loan Fees recognized upon the repayment of a loan, PIK interest income, and the accretable yield on Structured Finance Notes to be recurring in nature. Such recurring interest income and PIK interest income increased by $2.6 million for the three months ended March 31, 2019, compared to the three months ended March 31, 2018, primarily due to a $3.6 million increase from an approximately $106.0 million increase in the average outstanding performing loan balance and a ($1.0) million decrease resulting from a 96 basis point decrease in the recurring earned yield on our portfolio.

Syndication fees, prepayment fees and the acceleration of Net Loan Fees generally result from periodic transactions transactions rather than from holding portfolio investments and are considered to be non-recurring. Syndication fees of $505,000 included in management, valuation and syndication fees for the three months ended March 31, 2019, resulted from approximately $60.5 million in loan originations during that period in which OFS Advisor sourced, structured, and arranged the lending group, and for which we were additionally compensated.

Fee income increased $0.5 million for the three months ended March 31, 2019 compared to the three months ended March 31, 2018, primarily due to an increase in syndication fees.

Expenses

Operating expenses for the three months ended March 31, 2019 and 2018, are presented below (in thousands):

	Three Months Ended March 31,	
	2019	2018
Interest expense	$3,455	$1,634
Management fees	1,843	1,360
Incentive fee	1,163	736
Professional fees	535	201
Administration fee	437	583
Other expenses	84	695
Total expenses before incentive fee waiver	7,517	5,209
Incentive fee waiver	—	(22)
Total expenses, net of incentive fee waiver	$7,517	$5,187

Interest expense for the three months ended March 31, 2019 increased over the corresponding period in the prior year primarily due to the issuance of the Unsecured Notes. Interest expense incurred on our debt during the three months ended March 31, 2019 and 2018 is summarized below (in thousands):

	Three Months Ended March 31,	
	2019	2018
SBA Debentures	$1,267	$1,267
PWB Credit Facility	462	367
Unsecured Notes Due April 2025	860	—
Unsecured Notes Due October 2025	866	—
Total interest expense	$3,455	$1,634

Management fee expense for the three months ended March 31, 2019, increased over the corresponding period in the prior year due to an increase in our average total assets, resulting from the issuance of the Unsecured Notes.

The $0.4 million increase in incentive fee expense for the three ended March 31, 2019, compared to the corresponding period in the prior year was attributable to an increase in net investment income resulting from the increase in the size of the portfolio. On May 1, 2018, OFS Advisor irrevocably waived Income Incentive Fees of approximately $22,000 related to net investment income that it would otherwise be entitled to under the Investment Advisory Agreement for the three months ended March 31, 2018.

Professional fees for the three months ended March 31, 2019, increased over the corresponding period in the prior year due to out-of-scope fees relating to the 2018 audit, as well as the retention of additional third-party valuation services, which did not occur during the three months ended March 31, 2018.
Administration fee expense for the three months ended March 31, 2019 decreased $0.1 million over the corresponding period in the prior year primarily due to an decrease in our allocable portion of OFS Services's overhead. The three months

ended March 31, 2018 included OFS Services's overhead costs in connection with a foreign debt transaction that we elected not to pursue due to regulatory changes and market conditions, which did not reoccur during the three months ended March 31, 2019.

Other expenses for the three months ended March 31, 2019, decreased over the corresponding period in the prior year primarily due to legal and other offering costs incurred during the first quarter of 2018 in connection with a foreign debt transaction that we elected not to pursue due to regulatory changes and market conditions. Other expenses for the three months ended March 31, 2019 remained stable over the corresponding period in the prior year.

Net Gain (Loss) on Investments

Net gain (loss) by investment type for the three months ended March 31, 2019 and 2018, were as follows (in thousands):

	Three Months Ended March 31,	
	2019	2018
Senior secured debt	$(129)	$279
Subordinated debt	155	(1,400)
Preferred equity	(1,729)	(1,112)
Common equity and warrants	228	1,910
Structured Finance Notes	379	—
Net gain (loss) on investments	$(1,096)	$(323)

Three months ended March 31, 2019

We recognized net losses of $0.1 million on senior secured debt during the three months ended March 31, 2019, primarily as a result of the unrealized depreciation of $1.9 million on MAI Holdings, Inc., and other loans partially offset by unrealized appreciation of $2.2 million on broadly syndicated loans due to net positive impact of mark-to-market adjustments in the first quarter. Additional unrealized losses of $0.5 million for the three months ended March 31, 2019 were primarily a result of net negative impact of portfolio company-specific performance factors. We also recognized a realized gain of $0.1 million as a result of the partial sale of our investment in Cenexel Clinical Research Holdings, Inc.

We recognized net gains of $0.2 million on subordinated debt during the three months ended March 31, 2019, primarily due to unrealized appreciation of $0.3 million recognized on our subordinated debt investment in Online Tech Stores, LLC. We recognized net losses of $0.1 million for the three months ended March 31, 2019, primarily as a result of net negative impact of portfolio company-specific performance factors.

We recognized net losses of $1.7 million on preferred equity investments for the three months ended March 31, 2019, primarily as a result of unrealized depreciation of $0.8 million recognized on our investment in TRS Services, LLC Class A units. Additional unrealized losses of $0.9 million in other preferred equity securities for the three months ended March 31, 2019 were primarily due to the net negative impact of portfolio company-specific performance factors.

We recognized net gains of $0.2 million on common equity and warrant investments for the three months ended March 31, 2019, primarily as a result of unrealized appreciation of $2.5 million across several portfolio company investments from the positive impact of portfolio company-specific performance factors, offset by unrealized depreciation of $2.3 million in Contract Datascan Holdings, Inc. as a result of negative portfolio company-specific performance factors.

We recognized net gains of $0.4 million on Structured Finance Notes for the three months ended March 31, 2019, primarily as a result of unrealized appreciation due to net positive impact of mark-to-market adjustments in the first quarter.

Three months ended March 31, 2018

We recognized net gains of $0.3 million on senior secured debt during the three months ended March 31, 2018, primarily as a result of realized gains of $0.4 million from the sale of five senior secured loans, offset by unrealized losses of $0.2 million, primarily as a result of the net negative impact of portfolio company-specific performance factors and the impact of changes to certain market loan indices.

We recognized net losses of $1.4 million on subordinated debt during the three months ended March 31, 2018, primarily as a result of the negative impact of portfolio company-specific performance factors, including an unrealized depreciation of $1.2 million recognized on our subordinated debt investment in Southern Technical Institute, LLC, which was placed on non-accrual during 2017 and written down to a fair value of $0 at March 31, 2018.

We recognized net losses of $1.1 million on preferred equity investments for the three months ended March 31, 2018, primarily as a result of the net negative impact of portfolio company-specific performance factors.
We recognized net gains of $1.9 million on common equity and warrant investments for the three months ended March 31, 2018, primarily as a result of the positive impact of portfolio company-specific performance factors.

Liquidity and Capital Resources
At March 31, 2019, we held cash of $15.2 million, which includes cash of $12.9 million held by SBIC I LP, our wholly owned SBIC. Our use of cash held by SBIC I LP is restricted by SBA regulation, including limitations on the amount of cash SBIC I LP can distribute to OFS Capital Corporation as parent company (the "Parent"). Any such distributions to the Parent from SBIC I LP are generally restricted under SBA regulations to a statutory measure of undistributed accumulated earnings of SBIC I LP. During the three months ended March 31, 2019, the Parent received $0.0 million in cash distributions from SBIC I LP. At March 31, 2019, the Parent had $13.2 million of cash available for general corporate activities, which includes $11.0 million held by SBIC I LP that was available to it for distribution. Additionally, the Parent had available borrowings of $14.3 million under its PWB Credit Facility at March 31, 2019. The Parent may make unsecured loans to SBIC I LP the aggregate of which cannot exceed $35 million at any given time, and no interest may be charged on the unpaid principal balance. There were no intercompany loans between the Parent and SBIC I LP as of March 31, 2019.
Sources and Uses of Cash
We generate cash through operations from net investment income and the net liquidation of portfolio investments, and use cash in our operations in the net purchase of portfolio investments. Significant variations may exist between net investment income and cash from net investment income, primarily due to the recognition of non-cash investment income, including certain Net Loan Fee amortization, PIK interest, and PIK dividends, which generally will not be fully realized in cash until we exit the investment. As discussed in "Item 1.–Financial Statements–Note 3," we pay OFS Advisor a quarterly incentive fee with respect to our pre-incentive fee net investment income, which includes investment income that we have not received in cash. In addition, we must distribute substantially all our taxable income, which approximates, but will not always equal, the cash we generate from net investment income to maintain our RIC tax treatment. Historically, our distributions have been in excess of taxable income, and we have limited history of net taxable gains. We also obtain cash to fund investments or general corporate activities from the issuance of securities and our revolving line of credit. These principal sources and uses of cash and liquidity are presented below (in thousands):

	Three Months Ended March 31,	
	2019	2018
Cash from net investment income	$1,713	$2,153
Cash received from realized gains	22	374
Net (purchases and originations) repayments of portfolio investments	(44,002)	(57,354)
Net cash used in operating activities	(42,267)	(54,827)
Distributions paid to stockholders[1]:		
From net investment income	(4,496)	(4,886)
From realized gains	—	(4,490)
Net borrowings under line of credit	23,750	23,350
Other financing	—	(173)
Decrease in cash	$(23,013)	$(41,026)

(1) The determination of the tax attributes of our distributions is made annually as of the end of our fiscal year based upon our ICTI for the full year and distributions paid for the full year. Therefore, a determination made on a quarterly basis may not be representative of the actual tax attributes of our distributions for a full year. The 2018 distribution from realized gains represents a special dividend of undistributed net long-term capital gains that we realized in 2017. See "Item 1–Financial Statements–Note 10."

Cash from net investment income

Cash from net investment income decreased $0.4 million for the three months ended March 31, 2019, compared to the three months ended March 31, 2018 principally due to an increase in collected net interest and fee income of $1.0 million and $0.5 million, respectively, offset by an increase in fees paid to OFS Advisor and affiliates of $1.1 million, as well as increase in other expenses paid of $0.8 million.

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Cash received from realized gains
Cash received on realized gains may differ from realized gains in the statement of operations due to delays in the receipt of sale proceeds related to escrow and earn-out provisions in the investment sales transactions.
Net (purchases and originations) repayments of portfolio investments
During the three months ended March 31, 2019, net purchases and originations of portfolio investments were primarily due to $63.6 million of cash we used to purchase portfolio investments, offset by $22.7 million of cash we received from amortized cost repayments and sales on our portfolio investments. During the three months ended March 31, 2018, net repayments were due to $41.2 million of cash we received from principal payments and sales on our portfolio investments, offset by $98.2 million of cash we used to purchase portfolio investments. See "—Portfolio Composition and Investment Activity–Investment Activity."
Borrowings
SBA Debentures
SBIC I LP has a SBIC license that allows it to obtain leverage by issuing SBA-guaranteed debentures, subject to issuance of a capital commitment by the SBA and customary procedures. These debentures are non-recourse to us, and bear interest payable semi-annually, and each debenture has a maturity date that is ten years following issuance. The interest rate was fixed at the first pooling date after issuance, which was March and September of each year, at a market-driven spread over U.S. Treasury Notes with ten-year maturities. SBA regulations currently limit the amount that an SBIC may borrow up to a maximum of $150 million when it has at least $75 million in regulatory capital, receives a leverage commitment from the SBA and has been through an examination by the SBA subsequent to licensing. For two or more SBICs under common control, the maximum amount of outstanding SBA-provided leverage cannot exceed $350 million. As of March 31, 2019 and 2018, SBIC I LP had fully drawn the $149.9 million of leverage commitments from the SBA.
On a stand-alone basis, SBIC I LP held $249.5 million, and $251.1 million in assets at March 31, 2019, and December 31, 2018, respectively, which accounted for approximately 54% and 57% of the Company’s total consolidated assets, respectively.
SBIC I LP is periodically examined and audited by the SBA’s staff to determine its compliance with SBA regulations. If SBIC I LP fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit SBIC I LP’s use of debentures, declare outstanding debentures immediately due and payable, and/or limit SBIC I LP from making new investments.
We have received exemptive relief from the SEC effective November 26, 2013, which permits us to exclude SBA guaranteed debentures from the definition of senior securities in the statutory 200% asset coverage ratio under the 1940 Act, allowing for greater capital deployment.
PWB Credit Facility
We are party to a BLA with Pacific Western Bank, as lender, to provide us with a senior secured revolving credit facility, or PWB Credit Facility, which is available for general corporate purposes including investment funding. The maximum availability of the PWB Credit Facility is equal to 50% of the aggregate outstanding principal amount of eligible loans included in the borrowing base, which excludes subordinated loan investments (as defined in the BLA) and as otherwise specified in the BLA. The PWB Credit Facility is guaranteed by our subsidiaries OFS Capital WM and OFSCC-MB, Inc. and secured by all of our current and future assets excluding assets held by SBIC I LP and the Company’s partnership interests in SBIC I LP and OFS SBIC I, GP and certain other financing subsidiaries.
On April 10, 2019, we executed an amendment (the “Secured Revolver Amendment”) to our PWB Credit Facility. The Secured Revolver Amendment, among other things: (i) increases the maximum amount available under the PWB Credit Facility from $50.0 million to $100.0 million; (ii) changes the interest rate from a variable rate of Prime Rate plus a 0.75% margin to a variable rate of Prime Rate plus a 0.25% margin (with a floor of 5.25%); (iii) extends the maturity date from January 31, 2020 to February 28, 2021; (iv) increases the minimum quarterly net investment income covenant from $2.0 million to $3.0 million; (v) reduces the statutory asset coverage ratio test from 200% to 150%; and (vi) adds a total liabilities to Net Asset Value (as defined in the Secured Revolver Amendment) covenant of 300%.
In connection with the Secured Revolver Amendment, we incurred a 1.0% upfront fee on the $50.0 million incremental increase in the maximum amount available under the PWB Credit Facility, which equates to $500,000.

As of March 31, 2019, we had $35.8 million outstanding at a variable interest rate of 5.50% per annum, and $14.2 million available for use under the PWB Credit Facility.

The BLA contains customary terms and conditions, including, without limitation, affirmative and negative covenants such as information reporting requirements, a minimum tangible net asset value, a minimum quarterly net investment income after incentive fees, and a statutory asset coverage test. The BLA also contains customary events of default, including, without limitation, nonpayment, misrepresentation of representations and warranties in a material respect, breach of covenant, cross-default to other indebtedness, bankruptcy, change in investment advisor, and the occurrence of a material adverse change in our financial condition. As of March 31, 2019, the Company was in compliance with the applicable covenants.

Unsecured Notes

In April 2018, we publicly offered the Unsecured Notes Due April 2025 with aggregate principal of $50.0 million. The total net proceeds to the Company from the Unsecured Notes Due April 2025, after deducting underwriting discounts and offering costs of $1.8 million were $48.2 million. In October and November 2018, the Company publicly offered the Unsecured Notes Due October 2025 with aggregate principal of $48.5 million, which included a partial exercise of the underwriters overallotment option. The total net proceeds to the Company from the Unsecured Notes Due October 2025, after deducting underwriting discounts and offering expenses of $1.7 million, were $46.8 million. The combined Unsecured Notes totaled $98.5 million in aggregate principal debt, with net proceeds of $95.0 million to the Company.

The Unsecured Notes are direct unsecured obligations and rank equal in right of payment with all of our current and future unsecured indebtedness. Because the Unsecured Notes are not secured by any of our assets, they are effectively subordinated to all existing and future secured unsubordinated indebtedness (or any indebtedness that is initially unsecured as to which we subsequently grant a security interest), to the extent of the value of the assets securing such indebtedness, including, without limitation, borrowings under the PWB Credit Facility.

As of March 31, 2019, the Unsecured Notes had the following terms and balances (amounts in thousands):

Unsecured Notes	Principal	Stated Interest Rate (1)	Effective Interest Rate (2)	Maturity (3)	Interest Expense (4)
Unsecured Notes Due April 2025	$ 50,000	6.375 %	6.875 %	4/30/2025	$ 860
Unsecured Notes Due October 2025	48,525	6.50 %	7.01 %	10/31/2025	866
Total	$ 98,525				$ 1,726

(1) The weighted-average fixed cash interest rate on the Unsecured Notes as of March 31, 2019 was 6.44%.

(2) The effective interest rate on the Unsecured Notes includes deferred debt issuance cost amortization.

(3) The Unsecured Notes Due April 2025 may be redeemed in whole or in part at any time or from time to time at the Company's option on or after April 30, 2020. The Unsecured Notes Due October 2025 may be redeemed in whole or in part at any time or from time to time at the Company's option on or after October 31, 2020.

(4) Interest expense includes deferred issuance costs amortization.

Other Liquidity Matters

We expect to fund the growth of our investment portfolio utilizing borrowings under SBA debentures, follow-on equity offerings, and issuances of senior securities or future borrowings to the extent permitted by the 1940 Act. We cannot assure stockholders that our plans to raise capital will be successful. In addition, we intend to distribute to our stockholders substantially all of our taxable income in order to satisfy the requirements applicable to RICs under Subchapter M of the Code. Consequently, we may not have the funds or the ability to fund new investments or make additional investments in our portfolio companies. The illiquidity of our portfolio investments may make it difficult for us to sell these investments when desired and, if we are required to sell these investments, we may realize significantly less than their recorded value.

In addition, as a BDC, we generally will be required to meet a coverage ratio of total assets, less liabilities and indebtedness not represented by senior securities (including SBIC I LP's SBA-guaranteed debt), to total senior securities, which include all of our borrowings (excluding SBA-guaranteed debt) and any outstanding preferred stock (of which we had none at March 31, 2019), of at least 200% (or 150% on and after May 3, 2019). We received an exemptive order from the SEC to permit us to exclude the debt of SBIC I LP guaranteed by the SBA from the definition of Senior Securities in the statutory asset coverage ratio under the 1940 Act. This requirement limits the amount that we may borrow. To fund growth in our investment portfolio in the future, we anticipate the need to raise additional capital from various sources, including the equity markets and the securitization or other debt-related markets, which may or may not be available on favorable terms, if at all.

On March 23, 2018, the Consolidated Appropriations Act of 2018, which includes the SBCAA, was signed into law. The SBCAA amends the 1940 Act to permit a BDC to reduce the required minimum asset coverage ratio applicable to it from 200% to 150%, subject to certain requirements described therein.

On May 3, 2018, the Board, including a “required majority” (as such term is defined in Section 57(o) of the 1940 Act) of the Board, approved the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act, as amended by the SBCAA. As a result, the asset coverage ratio test applicable to us will be decreased from 200% to 150%, effective May 3, 2019.

On May 22, 2018, the Board authorized the Company to initiate the Stock Repurchase Program under which the Company may acquire up to $10.0 million of its outstanding common stock. Under the Stock Repurchase Program, the Company is authorized to repurchase shares in open-market transactions, including through block purchases, depending on prevailing market conditions and other factors. The Stock Repurchase Program may be extended, modified or discontinued at any time for any reason. The Company expects the Stock Repurchase Program to be in place through May 22, 2020, or until the approved dollar amount has been used to repurchase shares. The Stock Repurchase Program does not obligate the Company to acquire any specific number of shares, and all repurchases will be made in accordance with SEC Rule 10b-18, which sets certain restrictions on the method, timing, price and volume of stock repurchases. No shares of common stock were repurchased during the three months ended March 31, 2019.

As of March 31, 2019, the aggregate amount outstanding of the senior securities issued by the Company was $284.16 million, for which the Company’s asset coverage was 227%. The Small Business Administration Debentures are not subject to the asset coverage requirements of the 1940 Act as a result of exemptive relief granted to us by the SEC effective November 26, 2013. The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by total senior securities representing indebtedness.

Contractual Obligations and Off-Balance Sheet Arrangements

The following table shows our contractual obligations as of March 31, 2019 (in thousands):

	Payments due by period				
Contractual Obligation (1)	Total	Less than year	1-3 years (2)	3-5 years	After 5 years (2)
PWB Credit Facility	$35,750	$ —	$35,750	$—	$—
Unsecured Notes	98,525	—	—	—	98,525
SBA Debentures	149,880	—	—	21,000	128,880
Total	$284,155	$ —	$35,750	$21,000	$227,405

(1) Excludes commitments to extend credit to our portfolio companies.

(2) The PWB Credit Facility is scheduled to mature on February 28, 2021. The SBA debentures are scheduled to mature between September 2022 and 2025. The Unsecured Notes are scheduled to mature between April 2025 and October 2025.

We have entered into contracts with third parties under which we have material future commitments—the Investment Advisory Agreement, pursuant to which OFS Advisor has agreed to serve as our investment adviser, and the Administration Agreement, pursuant to which OFS Services has agreed to furnish us with the facilities and administrative services necessary to conduct our day-to-day operations.

We may become a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of our portfolio companies. These instruments may include commitments to extend credit and involve, to varying degrees, elements of liquidity and credit risk in excess of the amount recognized in the balance sheet. We had $9.4 million in unfunded commitments to five portfolio companies at March 31, 2019.

Distributions

We are taxed as a RIC under the Code. In order to maintain our status as a RIC, we are required to distribute annually to our stockholders at least 90% of our ICTI, as defined by the Code. Additionally, to avoid a 4% excise tax on undistributed earnings we are required to distribute each calendar year the sum of (i) 98% of our ordinary income for such calendar year (ii) 98.2% of our net capital gains for the one-year period ending October 31 of that calendar year, and (iii) any income recognized, but not distributed, in preceding years and on which we paid no federal income tax. Maintenance of our RIC status also requires adherence to certain source of income and asset diversification requirements. Generally, a RIC is entitled to deduct dividends it pays to its stockholders from its income to determine “taxable income.” Taxable income includes our taxable interest, dividend and fee income, and taxable net capital gains.

Taxable income generally differs from net income for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses, and generally excludes net unrealized appreciation or depreciation, as gains or losses are not included in taxable income until they are realized. In addition, gains realized for financial reporting purposes may differ from gains included in taxable income as a result of our election to recognize gains using installment sale treatment, which generally results in the deferment of gains for tax purposes until notes or other amounts, including amounts held in escrow, received as consideration from the sale of investments are collected in cash. Taxable income includes non-cash income, such as changes in accrued and reinvested interest and dividends, which includes contractual PIK interest, and the amortization of discounts and fees. Cash collections of income resulting from contractual PIK interest and dividends or the amortization of discounts and fees generally occur upon the repayment of the loans or debt securities that include such items. Non-cash taxable income is reduced by non-cash expenses, such as realized losses and depreciation, and amortization expense.

Our board of directors maintains a variable dividend policy with the objective of distributing four quarterly distributions in an amount not less than 90-100% of our taxable quarterly income or potential annual income for a particular year. In addition, at the end of the year, we may also pay an additional special dividend, or fifth dividend, such that we may distribute approximately all of our annual taxable income in the year it was earned, while maintaining the option to spill over our excess taxable income to a following year. Each year, a statement on Form 1099-DIV identifying the source of the distribution is mailed to the Company's stockholders. Generally, a RIC is entitled to deduct dividends it pays to its stockholders from its income to determine "taxable income." Taxable income includes our taxable interest, dividend and fee income, and taxable net capital gains. Taxable income generally differs from net income for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses, and generally excludes net unrealized appreciation or depreciation, as gains or losses are not included in taxable income until they are realized. In addition, gains realized for financial reporting purposes may differ from gains included in taxable income as a result of our election to recognize gains using installment sale treatment, which generally results in the deferment of gains for tax purposes until notes or other amounts, including amounts held in escrow, received as consideration from the sale of investments are collected in cash. Taxable income includes non-cash income, such as changes in accrued and reinvested interest and dividends, which includes contractual PIK interest, and the amortization of discounts and fees. Cash collections of income resulting from contractual PIK interest and dividends or the amortization of discounts and fees generally occur upon the repayment of the loans or debt securities that include such items. Non-cash taxable income is reduced by non-cash expenses, such as realized losses and depreciation, and amortization expense.

Recent Developments

On April 30, 2019, our Board declared a distribution of $0.34 per share for the second quarter of 2019, payable on June 28, 2019, to stockholders of record as of June 21, 2019.

On April 10, 2019, the BLA was amended to, among other things: (i) increase the maximum amount available from $50.0 million to $100.0 million; (ii) change the interest rate from a variable rate of Prime Rate plus a 0.75% margin to a variable rate of Prime Rate plus a 0.25% margin (with a floor of 5.25%); (iii) extend the maturity date from January 31, 2020 to February 28, 2021; (iv) increase the minimum quarterly net investment income covenant from $2.0 million to $3.0 million; (v) reduce the statutory asset coverage ratio test from 200% to 150%; and (vi) add a total liabilities to Net Asset Value (as defined in the Secured Revolver Amendment) covenant of 300%.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to financial market risks, including changes in interest rates. As of March 31, 2019, 88% of our debt investments bore interest at floating interest rates, at fair value. The interest rates on our debt investments bearing floating interest rates are usually based on a floating LIBOR, and the debt investments typically contain interest rate re-set provisions that adjust applicable interest rates to current market rates on a periodic basis. A significant portion of our loans that are subject to the floating LIBOR rates are also subject to a minimum base rate, or floor, that we charge on our loans if the current market rates are below the respective floors. As of March 31, 2019, all of our floating rate loans were based on a floating LIBOR (not subject to a floor).

Our outstanding SBA debentures and Unsecured Notes bear interest at fixed rates. Our PWB Credit Facility has a floating interest rate provision based on the Prime Rate with a 5.25% interest rate floor, which resulted in an effective interest rate of 6.25% as of March 31, 2019.

Assuming that the interim and unaudited consolidated balance sheet as of March 31, 2019 were to remain constant and that we took no actions to alter our existing interest rate sensitivity, the following tables show the annualized impact of hypothetical base rate changes in interest rates (in thousands).

Basis point increase	Interest income	Interest expense	Net increase
50	$ 2,006	$ (191)	$ 1,815
100	3,840	(383)	3,457
150	5,675	(574)	5,101
200	7,509	(765)	6,744
250	9,343	(957)	8,386

Basis point decrease	Interest income	Interest expense	Net decrease
50	$ (1,662)	$ 191	$ (1,471)
100	(3,479)	383	(3,096)
150	(5,186)	—	(5,186)
200	(5,839)	—	(5,839)
250	(6,268)	—	(6,268)

Item 4. Controls and Procedures

Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2019. The term "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the foregoing evaluation of our disclosure controls and procedures as of March 31, 2019, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended March 31, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

We, OFS Advisor and OFS Services, are not currently subject to any material pending legal proceedings threatened against us as of March 31, 2019. From time to time, we may be a party to certain legal proceedings incidental to the normal course of our business including the enforcement of our rights under contracts with our portfolio companies. Furthermore, third parties may try to seek to impose liability on us in connection with the activities of our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our business, financial condition, results of operations or cash flows.

Item 1A. Risk Factors

Investing in our common stock may be speculative and involves a high degree of risk. In addition to the other information contained in this Quarterly Report on Form 10-Q, including our financial statements, and the related notes, schedules and exhibits, you should carefully consider the risk factors described in "Part I, Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, which could materially affect our business, financial condition and/or operating results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018, which should be read together with the other information disclosed elsewhere in this Quarterly Report on Form 10-Q and our other reports filed with the SEC.

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

During the three month period ended March 31, 2019, we issued 3,797 shares of common stock to stockholders in connection with our DRIP. These issuances were not subject to the registration requirements of the Securities Act. The aggregate value of the shares of our common stock issued under our distribution reinvestment plan was approximately $45,000.

Issuer Purchases of Equity Securities

On May 22, 2018, the Board authorized the Company to initiate the Stock Repurchase Program under which the Company may acquire up to $10.0 million of its outstanding common stock. Under the Stock Repurchase Program, the Company is authorized to repurchase shares in open-market transactions, including through block purchases, depending on prevailing market conditions and other factors. The Stock Repurchase Program may be extended, modified or discontinued at any time for any reason. The Company expects the Stock Repurchase Program to be in place through May 22, 2020, or until the approved dollar amount has been used to repurchase shares. The Stock Repurchase Program does not obligate the Company to acquire any specific number of shares, and all repurchases will be made in accordance with SEC Rule 10b-18, which sets certain restrictions on the method, timing, price and volume of stock repurchases.

During the three months ended March 31, 2019, we repurchased -0- shares of common stock on the open market for under the Stock Repurchase Program. The following table provides information regarding the Stock Repurchase Program (amount in thousands except shares):

Period	Total Number of Shares Purchased (1)	Cost of Shares Purchased	Average Price Paid Per Share	Maximum Number (or Appropriate Dollar Value) of Shares that May Yet Be Purchased Under the Stock

				Repurchase Program
January 1, 2019 through March 31, 2019	—	$ —	$ —	$ 9,997

(1) Excludes shares purchased on the open market and reissued in order to satisfy the DRIP obligation.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

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Item 6. Exhibits

Listed below are the exhibits that are filed as part of this report (according to the number assigned to them in Item 601 of Regulation S-K):

Exhibit Number	Description	Incorporated by Reference Form and SEC File No.	Filing Date with SEC	Filed with this 10-Q
11.1	Computation of Per Share Earnings			+
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended			*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended			*
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			†
32.2	Certificate of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			†

+ Included in the consolidated statements of operations contained in this report

* Filed herewith

† Furnished herewith

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: May 3, 2019	OFS CAPITAL CORPORATION
	By: /s/ Bilal Rashid
	Name: Bilal Rashid
	Title: Chief Executive Officer
	By: /s/ Jeffrey A. Cerny
	Name: Jeffrey A. Cerny
	Title: Chief Financial Officer

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