
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

☒ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended **June 30, 2020**

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: **001-34034**

Regions Financial Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

63-0589368

(I.R.S. Employer
Identification No.)

1900 Fifth Avenue North

Birmingham

Alabama

(Address of principal executive offices)

35203

(Zip Code)

(800) 734-4667

(Registrant's telephone number, including area code)

NOT APPLICABLE

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

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

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$.01 par value	RF	New York Stock Exchange
Depository Shares, each representing a 1/40th Interest in a Share of 6.375% Non-Cumulative Perpetual Preferred Stock, Series A	RF PRA	New York Stock Exchange
Depository Shares, each representing a 1/40th Interest in a Share of 6.375% Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series B	RF PRB	New York Stock Exchange
Depository Shares, each representing a 1/40th Interest in a Share of 5.700% Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series C	RF PRC	New York Stock Exchange

The number of shares outstanding of each of the issuer's classes of common stock was 960,165,679 shares of common stock, par value \$.01, as of August 3, 2020.

REGIONS FINANCIAL CORPORATION
FORM 10-Q
INDEX

	<u>Page</u>
Forward-Looking Statements	
Part I. Financial Information	
Item 1. Financial Statements (Unaudited)	
Consolidated Balance Sheets	10
Consolidated Statements of Operations	11
Consolidated Statements of Comprehensive Income	12
Consolidated Statements of Changes in Equity	13
Consolidated Statements of Cash Flows	15
Notes to Consolidated Financial Statements	16
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	59
Item 3. Quantitative and Qualitative Disclosures about Market Risk	103
Item 4. Controls and Procedures	103
Part II. Other Information	
Item 1. Legal Proceedings	104
Item 1A. Risk Factors	104
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	105
Item 6. Exhibits	106
Signatures	107

Glossary of Defined Terms

Agencies - collectively, FNMA, FHLMC and GNMA.

ACL - Allowance for credit losses.

ALCO - Asset/Liability Management Committee.

Allowance - Allowance for credit losses.

ALLL - Allowance for loan and lease losses.

AOCI - Accumulated other comprehensive income.

ASC - Accounting Standards Codification.

Ascentium - Ascentium Capital, LLC., acquired April 1, 2020.

ASU - Accounting Standards Update.

ATM - Automated teller machine.

Bank - Regions Bank.

Basel I - Basel Committee's 1988 Regulatory Capital Framework (First Accord).

Basel III - Basel Committee's 2010 Regulatory Capital Framework (Third Accord).

Basel III Rules - Final capital rules adopting the Basel III capital framework approved by U.S. federal regulators in 2013.

Basel Committee - Basel Committee on Banking Supervision.

BHC - Bank Holding Company.

BITS - Technology policy division of the Bank Policy Institute.

Board - The Company's Board of Directors.

CAP - Customer Assistance Program.

CARES Act - Coronavirus Aid, Relief, and Economic Security Act

CCAR - Comprehensive Capital Analysis and Review.

CECL - Accounting Standards Update 2016-13, *Measurement of Credit Losses on Financial Instruments* ("Current Expected Credit Losses")

CEO - Chief Executive Officer.

CET1 - Common Equity Tier 1.

CFPB - Consumer Financial Protection Bureau.

Company - Regions Financial Corporation and its subsidiaries.

COVID-19 - Coronavirus Disease 2019.

CPI - Consumer price index.

CPR - Constant (or Conditional) prepayment rate.

CRA - Community Reinvestment Act of 1977.

CRE - Commercial real estate- mortgage owner-occupied and commercial real estate-construction owner-occupied classes in the Commercial portfolio segment.

Dodd-Frank Act - The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

DFAST - Dodd-Frank Act Stress Test.

DPD - Days past due.

DUS - Fannie Mae Delegated Underwriting & Servicing.

E&P - Extraction and production.

EAD - Exposure-at-default.

EGRRCPA - The Economic Growth, Regulatory Relief, and Consumer Protection Act.

ERI - Eligible retained income.

FASB - Financial Accounting Standards Board.

FDIC - The Federal Deposit Insurance Corporation.

Federal Reserve - The Board of Governors of the Federal Reserve System.

FHA - Federal Housing Administration.

FHLB - Federal Home Loan Bank.

FHLMC - Federal Home Loan Mortgage Corporation, known as Freddie Mac.

FICO - The Financing Corporation, established by the Competitive Equality Banking Act of 1987.

FICO scores - Personal credit scores based on the model introduced by the Fair Isaac Corporation.

FNMA - Federal National Mortgage Association, known as Fannie Mae.

FRB - Federal Reserve Bank.

FS-ISAC - Financial Services - Information Sharing & Analysis Center.

GAAP - Generally Accepted Accounting Principles in the United States.

GDP - Gross domestic product.

GNMA - Government National Mortgage Association.

G-SIB - Globally Systematically Important Bank Holding Company.

HPI - Housing price index.

HUD - U.S. Department of Housing and Urban Development.

ISM - Institute for Supply Chain Management.

IPO - Initial public offering.

IRE - Investor real estate portfolio segment.

IRS - Internal Revenue Service.

LCR - Liquidity coverage ratio.

LGD - Loss given default.

LIBOR - London InterBank Offered Rate.

LLC - Limited Liability Company.

LROC - Liquidity Risk Oversight Committee.

LTIP - Long-term incentive plan.

LTV - Loan to value.

MBA - Mortgage Bankers Association.

MBS - Mortgage-backed securities.

Morgan Keegan - Morgan Keegan & Company, Inc., sold April 2, 2012.

MSAs - Metropolitan Statistical Areas.

MSR - Mortgage servicing right.

NM - Not meaningful.

NPR - Notice of public ruling.

OAS - Option-adjusted spread.

OCC - Office of the Comptroller of the Currency.

OCI - Other comprehensive income.

OIS - Overnight indexed swap.

OTTI - Other-than-temporary impairment.

PCD - Purchased credit deteriorated.

PD - Probability of default.

PPP - Paycheck Protection Program.

R&S - Reasonable and supportable.

Raymond James - Raymond James Financial, Inc.

REIT - Real estate investment trust.

Regions Securities - Regions Securities LLC.

RETDR - Reasonable expectation of a troubled debt restructuring.

S&P 500 - a stock market index that measures the stock performance of 500 large companies listed on stock exchanges in the United States.

SBA - Small Business Administration.

SCB - Stress Capital Buffer.

SEC - U.S. Securities and Exchange Commission.

SERP - Supplemental Executive Retirement Plan.

SLB - Stress leverage buffer.

SOFR - Secured Overnight Funding Rate.

Tax Reform - H.R.1, An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018.

TDR - Troubled debt restructuring.

TTC - Through-the-cycle.

U.S. - United States.

U.S. Treasury - The United States Department of the Treasury.

UTB - Unrecognized tax benefits.

VIE - Variable interest entity.

Visa - The Visa, U.S.A. Inc. card association or its affiliates, collectively.

Volker Rule - Section 619 of the Dodd-Frank Act and regulations promulgated thereunder, as applicable.

wSTWF - Weighted short-term wholesale funding.

Forward-Looking Statements

This Quarterly Report on Form 10-Q, other periodic reports filed by Regions Financial Corporation under the Securities Exchange Act of 1934, as amended, and any other written or oral statements made by us or on our behalf to analysts, investors, the media and others, may include forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995.

The terms “Regions,” the “Company,” “we,” “us” and “our” as used herein mean collectively Regions Financial Corporation, a Delaware corporation, together with its subsidiaries when or where appropriate. The words “future,” “anticipates,” “assumes,” “intends,” “plans,” “seeks,” “believes,” “predicts,” “potential,” “objectives,” “estimates,” “expects,” “targets,” “projects,” “outlook,” “forecast,” “would,” “will,” “may,” “might,” “could,” “should,” “can,” and similar terms and expressions often signify forward-looking statements. Further, statements about the potential effects of the COVID-19 pandemic on our businesses and financial results and conditions may constitute forward-looking statements and are subject to the risk that the actual effects may differ, possibly materially, from what is reflected in those forward-looking statements due to factors and future developments that are uncertain, unpredictable and in many cases beyond our control, including the scope and duration of the pandemic (including any second wave or resurgences), actions taken by governmental authorities in response to the pandemic, and the direct and indirect impact of the pandemic on our customers, third parties and us. 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 current 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, and because they also relate to the future they are likewise subject to inherent uncertainties and other factors that may cause actual results to differ materially from the views, beliefs and projections expressed in such statements. Therefore, we caution you against relying on any of these forward-looking statements. These risks, uncertainties and other factors include, but are not limited to, the risk identified in Part II Item 1A. “Risk Factors” of this Form 10-Q and those described below:

- Current and future economic and market conditions in the United States generally or in the communities we serve (in particular the Southeastern United States), including the effects of possible declines in property values, increases in unemployment rates, financial market disruptions and potential reductions of economic growth, which may adversely affect our lending and other businesses and our financial results and conditions.
- Possible changes in trade, monetary and fiscal policies of, and other activities undertaken by, governments, agencies, central banks and similar organizations, which could have a material adverse effect on our earnings.
- Possible changes in market interest rates or capital markets could adversely affect our revenue and expense, the value of assets and obligations, and the availability and cost of capital and liquidity.
- The impact of pandemics, including the ongoing COVID-19 pandemic, on our businesses and financial results and conditions. The duration and severity of the ongoing COVID-19 pandemic, which has disrupted the global economy, has and could continue to adversely affect our capital and liquidity position, impair the ability of borrowers to repay outstanding loans and increase our allowance for credit losses, impair collateral values, and result in lost revenue or additional expenses. The pandemic could also cause an outflow of deposits, result in goodwill impairment charges and the impairment of other financial and nonfinancial assets, and increase our cost of capital.
- Any impairment of our goodwill or other intangibles, any repricing of assets, or any adjustment of valuation allowances on our deferred tax assets due to changes in law, adverse changes in the economic environment, declining operations of the reporting unit or other factors.
- The effect of changes in tax laws, including the effect of any future interpretations of or amendments to Tax Reform, which may impact our earnings, capital ratios and our ability to return capital to shareholders.
- Possible changes in the creditworthiness of customers and the possible impairment of the collectability of loans and leases, including operating leases.
- Changes in the speed of loan prepayments, loan origination and sale volumes, charge-offs, loan loss provisions or actual loan losses where our allowance for loan losses may not be adequate to cover our eventual losses.
- Possible acceleration of prepayments on mortgage-backed securities due to low interest rates, and the related acceleration of premium amortization on those securities.
- Loss of customer checking and savings account deposits as customers pursue other, higher-yield investments, which could increase our funding costs.
- Possible changes in consumer and business spending and saving habits and the related effect on our ability to increase assets and to attract deposits, which could adversely affect our net income.
- Our ability to effectively compete with other traditional and non-traditional financial services companies, some of whom possess greater financial resources than we do or are subject to different regulatory standards than we are.

- Our inability to develop and gain acceptance from current and prospective customers for new products and services and the enhancement of existing products and services to meet customers' needs and respond to emerging technological trends in a timely manner could have a negative impact on our revenue.
- Our inability to keep pace with technological changes could result in losing business to competitors.
- Changes in laws and regulations affecting our businesses, including legislation and regulations relating to bank products and services, as well as changes in the enforcement and interpretation of such laws and regulations by applicable governmental and self-regulatory agencies, which could require us to change certain business practices, increase compliance risk, reduce our revenue, impose additional costs on us, or otherwise negatively affect our businesses.
- Our capital actions, including dividend payments, common stock repurchases, or redemptions of preferred stock or other regulatory capital instruments, must not cause us to fall below minimum capital ratio requirements, with applicable buffers taken into account, and must comply with other requirements under law or imposed by our regulators, which may impact our ability to return capital to shareholders.
- Our ability to comply with stress testing and capital planning requirements (as part of the CCAR process or otherwise) may continue to require a significant investment of our managerial resources due to the importance of such tests and requirements.
- Our ability to comply with applicable capital and liquidity requirements (including, among other things, the Basel III capital standards), including our ability to generate capital internally or raise capital on favorable terms, and if we fail to meet requirements, our financial condition and market perceptions of us could be negatively impacted.
- The effects of any developments, changes or actions relating to any litigation or regulatory proceedings brought against us or any of our subsidiaries.
- The costs, including possibly incurring fines, penalties, or other negative effects (including reputational harm) of any adverse judicial, administrative, or arbitral rulings or proceedings, regulatory enforcement actions, or other legal actions to which we or any of our subsidiaries are a party, and which may adversely affect our results.
- Our 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 our business.
- Our ability to execute on our strategic and operational plans, including our ability to fully realize the financial and non-financial benefits relating to our strategic initiatives.
- The risks and uncertainties related to our acquisition or divestiture of businesses.
- The success of our marketing efforts in attracting and retaining customers.
- Our ability to recruit and retain talented and experienced personnel to assist in the development, management and operation of our products and services may be affected by changes in laws and regulations in effect from time to time.
- Fraud or misconduct by our customers, employees or business partners.
- Any inaccurate or incomplete information provided to us by our customers or counterparties.
- Inability of our framework to manage risks associated with our business such as credit risk and operational risk, including third-party vendors and other service providers, which could, among other things, result in a breach of operating or security systems as a result of a cyber attack or similar act or failure to deliver our services effectively.
- Dependence on key suppliers or vendors to obtain equipment and other supplies for our business on acceptable terms.
- The inability of our internal controls and procedures to prevent, detect or mitigate any material errors or fraudulent acts.
- The effects of geopolitical instability, including wars, conflicts and terrorist attacks and the potential impact, directly or indirectly, on our businesses.
- The effects of man-made and natural disasters, including fires, floods, droughts, tornadoes, hurricanes, and environmental damage (specifically in the Southeastern United States), which may negatively affect our operations and/or our loan portfolios and increase our cost of conducting business. The severity and impact of future earthquakes, fires, hurricanes, tornadoes, droughts, floods and other weather-related events are difficult to predict and may be exacerbated by global climate change.
- Changes in commodity market prices and conditions could adversely affect the cash flows of our borrowers operating in industries that are impacted by changes in commodity prices (including businesses indirectly impacted by commodities prices such as businesses that transport commodities or manufacture equipment used in the production of commodities), which could impair their ability to service any loans outstanding to them and/or reduce demand for loans in those industries.
- Our ability to identify and address cyber-security risks such as data security breaches, malware, "denial of service" attacks, "hacking" and identity theft, including account take-overs, a failure of which could disrupt our business and result in the

disclosure of and/or misuse or misappropriation of confidential or proprietary information, disruption or damage to our systems, increased costs, losses, or adverse effects to our reputation.

- Our ability to achieve our expense management initiatives.
- Market replacement of LIBOR and the related effect on our LIBOR-based financial products and contracts, including, but not limited to, derivative products, debt obligations, deposits, investments, and loans.
- Possible downgrades in our credit ratings or outlook could, among other negative impacts, increase the costs of funding from capital markets.
- The effects of a possible downgrade in the U.S. government's sovereign credit rating or outlook, which could result in risks to us and general economic conditions that we are not able to predict.
- The effects of problems encountered by other financial institutions that adversely affect us or the banking industry generally could require us to change certain business practices, reduce our revenue, impose additional costs on us, or otherwise negatively affect our businesses.
- The effects of the failure of any component of our business infrastructure provided by a third party could disrupt our businesses, result in the disclosure of and/or misuse of confidential information or proprietary information, increase our costs, negatively affect our reputation, and cause losses.
- Our ability to receive dividends from our subsidiaries could affect our liquidity and ability to pay dividends to shareholders.
- Changes in accounting policies or procedures as may be required by the FASB or other regulatory agencies could materially affect our financial statements and how we report those results, and expectations and preliminary analyses relating to how such changes will affect our financial results could prove incorrect.
- Other risks identified from time to time in reports that we file with the SEC.
- Fluctuations in the price of our common stock and inability to complete stock repurchases in the time frame and/or on the terms anticipated.
- The effects of any damage to our reputation resulting from developments related to any of the items identified above.

You should not place undue reliance on any forward-looking statements, which speak only as of the date made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible to predict all of them. We assume no obligation and do not intend to update or revise any forward-looking statements that are made from time to time, either as a result of future developments, new information or otherwise, except as may be required by law.

See also the reports filed with the SEC, including the discussion under the "Risk Factors" section of Regions' Annual Report on Form 10-K for the year ended December 31, 2019 and Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, as filed with the SEC and available on its website at www.sec.gov.

PART I
FINANCIAL INFORMATION
Item 1. Financial Statements (Unaudited)
REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	June 30, 2020	December 31, 2019
	(In millions, except share data)	
Assets		
Cash and due from banks	\$ 1,619	\$ 1,598
Interest-bearing deposits in other banks	11,579	2,516
Debt securities held to maturity (estimated fair value of \$1,356 and \$1,372, respectively)	1,255	1,332
Debt securities available for sale (amortized cost of \$22,783 and \$22,332, respectively)	23,898	22,606
Loans held for sale (includes \$969 and \$439 measured at fair value, respectively)	1,152	637
Loans, net of unearned income	90,548	82,963
Allowance for loan losses	(2,276)	(869)
Net loans	88,272	82,094
Other earning assets	1,238	1,518
Premises and equipment, net	1,929	1,960
Interest receivable	343	362
Goodwill	5,193	4,845
Residential mortgage servicing rights at fair value	249	345
Other identifiable intangible assets, net	137	105
Other assets	7,206	6,322
Total assets	\$ 144,070	\$ 126,240
Liabilities and Equity		
Deposits:		
Non-interest-bearing	\$ 47,964	\$ 34,113
Interest-bearing	68,815	63,362
Total deposits	116,779	97,475
Borrowed funds:		
Short-term borrowings	—	2,050
Long-term borrowings	6,408	7,879
Total borrowed funds	6,408	9,929
Other liabilities	3,255	2,541
Total liabilities	126,442	109,945
Equity:		
Preferred stock, authorized 10 million shares, par value \$1.00 per share		
Non-cumulative perpetual, including related surplus, net of issuance costs; issued—1,850,000 and 1,500,000 shares, respectively	1,656	1,310
Common stock, authorized 3 billion shares, par value \$.01 per share:		
Issued including treasury stock— 1,001,112,100 and 998,278,188 shares, respectively	10	10
Additional paid-in capital	12,703	12,685
Retained earnings	2,978	3,751
Treasury stock, at cost—41,032,676 shares	(1,371)	(1,371)
Accumulated other comprehensive income (loss), net	1,626	(90)
Total shareholders' equity	17,602	16,295
Noncontrolling interest	26	—
Total equity	17,628	16,295
Total liabilities and equity	\$ 144,070	\$ 126,240

See notes to consolidated financial statements.

REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
	(In millions, except per share data)			
Interest income on:				
Loans, including fees	\$ 898	\$ 992	\$ 1,801	\$ 1,973
Debt securities	148	163	306	328
Loans held for sale	6	4	11	7
Other earning assets	11	18	24	40
Total interest income	1,063	1,177	2,142	2,348
Interest expense on:				
Deposits	40	125	124	233
Short-term borrowings	2	14	10	27
Long-term borrowings	49	96	108	198
Total interest expense	91	235	242	458
Net interest income	972	942	1,900	1,890
Provision for credit losses ⁽¹⁾	882	92	1,255	183
Net interest income after provision for credit losses ⁽¹⁾	90	850	645	1,707
Non-interest income:				
Service charges on deposit accounts	131	181	309	356
Card and ATM fees	101	120	206	229
Investment management and trust fee income	62	59	124	116
Capital markets income	95	39	104	81
Mortgage income	82	31	150	58
Securities gains (losses), net	1	(19)	1	(26)
Other	101	83	164	182
Total non-interest income	573	494	1,058	996
Non-interest expense:				
Salaries and employee benefits	527	469	994	947
Net occupancy expense	76	80	155	162
Furniture and equipment expense	86	84	169	160
Other	235	228	442	452
Total non-interest expense	924	861	1,760	1,721
Income (loss) before income taxes	(261)	483	(57)	982
Income tax expense (benefit)	(47)	93	(5)	198
Net income (loss)	\$ (214)	\$ 390	\$ (52)	\$ 784
Net income (loss) available to common shareholders	\$ (237)	\$ 374	\$ (98)	\$ 752
Weighted-average number of shares outstanding:				
Basic	960	1,010	958	1,015
Diluted	960	1,012	958	1,020
Earnings (loss) per common share:				
Basic	\$ (0.25)	\$ 0.37	\$ (0.10)	\$ 0.74
Diluted	\$ (0.25)	\$ 0.37	\$ (0.10)	\$ 0.74

(1) Upon adoption of CECL on January 1, 2020, the provision for credit losses is the sum of the provision for loans losses and the provision for unfunded credit commitments. Prior to the adoption of CECL, the provision for unfunded commitments was included in other non-interest expense.

See notes to consolidated financial statements.

REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended June 30	
	2020	2019
	(In millions)	
Net income (loss)	\$ (214)	\$ 390
Other comprehensive income, net of tax:		
Unrealized losses on securities transferred to held to maturity:		
Unrealized losses on securities transferred to held to maturity during the period (net of zero and zero tax effect, respectively)	—	—
Less: reclassification adjustments for amortization of unrealized losses on securities transferred to held to maturity (net of zero and zero tax effect, respectively)	(1)	(2)
Net change in unrealized losses on securities transferred to held to maturity, net of tax	1	2
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period (net of \$61 and \$88 tax effect, respectively)	185	244
Less: reclassification adjustments for securities gains (losses) realized in net income (loss) (net of zero and (\$3) tax effect, respectively)	1	(16)
Net change in unrealized gains (losses) on securities available for sale, net of tax	184	260
Unrealized gains (losses) on derivative instruments designated as cash flow hedges:		
Unrealized holding gains (losses) on derivatives arising during the period (net of \$52 and \$102 tax effect, respectively)	153	302
Less: reclassification adjustments for gains (losses) on derivative instruments realized in net income (loss) (net of \$15 and (\$2) tax effect, respectively)	45	(6)
Net change in unrealized gains (losses) on derivative instruments, net of tax	108	308
Defined benefit pension plans and other post employment benefits:		
Net actuarial gains (losses) arising during the period (net of zero and zero tax effect, respectively)	—	—
Less: reclassification adjustments for amortization of actuarial loss and settlements realized in net income (loss) (net of (\$3) and (\$3) tax effect, respectively)	(9)	(7)
Net change from defined benefit pension plans and other post employment benefits, net of tax	9	7
Other comprehensive income, net of tax	302	577
Comprehensive income	\$ 88	\$ 967
	Six Months Ended June 30	
	2020	2019
	(In millions)	
Net income (loss)	\$ (52)	\$ 784
Other comprehensive income, net of tax:		
Unrealized losses on securities transferred to held to maturity:		
Unrealized losses on securities transferred to held to maturity during the period (net of zero and zero tax effect, respectively)	—	—
Less: reclassification adjustments for amortization of unrealized losses on securities transferred to held to maturity (net of zero and zero tax effect, respectively)	(2)	(3)
Net change in unrealized losses on securities transferred to held to maturity, net of tax	2	3
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period (net of \$212 and \$165 tax effect, respectively)	631	484
Less: reclassification adjustments for securities gains (losses) realized in net income (loss) (net of zero and (\$5) tax effect, respectively)	1	(21)
Net change in unrealized gains (losses) on securities available for sale, net of tax	630	505
Unrealized gains (losses) on derivative instruments designated as cash flow hedges:		
Unrealized holding gains (losses) on derivatives arising during the period (net of \$377 and \$138 tax effect, respectively)	1,119	409
Less: reclassification adjustments for gains (losses) on derivative instruments realized in net income (loss) (net of \$17 and (\$4) tax effect, respectively)	52	(12)
Net change in unrealized gains (losses) on derivative instruments, net of tax	1,067	421
Defined benefit pension plans and other post employment benefits:		
Net actuarial gains (losses) arising during the period (net of zero and zero tax effect, respectively)	—	—
Less: reclassification adjustments for amortization of actuarial loss and settlements realized in net income (loss) (net of (\$6) and (\$5) tax effect, respectively)	(17)	(14)
Net change from defined benefit pension plans and other post employment benefits, net of tax	17	14
Other comprehensive income, net of tax	1,716	943
Comprehensive income	\$ 1,664	\$ 1,727

See notes to consolidated financial statements.

REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Shareholders' Equity									
	Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock, At Cost	Accumulated Other Comprehensive Income (Loss), Net	Total	Non- controlling Interest
	Shares	Amount	Shares	Amount						
	(In millions, except per share data)									
BALANCE AT JANUARY 1, 2019	1	\$ 820	1,025	\$ 11	\$ 13,766	\$ 2,828	\$ (1,371)	\$ (964)	\$ 15,090	\$ —
Cumulative effect from change in accounting guidance	—	—	—	—	—	2	—	—	2	—
Net income	—	—	—	—	—	394	—	—	394	—
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	—	366	366	—
Cash dividends declared	—	—	—	—	—	(142)	—	—	(142)	—
Preferred stock dividends	—	—	—	—	—	(16)	—	—	(16)	—
Common stock transactions:										
Impact of share repurchases	—	—	(12)	—	(190)	—	—	—	(190)	—
Impact of stock transactions under compensation plans, net	—	—	—	—	8	—	—	—	8	—
Other	—	—	—	—	—	—	—	—	—	11
BALANCE AT MARCH 31, 2019	<u>1</u>	<u>\$ 820</u>	<u>1,013</u>	<u>\$ 11</u>	<u>\$ 13,584</u>	<u>\$ 3,066</u>	<u>\$ (1,371)</u>	<u>\$ (598)</u>	<u>\$ 15,512</u>	<u>\$ 11</u>
BALANCE AT APRIL 1, 2019	1	\$ 820	1,013	\$ 11	\$ 13,584	\$ 3,066	\$ (1,371)	\$ (598)	\$ 15,512	\$ 11
Net income	—	—	—	—	—	390	—	—	390	—
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	—	577	577	—
Cash dividends declared	—	—	—	—	—	(141)	—	—	(141)	—
Preferred stock dividends	—	—	—	—	—	(16)	—	—	(16)	—
Net proceeds from issuance of 500 thousand shares of Series C, fixed to floating rate, non-cumulative perpetual preferred stock, including related surplus	1	490	—	—	—	—	—	—	490	—
Common stock transactions:										
Impact of share repurchases	—	—	(13)	—	(190)	—	—	—	(190)	—
Impact of stock transactions under compensation plans, net and other	—	—	4	—	(14)	—	—	—	(14)	—
Other	—	—	—	—	—	—	—	—	—	(11)
BALANCE AT JUNE 30, 2019	<u>2</u>	<u>\$ 1,310</u>	<u>1,004</u>	<u>\$ 11</u>	<u>\$ 13,380</u>	<u>\$ 3,299</u>	<u>\$ (1,371)</u>	<u>\$ (21)</u>	<u>\$ 16,608</u>	<u>\$ —</u>
BALANCE AT JANUARY 1, 2020	2	\$ 1,310	957	\$ 10	\$ 12,685	\$ 3,751	\$ (1,371)	\$ (90)	\$ 16,295	\$ —
Cumulative effect from change in accounting guidance	—	—	—	—	—	(377)	—	—	(377)	—
Net income	—	—	—	—	—	162	—	—	162	—
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	—	1,414	1,414	—
Cash dividends declared	—	—	—	—	—	(149)	—	—	(149)	—
Preferred stock dividends	—	—	—	—	—	(23)	—	—	(23)	—
Impact of common stock transactions under compensation plans, net	—	—	—	—	10	—	—	—	10	—
BALANCE AT MARCH 31, 2020	<u>2</u>	<u>\$ 1,310</u>	<u>957</u>	<u>\$ 10</u>	<u>\$ 12,695</u>	<u>\$ 3,364</u>	<u>\$ (1,371)</u>	<u>\$ 1,324</u>	<u>\$ 17,332</u>	<u>\$ —</u>

	Shareholders' Equity									
	Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock, At Cost	Accumulated Other Comprehensive Income (Loss), Net	Total	Non- controlling Interest
	Shares	Amount	Shares	Amount						
	(In millions, except per share data)									
BALANCE AT APRIL 1, 2020	2	\$ 1,310	957	\$ 10	\$ 12,695	\$ 3,364	\$ (1,371)	\$ 1,324	\$ 17,332	\$ —
Net income (loss)	—	—	—	—	—	(214)	—	—	(214)	—
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	—	302	302	—
Cash dividends declared	—	—	—	—	—	(149)	—	—	(149)	—
Preferred stock dividends	—	—	—	—	—	(23)	—	—	(23)	—
Net proceeds from issuance of 350 thousand shares of Series D preferred stock, including related surplus	—	346	—	—	—	—	—	—	346	—
Impact of common stock transactions under compensation plans, net	—	—	3	—	8	—	—	—	8	—
Other	—	—	—	—	—	—	—	—	—	26
BALANCE AT JUNE 30, 2020	2	\$ 1,656	960	\$ 10	\$ 12,703	\$ 2,978	\$ (1,371)	\$ 1,626	\$ 17,602	\$ 26

See notes to consolidated financial statements.

REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30	
	2020	2019
	(In millions)	
Operating activities:		
Net income (loss)	\$ (52)	\$ 784
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Provision for credit losses ⁽¹⁾	1,255	183
Depreciation, amortization and accretion, net	228	212
Securities (gains) losses, net	(1)	26
Deferred income tax (benefit) expense	(242)	18
Originations and purchases of loans held for sale	(2,918)	(1,580)
Proceeds from sales of loans held for sale	2,517	1,420
(Gain) loss on sale of loans, net	(97)	(55)
(Gain) loss on early extinguishment of debt	6	—
Net change in operating assets and liabilities:		
Other earning assets	305	50
Interest receivable and other assets	55	(234)
Other liabilities	489	381
Other	99	116
Net cash from operating activities	1,644	1,321
Investing activities:		
Proceeds from maturities of debt securities held to maturity	76	65
Proceeds from sales of debt securities available for sale	102	4,121
Proceeds from maturities of debt securities available for sale	1,909	1,682
Purchases of debt securities available for sale	(2,352)	(5,167)
Net proceeds from (payments for) bank-owned life insurance	(4)	(4)
Proceeds from sales of loans	141	327
Purchases of loans	(856)	(526)
Purchases of mortgage servicing rights	(16)	(10)
Net change in loans	(4,941)	(398)
Net purchases of other assets	(88)	(55)
Payment for acquisition of a business, net of cash received	(387)	—
Net cash from investing activities	(6,416)	35
Financing activities:		
Net change in deposits	19,304	480
Net change in short-term borrowings	(2,050)	2,650
Proceeds from long-term borrowings	4,698	20,774
Payments on long-term borrowings	(8,088)	(24,074)
Net proceeds from issuance of preferred stock	346	490
Cash dividends on common stock	(298)	(286)
Cash dividends on preferred stock	(46)	(32)
Repurchases of common stock	—	(380)
Taxes paid related to net share settlement of equity awards	(7)	(27)
Other	(3)	(1)
Net cash from financing activities	13,856	(406)
Net change in cash and cash equivalents	9,084	950
Cash and cash equivalents at beginning of year	4,114	3,538
Cash and cash equivalents at end of period	\$ 13,198	\$ 4,488

(1) Upon adoption of CECL on January 1, 2020, the provision for credit losses is now the sum of the provision for loans losses and the provision for unfunded credit commitments. Prior to the adoption, the provision for unfunded commitments is included in other non-interest expense.

See notes to consolidated financial statements.

REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Six Months Ended June 30, 2020 and 2019

NOTE 1. BASIS OF PRESENTATION

Regions Financial Corporation (“Regions” or the “Company”) provides a full range of banking and bank-related services to individual and corporate customers through its subsidiaries and branch offices located across the South, Midwest and Texas. The Company competes with other financial institutions located in the states in which it operates, as well as other adjoining states. Regions is subject to the regulations of certain government agencies and undergoes periodic examinations by certain regulatory authorities.

The accounting and reporting policies of Regions and the methods of applying those policies that materially affect the consolidated financial statements conform with GAAP and with general financial services industry practices. The accompanying interim financial statements have been prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all information and notes to the consolidated financial statements necessary for a complete presentation of financial position, results of operations, comprehensive income and cash flows in conformity with GAAP. In the opinion of management, all adjustments, consisting of normal and recurring items, necessary for the fair presentation of the consolidated financial statements have been included. These interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto in Regions’ Annual Report on Form 10-K for the year ended December 31, 2019. Regions has evaluated all subsequent events for potential recognition and disclosure through the filing date of this Form 10-Q.

During 2020, the Company adopted new accounting guidance related to several topics, including CECL. See Note 13 and below for related disclosures.

CECL

On January 1, 2020, the Company adopted CECL, which replaces the incurred loss methodology with an expected loss methodology. The measurement of expected losses under CECL is applicable to financial assets measured at amortized cost, including loan receivables and debt securities held to maturity. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with accounting guidance on leases. In addition, CECL required changes to the accounting for debt securities available for sale. The adoption of CECL had a material impact to the allowance for credit losses (see below). The cumulative effect of the modified retrospective application for all items in scope was a reduction to retained earnings of \$377 million, net of taxes, \$375 million of which was attributable to the allowance and \$2 million of which was attributable to other financial assets.

DEBT SECURITIES

The company adopted CECL using the prospective transition approach for debt securities for which OTTI had previously been recognized. As a result, the amortized cost basis remained the same before and after adoption. Recoveries of amounts previously written off relating to improvements in cash flows after January 1, 2020 will be recorded in earnings when received.

For debt securities available for sale, CECL eliminates the concept of OTTI and instead requires entities to determine if impairment is related to credit loss or non-credit loss. In making the assessment of whether a loss is from credit or other factors, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows is less than the amortized cost basis, a credit loss exists and an allowance is created, limited by the amount that the fair value is less than the amortized cost basis.

Subsequent activity related to the credit loss component (e.g. write-offs, recoveries) is recognized as part of the allowance for credit losses on debt securities available for sale. Securities held to maturity are evaluated under the allowance for credit losses model. For securities which have an expectation of zero nonpayment of the amortized cost basis (e.g. U.S. Treasury securities or agency securities), the expected credit loss is zero.

LOANS

Loans held for investment are carried at amortized cost (the principal amount outstanding, net of premiums, discounts, unearned income and deferred loan fees and costs). Regions elected to exclude accrued interest receivable balances from the amortized cost basis. Interest receivable is included as a separate line item on the balance sheets. Additionally, Regions elected to not estimate an allowance on interest receivable balances because the Company has non-accrual policies in place that provide for the accrual of interest to cease on a timely basis when all contractual amounts due are not expected. See more information about Regions' non-accrual policies in Note 1 of Regions' Annual Report on Form 10-K for the year ended December 31, 2019.

Purchased loans are recorded at their fair value at the acquisition date. Purchased loans are evaluated and classified as either PCD, which indicates that the loan has experienced more than insignificant credit deterioration since origination, or non-PCD loans. For PCD loans, the sum of the loans' purchase price and allowance for credit losses, which is determined using the same methodology as originated loans, becomes their initial amortized cost basis. For non-PCD loans, the difference between the fair value and the par value is considered the fair value mark. The non-credit discount or premium related to PCD loans and the fair value mark on non-PCD loans is accreted or amortized to interest income over the contractual life of the loan using the effective interest method. Subsequent changes in the allowance related to PCD and non-PCD loans are recognized in the provision for credit losses.

TDRs are loans whereby the borrower is experiencing financial difficulty at the time of restructuring, and Regions has granted a concession to the borrower. TDRs are undertaken in order to improve the likelihood of recovery on the loan and may take the form of modifications to the stated interest rate such that it is lower than the current market rate for new debt with similar risk, other modifications to the structure of the loan that fall outside of normal underwriting policies and procedures, or in limited circumstances forgiveness of principal and/or interest. Insignificant delays in payments are not considered TDRs. Prior to the adoption of CECL on January 1, 2020, all loans with the TDR designation were considered to be impaired, even if they were accruing. With the adoption of CECL on January 1, 2020, the definition of impaired loans was removed from accounting guidance.

ALLOWANCE

Regions adopted CECL using the modified retrospective method for loans held for investment, net investment in lease assets, and off-balance sheet credit exposures. Results for reporting periods beginning January 1, 2020 are presented under CECL while prior periods' amounts continue to be reported in accordance with previously applicable GAAP. The cumulative effect of the retrospective application for loans and unfunded commitments was an increase in the allowance of \$501 million and a reduction to retained earnings of \$375 million, with the difference being an increase to deferred tax assets.

Upon the adoption of CECL, the allowance is intended to cover expected credit losses over the contractual life of loans measured at amortized cost, including unfunded commitments. Management's measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and R&S forecasts that affect the collectability of the reported amount. For periods beyond which Regions makes or obtains such R&S forecasts, Regions reverts to historical credit loss information. Regions maintains an appropriate level of allowance that falls within an acceptable range of estimated losses, measured in accordance with GAAP. Management's determination of the appropriateness of the allowance is based on many factors, including, but not limited to, an evaluation and rating of the loan portfolio; historical loan loss experience; current economic conditions; collateral values securing loans; levels of problem loans; volume, growth, quality and composition of the loan portfolio; regulatory guidance; R&S economic forecasts; and other relevant factors. Changes in any of these factors, assumptions, or the availability of new information, could require that the allowance be adjusted in future periods, perhaps materially. Loss forecasting models are built on historical loss information and then applied to the current portfolio. Outputs from the loss forecasting models in combination with Regions' qualitative framework, and other analyses are used to inform management in its estimation of Regions' expected credit losses. Actual losses could vary, perhaps materially, from management's estimates. The entire allowance is available to cover all charge-offs that arise from the loan portfolio.

Regions' allowance calculation is a significant estimate. Regions uses its best judgment to assess economic conditions and loss data in estimating the CECL allowance and these estimates are subject to periodic refinement based on changes in underlying external or internal data. Therefore, assumptions and decisions driving the estimate may change as conditions change. These assumptions and estimates are detailed below.

R & S forecast period

During the two-year R&S forecast period, Regions incorporates forward-looking information by utilizing its internally developed and approved Base economic forecast. The scenario is developed by the Chief Economist and approved through a formal governance process. The Base forecast considers market forward/consensus information and is consistent with the Company's organization-wide economic outlook. When appropriate, additional scenarios, including externally created scenarios, are considered as part of the determination of the allowance.

Reversion period

Regions utilizes an exponential reversion approach that reverts to TTC rates derived from the simple average of all historical quarterly observations for PD, LGD, EAD and prepayment rates. The length of the reversion period differs by class of financing receivable.

Historical loss period

Regions does not adjust historical loss information for existing economic conditions or expectations of future economic conditions for periods that are beyond the R&S period. Regions utilizes internal historical loss information; however, there are certain loan portfolios that also benefit from the use of external or other reference data due to identified limitations with internal historical data.

Contractual life

Regions estimates expected credit losses over the contractual life of a loan. Regions defines contractual life for non-revolving loans as contractual maturity, net of estimated prepayments and excluding expected extensions, renewals and modifications unless 1) Regions has a reasonable expectation at the reporting date that it will execute a TDR with the borrower ("RETDR") or 2) extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by Regions.

RETDR

Regions individually identifies commercial and investor real estate loans for inclusion as RETDRs. The identification criteria are based on internal risk ratings and time to maturity. Regions typically does not identify consumer loans as RETDRs due to the insignificant period between initial contact with a customer regarding a loan modification and when a TDR modification is consummated.

The RETDR status extends the life of the loan past the contractual maturity and includes the allowance impact of interest rate concessions. Loans identified as RETDRs will be treated consistently from a modeling/reserving perspective as loans identified as TDRs.

Contractual term extensions (borrower versus lender option to renew)

Regions' consumer loan contracts do not permit automatic extensions or unilateral customer extensions, and Regions retains the right to approve or deny any extension requested from the borrower. As a result, extensions and renewal options are not included in the life of consumer loans for the purposes of calculating the allowance. Similarly, Regions does not include extension and renewal options in the life of commercial loans for the purposes of calculating the allowance, unless it is a RETDR. Most commercial products do not offer borrowers a unilateral right to renew or extend.

Contractual life of credit card receivables

Regions estimates the life of credit card receivables based on the amount and timing of payments expected to be collected. Regions' credit card allowance estimate only considers the amount of debt outstanding at the reporting date (the current position) because undrawn balances are unconditionally cancellable and therefore are not considered. Regions classifies credit card accounts into one of three payment patterns: dormant, transacting or revolving. The dormant accounts are idle, carry no balance, and do not contribute to the allowance. The transacting account holders tend to pay the entire balance due every month and are, therefore, subject to practically no interest charges. For transactor accounts, the current position balance is expected to be paid off in one quarter. The revolving accounts tend to be subject to interest charges, and their current position balance liquidates over time. Regions' credit card portfolio is comprised primarily of revolvers.

Collateral-dependent loans

Regions' collateral-dependent consumer loans are loans secured by collateral (primarily real estate) that meet the partial charge-down requirements disclosed in Note 1 of Regions' Annual Report on Form 10-K for the year ended December 31, 2019. Regions evaluates significant commercial and investor loans that are in financial difficulty and secured by collateral to determine if they are collateral dependent.

For collateral-dependent loans, CECL requires an entity to measure the expected credit losses based on the fair value of the collateral at the reporting date when the entity determines that foreclosure is probable. Additionally, CECL allows a fair value of collateral practical expedient as a measurement approach for loans when the repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulty ("collateral dependent"). For any collateral-dependent loans that meet Regions' specific allowance criteria (see below), Regions will calculate the CECL allowance based on the fair value of collateral methodology. For collateral-dependent consumer, commercial and investor real estate loans that do not meet Regions' specific allowance criteria (as described below), Regions considers the value of the collateral through the LGD component of the loss model based on collateral type.

Credit enhancements

Regions' estimate of credit losses reflects how credit enhancements, other than those that are freestanding contracts, mitigate expected credit losses on financial assets. In the event that a credit enhancement arrangement is considered to be a freestanding contract, Regions excludes the credit enhancement from the related loan when estimating expected credit losses.

Unfunded commitments and other off-balance sheet items

CECL requires an entity to record a liability or allowance for credit losses for the unfunded portion of a loan commitment in the event that the issuer does not have the unconditional right to cancel the commitment. For an unfunded commitment to be considered unconditionally cancellable, Regions must be able to, at any time, with or without cause, refuse to extend credit. The liability is measured over the full contractual period for which Regions is exposed to credit risk through a current obligation to

extend credit. In determining the liability, management considers the likelihood that funding will occur, and if funded, the related expected credit losses under the CECL model.

Regions' off-balance sheet unfunded commitments in the form of home equity lines, standby letters of credit, commercial letters of credit and commercial revolving products that are deemed to be conditionally cancellable will include unfunded balances within the allowance estimate. Future advances from certain unfunded commitments and other revolving products where Regions does have the unconditional right to cancel these agreements will not be included.

CALCULATION OF THE ALLOWANCE FOR CREDIT LOSSES

Pooled allowances

The allowance is measured on a collective (pool) basis when similar risk characteristics exist. Segmentation variables for Commercial and Investor Real estate segments include product, loan size, collateral type, risk rating and term. Segmentation variables considered for Consumer segments include product, FICO, LTV, age, TDR status, etc. The allowance is calculated for most portfolios and classes using econometric models (i.e., models that include macro-economic forecasts).

Specific allowances

Due to their size, complexity and individualized risk characteristics and monitoring, the allowance for significant non-accrual commercial and investor real estate loans (including TDRs) and unfunded commitments is measured on an individual basis. Loans evaluated individually are not included in the collective evaluation. Regions generally measures the allowance for these loans based on the present value of estimated cash flows, considering all facts and circumstances specific to the borrower and market and economic conditions. The allowance measurement for collateral-dependent loans that meet the individually evaluated threshold is based on the fair value of collateral methodology.

TDRs and RETDRs

Loans identified as TDRs and RETDRs are treated consistently in CECL loss models. These loans are included in their respective loan pools (if they do not qualify for specific evaluation) and losses are determined by CECL models. The effect of the interest rate concession on these loans is considered through a post-model adjustment.

Qualitative framework

While quantitative allowance methodologies strive to reflect all risk factors, any estimate involves assumptions and uncertainties resulting in some level of imprecision. Imprecision exists in the estimation process due to the inherent time lag between obtaining information, performing the calculation, as well as variations between estimates and actual outcomes. Regions adjusts the allowance considering quantitative and qualitative factors which may not be directly measured in the modeled calculations. Regions' qualitative framework provides for specific, quantitatively supported model adjustments and general imprecision adjustments. Specific model adjustments capture highly specific issues or events that Regions believes are not adequately captured in model outcomes. General imprecision adjustments address other sources of imprecision that are not specifically identifiable or quantifiable to a particular loan portfolio and have not been captured by the model or by a specific model adjustment. Regions considers general imprecision in three dimensions; economic forecast imprecision, model error imprecision, and process imprecision.

NOTE 2. DEBT SECURITIES

The amortized cost, gross unrealized gains and losses, and estimated fair value of debt securities held to maturity and debt securities available for sale are as follows:

June 30, 2020							
	Amortized Cost	Recognized in OCI ⁽¹⁾		Carrying Value	Not Recognized in OCI		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses		Gross Unrealized Gains	Gross Unrealized Losses	
(In millions)							
Debt securities held to maturity:							
Mortgage-backed securities:							
Residential agency	\$ 664	\$ —	\$ (24)	\$ 640	\$ 43	\$ —	\$ 683
Commercial agency	617	—	(2)	615	58	—	673
	<u>\$ 1,281</u>	<u>\$ —</u>	<u>\$ (26)</u>	<u>\$ 1,255</u>	<u>\$ 101</u>	<u>\$ —</u>	<u>\$ 1,356</u>
Debt securities available for sale:							
U.S. Treasury securities	\$ 174	\$ 7	\$ —	\$ 181			\$ 181
Federal agency securities	39	3	—	42			42
Mortgage-backed securities:							
Residential agency	15,804	670	(1)	16,473			16,473
Residential non-agency	1	—	—	1			1
Commercial agency	4,869	345	—	5,214			5,214
Commercial non-agency	605	11	—	616			616
Corporate and other debt securities	1,291	82	(2)	1,371			1,371
	<u>\$ 22,783</u>	<u>\$ 1,118</u>	<u>\$ (3)</u>	<u>\$ 23,898</u>			<u>\$ 23,898</u>
December 31, 2019							
	Amortized Cost	Recognized in OCI ⁽¹⁾		Carrying Value	Not Recognized in OCI		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses		Gross Unrealized Gains	Gross Unrealized Losses	
(In millions)							
Debt securities held to maturity:							
Mortgage-backed securities:							
Residential agency	\$ 736	\$ —	\$ (26)	\$ 710	\$ 22	\$ —	\$ 732
Commercial agency	625	—	(3)	622	20	(2)	640
	<u>\$ 1,361</u>	<u>\$ —</u>	<u>\$ (29)</u>	<u>\$ 1,332</u>	<u>\$ 42</u>	<u>\$ (2)</u>	<u>\$ 1,372</u>
Debt securities available for sale:							
U.S. Treasury securities	\$ 180	\$ 2	\$ —	\$ 182			\$ 182
Federal agency securities	42	1	—	43			43
Mortgage-backed securities:							
Residential agency	15,336	218	(38)	15,516			15,516
Residential non-agency	1	—	—	1			1
Commercial agency	4,720	77	(31)	4,766			4,766
Commercial non-agency	639	8	—	647			647
Corporate and other debt securities	1,414	38	(1)	1,451			1,451
	<u>\$ 22,332</u>	<u>\$ 344</u>	<u>\$ (70)</u>	<u>\$ 22,606</u>			<u>\$ 22,606</u>

(1) The gross unrealized losses recognized in OCI on securities held to maturity resulted from a transfer of securities available for sale to held to maturity in the second quarter of 2013.

Debt securities with carrying values of \$9.6 billion and \$8.3 billion at June 30, 2020, and December 31, 2019, respectively, were pledged to secure public funds, trust deposits and certain borrowing arrangements. Included within total pledged securities is approximately \$25 million and \$24 million of encumbered U.S. Treasury securities at June 30, 2020, and December 31, 2019, respectively.

The amortized cost and estimated fair value of debt securities held to maturity and debt securities available for sale at June 30, 2020, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
	(In millions)	
Debt securities held to maturity:		
Mortgage-backed securities:		
Residential agency	\$ 664	\$ 683
Commercial agency	617	673
	<u>\$ 1,281</u>	<u>\$ 1,356</u>
Debt securities available for sale:		
Due in one year or less	\$ 98	\$ 99
Due after one year through five years	1,063	1,114
Due after five years through ten years	301	333
Due after ten years	42	48
Mortgage-backed securities:		
Residential agency	15,804	16,473
Residential non-agency	1	1
Commercial agency	4,869	5,214
Commercial non-agency	605	616
	<u>\$ 22,783</u>	<u>\$ 23,898</u>

The following tables present gross unrealized losses and the related estimated fair value of debt securities held to maturity and debt securities available for sale at June 30, 2020, and December 31, 2019. For debt securities transferred to held to maturity from available for sale, the analysis in the tables below is comparing the securities' original amortized cost to its current estimated fair value. These securities are segregated between investments that have been in a continuous unrealized loss position for less than twelve months and for twelve months or more.

		June 30, 2020										
		Less Than Twelve Months		Twelve Months or More		Total						
		Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses					
		(In millions)										
Debt securities available for sale:												
Mortgage-backed securities:												
Residential agency	\$	118	\$	—	\$	269	\$	(1)	\$	387	\$	(1)
Corporate and other debt securities		27		(2)		3		—		30		(2)
	\$	145	\$	(2)	\$	272	\$	(1)	\$	417	\$	(3)

December 31, 2019							
Less Than Twelve Months		Twelve Months or More		Total			
Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses		
(In millions)							
Debt securities held to maturity:							
Mortgage-backed securities:							
Residential agency	\$ 82	\$ —	\$ 501	\$ (5)	\$ 583	\$ (5)	
Commercial agency	—	—	127	(5)	127	(5)	
	<u>\$ 82</u>	<u>\$ —</u>	<u>\$ 628</u>	<u>\$ (10)</u>	<u>\$ 710</u>	<u>\$ (10)</u>	
Debt securities available for sale:							
Mortgage-backed securities:							
Residential agency	\$ 2,402	\$ (11)	\$ 2,505	\$ (27)	\$ 4,907	\$ (38)	
Commercial agency	1,449	(31)	73	—	1,522	(31)	
Corporate and other debt securities	19	—	32	(1)	51	(1)	
	<u>\$ 3,870</u>	<u>\$ (42)</u>	<u>\$ 2,610</u>	<u>\$ (28)</u>	<u>\$ 6,480</u>	<u>\$ (70)</u>	

The number of individual debt positions in an unrealized loss position in the tables above decreased from 500 at December 31, 2019, to 98 at June 30, 2020. The decrease in the number of securities and the total amount of unrealized losses from year-end 2019 was primarily due to changes in market interest rates. In instances where an unrealized loss existed, there was no indication of an adverse change in credit on the underlying positions in the tables above. As it relates to these positions, management believes no individual unrealized loss, other than those discussed below, represented credit impairment as of those dates. The Company does not intend to sell, and it is not more likely than not that the Company will be required to sell, the positions before the recovery of their amortized cost basis, which may be at maturity.

Gross realized gains and gross realized losses on sales of debt securities available for sale are shown in the table below. The cost of securities sold is based on the specific identification method. As part of the Company's normal process for evaluating impairment, management did identify a limited number of positions where impairment was believed to exist in certain periods, as shown in the table below.

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
(In millions)				
Gross realized gains	\$ 2	\$ 7	\$ 2	\$ 7
Gross realized losses	(1)	(26)	(1)	(32)
Impairment	—	—	—	(1)
Debt securities available for sale gains (losses), net	<u>\$ 1</u>	<u>\$ (19)</u>	<u>\$ 1</u>	<u>\$ (26)</u>

NOTE 3. LOANS AND THE ALLOWANCE FOR CREDIT LOSSES

LOANS

The following table presents the distribution of Regions' loan portfolio by segment and class, net of unearned income:

	June 30, 2020	December 31, 2019
	(In millions, net of unearned income)	
Commercial and industrial	\$ 47,670	\$ 39,971
Commercial real estate mortgage—owner-occupied	5,491	5,537
Commercial real estate construction—owner-occupied	314	331
Total commercial	53,475	45,839
Commercial investor real estate mortgage	5,221	4,936
Commercial investor real estate construction	1,908	1,621
Total investor real estate	7,129	6,557
Residential first mortgage	15,382	14,485
Home equity lines	4,953	5,300
Home equity loans	2,937	3,084
Indirect—vehicles	1,331	1,812
Indirect—other consumer	3,022	3,249
Consumer credit card	1,213	1,387
Other consumer	1,106	1,250
Total consumer	29,944	30,567
	<u>\$ 90,548</u>	<u>\$ 82,963</u>

During the six months ended June 30, 2020 and 2019, Regions purchased approximately \$856 million and \$526 million in indirect-other consumer and commercial and industrial loans from third parties, respectively.

In January 2019, Regions decided to discontinue its indirect auto lending business due to margin compression impacting overall returns on the portfolio. Regions ceased originating new indirect auto loans in the first quarter of 2019 and completed any in-process indirect auto loan closings at the end of the second quarter of 2019. The Company remains in the direct auto lending business.

At June 30, 2020, \$21.2 billion in securities and net eligible loans held by Regions were pledged to secure current and potential borrowings from the FHLB. At June 30, 2020, an additional \$21.3 billion in net eligible loans held by Regions were pledged to the FRB for potential borrowings.

Included in the commercial and industrial loan balance are sales-type and direct financing leases totaling \$1.3 billion as of June 30, 2020, with related income of \$27 million for the six months ended June 30, 2020.

ALLOWANCE FOR CREDIT LOSSES

On January 1, 2020, Regions adopted CECL, which replaces the incurred loss methodology with an expected loss methodology. Refer to Note 1 "Basis of Presentation" and Note 13 "Recent Accounting Pronouncements" for description of the adoption of CECL and Regions' allowance methodology. Additionally, refer to Note 1 "Summary of Significant Accounting Policies" to the consolidated financial statements to the Annual Report on Form 10-K for the year ended December 31, 2019, for a description of the methodology prior to the adoption of CECL on January 1, 2020.

During the second quarter of 2020, Regions recorded \$4.5 billion of PPP loans. These loans are guaranteed by the Federal government and as the guarantee is not separable from the loans, Regions did not record an allowance on these loans.

ROLLFORWARD OF ALLOWANCE FOR CREDIT LOSSES

The cumulative effect of the adoption of CECL on January 1, 2020 for loans and unfunded commitments was an increase in the allowance of \$501 million. During the first half of 2020, Regions increased the allowance by an additional \$1.0 billion to \$2.4 billion, which represents management's best estimate of expected losses over the life of the portfolio. The increase was due primarily to higher expected credit losses due to the economic impact and ongoing uncertainty of the COVID-19 pandemic and the purchase of Ascentium. Macroeconomic factors utilized in the CECL loss models include, but are not limited to, unemployment rate, GDP, HPI and the S&P 500 index, with unemployment being the most significant macroeconomic factor within the CECL models. Declines in the macroeconomic environment were incorporated into the June 30, 2020 forecast utilized in the CECL loss models.

Regions' models are sensitive to changes in the economic scenario, specifically to the level of unemployment. The June 30, 2020 economic forecast includes a high degree of uncertainty around how widely the COVID-19 pandemic could spread, how long it could persist and the effectiveness of government relief programs and debt payment relief provided by Regions. These factors cannot be fully reflected in the models. Therefore, the risks to the economic forecast and the model limitations were considered through model adjustments and the qualitative framework.

The following tables present analyses of the allowance by portfolio segment for the three and six months ended June 30, 2020 and 2019. The total allowance for loan losses and the related loan portfolio ending balances for the six months ended June 30, 2019 are disaggregated to detail the amounts derived through individual evaluation and collective evaluation for impairment. Prior to 2020, the allowance for loan losses related to individually evaluated loans was attributable to allowances for non-accrual commercial and investor real estate loans and all TDRs ("impaired loans") and the allowance for loan losses related to collectively evaluated loans was attributable to the remainder of the portfolio. With the adoption of CECL on January 1, 2020, the impaired loan designation and disclosures related to impaired loans are no longer required.

	Three Months Ended June 30, 2020			
	Commercial	Investor Real Estate	Consumer	Total
	(In millions)			
Allowance for loan losses, April 1, 2020	\$ 721	\$ 63	\$ 776	\$ 1,560
Provision for loan losses	622	97	119	838
Initial allowance on acquired PCD loans	60	—	—	60
Loan losses:				
Charge-offs	(142)	—	(62)	(204)
Recoveries	10	—	12	22
Net loan (losses) recoveries	(132)	—	(50)	(182)
Allowance for loan losses, June 30, 2020	1,271	160	845	2,276
Reserve for unfunded credit commitments, April 1, 2020	73	18	14	105
Provision for unfunded credit losses	34	9	1	44
Reserve for unfunded credit commitments, June 30, 2020	107	27	15	149
Allowance for credit losses, June 30, 2020	\$ 1,378	\$ 187	\$ 860	\$ 2,425

	Three Months Ended June 30, 2019			
	Commercial	Investor Real Estate	Consumer	Total
	(In millions)			
Allowance for loan losses, April 1, 2019	\$ 537	\$ 54	\$ 262	\$ 853
Provision (credit) for loan losses	26	(1)	67	92
Loan losses:				
Charge-offs	(44)	—	(69)	(113)
Recoveries	6	1	14	21
Net loan (losses) recoveries	(38)	1	(55)	(92)
Allowance for loan losses, June 30, 2019	525	54	274	853
Reserve for unfunded credit commitments, April 1, 2019	46	4	—	50
Provision (credit) for unfunded credit losses	—	—	—	—
Reserve for unfunded credit commitments, June 30, 2019	46	4	—	50
Allowance for credit losses, June 30, 2019	\$ 571	\$ 58	\$ 274	\$ 903

	Six Months Ended June 30, 2020			
	Commercial	Investor Real Estate	Consumer	Total
	(In millions)			
Allowance for loan losses, December 31, 2019	\$ 537	\$ 45	\$ 287	\$ 869
Cumulative change in accounting guidance (Note 1)	(3)	7	434	438
Allowance for loan losses, January 1, 2020 (adjusted for change in accounting guidance)	534	52	721	1,307
Provision for loan losses	873	107	234	1,214
Initial allowance on acquired PCD loans	60	—	—	60
Loan losses:				
Charge-offs	(213)	—	(135)	(348)
Recoveries	17	1	25	43
Net loan (losses) recoveries	(196)	1	(110)	(305)
Allowance for loan losses, June 30, 2020	1,271	160	845	2,276
Reserve for unfunded credit commitments, December 31, 2019	41	4	—	45
Cumulative change in accounting guidance (Note 1)	36	13	14	63
Reserve for unfunded credit commitments, January 1, 2020 (adjusted for change in accounting guidance)	77	17	14	108
Provision for unfunded credit losses	30	10	1	41
Reserve for unfunded credit commitments, June 30, 2020	107	27	15	149
Allowance for credit losses, June 30, 2020	\$ 1,378	\$ 187	\$ 860	\$ 2,425
Six Months Ended June 30, 2019				
	Commercial	Investor Real Estate	Consumer	Total
	(In millions)			
Allowance for loan losses, January 1, 2019	\$ 520	\$ 58	\$ 262	\$ 840
Provision (credit) for loan losses	64	(6)	125	183
Loan losses:				
Charge-offs	(74)	—	(141)	(215)
Recoveries	15	2	28	45
Net loan (losses) recoveries	(59)	2	(113)	(170)
Allowance for loan losses, June 30, 2019	525	54	274	853
Reserve for unfunded credit commitments, January 1, 2019	47	4	—	51
Provision (credit) for unfunded credit losses	(1)	—	—	(1)
Reserve for unfunded credit commitments, June 30, 2019	46	4	—	50
Allowance for credit losses, June 30, 2019	571	58	274	903
Portion of ending allowance for loan losses:				
Individually evaluated for impairment	125	2	30	157
Collectively evaluated for impairment	400	52	244	696
Total allowance for loan losses	525	54	274	853
Portion of loan portfolio ending balance:				
Individually evaluated for impairment	532	22	400	954
Collectively evaluated for impairment	45,776	6,431	30,392	82,599
Total loans evaluated for impairment	\$ 46,308	\$ 6,453	\$ 30,792	\$ 83,553

PORTFOLIO SEGMENT RISK FACTORS

The following describe the risk characteristics relevant to each of the portfolio segments.

Commercial—The commercial portfolio segment includes commercial and industrial loans to commercial customers for use in normal business operations to finance working capital needs, equipment purchases or other expansion projects. Commercial also includes owner-occupied commercial real estate mortgage 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. Collection risk in this portfolio is driven by the creditworthiness of underlying

borrowers, particularly cash flow from customers' business operations, and the sensitivity to market fluctuations in commodity prices.

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 consists of loans secured by residential product types (land, single-family and condominium loans) within Regions' markets. Additionally, these loans are made to finance income-producing properties such as apartment buildings, office and industrial buildings, and retail shopping centers. Loans in this portfolio segment are particularly sensitive to the valuation of real estate.

Consumer—The consumer portfolio segment includes residential first mortgage, home equity lines, home equity loans, indirect-vehicles, indirect-other consumer, consumer credit card, and other consumer loans. Residential first mortgage loans represent loans to consumers to finance a residence. These loans are typically financed over a 15 to 30 year term and, in most cases, are extended to borrowers to finance their primary residence. Home equity 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. Indirect-vehicles lending, which is lending initiated through third-party business partners, largely consists of loans made through automotive dealerships. Indirect-other consumer lending includes other point of sale lending through third parties. Consumer credit card lending includes Regions branded consumer credit card accounts. Other consumer loans include other revolving consumer accounts, direct consumer loans, and overdrafts. Loans in this portfolio segment are sensitive to unemployment and other key consumer economic measures.

CREDIT QUALITY INDICATORS

The following tables present credit quality indicators for portfolio segments and classes, excluding loans held for sale, as of June 30, 2020.

Commercial and investor real estate portfolio segments are detailed by categories related to underlying credit quality and probability of default. Regions assigns these categories at loan origination and reviews the relationship utilizing a risk-based approach on, at minimum, an annual basis or at any time management becomes aware of information affecting the borrowers' ability to fulfill their obligations. Both quantitative and qualitative factors are considered in this review process. These categories are utilized to develop the associated allowance for credit losses.

- *Pass*—includes obligations where the probability of default is considered low;
- *Special Mention*—includes obligations that have potential weakness that may, if not reversed or corrected, weaken the credit or inadequately protect the Company's position at some future date. Obligations in this category may also be subject to economic or market conditions that may, in the future, have an adverse effect on debt service ability;
- *Substandard Accrual*—includes obligations that exhibit a well-defined weakness that presently jeopardizes debt repayment, even though they are currently performing. These obligations are characterized by the distinct possibility that the Company may incur a loss in the future if these weaknesses are not corrected;
- *Non-accrual*—includes obligations where management has determined that full payment of principal and interest is in doubt.

Substandard accrual and non-accrual loans are often collectively referred to as "classified." Special mention, substandard accrual, and non-accrual loans are often collectively referred to as "criticized and classified."

Regions considers factors such as periodic updates of FICO scores, unemployment rates, home prices, accrual status and geography as credit quality indicators for the consumer loan portfolio. FICO scores are obtained at origination as part of Regions' formal underwriting process. Refreshed FICO scores are obtained by the Company quarterly for all consumer loans, including residential first mortgage loans. Current FICO data is not available for certain loans in the portfolio for various reasons; for example, if customers do not use sufficient credit, an updated score may not be available. These categories are utilized to develop the associated allowance for credit losses. The higher the FICO score the less probability of default and vice versa.

With the adoption of CECL in 2020, the disclosure of credit quality indicators for loan portfolio segments and classes, excluding loans held for sale, is presented by credit quality indicator by vintage year. Regions defines the vintage date for the purposes of disclosure as the date of the most recent credit decision. In general, renewals are categorized as new credit decisions and reflect the renewal date as the vintage date. Loans that are modified as a TDR are considered to be a continuation of the original loan, therefore the origination date of the original loan is reflected as the vintage date. The following tables present applicable credit quality indicators for the loan portfolio segments and classes, excluding loans held for sale, as of June 30, 2020. Classes in the commercial and investor real estate portfolio segments are disclosed by risk rating. Classes in the consumer portfolio segment are disclosed by current FICO scores. Refer to Note 6 "Allowance for Credit Losses" in the Annual Report on Form 10-K for the year ended December 31, 2019, for the December 31, 2019 Credit Quality Indicator tables.

June 30, 2020

	Term Loans						Revolving Loans	Revolving Loans Converted to Amortizing	Unallocated ⁽¹⁾	Total
	Origination Year									
	2020	2019	2018	2017	2016	Prior				
(In millions)										
Commercial and industrial:										
Risk Rating:										
Pass	\$ 10,294	\$ 7,646	\$ 4,993	\$ 3,290	\$ 1,385	\$ 2,961	\$ 14,568	\$ —	\$ (229)	\$ 44,908
Special Mention	29	171	167	124	9	79	689	—	—	1,268
Substandard Accrual	58	40	85	28	58	70	710	—	—	1,049
Non-accrual	31	70	87	25	44	36	152	—	—	445
Total commercial and industrial	\$ 10,412	\$ 7,927	\$ 5,332	\$ 3,467	\$ 1,496	\$ 3,146	\$ 16,119	\$ —	\$ (229)	\$ 47,670
Commercial real estate mortgage—owner-occupied:										
Risk Rating:										
Pass	\$ 714	\$ 948	\$ 1,024	\$ 651	\$ 462	\$ 1,112	\$ 178	\$ —	\$ (32)	\$ 5,057
Special Mention	22	28	39	24	12	32	5	—	—	162
Substandard Accrual	13	21	62	30	11	60	1	—	—	198
Non-accrual	7	6	12	18	11	17	3	—	—	74
Total commercial real estate mortgage—owner-occupied:	\$ 756	\$ 1,003	\$ 1,137	\$ 723	\$ 496	\$ 1,221	\$ 187	\$ —	\$ (32)	\$ 5,491
Commercial real estate construction—owner-occupied:										
Risk Rating:										
Pass	\$ 27	\$ 99	\$ 44	\$ 27	\$ 30	\$ 50	\$ 9	\$ —	\$ —	\$ 286
Special Mention	—	1	5	2	—	—	—	—	—	8
Substandard Accrual	—	3	1	2	3	1	—	—	—	10
Non-accrual	—	—	—	—	2	8	—	—	—	10
Total commercial real estate construction—owner-occupied:	\$ 27	\$ 103	\$ 50	\$ 31	\$ 35	\$ 59	\$ 9	\$ —	\$ —	\$ 314
Total commercial	\$ 11,195	\$ 9,033	\$ 6,519	\$ 4,221	\$ 2,027	\$ 4,426	\$ 16,315	\$ —	\$ (261)	\$ 53,475
Commercial investor real estate mortgage:										
Risk Rating:										
Pass	\$ 843	\$ 1,158	\$ 1,195	\$ 427	\$ 72	\$ 318	\$ 345	\$ —	\$ (4)	\$ 4,354
Special Mention	70	234	156	151	15	50	42	—	—	718
Substandard Accrual	—	49	27	—	3	—	69	—	—	148
Non-accrual	—	—	—	—	—	1	—	—	—	1
Total commercial investor real estate mortgage	\$ 913	\$ 1,441	\$ 1,378	\$ 578	\$ 90	\$ 369	\$ 456	\$ —	\$ (4)	\$ 5,221

June 30, 2020

	Term Loans							Revolving Loans	Revolving Loans Converted to Amortizing	Unallocated ⁽¹⁾	Total									
	Origination Year																			
	2020	2019	2018	2017	2016	Prior														
(In millions)																				
Commercial investor real estate construction:																				
Risk Rating:																				
Pass	\$	98	\$	538	\$	447	\$	2	\$	—	\$	10	\$	692	\$	—	\$	(13)	\$	1,774
Special Mention		20		20		26		—		—		—		14		—		—		80
Substandard Accrual		—		36		1		—		—		—		17		—		—		54
Non-accrual		—		—		—		—		—		—		—		—		—		—
Total commercial investor real estate construction	\$	118	\$	594	\$	474	\$	2	\$	—	\$	10	\$	723	\$	—	\$	(13)	\$	1,908
Total investor real estate	\$	1,031	\$	2,035	\$	1,852	\$	580	\$	90	\$	379	\$	1,179	\$	—	\$	(17)	\$	7,129
Residential first mortgage:																				
FICO scores																				
Above 720	\$	2,721	\$	2,078	\$	1,162	\$	1,382	\$	1,615	\$	3,337	\$	—	\$	—	\$	—	\$	12,295
681-720		235		201		135		135		120		407		—		—		—		1,233
620-680		74		107		66		61		70		376		—		—		—		754
Below 620	\$	9	\$	22	\$	36	\$	38	\$	51	\$	482		—		—		—		638
Data not available		27		40		26		41		31		197		10		—		90		462
Total residential first mortgage	\$	3,066	\$	2,448	\$	1,425	\$	1,657	\$	1,887	\$	4,799	\$	10	\$	—	\$	90	\$	15,382
Home equity lines:																				
FICO scores																				
Above 720	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—	\$	3,623	\$	30	\$	—	\$	3,653
681-720		—		—		—		—		—		—		530		8		—		538
620-680		—		—		—		—		—		—		364		6		—		370
Below 620		—		—		—		—		—		—		222		6		—		228
Data not available		—		—		—		—		—		—		126		2		36		164
Total home equity lines	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—	\$	4,865	\$	52	\$	36	\$	4,953
Home equity loans																				
FICO scores																				
Above 720	\$	229	\$	307	\$	288	\$	390	\$	363	\$	703	\$	—	\$	—	\$	—	\$	2,280
681-720		32		46		41		47		43		88		—		—		—		297
620-680		12		23		23		28		29		76		—		—		—		191
Below 620		2		6		9		15		18		64		—		—		—		114
Data not available		1		1		2		4		4		19		—		—		24		55
Total home equity loans	\$	276	\$	383	\$	363	\$	484	\$	457	\$	950	\$	—	\$	—	\$	24	\$	2,937
Indirect—vehicles:																				
FICO scores																				
Above 720	\$	—	\$	23	\$	401	\$	191	\$	148	\$	81	\$	—	\$	—	\$	—	\$	844
681-720		—		6		66		32		25		15		—		—		—		144
620-680		—		5		56		31		26		17		—		—		—		135
Below 620		—		4		54		35		37		26		—		—		—		156
Data not available		—		—		4		8		6		6		—		—		28		52
Total indirect- vehicles	\$	—	\$	38	\$	581	\$	297	\$	242	\$	145	\$	—	\$	—	\$	28	\$	1,331

June 30, 2020

	Term Loans							Revolving Loans	Revolving Loans Converted to Amortizing	Unallocated ⁽¹⁾	Total									
	Origination Year																			
	2020	2019	2018	2017	2016	Prior														
(In millions)																				
Indirect—other consumer:																				
FICO scores																				
Above 720	\$	282	\$	992	\$	497	\$	169	\$	76	\$	41	\$	—	\$	—	\$	—	\$	2,057
681-720		37		223		152		52		24		13		—		—		—		501
620-680		2		90		80		33		15		9		—		—		—		229
Below 620		—		20		26		13		7		4		—		—		—		70
Data not available		—		4		3		2		1		1		—		—		154		165
Total indirect- other consumer	\$	321	\$	1,329	\$	758	\$	269	\$	123	\$	68	\$	—	\$	—	\$	154	\$	3,022
Consumer credit card:																				
FICO scores																				
Above 720	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—	\$	650	\$	—	\$	—	\$	650
681-720		—		—		—		—		—		—		258		—		—		258
620-680		—		—		—		—		—		—		212		—		—		212
Below 620		—		—		—		—		—		—		99		—		—		99
Data not available		—		—		—		—		—		—		7		—		(13)		(6)
Total consumer credit card	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—	\$	1,226	\$	—	\$	(13)	\$	1,213
Other consumer:																				
FICO scores																				
Above 720	\$	129	\$	226	\$	123	\$	49	\$	14	\$	6	\$	117	\$	—	\$	—	\$	664
681-720		36		63		30		10		3		1		54		—		—		197
620-680		19		41		20		7		2		1		43		—		—		133
Below 620		5		16		11		5		1		1		21		—		—		60
Data not available		42		1		—		—		—		—		2		—		7		52
Total other consumer	\$	231	\$	347	\$	184	\$	71	\$	20	\$	9	\$	237	\$	—	\$	7	\$	1,106
Total consumer loans	\$	3,894	\$	4,545	\$	3,311	\$	2,778	\$	2,729	\$	5,971	\$	6,338	\$	52	\$	326	\$	29,944
Total Loans	\$	16,120	\$	15,613	\$	11,682	\$	7,579	\$	4,846	\$	10,776	\$	23,832	\$	52	\$	48	\$	90,548

(1) These amounts consist of fees that are not allocated at the loan level and loans serviced by third parties wherein Regions does not receive FICO or vintage information.

AGING AND NON-ACCRUAL ANALYSIS

The following tables include an aging analysis of DPD and loans on non-accrual status for each portfolio segment and class as of June 30, 2020 and December 31, 2019. Loans on non-accrual status with no related allowance included \$119 million of commercial and industrial loans and \$1 million of commercial real estate mortgage-owner-occupied loans as of June 30, 2020. Non-accrual loans with no related allowance typically include loans where the underlying collateral is deemed sufficient to recover all remaining principal. Prior to the adoption of CECL on January 1, 2020, all TDRs and all non-accrual commercial and investor real estate loans, excluding leases, were deemed to be impaired. The definition of impairment and the required impaired loan disclosures were removed with CECL. Refer to Note 6 "Allowance for Credit Losses" in the Annual Report on Form 10-K for the year ended December 31, 2019 for disclosure of Regions' impaired loans as of December 31, 2019. Loans that have been fully charged-off do not appear in the tables below.

	June 30, 2020							
	Accrual Loans							
	30-59 DPD	60-89 DPD	90+ DPD	Total 30+ DPD	Total Accrual	Non-accrual	Total	
	(In millions)							
Commercial and industrial	\$ 52	\$ 29	\$ 11	\$ 92	\$ 47,225	\$ 445	\$ 47,670	
Commercial real estate mortgage—owner-occupied	5	6	3	14	5,417	74	5,491	
Commercial real estate construction—owner-occupied	1	—	—	1	304	10	314	
Total commercial	58	35	14	107	52,946	529	53,475	
Commercial investor real estate mortgage	—	1	—	1	5,220	1	5,221	
Commercial investor real estate construction	—	—	—	—	1,908	—	1,908	
Total investor real estate	—	1	—	1	7,128	1	7,129	
Residential first mortgage	98	63	130	291	15,350	32	15,382	
Home equity lines	16	16	26	58	4,907	46	4,953	
Home equity loans	13	12	12	37	2,931	6	2,937	
Indirect—vehicles	17	10	8	35	1,331	—	1,331	
Indirect—other consumer	9	7	3	19	3,022	—	3,022	
Consumer credit card	7	6	17	30	1,213	—	1,213	
Other consumer	9	5	5	19	1,106	—	1,106	
Total consumer	169	119	201	489	29,860	84	29,944	
	\$ 227	\$ 155	\$ 215	\$ 597	\$ 89,934	\$ 614	\$ 90,548	

December 31, 2019

	Accrual Loans				Total Accrual	Non-accrual	Total
	30-59 DPD	60-89 DPD	90+ DPD	Total 30+ DPD			
	(In millions)						
Commercial and industrial	\$ 30	\$ 21	\$ 11	\$ 62	\$ 39,624	\$ 347	\$ 39,971
Commercial real estate mortgage—owner-occupied	11	3	1	15	5,464	73	5,537
Commercial real estate construction—owner-occupied	2	—	—	2	320	11	331
Total commercial	43	24	12	79	45,408	431	45,839
Commercial investor real estate mortgage	1	1	—	2	4,934	2	4,936
Commercial investor real estate construction	—	—	—	—	1,621	—	1,621
Total investor real estate	1	1	—	2	6,555	2	6,557
Residential first mortgage	83	47	136	266	14,458	27	14,485
Home equity lines	30	12	32	74	5,259	41	5,300
Home equity loans	12	6	10	28	3,078	6	3,084
Indirect—vehicles	31	10	7	48	1,812	—	1,812
Indirect—other consumer	16	9	3	28	3,249	—	3,249
Consumer credit card	11	8	19	38	1,387	—	1,387
Other consumer	13	5	5	23	1,250	—	1,250
Total consumer	196	97	212	505	30,493	74	30,567
	\$ 240	\$ 122	\$ 224	\$ 586	\$ 82,456	\$ 507	\$ 82,963

TROUBLED DEBT RESTRUCTURINGS

Regions regularly modifies commercial and investor real estate loans in order to facilitate a workout strategy. Similarly, Regions works to meet the individual needs of consumer borrowers to stem foreclosure through its CAP. Refer to Note 6 "Allowance for Credit Losses" in the Annual Report on Form 10-K for the year ended December 31, 2019 for additional information regarding the Company's TDRs.

As provided in the CARES Act passed into law on March 27, 2020, certain loan modifications related to the COVID-19 pandemic beginning March 1, 2020 are eligible for relief from TDR classification. Regions elected this provision of the CARES Act; therefore, modified loans that met the required guidelines for relief are not considered TDRs and are excluded from the disclosures below. The CARES Act relief and short-term nature of most COVID-19 deferrals precluded the majority of Regions' COVID-19 loan modifications from being classified as TDRs as of June 30, 2020.

Further discussion related to TDRs, including their impact on the allowance upon adoption of CECL is included in Note 1 "Basis of Presentation." Additional discussion related to TDRs, including their impact on the allowance and designation of TDRs in periods subsequent to the modification prior to the adoption of CECL is included in Note 1 "Basis of Presentation" and discussion in Note 1 "Summary of Significant Accounting Policies" in the Annual Report on Form 10-K for the year ended December 31, 2019.

The following tables present the end of period balance for loans modified in a TDR during the periods presented by portfolio segment and class, and the financial impact of those modifications. The tables include modifications made to new TDRs, as well as renewals of existing TDRs. Loans first reported as TDRs during the six months ended June 30, 2020 and 2019 totaled approximately \$111 million and \$121 million, respectively.

Three Months Ended June 30, 2020			
	Number of Obligors	Recorded Investment (Dollars in millions)	Financial Impact of Modifications Considered TDRs Increase in Allowance at Modification
Commercial and industrial	\$ 67	\$ 120	\$ —
Commercial real estate mortgage—owner-occupied	5	3	—
Commercial real estate construction—owner-occupied	—	—	—
Total commercial	72	123	—
Commercial investor real estate mortgage	3	—	—
Commercial investor real estate construction	—	—	—
Total investor real estate	3	—	—
Residential first mortgage	31	4	1
Home equity lines	—	—	—
Home equity loans	12	1	—
Consumer credit card	1	—	—
Indirect—vehicles and other consumer	1	—	—
Total consumer	45	5	1
	\$ 120	\$ 128	\$ 1

Three Months Ended June 30, 2019			
	Number of Obligors	Recorded Investment (Dollars in millions)	Financial Impact of Modifications Considered TDRs Increase in Allowance at Modification
Commercial and industrial	\$ 23	\$ 32	\$ —
Commercial real estate mortgage—owner-occupied	16	8	—
Total commercial	39	40	—
Commercial investor real estate mortgage	1	—	—
Commercial investor real estate construction	2	1	—
Total investor real estate	3	1	—
Residential first mortgage	34	8	1
Home equity lines	—	—	—
Home equity loans	30	2	—
Consumer credit card	8	—	—
Indirect—vehicles and other consumer	19	1	—
Total consumer	91	11	1
	\$ 133	\$ 52	\$ 1

Six Months Ended June 30, 2020

			Financial Impact of Modifications Considered TDRs
	Number of Obligors	Recorded Investment (Dollars in millions)	Increase in Allowance at Modification
Commercial and industrial	93	\$ 194	\$ —
Commercial real estate mortgage—owner-occupied	10	5	—
Commercial real estate construction—owner-occupied	1	1	—
Total commercial	104	200	—
Commercial investor real estate mortgage	7	1	—
Commercial investor real estate construction	1	—	—
Total investor real estate	8	1	—
Residential first mortgage	83	11	2
Home equity lines	—	—	—
Home equity loans	27	2	—
Consumer credit card	11	—	—
Indirect—vehicles and other consumer	11	—	—
Total consumer	132	13	2
	244	\$ 214	\$ 2

Six Months Ended June 30, 2019

			Financial Impact of Modifications Considered TDRs
	Number of Obligors	Recorded Investment (Dollars in millions)	Increase in Allowance at Modification
Commercial and industrial	49	\$ 110	\$ 1
Commercial real estate mortgage—owner-occupied	33	20	—
Commercial real estate construction—owner-occupied	1	2	—
Total commercial	83	132	1
Commercial investor real estate mortgage	4	11	—
Commercial investor real estate construction	4	1	—
Total investor real estate	8	12	—
Residential first mortgage	68	18	2
Home equity lines	—	—	—
Home equity loans	64	5	—
Consumer credit card	26	—	—
Indirect—vehicles and other consumer	49	1	—
Total consumer	207	24	2
	298	\$ 168	\$ 3

NOTE 4. SERVICING OF FINANCIAL ASSETS

RESIDENTIAL MORTGAGE BANKING ACTIVITIES

The fair value of residential MSRs is calculated using various assumptions including future cash flows, market discount rates, expected prepayment rates, servicing costs and other factors. A significant change in prepayments of mortgages in the servicing portfolio could result in significant changes in the valuation adjustments, thus creating potential volatility in the carrying amount of residential MSRs. The Company compares fair value estimates and assumptions to observable market data where available, and also considers recent market activity and actual portfolio experience.

The table below presents an analysis of residential MSRs under the fair value measurement method:

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
	(In millions)			
Carrying value, beginning of period	\$ 254	\$ 386	\$ 345	\$ 418
Additions	24	8	35	15
Increase (decrease) in fair value:				
Due to change in valuation inputs or assumptions	(11)	(43)	(94)	(71)
Economic amortization associated with borrower repayments ⁽¹⁾	(18)	(14)	(37)	(25)
Carrying value, end of period	<u>\$ 249</u>	<u>\$ 337</u>	<u>\$ 249</u>	<u>\$ 337</u>

(1) "Economic amortization associated with borrower repayments" includes both total loan payoffs as well as partial paydowns. In the first quarter of 2020, Regions revised its MSR decay methodology from a passage of time approach to a discounted net cash flow approach. The change in methodology results in shifts between decay and hedge impacts, but does not impact the overall valuation.

On March 27, 2019, the Company sold \$167 million of affordable housing residential mortgage loans and as part of the transaction kept the rights to service the loans, which resulted in the retained residential MSR of approximately \$2 million.

Data and assumptions used in the fair value calculation, as well as the valuation's sensitivity to rate fluctuations, related to residential MSRs (excluding related derivative instruments) are as follows:

	June 30	
	2020	2019
	(Dollars in millions)	
Unpaid principal balance	\$ 33,575	\$ 35,309
Weighted-average CPR (%)	17.0%	12.5%
Estimated impact on fair value of a 10% increase	\$ (25)	\$ (19)
Estimated impact on fair value of a 20% increase	\$ (44)	\$ (35)
Option-adjusted spread (basis points)	626	763
Estimated impact on fair value of a 10% increase	\$ (5)	\$ (10)
Estimated impact on fair value of a 20% increase	\$ (11)	\$ (20)
Weighted-average coupon interest rate	4.1%	4.2%
Weighted-average remaining maturity (months)	280	279
Weighted-average servicing fee (basis points)	27.4	27.2

The sensitivity calculations above are hypothetical and should not be considered to be predictive of future performance. Changes in 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 fair value of the residential MSRs 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. The derivative instruments utilized by Regions would serve to reduce the estimated impacts to fair value included in the table above.

The following table presents servicing related fees, which includes contractually specified servicing fees, late fees and other ancillary income resulting from the servicing of residential mortgage loans:

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
	(In millions)		(In millions)	
Servicing related fees and other ancillary income	\$ 23	\$ 26	\$ 48	\$ 52

Residential mortgage loans are sold in the secondary market with standard representations and warranties regarding certain characteristics such as the quality of the loan, the absence of fraud, the eligibility of the loan for sale and the future servicing associated with the loan. Regions may be required to repurchase these loans at par, or make-whole or indemnify the purchasers for losses incurred when representations and warranties are breached.

Regions maintains an immaterial repurchase liability related to residential mortgage loans sold with representations and warranty provisions. This repurchase liability is reported in other liabilities on the consolidated balance sheets and reflects management's estimate of losses based on historical repurchase and loss trends, as well as other factors that may result in anticipated losses different from historical loss trends. Adjustments to this reserve are recorded in other non-interest expense on the consolidated statements of operations.

COMMERCIAL MORTGAGE BANKING ACTIVITIES

Regions is an approved DUS lender. The DUS program provides liquidity to the multi-family housing market. In connection with the DUS program, Regions services commercial mortgage loans, retains commercial MSRs and intangible assets associated with the DUS license, and assumes a loss share guarantee associated with the loans. See Note 1 "Summary of Significant Accounting Policies" in the 2019 Annual Report on Form 10-K for additional information. Also see Note 12 for additional information related to the guarantee.

As of both June 30, 2020 and December 31, 2019, the DUS servicing portfolio was approximately \$3.9 billion. The related commercial MSRs were approximately \$64 million at June 30, 2020 and \$59 million at December 31, 2019. The estimated fair value of the commercial MSRs was approximately \$72 million at June 30, 2020 and \$64 million December 31, 2019, respectively.

NOTE 5. GOODWILL

Goodwill allocated to each reportable segment (each a reporting unit) is presented as follows:

	June 30, 2020	December 31, 2019
	(In millions)	
Corporate Bank	\$ 2,822	\$ 2,474
Consumer Bank	1,978	1,978
Wealth Management	393	393
	<u>\$ 5,193</u>	<u>\$ 4,845</u>

The goodwill allocated to the Corporate Bank reporting unit increased due to the acquisition of Ascentium in the second quarter of 2020.

Regions evaluates each reporting unit's goodwill for impairment on an annual basis in the fourth quarter, or more often if events or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. A detailed description of the Company's methodology and valuation approaches used to determine the estimated fair value of each reporting unit is included in Note 1 "Summary of Significant Accounting Policies" to the consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2019. Adverse changes in the economic environment, declining operations, or other factors could result in a decline in the implied fair value of goodwill.

During the second quarter 2020, Regions assessed events and circumstances for all three reporting units as of June 30, 2020, and through the date of the filing of this Quarterly Report on Form 10-Q that could potentially indicate goodwill impairment including analyzing the impacts from the COVID-19 pandemic. The indicators assessed included:

- Recent operating performance,
- Changes in market capitalization,
- Regulatory actions and assessments,
- Changes in the business climate (including legislation, legal factors, competition, and the impacts of COVID-19),
- Company-specific factors (including changes in key personnel, asset impairments, and business dispositions), and
- Trends in the banking industry.

Based on recent events and circumstances, and after assessing the indicators noted above, Regions concluded that a triggering event had occurred in the second quarter which required Regions to perform a quantitative goodwill impairment test. The results of the test did not require Regions to record a goodwill impairment charge as all three reporting units continued to have a fair value in excess of book value.

NOTE 6. SHAREHOLDERS' EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

PREFERRED STOCK

The following table presents a summary of the non-cumulative perpetual preferred stock:

								June 30, 2020	December 31, 2019
Issuance Date	Earliest Redemption Date	Dividend Rate ⁽¹⁾	Liquidation Amount	Liquidation Preference per Share	Liquidation preference per Depository Share	Ownership Interest per Depository Share		Carrying Amount	Carrying Amount
(Dollars in millions)									
Series A	11/1/2012	12/15/2017	6.375%	\$ 500	\$ 1,000	\$ 25	1/40th	\$ 387	\$ 387
Series B	4/29/2014	9/15/2024	6.375% ⁽²⁾	500	1,000	25	1/40th	433	433
Series C	4/30/2019	5/15/2029	5.700% ⁽³⁾	500	1,000	25	1/40th	490	490
Series D	6/5/2020	9/15/2025	5.750% ⁽⁴⁾	350	100,000	1,000	1/100th	346	—
				<u>\$ 1,850</u>				<u>\$ 1,656</u>	<u>\$ 1,310</u>

(1) Dividends on all series of preferred stock, if declared, accrue and are payable quarterly in arrears.

(2) Dividends, if declared, will be paid quarterly at an annual rate equal to (i) for each period beginning prior to September 15, 2024, 6.375%, and (ii) for each period beginning on or after September 15, 2024, three-month LIBOR plus 3.536%.

(3) Dividends, if declared, will be paid quarterly at an annual rate equal to (i) for each period beginning prior to August 15, 2029, 5.700%, and (ii) for each period beginning on or after August 15, 2029, three-month LIBOR plus 3.148%.

(4) Dividends, if declared, will be paid quarterly at an annual rate equal to (i) for each period beginning prior to September 15, 2025, 5.750%, and (ii) for each period beginning on or after September 15, 2025, the five-year treasury rate as of the most recent reset dividend determination date plus 5.426%.

On June 5, 2020, Regions completed the issuance of \$350 million in depository shares each representing a 1/100th ownership interest in a share of the Company's Non-Cumulative Perpetual Preferred Stock, Series D, par value \$1.00 per share ("Series D Preferred Stock").

All series of preferred stock have no stated maturity and redemption is solely at Regions' option, subject to regulatory approval, in whole, or in part, after the earliest redemption date or in whole, but not in part, within 90 days following a regulatory capital treatment event for the Series A preferred stock or at any time following a regulatory capital treatment event for the Series B, Series C, and Series D preferred stock.

The Board of Directors declared \$16 million in cash dividends on both Series A and Series B Preferred Stock during both the first six months of 2020 and 2019. In the first six months of 2020, the Board of Directors declared \$14 million in cash dividends on Series C Preferred Stock; the initial quarterly dividend for the Series C Preferred Stock was declared on July 24, 2019, therefore there were no cash dividends for the first six months of 2019. The initial quarterly dividend for the Series D Preferred Stock was declared on July 22, 2020, therefore there were no cash dividends for the first six months of 2020. Therefore, a total of \$46 million in cash dividends on total preferred stock was declared in the first six months of 2020 compared to the total of \$32 million in cash dividends on total preferred stock declared in the first six months of 2019.

In the event Series A, Series B, Series C, or Series D preferred shares are redeemed at the liquidation amounts, \$113 million, \$67 million, \$10 million, or \$4 million in excess of the redemption amount over the carrying amount will be recognized, respectively. Approximately \$100 million of Series A preferred dividends that were recorded as a reduction of preferred stock, including related surplus, will be recorded as a reduction to retained earnings, and approximately \$13 million of related issuance costs that were recorded as a reduction of preferred stock, including related surplus, will be recorded as a reduction to net income (loss) available to common shareholders. Approximately \$52 million of Series B preferred dividends that were recorded as a reduction of preferred stock, including related surplus, will be recorded as a reduction to retained earnings, and approximately \$15 million of related issuance costs that were recorded as a reduction of preferred stock, including related surplus, will be recorded as a reduction to net income (loss) available to common shareholders. Approximately \$10 million of Series C issuance costs that were recorded as a reduction of preferred stock, including related surplus, will be recorded as a reduction to net income (loss) available to common shareholders. Approximately \$4 million of Series D issuance costs that were recorded as a reduction of preferred stock, including related surplus, will be recorded as a reduction to net income (loss) available to common shareholders.

COMMON STOCK

On June 25, 2020, the Federal Reserve indicated that the Company exceeded all minimum capital levels under the supervisory stress test. The capital plan submitted to the Federal Reserve reflected no share repurchases through year-end 2020 and Regions is in compliance with the capital plan. Prior to the supervisory stress test submission, the Board had authorized the repurchase of \$1.370 billion of the Company's common stock, permitting repurchases from the beginning of the third quarter of 2019 through the second quarter of 2020.

Regions' Board declared a cash dividend for both the first and second quarter of 2020 of \$0.155 per share, totaling \$0.310 per common share for the first six months of 2020. The Board declared a cash dividend for both the first and second quarter of 2019 of \$0.140 per common share, totaling \$0.280 per common share for the first six months of 2019.

The Board evaluated the common dividend in July 2020, considering the specific Federal Reserve limitations on capital distributions in the third quarter of 2020. The Federal Reserve mandated that banks must not increase their quarterly per share common dividend and implemented an earnings-based payout restriction in connection with the supervisory stress test, requiring the third quarter 2020 dividend to not exceed the average of the prior four quarters of net income excluding preferred dividends. On July 22, 2020, the Board declared a cash dividend for the third quarter of 2020 of \$0.155 per share, which was in compliance with the Federal Reserve's limit.

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Activity within the balances in accumulated other comprehensive income (loss), net is shown in the following tables:

Three Months Ended June 30, 2020					
	Unrealized losses on securities transferred to held to maturity	Unrealized gains (losses) on securities available for sale	Unrealized gains (losses) on derivative instruments designated as cash flow hedges	Defined benefit pension plans and other post employment benefits	Accumulated other comprehensive income (loss), net of tax
	(In millions)				
Beginning of period	\$ (21)	\$ 651	\$ 1,281	\$ (587)	\$ 1,324
Net change	1	184	108	9	302
End of period	<u>\$ (20)</u>	<u>\$ 835</u>	<u>\$ 1,389</u>	<u>\$ (578)</u>	<u>\$ 1,626</u>
Three Months Ended June 30, 2019					
	Unrealized losses on securities transferred to held to maturity	Unrealized gains (losses) on securities available for sale	Unrealized gains (losses) on derivative instruments designated as cash flow hedges	Defined benefit pension plans and other post employment benefits	Accumulated other comprehensive income (loss), net of tax
	(In millions)				
Beginning of period	\$ (26)	\$ (152)	\$ 50	\$ (470)	\$ (598)
Net change	2	260	308	7	577
End of period	<u>\$ (24)</u>	<u>\$ 108</u>	<u>\$ 358</u>	<u>\$ (463)</u>	<u>\$ (21)</u>
Six Months Ended June 30, 2020					
	Unrealized losses on securities transferred to held to maturity	Unrealized gains (losses) on securities available for sale	Unrealized gains (losses) on derivative instruments designated as cash flow hedges	Defined benefit pension plans and other post employment benefits	Accumulated other comprehensive income (loss), net of tax
	(In millions)				
Beginning of period	\$ (22)	\$ 205	\$ 322	\$ (595)	\$ (90)
Net change	2	630	1,067	17	1,716
End of period	<u>\$ (20)</u>	<u>\$ 835</u>	<u>\$ 1,389</u>	<u>\$ (578)</u>	<u>\$ 1,626</u>

Six Months Ended June 30, 2019

	Unrealized losses on securities transferred to held to maturity	Unrealized gains (losses) on securities available for sale	Unrealized gains (losses) on derivative instruments designated as cash flow hedges	Defined benefit pension plans and other post employment benefits	Accumulated other comprehensive income (loss), net of tax
	(In millions)				
Beginning of period	\$ (27)	\$ (397)	\$ (63)	\$ (477)	\$ (964)
Net change	3	505	421	14	943
End of period	<u>\$ (24)</u>	<u>\$ 108</u>	<u>\$ 358</u>	<u>\$ (463)</u>	<u>\$ (21)</u>

The following tables present amounts reclassified out of accumulated other comprehensive income (loss) for the three and six months ended June 30, 2020 and 2019:

Details about Accumulated Other Comprehensive Income (Loss) Components	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Affected Line Item in the Consolidated Statements of Operations
	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) ⁽¹⁾	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) ⁽¹⁾	
(In millions)			
Unrealized losses on securities transferred to held to maturity:			
	\$ (1)	\$ (2)	Net interest income
	—	—	Tax (expense) or benefit
	<u>\$ (1)</u>	<u>\$ (2)</u>	Net of tax
Unrealized gains and (losses) on available for sale securities:			
	\$ 1	\$ (19)	Securities gains (losses), net
	—	3	Tax (expense) or benefit
	<u>\$ 1</u>	<u>\$ (16)</u>	Net of tax
Gains and (losses) on cash flow hedges:			
Interest rate contracts	\$ 60	\$ (8)	Net interest income
	(15)	2	Tax (expense) or benefit
	<u>\$ 45</u>	<u>\$ (6)</u>	Net of tax
Amortization of defined benefit pension plans and other post employment benefits:			
Actuarial gains (losses) and settlements ⁽²⁾	\$ (12)	\$ (10)	Other non-interest expense
	3	3	Tax (expense) or benefit
	<u>\$ (9)</u>	<u>\$ (7)</u>	Net of tax
Total reclassifications for the period	<u>\$ 36</u>	<u>\$ (31)</u>	Net of tax

Details about Accumulated Other Comprehensive Income (Loss) Components	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019	Affected Line Item in the Consolidated Statements of Operations
	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) ⁽¹⁾	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) ⁽¹⁾	
(In millions)			
Unrealized losses on securities transferred to held to maturity:			
	\$ (2)	\$ (3)	Net interest income and other financing income
	—	—	Tax (expense) or benefit
	<u>\$ (2)</u>	<u>\$ (3)</u>	Net of tax
Unrealized gains and (losses) on available for sale securities:			
	\$ 1	\$ (26)	Securities gains (losses), net
	—	5	Tax (expense) or benefit
	<u>\$ 1</u>	<u>\$ (21)</u>	Net of tax
Gains and (losses) on cash flow hedges:			
Interest rate contracts	\$ 69	\$ (16)	Net interest income and other financing income
	(17)	4	Tax (expense) or benefit
	<u>\$ 52</u>	<u>\$ (12)</u>	Net of tax
Amortization of defined benefit pension plans and other post employment benefits:			
Actuarial gains (losses) and settlements ⁽²⁾	\$ (23)	\$ (19)	Other non-interest expense
	6	5	Tax (expense) or benefit
	<u>\$ (17)</u>	<u>\$ (14)</u>	Net of tax
Total reclassifications for the period	<u>\$ 34</u>	<u>\$ (50)</u>	Net of tax

(1) Amounts in parentheses indicate reductions to net income (loss).

(2) These accumulated other comprehensive income (loss) components are included in the computation of net periodic pension cost (see Note 8 for additional details).

NOTE 7. EARNINGS (LOSS) PER COMMON SHARE

The following table sets forth the computation of basic earnings (loss) per common share and diluted earnings (loss) per common share:

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
(In millions, except per share amounts)				
Numerator:				
Net income (loss)	\$ (214)	\$ 390	\$ (52)	\$ 784
Preferred stock dividends	(23)	(16)	(46)	(32)
Net income (loss) available to common shareholders	<u>\$ (237)</u>	<u>\$ 374</u>	<u>\$ (98)</u>	<u>\$ 752</u>
Denominator:				
Weighted-average common shares outstanding—basic	960	1,010	958	1,015
Potential common shares	—	2	—	5
Weighted-average common shares outstanding—diluted	<u>960</u>	<u>1,012</u>	<u>958</u>	<u>1,020</u>
Earnings (loss) per common share:				
Basic	\$ (0.25)	\$ 0.37	\$ (0.10)	\$ 0.74
Diluted	(0.25)	0.37	(0.10)	0.74

For the three and six months ended June 30, 2020, basic and diluted weighted-average common shares outstanding for earnings (loss) per common share are the same due to net losses.

The effects from the assumed exercise of 9 million and 7 million stock options, restricted stock units and awards and performance stock units for the three and six months ended June 30, 2019, respectively, were not included in the above computations of diluted earnings per common share because such amounts would have had an antidilutive effect on earnings per common share.

NOTE 8. PENSION AND OTHER POSTRETIREMENT BENEFITS

Regions' defined benefit pension plans cover certain employees as the pension plans are closed to new entrants. The Company also sponsors a SERP, which is a non-qualified pension plan that provides certain senior executive officers defined benefits in relation to their compensation.

Net periodic pension cost (credit) includes the following components:

	Qualified Plans		Non-qualified Plans		Total	
			Three Months Ended June 30			
	2020	2019	2020	2019	2020	2019
	(In millions)					
Service cost	\$ 8	\$ 7	\$ 1	\$ 1	\$ 9	\$ 8
Interest cost	16	18	1	2	17	20
Expected return on plan assets	(38)	(34)	—	—	(38)	(34)
Amortization of actuarial loss	11	9	1	1	12	10
Net periodic pension cost (credit)	<u>\$ (3)</u>	<u>\$ —</u>	<u>\$ 3</u>	<u>\$ 4</u>	<u>\$ —</u>	<u>\$ 4</u>

	Qualified Plans		Non-qualified Plans		Total	
			Six Months Ended June 30			
	2020	2019	2020	2019	2020	2019
	(In millions)					
Service cost	\$ 17	\$ 15	\$ 2	\$ 2	\$ 19	\$ 17
Interest cost	32	37	2	3	34	40
Expected return on plan assets	(75)	(68)	—	—	(75)	(68)
Amortization of actuarial loss	20	17	3	2	23	19
Net periodic pension cost (credit)	<u>\$ (6)</u>	<u>\$ 1</u>	<u>\$ 7</u>	<u>\$ 7</u>	<u>\$ 1</u>	<u>\$ 8</u>

The service cost component of net periodic pension cost (credit) is recorded in salaries and employee benefits on the consolidated statements of operations. Components other than service cost are recorded in other non-interest expense on the consolidated statements of operations.

Regions' funding policy for the qualified plans is to contribute annually at least the amount required by IRS minimum funding standards. Regions made no contributions during the first six months of 2020.

Regions also provides other postretirement benefits, such as defined benefit health care plans and life insurance plans, that cover certain retired employees. There was no material impact from other postretirement benefits on the consolidated financial statements for the six months ended June 30, 2020 or 2019.

NOTE 9. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The following tables present the notional amount and estimated fair value of derivative instruments on a gross basis.

	June 30, 2020			December 31, 2019		
	Notional Amount	Estimated Fair Value		Notional Amount	Estimated Fair Value	
		Gain ⁽¹⁾	Loss ⁽¹⁾		Gain ⁽¹⁾	Loss ⁽¹⁾
	(In millions)					
Derivatives in fair value hedging relationships:						
Interest rate swaps	\$ 3,100	\$ 136	\$ —	\$ 2,900	\$ 67	\$ —
Derivatives in cash flow hedging relationships:						
Interest rate swaps	16,000	1,345	—	17,250	338	83
Interest rate floors ⁽²⁾	6,750	575	—	6,750	208	—
Total derivatives in cash flow hedging relationships	22,750	1,920	—	24,000	546	83
Total derivatives designated as hedging instruments	\$ 25,850	\$ 2,056	\$ —	\$ 26,900	\$ 613	\$ 83
Derivatives not designated as hedging instruments:						
Interest rate swaps	\$ 76,182	\$ 1,831	\$ 1,758	\$ 68,075	\$ 659	\$ 656
Interest rate options	13,880	101	37	11,347	27	9
Interest rate futures and forward commitments	4,782	13	11	27,324	10	11
Other contracts	10,002	135	158	10,276	48	58
Total derivatives not designated as hedging instruments	\$ 104,846	\$ 2,080	\$ 1,964	\$ 117,022	\$ 744	\$ 734
Total derivatives	\$ 130,696	\$ 4,136	\$ 1,964	\$ 143,922	\$ 1,357	\$ 817
Total gross derivative instruments, before netting		\$ 4,136	\$ 1,964		\$ 1,357	\$ 817
Less: Legally enforceable master netting agreements		186	186		105	105
Less: Cash collateral received/posted		660	134		229	90
Less: Variation margin collateral ⁽³⁾		2,191	1,548		688	575
Total gross derivative instruments, after netting ⁽⁴⁾		\$ 1,099	\$ 96		\$ 335	\$ 47

- (1) Derivatives in a gain position are recorded as other assets and derivatives in a loss position are recorded as other liabilities on the consolidated balance sheets.
- (2) Estimated fair value includes premium of approximately \$104 million to be amortized over the remaining life.
- (3) As permitted by U.S. GAAP, variation margin payments made or received for derivatives that are centrally cleared are legally characterized as settled, such that no fair value is presented on the balance sheet for the respective derivatives. As of June 30, 2020 and December 31, 2019, the net amounts of variation margin cash collateral received from central counterparty clearing houses were \$643 million and \$113 million, respectively.
- (4) The gain amounts, which are not collateralized with cash or other assets or reserved for, represent the net credit risk on all trading and other derivative positions. As of June 30, 2020 and December 31, 2019, financial instruments posted of \$25 million and \$24 million, respectively, were not offset in the consolidated balance sheets.

HEDGING DERIVATIVES

Derivatives entered into to manage interest rate risk and facilitate asset/liability management strategies are designated as hedging derivatives. Derivative financial instruments that qualify in a hedging relationship are classified, based on the exposure being hedged, as either fair value hedges or cash flow hedges. See Note 1 "Summary of Significant Accounting Policies" of the Annual Report on Form 10-K for the year ended December 31, 2019, for additional information regarding accounting policies for derivatives.

FAIR VALUE HEDGES

Fair value hedge relationships mitigate exposure to the change in fair value of an asset, liability or firm commitment.

Regions enters into interest rate swap agreements to manage interest rate exposure on the Company's fixed-rate borrowings. These agreements involve the receipt of fixed-rate amounts in exchange for floating-rate interest payments over the life of the agreements. Regions enters into interest rate swap agreements to manage interest rate exposure on certain of the Company's fixed-rate available for sale debt securities. These agreements involve the payment of fixed-rate amounts in exchange for floating-rate interest receipts.

CASH FLOW HEDGES

Cash flow hedge relationships mitigate exposure to the variability of future cash flows or other forecasted transactions.

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

Regions recognized an unrealized after-tax gain of \$51 million and \$45 million in accumulated other comprehensive income (loss) at June 30, 2020 and 2019, respectively, related to discontinued cash flow hedges of loan instruments, which will be amortized into earnings in conjunction with the recognition of interest payments through 2026. Regions recognized pre-tax income of \$2 million and \$3 million during the three months ended June 30, 2020 and 2019, respectively, and pre-tax income of \$4 million and \$8 million during the six months ended June 30, 2020 and 2019, respectively, related to the amortization of discontinued cash flow hedges of loan instruments.

Regions expects to reclassify into earnings approximately \$349 million in pre-tax income due to the receipt or payment of interest payments and floor premium amortization on all cash flow hedges within the next twelve months. Included in this amount is \$5 million in pre-tax net gains related to the amortization of discontinued cash flow hedges. The maximum length of time over which Regions is hedging its exposure to the variability in future cash flows for forecasted transactions is approximately seven years as of June 30, 2020, and a portion of these hedges are forward starting.

The following tables present the effect of hedging derivative instruments on the consolidated statements of operations and the total amounts for the respective line items effected:

	Three Months Ended June 30, 2020			
	Interest Income		Interest Expense	
	Debt securities	Loans, including fees	Long-term borrowings	
	(In millions)			
Total amounts presented in the consolidated statements of operations	\$ 148	\$ 898	\$	49
Gains/(losses) on fair value hedging relationships:				
Interest rate contracts:				
Amounts related to interest settlements on derivatives	\$ —	\$ —	\$	11
Recognized on derivatives	—	—		1
Recognized on hedged items	—	—		(1)
Net income (loss) recognized on fair value hedges	\$ —	\$ —	\$	11
Gains/(losses) on cash flow hedging relationships: ⁽¹⁾				
Interest rate contracts:				
Realized gains (losses) reclassified from AOCI into net income (loss) ⁽²⁾	\$ —	\$ 60	\$	—
Income (expense) recognized on cash flow hedges	\$ —	\$ 60	\$	—

Three Months Ended June 30, 2019			
	Interest Income		Interest Expense
	Debt securities	Loans, including fees	Long-term borrowings
	(In millions)		
Total amounts presented in the consolidated statements of operations	\$ 163	\$ 992	\$ 96
Gains/(losses) on fair value hedging relationships:			
Interest rate contracts:			
Amounts related to interest settlements on derivatives	\$ —	\$ —	\$ (5)
Recognized on derivatives	(1)	—	57
Recognized on hedged items	1	—	(57)
Net income (loss) recognized on fair value hedges	\$ —	\$ —	\$ (5)
Gains/(losses) on cash flow hedging relationships: ⁽¹⁾			
Interest rate contracts:			
Realized gains (losses) reclassified from AOCI into net income (loss) ⁽²⁾	\$ —	\$ (8)	\$ —
Income (expense) recognized on cash flow hedges	\$ —	\$ (8)	\$ —
Six Months Ended June 30, 2020			
	Interest Income		Interest Expense
	Debt securities	Loans, including fees	Long-term borrowings
	(In millions)		
Total amounts presented in the consolidated statements of operations	\$ 306	\$ 1,801	\$ 108
Gains/(losses) on fair value hedging relationships:			
Interest rate contracts:			
Amounts related to interest settlements on derivatives	\$ —	\$ —	\$ 15
Recognized on derivatives	—	—	77
Recognized on hedged items	—	—	(77)
Income (expense) recognized on fair value hedges	\$ —	\$ —	\$ 15
Gains/(losses) on cash flow hedging relationships: ⁽¹⁾			
Interest rate contracts:			
Realized gains (losses) reclassified from AOCI into net income (loss) ⁽²⁾	\$ —	\$ 69	\$ —
Income (expense) recognized on cash flow hedges	\$ —	\$ 69	\$ —

Six Months Ended June 30, 2019			
	Interest Income		Interest Expense
	Debt securities	Loans, including fees	Long-term borrowings
	(In millions)		
Total amounts presented in the consolidated statements of operations	\$ 328	\$ 1,973	\$ 198
Gains/(losses) on fair value hedging relationships:			
Interest rate contracts:			
Amounts related to interest settlements on derivatives	\$ —	\$ —	\$ (11)
Recognized on derivatives	(2)	—	90
Recognized on hedged items	2	—	(90)
Income (expense) recognized on fair value hedges	\$ —	\$ —	\$ (11)
Gains/(losses) on cash flow hedging relationships: ⁽¹⁾			
Interest rate contracts:			
Realized gains (losses) reclassified from AOCI into net income (loss) ⁽²⁾	\$ —	\$ (16)	\$ —
Income (expense) recognized on cash flow hedges	\$ —	\$ (16)	\$ —

(1) See Note 6 for gain or (loss) recognized for cash flow hedges in AOCI.

(2) Pre-tax.

The following tables present the carrying amount and associated cumulative basis adjustment related to the application of hedge accounting that is included in the carrying amount of hedged assets and liabilities in fair value hedging relationships.

	June 30, 2020		December 31, 2019	
	Hedged Items Currently Designated		Hedged Items Currently Designated	
	Carrying Amount of Assets/(Liabilities)	Hedge Accounting Basis Adjustment	Carrying Amount of Assets/(Liabilities)	Hedge Accounting Basis Adjustment
	(In millions)		(In millions)	
Long-term borrowings	\$ (3,223)	\$ (115)	\$ (2,954)	\$ (49)

As of June 30, 2020 and December 31, 2019, the Company had terminated fair value hedges related to debt securities available for sale with carrying values of \$312 million and \$337 million, respectively. The remaining basis adjustments related to these terminated hedges were \$1 million and \$3 million, respectively.

DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS

The Company holds a portfolio of interest rate swaps, option contracts, and futures and forward commitments that result from transactions with its commercial customers in which they manage their risks by entering into a derivative with Regions. The Company monitors and manages the net risk in this customer portfolio and enters into separate derivative contracts in order to reduce the overall exposure to pre-defined limits. For both derivatives with its end customers and derivatives Regions enters into to mitigate the risk in this portfolio, the Company is subject to market risk and the risk that the counterparty will default. The contracts in this portfolio are not designated as accounting hedges and are marked-to-market through earnings (in capital markets fee income) and included in other assets and other liabilities, as appropriate.

Regions enters into interest rate lock commitments, which are commitments to originate mortgage loans whereby the interest rate on the loan is determined prior to funding and the customers have locked into that interest rate. At June 30, 2020 and December 31, 2019, Regions had \$1.0 billion and \$366 million, respectively, in total notional amount of interest rate lock commitments. Regions manages market risk on interest rate lock commitments and mortgage loans held for sale with corresponding forward sale commitments. Residential mortgage loans held for sale are recorded at fair value with changes in fair value recorded in mortgage income. Commercial mortgage loans held for sale are recorded at either the lower of cost or market or at fair value based on management's election. At June 30, 2020 and December 31, 2019, Regions had \$1.8 billion and \$622 million, respectively, in total notional amounts related to these forward sale commitments. Changes in mark-to-market from both interest rate lock commitments and corresponding forward sale commitments related to residential mortgage loans are included in mortgage income. Changes in mark-to-market from both interest rate lock commitments and corresponding forward sale commitments related to commercial mortgage loans are included in capital markets income.

Regions has elected to account for residential MSRs at fair value with any changes to fair value recorded in mortgage income. Concurrent with the election to use the fair value measurement method, Regions began using various derivative instruments in

the form of forward rate commitments, futures contracts, swaps and swaptions to mitigate the effect of changes in the fair value of its residential MSRs in its consolidated statements of operations. As of June 30, 2020 and December 31, 2019, the total notional amount related to these contracts was \$4.2 billion and \$4.8 billion, respectively.

The following table presents the location and amount of gain or (loss) recognized in income on derivatives not designated as hedging instruments in the consolidated statements of operations for the periods presented below:

Derivatives Not Designated as Hedging Instruments	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
	(In millions)			
Capital markets income:				
Interest rate swaps	\$ 29	\$ (4)	\$ (8)	\$ (3)
Interest rate options	16	5	32	7
Interest rate futures and forward commitments	2	3	7	4
Other contracts	11	(1)	—	(1)
Total capital markets income	58	3	31	7
Mortgage income:				
Interest rate swaps	6	35	104	54
Interest rate options	2	2	26	5
Interest rate futures and forward commitments	17	(3)	1	(1)
Total mortgage income	25	34	131	58
	\$ 83	\$ 37	\$ 162	\$ 65

CREDIT DERIVATIVES

Regions has both bought and sold credit protection in the form of participations on interest rate swaps (swap participations). These swap participations, which meet the definition of credit derivatives, were entered into in the ordinary course of business to serve the credit needs of customers. Swap participations, whereby Regions has purchased credit protection, entitle Regions to receive a payment from the counterparty if the customer fails to make payment on any amounts due to Regions upon early termination of the swap transaction and have maturities between 2020 and 2029. Swap participations, whereby Regions has sold credit protection have maturities between 2020 and 2038. For contracts where Regions sold credit protection, Regions would be required to make payment to the counterparty if the customer fails to make payment on any amounts due to the counterparty upon early termination of the swap transaction. Regions bases the current status of the prepayment/performance risk on bought and sold credit derivatives on recently issued internal risk ratings consistent with the risk management practices of unfunded commitments.

Regions' maximum potential amount of future payments under these contracts as of June 30, 2020 was approximately \$558 million. This scenario occurs if variable interest rates were at zero percent and all counterparties defaulted with zero recovery. The fair value of sold protection at June 30, 2020 and 2019 was immaterial. In transactions where Regions has sold credit protection, recourse to collateral associated with the original swap transaction is available to offset some or all of Regions' obligation.

Regions has bought credit protection in the form of credit default indices. These indices, which meet the definition of credit derivatives, were entered into in the ordinary course of business to economically hedge credit spread risk in commercial mortgage loans held for sale whereby the fair value option has been elected. Credit derivatives, whereby Regions has purchased credit protection, entitle Regions to receive a payment from the counterparty if losses on the underlying index exceed a certain threshold, dependent upon the tranche rating of the capital structure.

CONTINGENT FEATURES

Certain of Regions' derivative instrument contracts with broker-dealers contain credit-related termination provisions and/or credit-related provisions regarding the posting of collateral, allowing those broker-dealers to terminate the contracts in the event that Regions' and/or Regions Bank's credit ratings falls below specified ratings from certain major credit rating agencies. The aggregate fair values of all derivative instruments with any credit-risk-related contingent features that were in a liability position on June 30, 2020 and December 31, 2019, were \$66 million and \$64 million, respectively, for which Regions had posted collateral of \$67 million and \$67 million, respectively, in the normal course of business.

NOTE 10. FAIR VALUE MEASUREMENTS

See Note 1 "Summary of Significant Accounting Policies" to the consolidated financial statements of the Annual Report on Form 10-K for the year ended December 31, 2019 for a description of valuation methodologies for assets and liabilities measured at fair value on a recurring and non-recurring basis. Assets and liabilities measured at fair value rarely transfer between Level 1 and Level 2 measurements. Marketable equity securities and debt securities available for sale may be periodically transferred to or from Level 3 valuation based on management's conclusion regarding the observability of inputs used in valuing the securities. Such transfers are accounted for as if they occur at the beginning of a reporting period.

The following table presents assets and liabilities measured at estimated fair value on a recurring basis and non-recurring basis:

	June 30, 2020					
	Level 1	Level 2	Level 3 ⁽¹⁾	Derivative Offset Adjustments ⁽²⁾	Total Estimated Fair Value	
	(In millions)					
Recurring fair value measurements						
Debt securities available for sale:						
U.S. Treasury securities	\$ 181	\$ —	\$ —	\$ —	\$ 181	
Federal agency securities	—	42	—	—	42	
Mortgage-backed securities (MBS):						
Residential agency	—	16,473	—	—	16,473	
Residential non-agency	—	—	1	—	1	
Commercial agency	—	5,214	—	—	5,214	
Commercial non-agency	—	616	—	—	616	
Corporate and other debt securities	—	1,370	1	—	1,371	
Total debt securities available for sale	\$ 181	\$ 23,715	\$ 2	\$ —	\$ 23,898	
Loans held for sale	\$ —	\$ 950	\$ 19	\$ —	\$ 969	
Marketable equity securities	\$ 363	\$ —	\$ —	\$ —	\$ 363	
Residential mortgage servicing rights	\$ —	\$ —	\$ 249	\$ —	\$ 249	
Derivative assets:						
Interest rate swaps	\$ —	\$ 3,312	\$ —	\$ (2,191)	\$ 1,121	
Interest rate options	—	634	42	—	676	
Interest rate futures and forward commitments	—	13	—	—	13	
Other contracts	2	131	2	—	135	
Total derivative assets	\$ 2	\$ 4,090	\$ 44	\$ (2,191)	\$ 1,945	
Derivative liabilities:						
Interest rate swaps	\$ —	\$ 1,758	\$ —	\$ (1,548)	\$ 210	
Interest rate options	—	37	—	—	37	
Interest rate futures and forward commitments	—	11	—	—	11	
Other contracts	3	144	11	—	158	
Total derivative liabilities	\$ 3	\$ 1,950	\$ 11	\$ (1,548)	\$ 416	
Non-recurring fair value measurements						
Loans held for sale	\$ —	\$ —	\$ 9	\$ —	\$ 9	
Equity investments without a readily determinable fair value	—	—	10	—	10	
Foreclosed property and other real estate	—	—	18	—	18	

December 31, 2019					
	Level 1	Level 2	Level 3 ⁽¹⁾	Derivative Offset Adjustments ⁽²⁾	Total Estimated Fair Value
Recurring fair value measurements					
Debt securities available for sale:					
U.S. Treasury securities	\$ 182	\$ —	\$ —	\$ —	\$ 182
Federal agency securities	—	43	—	—	43
Mortgage-backed securities (MBS):					
Residential agency	—	15,516	—	—	15,516
Residential non-agency	—	—	1	—	1
Commercial agency	—	4,766	—	—	4,766
Commercial non-agency	—	647	—	—	647
Corporate and other debt securities	—	1,450	1	—	1,451
Total debt securities available for sale	\$ 182	\$ 22,422	\$ 2	\$ —	\$ 22,606
Loans held for sale	\$ —	\$ 436	\$ 3	\$ —	\$ 439
Marketable equity securities	\$ 450	\$ —	\$ —	\$ —	\$ 450
Residential mortgage servicing rights	\$ —	\$ —	\$ 345	\$ —	\$ 345
Derivative assets:					
Interest rate swaps	\$ —	\$ 1,064	\$ —	\$ (688)	\$ 376
Interest rate options	—	227	8	—	235
Interest rate futures and forward commitments	—	4	6	—	10
Other contracts	—	47	1	—	48
Total derivative assets	\$ —	\$ 1,342	\$ 15	\$ (688)	\$ 669
Derivative liabilities:					
Interest rate swaps	\$ —	\$ 739	\$ —	\$ (575)	\$ 164
Interest rate options	—	9	—	—	9
Interest rate futures and forward commitments	—	11	—	—	11
Other contracts	—	53	5	—	58
Total derivative liabilities	\$ —	\$ 812	\$ 5	\$ (575)	\$ 242
Non-recurring fair value measurements					
Loans held for sale	\$ —	\$ —	\$ 14	\$ —	\$ 14
Equity investments without a readily determinable fair value	—	—	32	—	32
Foreclosed property and other real estate	—	—	42	—	42

(1) All following disclosures related to Level 3 recurring and non-recurring assets do not include those deemed to be immaterial.

(2) As permitted under U.S. GAAP, variation margin collateral payments made or received for derivatives that are centrally cleared are legally characterized as settled. As such, these derivative assets and derivative liabilities and the related variation margin collateral are presented on a net basis on the balance sheet.

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

The following tables illustrate rollforwards for residential mortgage servicing rights, which are the only material assets or liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and six months ended June 30, 2020 and 2019, respectively.

	Residential mortgage servicing rights			
	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
	(In millions)			
Carrying value, beginning of period	\$ 254	\$ 386	\$ 345	\$ 418
Total realized/unrealized gains (losses) included in earnings ⁽¹⁾	(29)	(57)	(131)	(96)
Purchases	24	8	35	15
Carrying value, end of period	<u>\$ 249</u>	<u>\$ 337</u>	<u>\$ 249</u>	<u>\$ 337</u>

(1) Included in mortgage income. Amounts presented exclude offsetting impact from related derivatives.

The following table presents the fair value adjustments related to non-recurring fair value measurements:

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
	(In millions)			
Loans held for sale	\$ (2)	\$ (4)	\$ (5)	\$ (6)
Equity investments without a readily determinable fair value	—	—	(3)	—
Foreclosed property and other real estate	(1)	(31)	(10)	(39)

The following tables present detailed information regarding material assets and liabilities measured at fair value using significant unobservable inputs (Level 3) as of June 30, 2020, and December 31, 2019. The tables include the valuation techniques and the significant unobservable inputs utilized. The range of each significant unobservable input as well as the weighted-average within the range utilized at June 30, 2020, and December 31, 2019, are included. Following the tables are descriptions of the valuation techniques and the sensitivity of the techniques to changes in the significant unobservable inputs.

June 30, 2020				
Level 3 Estimated Fair Value at June 30, 2020	Valuation Technique	Unobservable Input(s)	Quantitative Range of Unobservable Inputs and (Weighted-Average)	
(Dollars in millions)				
Recurring fair value measurements:				
Residential mortgage servicing rights ⁽¹⁾	\$249	Discounted cash flow	Weighted-average CPR (%)	8.2% - 36.2% (17.0%)
			OAS (%)	5.2% - 10.2% (6.3%)

(1) See Note 4 for additional disclosures related to assumptions used in the fair value calculation for residential mortgage servicing rights.

December 31, 2019				
Level 3 Estimated Fair Value at December 31, 2019	Valuation Technique	Unobservable Input(s)	Quantitative Range of Unobservable Inputs and (Weighted-Average)	
(Dollars in millions)				
Recurring fair value measurements:				
Residential mortgage servicing rights ⁽¹⁾	\$345	Discounted cash flow	Weighted-average CPR (%)	7.4% - 26.1% (12.0%)
			OAS (%)	5.2% - 10.2% (6.18%)

(1) See Note 7 to the consolidated financial statements of the Annual Report on Form 10-K for the year ended December 31, 2019 for additional disclosures related to assumptions used in the fair value calculation for residential mortgage servicing rights.

RECURRING FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS

Residential mortgage servicing rights

The significant unobservable inputs used in the fair value measurement of residential MSRs are OAS and CPR. This valuation requires generating cash flow projections over multiple interest rate scenarios and discounting those cash flows at a risk-adjusted rate. Additionally, the impact of prepayments and changes in the OAS are based on a variety of underlying inputs including servicing costs. Increases or decreases to the underlying cash flow inputs will have a corresponding impact on the value of the MSR asset. The net change in unrealized gains (losses) included in earnings related to MSRs held at period end are disclosed as the changes in valuation inputs or assumptions included in the MSR rollforward table in Note 4.

FAIR VALUE OPTION

Regions has elected the fair value option for all eligible agency residential mortgage loans and certain commercial mortgage loans originated with the intent to sell. These elections allow for a more effective offset of the changes in fair values of the loans and the derivative instruments used to economically hedge them without the burden of complying with the requirements for hedge accounting. Regions has not elected the fair value option for other loans held for sale primarily because they are not economically hedged using derivative instruments. Fair values of residential mortgage loans held for sale are based on traded market prices of similar assets where available and/or discounted cash flows at market interest rates, adjusted for securitization activities that include servicing values and market conditions, and are recorded in loans held for sale in the consolidated balance sheets.

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

	June 30, 2020			December 31, 2019		
	Aggregate Fair Value	Aggregate Unpaid Principal	Aggregate Fair Value Less Aggregate Unpaid Principal	Aggregate Fair Value	Aggregate Unpaid Principal	Aggregate Fair Value Less Aggregate Unpaid Principal
	(In millions)					
Mortgage loans held for sale, at fair value	\$ 969	\$ 926	\$ 43	\$ 439	\$ 425	\$ 14

Interest income on mortgage loans held for sale is recognized based on contractual rates and is reflected in interest income on loans held for sale in the consolidated statements of operations. The following table details net gains and losses resulting from changes in fair value of these loans, which were recorded in mortgage income in the consolidated statements of operations during the three and six months ended June 30, 2020 and 2019. These changes in fair value are mostly offset by economic hedging activities. An immaterial portion of these amounts was attributable to changes in instrument-specific credit risk.

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
	(In millions)			
Net gains (losses) resulting for the change in fair value of mortgage loans held for sale	\$ 20	\$ 5	\$ 30	\$ 5

The carrying amounts and estimated fair values, as well as the level within the fair value hierarchy, of the Company's financial instruments as of June 30, 2020 are as follows:

	June 30, 2020				
	Carrying Amount	Estimated Fair Value ⁽¹⁾	Level 1	Level 2	Level 3
	(In millions)				
Financial assets:					
Cash and cash equivalents	\$ 13,198	\$ 13,198	\$ 13,198	\$ —	\$ —
Debt securities held to maturity	1,255	1,356	—	1,356	—
Debt securities available for sale	23,898	23,898	181	23,715	2
Loans held for sale	1,152	1,152	—	1,124	28
Loans (excluding leases), net of unearned income and allowance for loan losses ⁽²⁾⁽³⁾	86,723	86,504	—	—	86,504
Other earning assets ⁽⁴⁾	1,009	1,009	363	646	—
Derivative assets	1,945	1,945	2	1,899	44
Financial liabilities:					
Derivative liabilities	416	416	3	402	11
Deposits	116,779	116,834	—	116,834	—
Long-term borrowings	6,408	8,231	—	6,773	1,458
Loan commitments and letters of credit	171	710	—	—	710

- (1) Estimated fair values are consistent with an exit price concept. The assumptions used to estimate the fair values are intended to approximate those that a market participant would use in a hypothetical orderly transaction. In estimating fair value, the Company makes adjustments for estimated changes in interest rates, market liquidity and credit spreads in the periods they are deemed to have occurred.
- (2) The estimated fair value of portfolio loans assumes sale of the loans to a third-party financial investor. Accordingly, the value to the Company if the loans were held to maturity is not reflected in the fair value estimate. The fair value discount on the loan portfolio's net carrying amount at June 30, 2020 was \$219 million or 0.3 percent, reflecting tightening of credit spreads as of June 30, 2020, following a significant widening in the first quarter of 2020, and PPP loan valuation at par.
- (3) Excluded from this table is the capital lease carrying amount of \$1.5 billion at June 30, 2020.
- (4) Excluded from this table is the operating lease carrying amount of \$229 million at June 30, 2020.

The carrying amounts and estimated fair values, as well as the level within the fair value hierarchy, of the Company's financial instruments as of December 31, 2019 are as follows:

	December 31, 2019				
	Carrying Amount	Estimated Fair Value ⁽¹⁾	Level 1	Level 2	Level 3
			(In millions)		
Financial assets:					
Cash and cash equivalents	\$ 4,114	\$ 4,114	\$ 4,114	\$ —	\$ —
Debt securities held to maturity	1,332	1,372	—	1,372	—
Debt securities available for sale	22,606	22,606	182	22,422	2
Loans held for sale	637	637	—	620	17
Loans (excluding leases), net of unearned income and allowance for loan losses ⁽²⁾⁽³⁾	80,841	80,799	—	—	80,799
Other earning assets ⁽⁴⁾	1,221	1,221	450	771	—
Derivative assets	669	669	—	654	15
Financial liabilities:					
Derivative liabilities	242	242	—	237	5
Deposits	97,475	97,516	—	97,516	—
Short-term borrowings	2,050	2,050	—	2,050	—
Long-term borrowings	7,879	8,275	—	7,442	833
Loan commitments and letters of credit	67	471	—	—	471

- (1) Estimated fair values are consistent with an exit price concept. The assumptions used to estimate the fair values are intended to approximate those that a market participant would use in a hypothetical orderly transaction. In estimating fair value, the Company makes adjustments for estimated changes in interest rates, market liquidity and credit spreads in the periods they are deemed to have occurred.
- (2) The estimated fair value of portfolio loans assumes sale of the loans to a third-party financial investor. Accordingly, the value to the Company if the loans were held to maturity is not reflected in the fair value estimate. The fair value discount on the loan portfolio's net carrying amount at December 31, 2019 was \$42 million or 0.1 percent.
- (3) Excluded from this table is the capital lease carrying amount of \$1.3 billion at December 31, 2019.
- (4) Excluded from this table is the operating lease carrying amount of \$297 million at December 31, 2019.

NOTE 11. BUSINESS SEGMENT INFORMATION

Each of Regions' reportable segments is a strategic business unit that serves specific needs of Regions' customers based on the products and services provided. The segments are based on the manner in which management views the financial performance of the business. The Company has three reportable segments: Corporate Bank, Consumer Bank, and Wealth Management, with the remainder in Other. Additional information about the Company's reportable segments is included in Regions' Annual Report on Form 10-K for the year ended December 31, 2019.

The application and development of management reporting methodologies is a dynamic process and is subject to periodic enhancements. As these enhancements are made, financial results presented by each reportable segment may be periodically revised.

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

	Three Months Ended June 30, 2020				
	Corporate Bank	Consumer Bank	Wealth Management	Other	Consolidated
	(In millions)				
Net interest income (loss)	\$ 452	\$ 555	\$ 36	\$ (71)	\$ 972
Provision (credit) for credit losses ⁽¹⁾	78	80	4	720	882
Non-interest income	180	286	81	26	573
Non-interest expense	267	518	86	53	924
Income (loss) before income taxes	287	243	27	(818)	(261)
Income tax expense (benefit)	71	61	6	(185)	(47)
Net income (loss)	\$ 216	\$ 182	\$ 21	\$ (633)	\$ (214)
Average assets	\$ 65,592	\$ 34,391	\$ 2,009	\$ 37,828	\$ 139,820

	Three Months Ended June 30, 2019				
	Corporate Bank	Consumer Bank	Wealth Management	Other	Consolidated
	(In millions)				
Net interest income (loss)	\$ 363	\$ 587	\$ 45	\$ (53)	\$ 942
Provision (credit) for credit losses ⁽¹⁾	49	84	4	(45)	92
Non-interest income	134	292	82	(14)	494
Non-interest expense	232	527	84	18	861
Income (loss) before income taxes	216	268	39	(40)	483
Income tax expense (benefit)	54	67	10	(38)	93
Net income (loss)	\$ 162	\$ 201	\$ 29	\$ (2)	\$ 390
Average assets	\$ 54,294	\$ 35,065	\$ 2,178	\$ 34,578	\$ 126,115

	Six Months Ended June 30, 2020				
	Corporate Bank	Consumer Bank	Wealth Management	Other	Consolidated
	(In millions)				
Net interest income (loss)	\$ 806	\$ 1,099	\$ 75	\$ (80)	\$ 1,900
Provision (credit) for credit losses ⁽¹⁾	130	168	7	950	1,255
Non-interest income	284	602	167	5	1,058
Non-interest expense	503	1,018	173	66	1,760
Income (loss) before income taxes	457	515	62	(1,091)	(57)
Income tax expense (benefit)	114	129	15	(263)	(5)
Net income (loss)	\$ 343	\$ 386	\$ 47	\$ (828)	\$ (52)
Average assets	\$ 60,337	\$ 34,495	\$ 2,035	\$ 35,428	\$ 132,295

Six Months Ended June 30, 2019					
	Corporate Bank	Consumer Bank	Wealth Management	Other	Consolidated
	(In millions)				
Net interest income (loss)	\$ 722	\$ 1,165	\$ 92	\$ (89)	\$ 1,890
Provision (credit) for credit losses ⁽¹⁾	97	167	8	(89)	183
Non-interest income	265	575	160	(4)	996
Non-interest expense	468	1,048	169	36	1,721
Income (loss) before income taxes	422	525	75	(40)	982
Income tax expense (benefit)	106	131	19	(58)	198
Net income (loss)	\$ 316	\$ 394	\$ 56	\$ 18	\$ 784
Average assets	\$ 54,074	\$ 35,232	\$ 2,190	\$ 34,334	\$ 125,830

(1) Upon adoption of CECL on January 1, 2020, the provision for credit losses is the sum of the provision for loans losses and the provision for unfunded credit commitments. Prior to the adoption of CECL, the provision for unfunded commitments was included in other non-interest expense. See Note 23 "Business Segment Information" in the Annual Report on Form 10-K for the year ended December 31, 2019 for information on how the provision is allocated to each reportable segment.

NOTE 12. COMMITMENTS, CONTINGENCIES AND GUARANTEES

COMMERCIAL COMMITMENTS

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

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

	June 30, 2020	December 31, 2019
	(In millions)	
Unused commitments to extend credit	\$ 55,459	\$ 52,976
Standby letters of credit	1,528	1,521
Commercial letters of credit	63	59
Liabilities associated with standby letters of credit	22	22
Assets associated with standby letters of credit	22	23
Reserve for unfunded credit commitments	149	45

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

Standby letters of credit—Standby letters of credit are also issued to customers, which commit Regions to make payments on behalf of customers if certain specified future events occur. Regions has recourse against the customer for any amount required to be paid to a third party under a standby letter of credit. The credit risk involved in the issuance of these guarantees is essentially the same as that involved in extending loans to clients and as such, the instruments are collateralized when necessary. Historically, a large percentage of standby letters of credit expire without being funded. The contractual amount of standby letters of credit represents the maximum potential amount of future payments Regions could be required to make and represents Regions' maximum credit risk.

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

LEGAL CONTINGENCIES

Regions and its subsidiaries are subject to loss contingencies related to litigation, claims, investigations and legal and administrative cases and proceedings arising in the ordinary course of business. Regions evaluates these contingencies based on

information currently available, including advice of counsel. Regions establishes accruals for those matters when a loss contingency is considered probable and the related amount is reasonably estimable. Any accruals are periodically reviewed and may be adjusted as circumstances change. Some of Regions' exposure with respect to loss contingencies may be offset by applicable insurance coverage. In determining the amounts of any accruals or estimates of possible loss contingencies however, Regions does not take into account the availability of insurance coverage. To the extent that Regions has an insurance recovery, the proceeds are recorded in the period the recovery is received.

When it is practicable, Regions estimates possible loss contingencies, whether or not there is an accrued probable loss. When Regions is able to estimate such possible losses, and when it is reasonably possible Regions could incur losses in excess of amounts accrued, Regions discloses the aggregate estimation of such possible losses. Regions currently estimates that it is reasonably possible that it may experience losses in excess of what Regions has accrued in an aggregate amount of up to approximately \$20 million as of June 30, 2020, with it also being reasonably possible that Regions could incur no losses in excess of amounts accrued. However, as available information changes, the matters for which Regions is able to estimate, as well as the estimates themselves will be adjusted accordingly. The reasonably possible estimate includes a legal contingency that is subject to an indemnification agreement.

Assessments of litigation and claims exposure are difficult because they involve inherently unpredictable factors including, but not limited to, the following: whether the proceeding is in the early stages; whether damages are unspecified, unsupported, or uncertain; whether there is a potential for punitive or other pecuniary damages; whether the matter involves legal uncertainties, including novel issues of law; whether the matter involves multiple parties and/or jurisdictions; whether discovery has begun or is not complete; whether meaningful settlement discussions have commenced; and whether the lawsuit involves class allegations. Assessments of class action litigation, which is generally more complex than other types of litigation, are particularly difficult, especially in the early stages of the proceeding when it is not known whether a class will be certified or how a potential class, if certified, will be defined. As a result, Regions may be unable to estimate reasonably possible losses with respect to some of the matters disclosed below, and the aggregated estimated amount discussed above may not include an estimate for every matter disclosed below.

Regions is involved in formal and informal information-gathering requests, investigations, reviews, examinations and proceedings by various governmental regulatory agencies, law enforcement authorities and self-regulatory bodies regarding Regions' business, Regions' business practices and policies, and the conduct of persons with whom Regions does business. Additional inquiries will arise from time to time. In connection with those inquiries, Regions receives document requests, subpoenas and other requests for information. The inquiries, including the one described below, could develop into administrative, civil or criminal proceedings or enforcement actions that could result in consequences that have a material effect on Regions' consolidated financial position, results of operations or cash flows as a whole. Such consequences could include adverse judgments, findings, settlements, penalties, fines, orders, injunctions, restitution, or alterations in our business practices, and could result in additional expenses and collateral costs, including reputational damage.

Regions is cooperating with an investigation by the United States Attorney's Office for the Eastern District of New York pertaining to Regions' banking relationship with a former customer and accounts maintained by related entities and individuals affiliated with the customer who may be involved in criminal activity, as well as related aspects of Regions' Anti-Money Laundering and Bank Secrecy Act compliance program.

While the final outcome of litigation and claims exposures or of any inquiries is inherently unpredictable, management is currently of the opinion that the outcome of pending and threatened litigation and inquiries will not have a material effect on Regions' business, consolidated financial position, results of operations or cash flows as a whole. However, in the event of unexpected future developments, it is reasonably possible that an adverse outcome in any of the matters discussed above could be material to Regions' business, consolidated financial position, results of operations or cash flows for any particular reporting period of occurrence.

GUARANTEES

FANNIE MAE DUS LOSS SHARE GUARANTEE

Regions is a DUS lender. The DUS program provides liquidity to the multi-family housing market. Regions services loans sold to Fannie Mae and is required to provide a loss share guarantee equal to one-third for the majority of its DUS servicing portfolio. At both June 30, 2020 and December 31, 2019, the Company's DUS servicing portfolio totaled approximately \$3.9 billion. Regions' maximum quantifiable contingent liability related to its loss share guarantee was approximately \$1.3 billion at both June 30, 2020 and December 31, 2019. The Company would be liable for this amount only if all of the loans it services for Fannie Mae, for which the Company retains some risk of loss, were to default and all of the collateral underlying these loans was determined to be without value at the time of settlement. Therefore, the maximum quantifiable contingent liability is not representative of the actual loss the Company would be expected to incur. The estimated fair value of the associated loss share guarantee recorded as a liability on the Company's consolidated balance sheets was approximately \$5 million and \$4 million at June 30, 2020 and December 31, 2019, respectively. Refer to Note 1 in the Annual Report on Form 10-K for the year ended December 31, 2019, for additional information.

NOTE 13. RECENT ACCOUNTING PRONOUNCEMENTS

Standard	Description	Required Date of Adoption	Effect on Regions' financial statements or other significant matters
Standards Adopted (or partially adopted) in 2020			
ASU 2016-13, Measurement of Credit Losses on Financial Instruments	This ASU amends Topic 326, Financial Instruments- Credit Losses to replace the current incurred loss accounting model with a current expected credit loss approach (CECL) for financial instruments measured at amortized cost and other commitments to extend credit.	January 1, 2020	The allowance increased by \$501 million based on loan exposure balances and Regions' internally developed macroeconomic forecast upon adoption of CECL on January 1, 2020.
ASU 2018-19, Codification Improvements to Topic 326	The amendments require entities to consider all available relevant information when estimating current expected credit losses, including details about past events, current conditions, and R&S forecasts. The resulting allowance for credit losses is to reflect the portion of the amortized cost basis that the entity does not expect to collect.		The increase in the allowance at adoption was primarily the result of significant increases within the consumer portfolio segment, specifically residential first mortgages, home equity loans, home equity lines, and indirect-other consumer. The impact to the residential first mortgage and home equity classes was mainly driven by their longer time to maturity. Additionally, a significant portion of the indirect-other consumer class is unsecured lending through third parties which yielded higher loss rates. Under CECL these higher loss rates compounded over a life of loan estimate result in a significantly larger allowance estimate.
ASU 2019-04, Codification Improvements to Topic 326	The ASU also eliminates the current accounting model for purchased credit-impaired loans, but requires an allowance to be recognized for purchased-credit-deteriorated (PCD) assets (those that have experienced more-than-insignificant deterioration in credit quality since origination). Entities that had loans accounted for under ASC 310-30 at the time of adoption should prospectively apply the guidance in this amendment for purchase credit deteriorated assets.		A suite of controls including governance, data, forecast and model controls was in place at adoption.
ASU 2019-05, Targeted Transition Relief to Topic 326			The impact was reflected as a reduction of approximately \$375 million to retained earnings and an increase of approximately \$126 million to deferred tax assets. In late March 2020, the Federal Banking agencies published an interim final rule related to a revised transition of the impact of CECL on regulatory capital. The rule allows an add-back to regulatory capital for the impacts of CECL for a two-year period. At the end of the two years, the impact is then phased in over the following three years. The add-back is calculated as the impact of initial adoption, plus 25 percent of subsequent changes in allowance. At June 30, 2020 this amount is approximately \$613 million year-to-date. The impact on CET1 is approximately 56 basis points. The interim final rule has been published for comment, but has an immediate effective date.
ASU 2019-11, Financial Instruments- Credit Losses			
ASU 2020-02, Financial Instruments - Credit Losses	Additional quantitative and qualitative disclosures are required upon adoption. While the CECL model does not apply to available for sale debt securities, the ASU does require entities to record an allowance when recognizing credit losses for available for sale securities, rather than reduce the amortized cost of the securities by direct write-offs. The ASU should be adopted on a modified retrospective basis.		There was no material impact to available for sale or held to maturity securities upon adoption of CECL, nor to any other financial assets in scope. Most of the held to maturity portfolio consists of agency-backed securities that inherently have an immaterial risk of loss. Additionally, Regions had no PCI assets that were converted to PCD upon adoption. See Note 1 Basis of Presentation for additional information about Regions' CECL methodologies and assumptions.
ASU 2017-04, Simplifying the Test for Goodwill Impairment	This ASU amends Topic 350, Intangibles-Goodwill and Other, and eliminates Step 2 from the goodwill impairment test.	January 1, 2020	The adoption of this guidance did not have a material impact.

Standard	Description	Required Date of Adoption	Effect on Regions' financial statements or other significant matters
Standards Adopted (or partially adopted) in 2020			
ASU 2018-15, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement	This ASU amends Topic 350-40, Intangibles-Goodwill and Other-Internal-Use Software, regarding a customer's accounting for implementation, set-up, and other upfront costs incurred in a cloud computing arrangement that is hosted by the vendor, i.e. a service contract. Customers will apply the same criteria for capitalizing implementation costs as they would for an arrangement that has a software license. The amendments also prescribe the balance sheet, income statement, and cash flow classification of the capitalized implementation costs and related amortization expense, and require additional quantitative and qualitative disclosures.	January 1, 2020	The adoption of this guidance did not have a material impact.
ASU 2018-17, Targeted Improvements to Related Party Guidance for Variable Interest Entities	This ASU amends Topic 810, Consolidation, guidance on how all reporting entities evaluate indirect interests held through related parties in common control arrangements when determining whether fees paid to decision makers and service providers are variable interests.	January 1, 2020	The adoption of this guidance did not have a material impact.
ASU 2019-04, Codification Improvements to Topics 815 and 825	This ASU amends Topic 815, Derivatives and Hedging, by providing clarification on ASU 2017-12, which the Company previously adopted. The amendment provides clarity on the term used to measure the change in fair value on a partial term hedge of interest rate risk. The amendment also provides additional guidance on the amortization of the basis adjustment on partial term hedges. This ASU also amends Topic 825, Financial Instruments, by providing clarification on ASU 2016-01, which the Company previously adopted. The amendment clarifies that an entity must remeasure a security without a readily determinable fair value at fair value in accordance with Topic 820 when an orderly transaction is identified for an identical or similar investment.	January 1, 2020	The adoption of this guidance did not have a material impact.
ASU 2019-08 Compensation - Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606)	The amendments in this Update require that an entity measure and classify share-based payment awards granted to a customer by applying the guidance in Topic 718. The amount recorded as a reduction of the transaction price is required to be measured on the basis of the grant-date fair value of the share-based payment award measured in accordance with Topic 718. The grant date is the date at which a grantor (supplier) and grantee (customer) reach a mutual understanding of the key terms and conditions of a share-based payment award. The classification and subsequent measurement of the award are subject to the guidance in Topic 718 unless the share-based payment award is subsequently modified and the grantee is no longer a customer.	January 1, 2020	The adoption of this guidance did not have a material impact.

Standard	Description	Required Date of Adoption	Effect on Regions' financial statements or other significant matters
Standards Not Yet Adopted			
ASU 2019-12 Income Taxes (Topic 740) - Simplifying the Accounting for Income Taxes	The amendments in this Update simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance.	January 1, 2021	Regions is evaluating the impact upon adoption; however, the impact is not expected to be material.
ASU 2020-01, Investments - Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)	The amendments clarify the interaction of the accounting for equity securities under Topic 321 and investments accounted for under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815.	January 1, 2021 Early adoption is permitted.	Regions is evaluating the impact upon adoption; however, the impact is not expected to be material.
ASU 2020-04, Reference Rate Reform - Topic 848	This Update provides temporary optional expedients and exceptions to the GAAP guidance on contract modifications, hedge accounting, and other transactions affected that reference LIBOR or another reference rate expected to be discontinued.	The Update is effective upon issuance and can be applied through December 31, 2022.	Regions is evaluating the overall impact of this ASU. To the extent available, Regions expects to adopt optional relief expedients related to the effects of LIBOR transition.

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

INTRODUCTION

The following discussion and analysis is part of Regions Financial Corporation's ("Regions" or the "Company") Quarterly Report on Form 10-Q filed with the SEC and updates Regions' Annual Report on Form 10-K for the year ended December 31, 2019, which was previously filed with the SEC. This financial information is presented to aid in understanding Regions' financial position and results of operations and should be read together with the financial information contained in the Form 10-K. See Note 1 "Basis of Presentation" and Note 13 "Recent Accounting Pronouncements" to the consolidated financial statements for further detail. The emphasis of this discussion will be on the three and six months ended June 30, 2020 compared to the three and six months ended June 30, 2019 for the consolidated statements of operations. For the consolidated balance sheets, the emphasis of this discussion will be the balances as of June 30, 2020 compared to December 31, 2019.

This discussion and analysis contains statements that may be considered "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. See pages 7 through 9 for additional information regarding forward-looking statements.

CORPORATE PROFILE

Regions is a financial holding company headquartered in Birmingham, Alabama, that operates in the South, Midwest and Texas. Regions provides traditional commercial, retail and mortgage banking services, as well as other financial services in the fields of asset management, wealth management, securities brokerage, trust services, merger and acquisition advisory services and other specialty financing.

Regions conducts its banking operations through Regions Bank, an Alabama state-chartered commercial bank that is a member of the Federal Reserve System. At June 30, 2020, Regions operated 1,391 total branch outlets. Regions carries out its strategies and derives its profitability from three reportable business segments: Corporate Bank, Consumer Bank, and Wealth Management, with the remainder in Other. See Note 11 "Business Segment Information" to the consolidated financial statements for more information regarding Regions' segment reporting structure.

On May 31, 2019, Regions entered into an agreement to acquire Highland Associates, Inc., an institutional investment firm based in Birmingham, Alabama. The transaction closed on August 1, 2019.

On February 27, 2020, Regions entered into an agreement to acquire Ascentium Capital LLC, an independent equipment financing company headquartered in Kingwood, Texas. The transaction closed on April 1, 2020, and included approximately \$1.9 billion in loans and leases to small businesses. Refer to the "Ascentium Acquisition" section for more detail.

Regions' profitability, like that of many other financial institutions, is dependent on its ability to generate revenue from net interest income as well as non-interest income sources. Net interest income is primarily 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, card and ATM fees, mortgage servicing and secondary marketing, investment management and trust activities, capital markets and other customer services which Regions provides. Results of operations are also affected by the provision for credit losses and non-interest expenses such as salaries and employee benefits, occupancy, professional, legal and regulatory expenses, FDIC insurance assessments, and other operating expenses, as well as income taxes.

Economic conditions, competition, new legislation and related rules impacting regulation of the financial services industry and the monetary and fiscal policies of the Federal government significantly affect most, if not all, 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 is focused on providing a competitive mix of products and services, delivering quality customer service, and continuing to develop and optimize distribution channels that include a branch distribution network with offices in convenient locations, as well as electronic and mobile banking.

SECOND QUARTER OVERVIEW

Economic Environment in Regions' Banking Markets

One of the primary factors influencing the credit performance of Regions' loan portfolio is the overall economic environment in the U.S. and the primary markets in which it operates. After a brief but violent contraction in economic activity stemming from the COVID-19 pandemic and the efforts to stem its spread, the U.S. economy had begun to recover during the second quarter. However, a sharp increase in COVID-19 cases was seen in early July. While this increase in cases is more likely to slow, rather than suppress, the economic recovery, it nonetheless adds another layer of uncertainty over economic forecasts. For full-year 2020, real GDP is expected to contract by 5.8 percent and to grow by 3.3 percent in 2021.

Economic activity bottomed at the end of April 2020. By the end of May, each state had taken steps to ease restrictions on economic activity, though these steps varied across individual states. May marked the beginning of economic improvement with the addition of over 2.6 million non-farm jobs, a rebound in consumer spending, and improved conditions in the industrial sector. Further economic improvement was experienced in June with both the ISM Manufacturing Index and the ISM Non-Manufacturing index pushing above the 50 percent break between contraction and expansion and non-farm payrolls rising by 4.8 million jobs. Additionally, motor vehicle sales rebounded sharply through June and applications for purchase loans stood at more than a 12-year high based on the MBA's weekly survey data. The economy has clearly benefitted from the aggressive fiscal and monetary policy response in the early phases of the pandemic.

As the spike in the number of positive COVID-19 tests persisted into early July, several state and local governments rolled back some of the reopening measures, with most of the interventions directed at bars and restaurants. The policy response, at least thus far, has come in the form of targeted interventions rather than re-imposing the broad shutdowns seen in the early phases of the pandemic, which should limit the disruption to the economy. Barring a more intense and geographically dispersed increase in the number of COVID-19 cases than seen thus far, it is likely these targeted interventions will be the template for policy makers to deal with any subsequent spikes in cases.

Aside from the potential fallout from the policy response, consumer and business confidence could be adversely impacted by rising numbers of COVID-19 cases, which could in turn weigh on growth in consumer spending and slow the pace of improvement in the labor market. Nonetheless, after what are likely to be extraordinarily large swings in real GDP in the second quarter (contraction) and the third quarter (expansion) of 2020, the economy is likely to settle on a path of steady but moderate growth over subsequent quarters. Though many households are facing an "income cliff" at the end of July as the supplemental unemployment insurance benefits provided by the CARES Act are set to expire, it is likely that fiscal and monetary policy will remain supportive of the economic recovery. The July 2020 baseline forecast anticipates that it will be 10 to 12 quarters before the level of real GDP returns to the level from the fourth quarter of 2019, which is the last quarter free of the effects of COVID-19.

The effects within the Regions footprint will be broadly similar to those seen in the U.S. as a whole. Florida's economy has an above-average exposure to leisure and hospitality services, while Texas and Louisiana have above-average exposure to energy, so these economies could be more prone to lasting effects if the recovery does prove to be slower than is now anticipated.

The continued economic uncertainty, as described above, impacted Regions' forecast utilized in calculating the ACL as of June 30, 2020. See the "Allowance" section for further information.

COVID-19 Pandemic

Regions' business operations and financial results are influenced by the economic environment in which the Company operates. The adverse economic conditions and uncertainty in the economic outlook as of June 30, 2020 driven by the COVID-19 pandemic continued to impact the second quarter 2020 financial results in the areas as described below. Regions expects that the pandemic will continue to influence economic conditions and the Company's financial results in future quarters.

Even as businesses re-open across the country, Regions continued to keep measures in place to ensure associate and customer safety, such as continuing to limit in-person branch activity to drive-through and in-office services to appointment only. As of June 30, 2020, approximately 95% of branches were open. Regions is in the process of implementing a phased approach to return remote working associates to office locations. As of June 30, 2020, approximately 90 percent of the Company's non-branch associates are working remotely.

During the second quarter of 2020, the Company continued to offer special financial assistance to support customers who were experiencing financial hardships related to the COVID-19 pandemic. This assistance included offering customer payment deferrals or forbearances to existing loans over a set period of time, typically 90 days. Residential mortgage payment assistance is granted through a forbearance. During the forbearance period, a borrower's payment obligation is suspended and no foreclosure action will be pursued. All payments are then due at expiration of the forbearance period, unless the loan has been modified. For most other loan products (commercial and consumer products except for residential real estate), payment assistance is granted through deferrals or extensions. Deferrals and extensions are different than forbearances in that all payments are normally not due at the end of the deferral or extension period. Instead, the payment due date is advanced. However, for most all products, interest continues to accrue on the loan during the deferral or forbearance period, unless the loan is on non-accrual.

As of June 30, 2020, Regions had processed approximately 27,200 consumer payment deferral requests totaling \$1.9 billion, including approximately 5,500 forbearances related to residential mortgages totaling approximately \$1.4 billion. During May and June of 2020, approximately 34% of borrowers made mortgage payments while in forbearance. Additionally, approximately 36% of borrowers made home equity payments, approximately 56% made credit card payments, and approximately 41% made auto loan payments while in deferral. In addition, payment deferral requests for approximately 18,100 mortgage loans serviced for others have been processed totaling approximately \$3.0 billion. Regions has also processed approximately 14,300 requests for business customers totaling approximately \$3.8 billion. Approximately 25% of corporate banking borrowers, which excludes Ascentium and branch small business customers, have made payments during May and June while in deferral.

While a significant amount of payment deferrals and forbearances were granted in the second quarter of 2020, the deferrals and forbearances initially granted at the end of March 2020 expired prior to the end of the second quarter. As of June 30, 2020, approximately 2,160 residential first mortgage forbearances, totaling approximately \$585 million, were scheduled to expire. As of mid-July 2020, approximately 37% of the forbearances scheduled to expire on June 30, 2020 extended the forbearance periods by one to three months. Approximately 23% of the expired forbearances had either completed a loan modification or were in process of being modified. In addition, approximately 25% of the remaining expired forbearances were considered current because borrowers continued to make regular payments throughout the forbearance period. Regions is in process of contacting borrowers for the remaining 15% of these expired forbearances.

As noted above, loan products other than residential first mortgage have payment deferrals or extensions which either advance the payment due date or adjust the amount due each period so the borrower is not past due. The majority of these borrowers do not consider a second deferral period until the next payment is due. As a result, it is early to ascertain what actions are being taken for these other loan products after their initial deferral period expiration. In many cases, Regions is being proactive and reaching out to borrowers with payment deferrals to determine their financial capacity and whether additional payment deferrals or loan modifications are needed. As of mid-July 2020, Regions has performed few second deferral requests for its consumer products (excluding residential first mortgage) and its commercial and investor real estate loans.

As provided in the CARES Act passed into law on March 27, 2020, certain loan modifications related to COVID-19 beginning March 1, 2020 through the earlier of 60 days after the national emergency concerning the COVID-19 outbreak ends or December 31, 2020 are eligible for relief from TDR classification. Refer to Table 15 "Troubled Debt Restructurings" for further information.

As a certified SBA lender, Regions experienced an increase in lending activity in the second quarter of 2020 as the Company continued to assist customers through the loan process under the PPP. Under this program, Regions has approximately 44,600 loans outstanding totaling approximately \$4.5 billion as of June 30, 2020.

Regions continues to have strong liquidity and capital levels, which have the Company well-prepared to respond to the increase in customer borrowing needs. The Company has ample sources of liquidity that include a granular and stable deposit base, cash balances held at the Federal Reserve, borrowing capacity at the Federal Home Loan Bank, unencumbered highly liquid securities, and borrowing availability at the Federal Reserve's discount window. See the "Liquidity", "Shareholders' Equity", and "Regulatory Capital" sections for further information.

The COVID-19 pandemic affected the second quarter provision for credit losses, which was \$882 million in total and \$700 million in excess of net charge-offs (see below and the "Allowance for Credit Losses" section for further detail). Loan and deposit balances also increased due to the current environment. Contributing to the ending loan balance increase was \$4.5 billion of lending through the PPP. Ending deposit levels continued to increase as customers have retained excess cash from line draws, PPP loans, and other government stimulus funds. See Table 2 "Loan Portfolio" and Table 19 "Deposits" for further information.

The COVID-19 pandemic also affected non-interest income. At the beginning of the second quarter of 2020, consumer spending remained low due to "non essential" business closures, but did start to increase during the quarter as restrictions on economic activity were eased throughout the country. Overall, customer spending activity negatively impacted non-interest income as evidenced by reductions in service charges of \$47 million and card and ATM fees of \$4 million compared to the first quarter. If current spending levels persist, the Company estimates non-interest income will be negatively impacted by \$10 million to \$15 million per month from pre-March 2020 levels. See Table 28 "Non-Interest Income" for more detail.

During the second quarter of 2020, Regions tested goodwill for impairment in light of the decline in the economic environment caused by the COVID-19 pandemic. The Company concluded that goodwill impairment did not exist. Refer to the "Goodwill" section for further detail.

Regions has experienced a modest increase in cyber events as a result of the COVID-19 pandemic, however the Company's layered control environment has effectively detected and prevented any material impact related to these events. Refer to the "Information Security" section for further detail.

Supervisory Stress Test Update

On June 25, 2020, the Federal Reserve indicated that the Company exceeded all minimum capital levels under the supervisory stress test. The capital plan submitted to the Federal Reserve reflected no share repurchases through year-end 2020. The Company's preliminary stress capital buffer for the fourth quarter of 2020 through the third quarter of 2021 is currently estimated at 3 percent. The Federal Reserve has provided specific limitations on capital distributions in the third quarter of 2020 that the Company will need to maintain compliance with in order to maintain its common stock dividend. On July 22, 2020, the Company declared a cash dividend for the third quarter of 2020 of \$0.155 per share, which was in compliance with the Federal Reserve's limit.

Second Quarter Results

Regions reported net income (loss) available to common shareholders of \$(237) million, or \$(0.25) per diluted share, in the second quarter of 2020 compared to \$374 million, or \$0.37 per diluted share, in the second quarter of 2019.

For the second quarter of 2020, net interest income (taxable-equivalent basis) totaled \$985 million, up \$29 million compared to the second quarter of 2019. The net interest margin (taxable-equivalent basis) was 3.19 percent for the second quarter of 2020 and 3.45 percent in the second quarter of 2019. The increase in net interest income was primarily driven by increases in loan balances due to PPP lending, the Company's equipment finance acquisition and increased [average] line utilization on commercial credit lines. Net interest income also benefited from the execution of the Company's interest rate hedging strategy. The decline in net interest margin was primarily driven by elevated levels of cash held at the Federal Reserve, an increase in average commercial line draws, and the impact of lower yielding PPP loans.

The provision for credit losses totaled \$882 million in the second quarter of 2020, after the adoption of CECL at the beginning of the year, as compared to the provision for loan losses of \$92 million during the second quarter of 2019. The current quarter provision includes \$182 million in net charge-offs, as well as \$700 million of additional provision reflecting an increase in the expected losses over the contractual lives of the loan and credit commitment portfolios. The increase in the provision for credit losses during the second quarter of 2020 was driven primarily by adverse economic conditions and uncertainty in the economic outlook resulting from the COVID-19 pandemic and credit deterioration as evidenced by the increase in both criticized and classified loans during the second quarter. Downgrades were primarily in the retail, energy, restaurant, and hotel portfolios (see Note 3 "Loans and the Allowance for Credit Losses" to the consolidated financial statements for additional information). Refer to the "Allowance for Credit Losses" section for further detail.

Net charge-offs totaled \$182 million, or an annualized 0.80 percent of average loans, in the second quarter of 2020, compared to \$92 million, or an annualized 0.44 percent for the second quarter of 2019. The increase was driven primarily by charge-offs within the energy and restaurant portfolios, as well as additions related to the acquisition of Ascentium. See Note 3 "Loans and the Allowance for Credit Losses" to the consolidated financial statements for additional information.

The allowance was 2.68 percent of total loans, net of unearned income at June 30, 2020 compared to 1.10 percent at December 31, 2019. The increase was impacted by all of the factors discussed above regarding the increase in the provision. Additionally in the second quarter of 2020, Regions completed the acquisition of Ascentium, and recognized an initial increase to the allowance of \$60 million associated with the purchase of credit deteriorated loans. The allowance was 395 percent of total non-performing loans at June 30, 2020 compared to 180 percent at December 31, 2019. Total non-performing loans increased to 0.68 percent of total loans, net of unearned income, at June 30, 2020, compared to 0.61 percent at December 31, 2019. The increase in non-performing loans was driven primarily by downgrades in administrative support, waste and repair, manufacturing, restaurant and energy-related credits. Refer to the "Allowance for Credit Losses" section of Management's Discussion and Analysis for further detail.

Non-interest income was \$573 million for the second quarter of 2020, a \$79 million increase from the second quarter of 2019. The increase was primarily driven by higher mortgage and capital markets income, partially offset by lower service charges and card & ATM income. See Table 28 "Non-Interest Income" for more detail.

Total non-interest expense was \$924 million in the second quarter of 2020, a \$63 million increase from the second quarter of 2019. The increase was primarily driven by higher salaries and employee benefits. See Table 29 "Non-Interest Expense" for more detail.

Income tax expense (benefit) for the three months ended June 30, 2020 was a \$47 million benefit compared to \$93 million expense for the same period in 2019. See "Income Taxes" toward the end of the Management's Discussion and Analysis section of this report for more detail.

Expectations

Due to the current economic uncertainty, the Company has rescinded previously issued financial targets for 2020, as well as the three-year targets previously announced in 2019. Regions' expectations will continue to evolve in response to the changing economic conditions presented amidst the COVID-19 pandemic, as the Company expects that the financial results of subsequent quarters will continue to be impacted.

BALANCE SHEET ANALYSIS

The following sections provide expanded discussion of significant changes in certain line items in asset, liability, and equity categories.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents increased approximately \$9.1 billion from year-end 2019 to June 30, 2020, due primarily to an increase in cash on deposit with the FRB. Significant deposit growth during the quarter has contributed to historically elevated liquidity sources for the Company. Commercial customer deposit levels have significantly increased as customers have kept their excess cash from line draws, PPP loans, and other government stimulus in their deposit accounts. Some of these liquidity sources were used to increase cash at the FRB. See the "Liquidity" and "Deposits" sections for more information.

DEBT SECURITIES

The following table details the carrying values of debt securities, including both available for sale and held to maturity:

Table 1—Debt Securities

	June 30, 2020	December 31, 2019
	(In millions)	
U.S. Treasury securities	\$ 181	\$ 182
Federal agency securities	42	43
Mortgage-backed securities:		
Residential agency	17,113	16,226
Residential non-agency	1	1
Commercial agency	5,829	5,388
Commercial non-agency	616	647
Corporate and other debt securities	1,371	1,451
	<u>\$ 25,153</u>	<u>\$ 23,938</u>

Debt securities available for sale, which constitute the majority of the securities portfolio, are an important tool used to manage interest rate sensitivity and provide a primary source of liquidity for the Company. Regions maintains a highly rated securities portfolio consisting primarily of agency mortgage-backed securities. See Note 2 "Debt Securities" to the consolidated financial statements for additional information. Also see the "Market Risk-Interest Rate Risk" and "Liquidity" sections for more information.

Debt securities increased \$1.2 billion from December 31, 2019 to June 30, 2020. Despite the interest rate volatility during the first half of 2020, Regions' comprehensive securities repositioning executed in the second and third quarters of 2019 positioned the portfolio to react favorably to the current economic environment. The increase from year-end was the result of improved market valuation and additional purchases of mortgage-backed securities.

LOANS HELD FOR SALE

Loans held for sale totaled \$1.2 billion at June 30, 2020, consisting of \$950 million of residential real estate mortgage loans, \$192 million of commercial mortgage and other loans, and \$10 million of non-performing loans. At December 31, 2019, loans held for sale totaled \$637 million, consisting of \$436 million of residential real estate mortgage loans, \$188 million of commercial mortgage and other loans, and \$13 million of non-performing loans. The levels of residential real estate and commercial mortgage loans held for sale that are part of the Company's mortgage originations to be sold fluctuate depending on the timing of origination and sale to third parties.

LOANS

Loans, net of unearned income, represented approximately 70 percent of Regions' interest-earning assets at June 30, 2020. The following table presents the distribution of Regions' loan portfolio by portfolio segment and class, net of unearned income:

Table 2—Loan Portfolio

	June 30, 2020	December 31, 2019
	(In millions, net of unearned income)	
Commercial and industrial	\$ 47,670	\$ 39,971
Commercial real estate mortgage—owner-occupied ⁽¹⁾	5,491	5,537
Commercial real estate construction—owner-occupied ⁽¹⁾	314	331
Total commercial	53,475	45,839
Commercial investor real estate mortgage	5,221	4,936
Commercial investor real estate construction	1,908	1,621
Total investor real estate	7,129	6,557
Residential first mortgage	15,382	14,485
Home equity lines	4,953	5,300
Home equity loans	2,937	3,084
Indirect—vehicles	1,331	1,812
Indirect—other consumer	3,022	3,249
Consumer credit card	1,213	1,387
Other consumer	1,106	1,250
Total consumer	29,944	30,567
	<u>\$ 90,548</u>	<u>\$ 82,963</u>

(1) Collectively referred to as CRE.

PORTFOLIO CHARACTERISTICS

The following sections describe the composition of the portfolio segments and classes disclosed in Table 2, explain changes in balances from 2019 year-end, and highlight the related risk characteristics. Regions believes that its loan portfolio is well diversified by product, client, and geography throughout its footprint. However, the loan portfolio may be exposed to certain concentrations of credit risk which exist in relation to individual borrowers or groups of borrowers, certain types of collateral, certain types of industries, certain loan products, or certain regions of the country. See Note 3 "Loans and the Allowance for Credit Losses" to the consolidated financial statements for additional discussion.

Most classes within Regions' portfolio segments continue to experience the impact of the COVID-19 pandemic. In particular, Regions' energy, freight transportation, healthcare, travel and leisure, retail and restaurant portfolios have experienced significant operational challenges as a result of COVID-19 and are at the highest risk. Energy credits continue to be stressed even though oil prices slightly recovered during the second quarter. The restaurant portfolio, particularly credits in the casual dining space, also continues to come under stress even as shelter in place orders have been lifted. Small business sectors of the portfolio, as well as consumer portfolios, are being impacted by social distancing and limited capacity rules created by the COVID-19 pandemic along with the fact that these types of borrowers tend to have limited liquidity or access to alternate liquidity sources. The extent to which Regions' borrowers are ultimately impacted will be a factor of the duration and severity of the economic impact as well as the effectiveness of the various government programs in place to support individuals and businesses. See Table 3 "Selected Industry Exposure" for more detail.

Commercial

The commercial portfolio segment includes commercial and industrial loans to commercial customers for use in normal business operations to finance working capital needs, equipment purchases and other expansion projects. Commercial and industrial loans increased \$7.7 billion since year-end 2019. This expansion was due to the origination of approximately \$4.5 billion of PPP

loans, the addition of \$1.9 billion in loans related to the Ascentium acquisition that occurred at the beginning of the second quarter (see the "Second Quarter Overview" and the "Ascentium Acquisition" sections for more information) and, to a lesser degree, elevated draws on commercial lines of credit. Line utilization levels approached normalized levels by the end of the second quarter. The expansion was driven by increases in the real estate, retail trade, manufacturing, healthcare and utilities industry sectors.

Commercial also includes owner-occupied commercial real estate mortgage loans to operating businesses, which are loans for long-term financing of land and buildings, and are repaid by cash flows generated by business operations. Owner-occupied commercial real estate 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.

Over half of the Company's total loans are included in the commercial portfolio segment. These balances are spread across numerous industries, as noted in the table below. The Company manages the related risks to this portfolio by setting certain lending limits for each significant industry.

The following tables provide detail of Regions' commercial lending balances in selected industries.

Table 3—Commercial Industry Exposure

	June 30, 2020		
	Loans	Unfunded Commitments	Total Exposure
	(In millions)		
Administrative, support, waste and repair	\$ 1,829	\$ 979	\$ 2,808
Agriculture	517	250	767
Educational services	3,172	902	4,074
Energy	2,195	2,108	4,303
Financial services	4,281	4,784	9,065
Government and public sector	3,044	606	3,650
Healthcare	4,797	2,389	7,186
Information	1,832	904	2,736
Manufacturing	5,176	4,157	9,333
Professional, scientific and technical services	2,601	1,415	4,016
Real estate ⁽³⁾	8,431	6,907	15,338
Religious, leisure, personal and non-profit services	2,263	730	2,993
Restaurant, accommodation and lodging	2,480	338	2,818
Retail trade	3,119	1,891	5,010
Transportation and warehousing	2,701	1,176	3,877
Utilities	1,901	2,774	4,675
Wholesale goods	3,348	3,002	6,350
Other ⁽¹⁾	(212)	2,180	1,968
Total commercial	<u>\$ 53,475</u>	<u>\$ 37,492</u>	<u>\$ 90,967</u>

	December 31, 2019 ⁽²⁾		
	Loans	Unfunded Commitments	Total Exposure
	(In millions)		
Administrative, support, waste and repair	\$ 1,402	\$ 888	\$ 2,290
Agriculture	456	225	681
Educational services	2,724	676	3,400
Energy	2,172	2,528	4,700
Financial services	4,588	4,257	8,845
Government and public sector	2,825	522	3,347
Healthcare	3,646	1,802	5,448
Information	1,394	847	2,241
Manufacturing	4,347	3,912	8,259
Professional, scientific and technical services	1,970	1,299	3,269
Real estate ⁽³⁾	7,067	7,224	14,291
Religious, leisure, personal and non-profit services	1,748	769	2,517
Restaurant, accommodation and lodging	1,780	420	2,200
Retail trade	2,439	2,039	4,478
Transportation and warehousing	1,885	1,250	3,135
Utilities	1,774	2,437	4,211
Wholesale goods	3,335	2,637	5,972
Other ⁽¹⁾	287	2,095	2,382
Total commercial	\$ 45,839	\$ 35,827	\$ 81,666

(1) "Other" contains balances related to non-classifiable and invalid business industry codes offset by payments in process and fee accounts that are not available at the loan level.

(2) As customers' businesses evolve (e.g. up or down the vertical manufacturing chain), Regions may need to change the assigned business industry code used to define the customer relationship. When these changes occur, Regions does not recast the customer history for prior periods into the new classification because the business industry code used in the prior period was deemed appropriate. As a result, comparable period changes may be impacted.

(3) "Real estate" includes REITs, which are unsecured commercial and industrial products that are real estate related.

Regions has identified certain industry sectors within the commercial and investor real estate portfolio segments that have the highest risk due to COVID-19 as of June 30, 2020. These high-risk industries include energy, freight transportation, healthcare, other consumer services, restaurants, retail, travel and leisure, hotels and retail. Industries identified as high-risk may change in future periods depending on how the macroeconomic environment conditions develop over time. These identified high-risk industries, and specified sectors within these industries, are detailed in Table 4 below. PPP loan balances are not included in Table 4 as these loans are not considered high risk. Regions is closely monitoring customers in these industries and has frequent dialogue with these customers. Certain of these exposures are also represented in Table 5 through Table 8 below. All loans within these tables are in the commercial portfolio segment, unless specifically identified as IRE.

Table 4—COVID-19 High-Risk Industries

June 30, 2020							
	Balance Outstanding	% of Total Loans	Utilization %	Leveraged % of Balance	SNC % of Balance	% Deferral	% Criticized
(\$ in millions)							
Commercial							
Energy - E&P, oilfield services	\$ 1,367	1.5%	66%	—%	80%	6%	48%
Freight transportation- local general freight, freight arrangement	261	0.3%	80%	6%	—%	23%	5%
Healthcare - offices of physicians and other health practitioners	1,130	1.2%	72%	4%	4%	32%	4%
Other consumer services - personal care services, religious organizations, dry cleaning and laundry services	463	0.5%	75%	—%	—%	29%	8%
Restaurants - full service, special food services	798	0.9%	86%	21%	40%	29%	32%
Retail (non-essential) - clothing	247	0.3%	67%	—%	75%	11%	44%
Travel and leisure - amusement, arts and recreation	649	0.7%	76%	37%	48%	17%	17%
Total commercial	4,915	5.4%	73%	10%	40%	21%	25%
REITs and IRE							
Hotels - full service, limited service, extended stay	983	1.1%	81%	—%	69%	18%	27%
Retail (non-essential) - malls and outlet centers	2,529	2.8%	65%	—%	77%	9%	25%
Total REITs and IRE	3,512	3.9%	69%	—%	75%	11%	25%
Total COVID-19 high-risk industries	\$ 8,427						

Energy

Regions' direct energy portfolio is comprised mostly of E&P and midstream sector borrowers. As of June 30, 2020, oil prices have rebounded from all-time lows in April 2020, but have not yet reached pre-pandemic levels. None of Regions' direct energy credits are leveraged loans and Regions has no second lien energy exposure. During the first six months of 2020, Regions has recognized approximately \$86 million in energy charge-offs, of which \$84 million was associated with four customers. Since first quarter 2015, utilization rates have remained between 40-60%. Hedge positions are adequate for oil producers and strong for natural gas providers, and 4% of energy loans are currently operating under a COVID-19 payment deferral.

Table 5—Energy Industry Exposure

June 30, 2020					
	Balance Outstanding	% Outstanding	Utilization Rate	Criticized Balances	% Criticized
(In millions)					
Oilfield services and supply	\$ 360	17%	70%	\$ 187	52%
E&P	1,007	46%	65%	472	47%
Midstream	646	29%	41%	132	20%
Downstream	97	4%	26%	—	—%
Other	72	3%	25%	43	60%
PPP	13	1%	100%	—	—%
Total energy	\$ 2,195	100%	51%	\$ 834	38%

Restaurant

The quick service sector comprises over half of Regions' restaurant portfolio balances outstanding. Quarantining, social distancing, and reduced business travel as a result of the COVID-19 pandemic has and will continue to result in lost demand, much of which may not be recoverable. Casual dining is the sector under the most stress in the current environment. Quick service restaurants focus on fast food service and limited menus. This sector has performed relatively well during the pandemic given digital platforms, drive-through and delivery capabilities. The \$798 million in COVID high-risk balances related to restaurants disclosed in Table 4 above are included across the quick service, casual dining and other sectors disclosed in Table 6 below. Approximately 18% of restaurant outstandings are leveraged. Prior to the COVID-19 pandemic, Regions strategically exited some higher risk restaurant relationships at par. Approximately 27% of restaurant, accommodation and lodging portfolio balances are in payment deferrals as of June 30, 2020. During the first six months of 2020, Regions has recognized approximately \$31 million in restaurant charge-offs.

Table 6—Restaurant Industry Exposure

	June 30, 2020				
	Balance Outstanding	% Outstanding	Utilization Rate	Criticized Balances	% Criticized
	(In millions)				
Quick service	\$ 1,280	56%	84%	\$ 168	13%
Casual dining	487	21%	87%	254	52%
Other	149	6%	90%	20	13%
PPP	396	17%	100%	—	—%
Total restaurant	<u>\$ 2,312</u>	<u>100%</u>	<u>87%</u>	<u>\$ 442</u>	<u>19%</u>

Hotel-related

Regions' hotel-related portfolio is the most impacted property type given cancellations of events, conventions, and most business and leisure travel. While demand is expected to increase in 2021, the average daily rate will likely be slower to recover. Regions' hotel-related portfolio is primarily comprised of 12 REIT customers. These loans are unsecured commercial and industrial loans; however, they are real estate related. The REIT portfolio benefits from low leverage, strong liquidity, and diversity of property holdings. Companies have also taken proactive steps to reduce capital expenditures, cut dividends, and reduce overhead to preserve cash. SNCs comprise 59% of Regions' total hotel-related loans. Most of Regions' borrowers for secured hotel loans have requested deferrals. As noted above, approximately 27% of restaurant, accommodation and lodging portfolio balances are in payment deferrals as of June 30, 2020. During the first six months of 2020, Regions has recognized no charge-offs in hotel related lending. REITs and IRE balances in the table below comprise the hotels COVID high-risk industry sector balance of \$983 million disclosed in Table 4. The consumer services and PPP balances included in the table below along with the total restaurants balance in Table 6 above comprise the restaurant, accommodation and lodging balance in Table 3 above.

Table 7—Hotel-Related Industry Exposure

	June 30, 2020				
	Balance Outstanding	% Outstanding	Utilization Rate	Criticized Balances	% Criticized
	(In millions)				
Commercial:					
REITs	\$ 714	62%	80%	\$ —	—%
Consumer services	131	12%	95%	1	1%
PPP	37	3%	100%	—	—%
Total commercial	<u>882</u>	<u>77%</u>		<u>1</u>	<u>1%</u>
IRE:					
IRE - mortgage	238	21%	96%	236	99%
IRE - construction	31	2%	39%	31	100%
Total IRE	<u>269</u>	<u>23%</u>		<u>267</u>	<u>99%</u>
Total hotel-related	<u>\$ 1,151</u>	<u>100%</u>	<u>83%</u>	<u>\$ 268</u>	<u>23%</u>

Retail-related

Regions' retail-related industry is mainly comprised of REITs and non-leveraged commercial and industrial sectors. Approximately \$553 million of outstanding balances across the REIT and IRE portfolios relate to shopping malls and outlet centers. Portfolio exposure to REITs specializing in enclosed malls consists of a small number of credits. Approximately 48% of mall REIT balances are investment grade with low leverage. The IRE portfolio is widely distributed. The largest tenants typically include "basic needs" anchors. However, almost all IRE retail credits were downgraded to criticized in the second quarter due to low rent collections and concerns over tenant viability in the long term. The commercial and industrial retail portfolio is also widely distributed. The largest categories include motor vehicle and parts dealers, building materials, garden equipment and supplies, and non-store retailers. Owner-occupied CRE consists primarily of small strip malls and convenience stores which are largely term loans where a higher utilization rate is expected. Approximately 6% of retail-related lending is operating in a deferral as of June 30, 2020. During the first six months of 2020, Regions has recognized approximately \$7 million in retail-related lending charge-offs. REIT and IRE balances totaling \$2,529 million in the table below comprise the COVID high-risk REITs and IRE retail-related sector balance in Table 4. Portions of the commercial and industrial-not leveraged, CRE owner-occupied and asset-based lending balances in the table below comprise the \$247 million of the COVID high-risk commercial retail sector in Table 4. Additionally, the commercial and industrial leveraged and non-leveraged, asset-based lending, PPP and CRE owner-occupied balances totaling \$3,119 million in the table below comprise the retail trade commercial industry sector balance in Table 3.

Table 8—Retail-Related Industry Exposure

	June 30, 2020				
	Balance Outstanding	% Outstanding	Utilization Rate	Criticized balances	Criticized percentage
	(In millions)				
Commercial:					
REITs	\$ 1,789	32%	57%	\$ 92	5%
Commercial and industrial- leveraged	229	4%	60%	—	—%
Commercial and industrial- not leveraged	1,266	22%	55%	29	2%
Asset-based lending	588	10%	48%	163	28%
PPP	334	7%	100%	—	—%
CRE- owner-occupied	702	12%	94%	24	3%
Total commercial	4,908	87%		308	6%
IRE	740	13%	94%	532	72%
Total commercial and IRE retail-related	\$ 5,648	100%	63%	\$ 840	15%

Investor Real Estate

Loans for real estate development are repaid through cash flows 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 consists 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. Total investor real estate loans increased \$572 million in comparison to 2019 year-end balances reflecting new fundings and draws on investor real estate construction lines.

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 increased \$897 million in comparison to 2019 year-end balances. The increase in residential first mortgage loans was driven by an increase in originations due to historically low market interest rates during 2020. Approximately \$3.4 billion in new loan originations were retained on the balance sheet through the first six months of 2020.

Home Equity Lines

Home equity lines are secured by a first or second mortgage on the borrower's residence and allow customers to borrow against the equity in their homes. Home equity lines decreased by \$347 million in comparison to 2019 year-end balances. Substantially all of this portfolio was originated through Regions' branch network.

Beginning in December 2016, new home equity lines of credit have a 10-year draw period and a 20-year repayment term. During the 10-year draw period customers do not have an interest-only payment option, except on a very limited basis. From May 2009 to December 2016, home equity lines of credit had a 10-year draw period and a 10-year repayment term. Prior to May 2009, home equity lines of credit had a 20-year repayment term with a balloon payment upon maturity or a 5-year draw period with a balloon payment upon maturity. The term “balloon payment” means there are no principal payments required until the balloon payment is due for interest-only lines of credit.

The following table presents information regarding the future principal payment reset dates for the Company's home equity lines of credit as of June 30, 2020. The balances presented are based on maturity date for lines with a balloon payment and draw period expiration date for lines that convert to a repayment period.

Table 9—Home Equity Lines of Credit - Future Principal Payment Resets

	First Lien	% of Total	Second Lien	% of Total	Total
	(Dollars in millions)				
2020	69	1.40%	56	1.12%	125
2021	92	1.84%	81	1.64%	173
2022	101	2.03%	97	1.96%	198
2023	132	2.67%	108	2.19%	240
2024	184	3.71%	145	2.92%	329
2025-2029	1,948	39.33%	1,727	34.87%	3,675
2030-2034	133	2.69%	74	1.51%	207
Thereafter	3	0.07%	3	0.05%	6
Total	2,662	53.74%	2,291	46.26%	4,953

Home Equity Loans

Home equity loans are also secured by a first or second mortgage on the borrower's residence, are primarily originated as amortizing loans, and allow customers to borrow against the equity in their homes. Home equity loans decreased by \$147 million in comparison to 2019 year-end balances. Substantially all of this portfolio was originated through Regions' branch network.

Other Consumer Credit Quality Data

The Company calculates an estimate of the current value of property secured as collateral for both residential first mortgage and home equity lending products (“current LTV”). The estimate is based on home price indices compiled by a third party. The third party data indicates trends for MSAs. Regions uses the third party valuation trends from the MSAs in the Company's footprint in its estimate. The trend data is applied to the loan portfolios taking into account the age of the most recent valuation and geographic area.

The following table presents current LTV data for components of the residential first mortgage, home equity lines and home equity loans classes of the consumer portfolio segment. Current LTV data for some loans in the portfolio is not available due to mergers and systems integrations. The amounts in the table represent the entire loan balance. For purposes of the table below, if the loan balance exceeds the current estimated collateral, the entire balance is included in the “Above 100%” category, regardless of the amount of collateral available to partially offset the shortfall.

Table 10—Estimated Current Loan to Value Ranges

June 30, 2020					
	Residential First Mortgage	Home Equity Lines of Credit		Home Equity Loans	
		1st Lien	2nd Lien	1st Lien	2nd Lien
(In millions)					
Estimated current LTV:					
Above 100%	\$ 32	\$ 7	\$ 9	\$ 8	\$ 4
80% - 100%	2,338	64	149	42	22
Below 80%	12,734	2,551	2,052	2,612	232
Data not available	278	40	81	13	4
	<u>\$ 15,382</u>	<u>\$ 2,662</u>	<u>\$ 2,291</u>	<u>\$ 2,675</u>	<u>\$ 262</u>
December 31, 2019					
	Residential First Mortgage	Home Equity Lines of Credit		Home Equity Loans	
		1st Lien	2nd Lien	1st Lien	2nd Lien
(In millions)					
Estimated current LTV:					
Above 100%	\$ 32	\$ 8	\$ 18	\$ 9	\$ 5
80% - 100%	1,745	86	208	39	29
Below 80%	12,438	2,659	2,195	2,731	252
Data not available	270	35	91	14	5
	<u>\$ 14,485</u>	<u>\$ 2,788</u>	<u>\$ 2,512</u>	<u>\$ 2,793</u>	<u>\$ 291</u>

Indirect—Vehicles

Indirect-vehicles lending, which is lending initiated through third-party business partners, largely consists of loans made through automotive dealerships. This portfolio class decreased \$481 million from year-end 2019. The decrease is due to the termination of a third-party arrangement during the fourth quarter of 2016 and Regions' decision in January 2019 to discontinue its indirect auto lending business. Regions ceased originating new indirect auto loans in the first quarter of 2019 and completed any in-process indirect auto loan closings at the end of the second quarter of 2019. The Company will remain in the direct auto lending business.

Indirect—Other Consumer

Indirect-other consumer lending represents other lending initiatives through third parties, including point of sale lending. This portfolio class decreased \$227 million from year-end 2019 due to exiting a third party relationship during the fourth quarter of 2019.

Consumer Credit Card

Consumer credit card lending represents primarily open-ended variable interest rate consumer credit card loans. These balances decreased \$174 million from year-end 2019 reflecting lower credit card transaction volume as customers react to the economic environment.

Other Consumer

Other consumer loans primarily include direct consumer loans, overdrafts and other revolving loans. Other consumer loans decreased \$144 million from year-end 2019.

Regions considers factors such as periodic updates of FICO scores, unemployment, home prices, and geography as credit quality indicators for consumer loans. FICO scores are obtained at origination and refreshed FICO scores are obtained by the Company quarterly for all consumer loans. For more information on credit quality indicators refer to Note 3 "Loans and the Allowance for Credit Losses".

ALLOWANCE

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 GAAP, regulatory guidance (where applicable), and general banking practices. The allowance is one of the most significant estimates and assumptions to Regions. The allowance consists of two components: the allowance for loan losses and the reserve for unfunded credit commitments. Unfunded credit commitments include items such as letters of credit, financial guarantees and binding unfunded loan commitments.

On January 1, 2020, Regions adopted CECL, which replaced the incurred loss allowance methodology with an expected loss allowance methodology. See Note 1 "Basis of Presentation", Note 3 "Loans and the Allowance for Credit Losses" and Note 13 "Recent Accounting Pronouncements" for information about CECL adoption, areas of judgment and methodologies used in establishing the allowance.

The allowance is sensitive to a number of internal factors, such as modifications in the mix and level of loan balances outstanding, portfolio performance and assigned risk ratings. The allowance is also sensitive to external factors such as the general health of the economy, as evidenced by changes in interest rates, GDP, unemployment rates, changes in real estate demand and values, volatility in commodity prices, bankruptcy filings, health pandemics, government stimulus, and the effects of weather and natural disasters such as droughts, floods and hurricanes.

Management considers these variables and all other available information when establishing the final level of the allowance. These variables and others have the ability to result in actual credit losses that differ from the originally estimated amounts.

Since the adoption of CECL on January 1, 2020, Regions has increased the allowance by \$1.0 billion from \$1.4 billion to \$2.4 billion, which represents management's best estimate of expected losses over the life of the loan and credit commitment portfolios. Key drivers of the change in the allowance are presented in Table 11 below. While many of these items overlap regarding impact, they are included in the category most relevant.

Table 11— Allowance Changes

	Three months ended June 30, 2020	
	(In millions)	
Allowance for credit losses at April 1	\$	1,665
Initial allowance on acquired PCD loans		60
Provision over net charge-offs:		
Economic outlook and adjustments		287
Changes in portfolio credit quality		382
Changes in specific reserves		(10)
Portfolio growth (run-off) ⁽¹⁾		(35)
Provision impact of non-PCD acquired loans ⁽³⁾		76
Total provision over net charge-offs		700
Allowance for credit losses at June 30	\$	2,425
	Six months ended June 30, 2020	
	(In millions)	
Allowance for credit losses at January 1 (as adjusted for change in accounting guidance) ⁽²⁾	\$	1,415
Initial allowance on acquired PCD loans		60
Provision over net charge-offs:		
Economic outlook and adjustments		510
Changes in portfolio credit quality		424
Changes in specific reserves		26
Portfolio growth (run-off) ⁽¹⁾		(86)
Provision impact of non-PCD acquired loans ⁽³⁾		76
Total provision over net charge-offs		950
Allowance for credit losses at June 30	\$	2,425

(1) Portfolio growth does not include PPP loans of \$4.5 billion, which are fully backed by the U.S. government and do not have an associated allowance.

(2) Regions adopted the CECL accounting guidance on January 1, 2020 and recorded the cumulative effect of the change in accounting guidance as a reduction to retained earnings and an increase to deferred tax assets. See Note 1 for additional details.

(3) This balance includes \$64 million related to the initial allowance for non-PCD loans acquired as part of the Ascentium acquisition.

There continues to be a significant amount of uncertainty surrounding the economic environment due to the COVID-19 pandemic. Elevated unfavorable credit metrics and charge-offs, deferrals and forbearances, continued low consumer spending and the potential for a second wave of the pandemic are all negative signs of the current economic landscape. Conversely, unprecedented stimulus is working its way through the economic system, with early signs that the deferral programs are working (as evidenced by a high savings rate). Consumers entered the COVID-19 crisis in a stronger position compared to the economic downturn in 2007 and, with the unemployment stimulus, many on unemployment have higher cash flows than when they were employed. Additionally, mortgage LTVs and the HPI are holding up well. As the credit risk within Regions' loan portfolio continues to be

evaluated going into the second half of 2020, the negative and positive factors of the ever-evolving economic landscape were considered in determining the allowance estimate.

Credit metrics are monitored throughout the quarter in order to understand external macro-views of credit metrics, trends and industry outlooks as well as Regions' internal specific views of credit metrics and trends. The second quarter of 2020 exhibited continued signs of economic stress due to the COVID-19 pandemic, as commercial and investor real estate criticized balances increased approximately \$1.7 billion and classified balances increased \$491 million compared to the first quarter. Non-performing loans excluding held for sale decreased \$24 million compared to the first quarter; however, total net charge-offs increased \$59 million during the second quarter. Approximately \$8.4 billion of commercial and investor real estate loans are in COVID-19 high-risk industry segments. These high-risk industries include energy, freight transportation, healthcare, other consumer services, restaurants, retail, travel and leisure, hotels and retail commercial real estate. Refer to the "Portfolio Characteristics" section for more information about the high-risk industries.

Regions purchased Ascentium, an independent equipment financing company on April 1, 2020. The purchase included approximately \$1.9 billion in loans and leases to small businesses, of which approximately 46% were considered to be PCD. Regions considered loan payment status, COVID-19 deferral status, and loans in high-risk industries in COVID-19 highly-impacted states in its determination of PCD. The Ascentium acquisition resulted in \$136 million in additional allowance in the second quarter, of which \$76 million was recorded through the provision for credit losses and the remaining \$60 million was for acquired PCD loans and did not impact the provision for credit losses. See the "Ascentium Acquisition" section for more information.

Changes in the macroeconomic environment can be extremely impactful to the allowance estimate under CECL. Regions' economic forecast utilized in the January 1, 2020 allowance estimate upon adoption of CECL considered a relatively benign economic environment. The forecast utilized in the March 31, 2020 allowance estimate considered a more stressed economic environment due to COVID-19 pandemic based on early stage pandemic information. The economic forecast utilized in the June 30, 2020 allowance estimate included further deterioration primarily due to higher levels of unemployment. Refer to the Economic Outlook section for more information. Regions benchmarked its internal forecast with external forecasts and external data available.

Risks to the economic forecast included a high degree of uncertainty around how wide the COVID-19 pandemic could spread, how long it could persist, and the effectiveness of government relief programs and debt payment relief being provided by the Company. Also, the unique nature of the COVID-19 economic environment produced unintuitive modeled results due to sensitivity to the unemployment forecasts, specifically the transient spike in unemployment rates. The CECL models are not built or conditioned to reflect the unprecedented levels of stimulus and cannot anticipate (or connect) the new relationships between economic variables and portfolio risks that exist in the current environment. There were several points of analysis used to inform appropriate model adjustments for economic uncertainty. Industry-level stress analyses were also performed on industries most acutely impacted by the COVID-19 pandemic. Refer to the "Portfolio Characteristics" section for more information about COVID-19 impacted industries. These economic uncertainties and model limitations were evaluated and resulted in a reduction to the modeled life of loan loss estimate.

While Regions' quantitative allowance methodologies strive to reflect all risk factors, any estimate involves assumptions and uncertainties resulting in some level of imprecision. The qualitative framework has a general imprecision component which is meant to acknowledge that model and forecast errors are inherent in any modeling estimate. The June 30, 2020 general imprecision allowance considered the incremental risk specific to COVID-19 payment deferrals and delinquency trends for certain consumer models that are not economically conditioned and as such does not fully consider these impacts.

The components of the changes in the ACL during 2020 are reflected in Table 11 above. The decrease in ACL related to portfolio runoff for the six months ended June 30, 2020 was primarily due to a reduction in indirect—other consumer and credit card balances which carry a relatively higher allowance. Additionally, first quarter growth in commercial loans occurred in lower risk rating tranches, while balance runoff occurred in higher risk rating tranches.

The table below reflects a range of macroeconomic factors utilized in the Base forecast over the two-year R&S forecast period as of June 30, 2020. The unemployment rate is the most significant macroeconomic factor among the CECL models. As noted above, the June 30, 2020 allowance includes a reduction to the modeled Base forecast to adjust for over-sensitivity within the models, specifically for unemployment.

Table 12— Macroeconomic Factors in the Forecast

	Pre-R&S Period	Base R&S Forecast							
		June 30, 2020							
		2Q2020	3Q2020	4Q2020	1Q2021	2Q2021	3Q2021	4Q2021	1Q2022
Real GDP, annualized % change	(37.90)%	25.60%	9.00%	5.60%	4.10 %	3.00 %	2.90%	2.60%	2.80%
Unemployment rate	13.20 %	9.90%	9.10%	8.60%	7.90 %	7.40 %	7.00%	6.70%	6.50%
HPI, year-over-year % change	5.70 %	5.00%	3.20%	1.30%	(0.50)%	(0.30)%	1.30%	2.80%	3.60%
S&P 500	2,959	3,232	3,253	3,270	3,283	3,313	3,347	3,375	3,398

Based on the overall analysis performed, management deemed an increase in the allowance of \$760 million as compared to March 31, 2020 to be appropriate to absorb expected credit losses in the loan and credit commitment portfolios as of June 30, 2020.

In June 2020, the Federal Reserve disclosed their estimated modeled credit losses for Regions as a part of the supervisory stress test. The Federal Reserve's economic scenario resulted in estimated losses for Regions of \$5.3 billion. Whereas this scenario assumed a different macroeconomic outlook than Regions', it may represent a possible range of potential credit losses assuming a longer-term, widespread pandemic. As a point of clarification, the Federal Reserve's scenario assumes severe deterioration across both business services (commercial and investor real estate) and consumer portfolios, while Regions assumes deterioration mainly in the business services portfolio. Additionally, the Federal Reserve's estimate includes no benefit of government stimulus or benefit from debt payment relief being offered by Regions and other financial institutions. See the "Second Quarter Overview" section for further information regarding the Company's economic outlook.

Changes in the factors used by management to determine the appropriateness of the allowance or the availability of new information could cause the allowance to be increased or decreased in future periods. In addition, bank regulatory agencies, as part of their examination process, may require changes in the level of allowance based on their judgments and estimates. Volatility in certain credit metrics is to be expected. Additionally, changes in circumstances related to individually large credits, commodity prices, or certain macroeconomic forecast assumptions may result in volatility. The scenarios discussed above, or other scenarios, have the ability to result in actual credit losses that differ, perhaps materially, from the originally estimated amounts. In addition, it is difficult to predict how changes in economic conditions, including changes resulting from various pandemic scenarios, the impact of government stimulus, and other relief programs could affect borrower behavior. This analysis is not intended to estimate changes in the overall allowance, which would also be influenced by the judgment management applies to the modeled loss estimates to reflect uncertainty and imprecision based on then-current circumstances and conditions.

Details regarding the allowance and net charge-offs, including an analysis of activity from the previous year's totals, are included in Table 13 "Allowance for Credit Losses." As noted above, economic trends such as interest rates, unemployment, volatility in commodity prices and collateral valuations as well as the length and depth of the COVID-19 pandemic and the impact of the CARES Act and other policy accommodations will impact the future levels of net charge-offs and may result in volatility of certain credit metrics during the remainder of 2020 and beyond.

Table 13—Allowance for Credit Losses

	Six Months Ended June 30	
	2020	2019
	(Dollars in millions)	
Allowance for loan losses at January 1	\$ 869	\$ 840
Cumulative change in accounting guidance ⁽¹⁾	438	—
Allowance for loan losses, January 1 (as adjusted for change in accounting guidance) ⁽¹⁾	1,307	840
Loans charged-off:		
Commercial and industrial	207	69
Commercial real estate mortgage—owner-occupied	6	5
Residential first mortgage	2	3
Home equity lines	7	8
Home equity loans	1	3
Indirect—vehicles	12	15
Indirect—other consumer	41	35
Consumer credit card	33	34
Other consumer	39	43
	348	215
Recoveries of loans previously charged-off:		
Commercial and industrial	14	12
Commercial real estate mortgage—owner-occupied	3	3
Commercial investor real estate mortgage	1	1
Commercial investor real estate construction	—	1
Residential first mortgage	2	2
Home equity lines	5	6
Home equity loans	1	2
Indirect—vehicles	5	7
Indirect—other consumer	—	—
Consumer credit card	5	4
Other consumer	7	7
	43	45
Net charge-offs:		
Commercial and industrial	193	57
Commercial real estate mortgage—owner-occupied	3	2
Commercial investor real estate mortgage	(1)	(1)
Commercial investor real estate construction	—	(1)
Residential first mortgage	—	1
Home equity lines	2	2
Home equity loans	—	1
Indirect—vehicles	7	8
Indirect—other consumer	41	35
Consumer credit card	28	30
Other consumer	32	36
	305	170
Provision for loan losses	1,214	183
Initial allowance on acquired PCD loans	60	—
Allowance for loan losses at June 30	2,276	853
Reserve for unfunded credit commitments at beginning of year	45	51
Cumulative change in accounting guidance ⁽¹⁾	63	—
Provision (credit) for unfunded credit losses	41	(1)
Reserve for unfunded credit commitments at June 30	149	50
Allowance for credit losses at June 30	\$ 2,425	\$ 903
Loans, net of unearned income, outstanding at end of period	\$ 90,548	\$ 83,553
Average loans, net of unearned income, outstanding for the period	\$ 87,607	\$ 83,816

	Six Months Ended June 30	
	2020	2019
	(Dollars in millions)	
Ratios:		
Allowance for credit losses at end of period to loans, net of unearned income	2.68%	1.08%
Allowance for credit losses at end of period to loans, excluding PPP, net (non-GAAP) ⁽²⁾	2.82%	1.08%
Allowance for loan losses at end of period to loans, net of unearned income	2.51%	1.02%
Allowance for credit losses at end of period to non-performing loans, excluding loans held for sale	395%	169%
Allowance for loan losses at end of period to non-performing loans, excluding loans held for sale	370%	160%
Net charge-offs as percentage of average loans, net of unearned income (annualized)	0.70%	0.41%

(1) Regions adopted the CECL accounting guidance on January 1, 2020 and recorded the cumulative effect of the change in accounting guidance as a reduction to retained earnings and an increase to deferred tax assets. See Note 1 for additional details.

(2) See Table 23 for calculation.

Allocation of the allowance for credit losses by portfolio segment and class is summarized as follows:

Table 14—Allowance Allocation

	June 30, 2020			January 1, 2020		
	Loan Balance	Allowance Allocation	Allowance to Loans %	Loan Balance	Allowance Allocation	Allowance to Loans %
Commercial and industrial	\$ 47,670	\$ 1,109	2.33%	\$ 39,971	\$ 443	1.11%
Commercial real estate mortgage—owner-occupied	5,491	249	4.53%	5,537	153	2.76%
Commercial real estate construction—owner-occupied	314	20	6.37%	331	14	4.23%
Total commercial	53,475	1,378	2.58%	45,839	610	1.33%
Commercial investor real estate mortgage	5,221	132	2.53%	4,936	54	1.09%
Commercial investor real estate construction	1,908	55	2.88%	1,621	16	0.99%
Total investor real estate	7,129	187	2.62%	6,557	70	1.07%
Residential first mortgage	15,382	151	0.98%	14,485	86	0.59%
Home equity lines	4,953	146	2.95%	5,300	144	2.72%
Home equity loans	2,937	42	1.43%	3,084	32	1.04%
Indirect—vehicles	1,331	34	2.55%	1,812	26	1.43%
Indirect—other consumer	3,022	278	9.20%	3,249	267	8.22%
Consumer credit card	1,213	143	11.79%	1,387	112	8.07%
Other consumer	1,106	66	5.97%	1,250	68	5.44%
Total consumer	29,944	860	2.87%	30,567	735	2.40%
	<u>\$ 90,548</u>	<u>\$ 2,425</u>	<u>2.68%</u>	<u>\$ 82,963</u>	<u>\$ 1,415</u>	<u>1.71%</u>

TROUBLED DEBT RESTRUCTURINGS (TDRs)

TDRs are modified loans in which a concession is provided to a borrower experiencing financial difficulty. As provided in the CARES Act passed into law on March 27, 2020, certain loan modifications related to the COVID-19 pandemic beginning March 1, 2020 are eligible for relief from TDR classification. Regions elected this provision of the CARES Act; therefore, modified loans that met the required guidelines for relief are not considered TDRs and are excluded from the disclosures below.

Under Regions' COVID-19 deferral and forbearance programs, customer payments are deferred for a period of time, typically 90 days. During this time, a customer's loan is not considered past due and continues to accrue interest (unless it is a nonperforming loans). As of June 30, 2020, the initial 90-day deferral period had expired for a portion of COVID-19 modified loans. Upon expiration of the deferral period, customers may apply for additional relief or resume making payments on their loans. Repayment plans for the deferrals differ depending on the loan type and repayment ability of the borrower. The CARES Act relief and short-term nature of most COVID-19 deferrals precluded these modifications from being classified as TDRs as of June 30, 2020.

Residential first mortgage, home equity, consumer credit card and other consumer TDRs are consumer loans modified under the CAP. Commercial and investor real estate loan modifications are not the result of a formal program, but represent situations where modifications were offered as a workout alternative. Renewals of classified commercial and investor real estate loans are considered to be TDRs, even if no reduction in interest rate is offered, if the existing terms are considered to be below market. Insignificant modifications are not considered TDRs. More detailed information is included in Note 3 "Loans and the Allowance for Credit Losses" to the consolidated financial statements. The following table summarizes the loan balance and related allowance for accruing and non-accruing TDRs for the periods presented:

Table 15—Troubled Debt Restructurings

	June 30, 2020		December 31, 2019	
	Loan Balance	Allowance for Credit Losses	Loan Balance	Allowance for Credit Losses
	(In millions)			
Accruing:				
Commercial	\$ 49	\$ 4	\$ 106	\$ 15
Investor real estate	6	1	32	3
Residential first mortgage	178	24	177	18
Home equity lines	38	6	42	2
Home equity loans	90	10	109	5
Consumer credit card	1	—	1	—
Other consumer	3	—	4	—
	<u>365</u>	<u>45</u>	<u>471</u>	<u>43</u>
Non-accrual status or 90 days past due and still accruing:				
Commercial	214	9	139	20
Investor real estate	—	—	1	—
Residential first mortgage	37	5	40	4
Home equity lines	3	—	2	—
Home equity loans	7	1	6	—
	<u>261</u>	<u>15</u>	<u>188</u>	<u>24</u>
Total TDRs - Loans	<u>\$ 626</u>	<u>\$ 60</u>	<u>\$ 659</u>	<u>\$ 67</u>
TDRs - Held For Sale	—	—	1	—
Total TDRs	<u>\$ 626</u>	<u>\$ 60</u>	<u>\$ 660</u>	<u>\$ 67</u>

The following table provides an analysis of the changes in commercial and investor real estate TDRs. TDRs with subsequent restructurings that meet the definition of a TDR are only reported as TDR additions in the period they were first modified. Other than resolutions such as charge-offs, foreclosures, payments, sales and transfers to held for sale, Regions may remove loans from TDR classification if the following conditions are met: the borrower's financial condition improves such that the borrower is no longer in financial difficulty, the loan has not had any forgiveness of principal or interest, the loan has not been restructured as an "A" note/"B" note, the loan has been reported as a TDR over one fiscal year-end and the loan is subsequently refinanced or restructured at market terms such that it qualifies as a new loan.

For the consumer portfolio, changes in TDRs are primarily due to additions from CAP modifications and outflows from payments and charge-offs. Given the types of concessions currently being granted under the CAP as detailed in Note 3 "Loans and the Allowance for Credit Losses" to the consolidated financial statements, Regions does not expect that the market interest rate condition will be widely achieved. Therefore, Regions expects consumer loans modified through CAP to continue to be identified as TDRs for the remaining term of the loan.

Table 16—Analysis of Changes in Commercial and Investor Real Estate TDRs

	Six Months Ended June 30, 2020		Six Months Ended June 30, 2019	
	Commercial	Investor Real Estate	Commercial	Investor Real Estate
	(In millions)			
Balance, beginning of period	\$ 245	\$ 33	\$ 291	\$ 19
Additions	208	—	100	2
Charge-offs	(52)	—	(14)	—
Other activity, inclusive of payments and removals ⁽¹⁾	(138)	(27)	(94)	(1)
Balance, end of period	<u>\$ 263</u>	<u>\$ 6</u>	<u>\$ 283</u>	<u>\$ 20</u>

(1) The majority of this category consists of payments and sales. It also includes normal amortization/accretion of loan basis adjustments, loans transferred to held for sale, removals and reclassifications between portfolio segments. Additionally, it includes \$17 million of commercial loans and \$12 million of investor real estate loans refinanced or restructured as new loans and removed from TDR classification for the six months ended June 30, 2020. During the six months ended June 30, 2019, less than \$1 million of both commercial loans and investor real estate loans were refinanced or restructured as new loans and removed from TDR classification.

NON-PERFORMING ASSETS

Non-performing assets are summarized as follows:

Table 17—Non-Performing Assets

	June 30, 2020	December 31, 2019
	(Dollars in millions)	
Non-performing loans:		
Commercial and industrial	\$ 445	\$ 347
Commercial real estate mortgage—owner-occupied	74	73
Commercial real estate construction—owner-occupied	10	11
Total commercial	529	431
Commercial investor real estate mortgage	1	2
Total investor real estate	1	2
Residential first mortgage	32	27
Home equity lines	46	41
Home equity loans	6	6
Total consumer	84	74
Total non-performing loans, excluding loans held for sale	614	507
Non-performing loans held for sale	10	13
Total non-performing loans ⁽¹⁾	624	520
Foreclosed properties	43	53
Non-marketable investments received in foreclosure	—	5
Total non-performing assets ⁽¹⁾	\$ 667	\$ 578
Accruing loans 90 days past due:		
Commercial and industrial	\$ 11	\$ 11
Commercial real estate mortgage—owner-occupied	3	1
Total commercial	14	12
Residential first mortgage ⁽²⁾	75	70
Home equity lines	26	32
Home equity loans	12	10
Indirect—vehicles	8	7
Indirect—other consumer	3	3
Consumer credit card	17	19
Other consumer	5	5
Total consumer	146	146
	\$ 160	\$ 158
Non-performing loans ⁽¹⁾ to loans and non-performing loans held for sale	0.69%	0.63%
Non-performing assets ⁽¹⁾ to loans, foreclosed properties, non-marketable investments, and non-performing loans held for sale	0.74%	0.70%

(1) Excludes accruing loans 90 days past due.

(2) Excludes residential first mortgage loans that are 100% guaranteed by the FHA and all guaranteed loans sold to the GNMA where Regions has the right but not the obligation to repurchase. Total 90 days or more past due guaranteed loans excluded were \$55 million at June 30, 2020 and \$66 million at December 31, 2019.

Non-performing loans at June 30, 2020 have increased compared to year-end levels, primarily driven by energy credits that have experienced stress due to recent declines in oil prices.

Economic trends such as interest rates, unemployment, volatility in commodity prices, and collateral valuations will impact the future level of non-performing assets. Circumstances related to individually large credits could also result in volatility.

At June 30, 2020, Regions estimates that the amount of commercial and investor real estate loans that have the potential to migrate to non-accrual status in the next quarter is within the range of \$325 million to \$475 million. The estimated range increased from the first quarter estimated range of \$225 million to \$350 million due to certain large dollar investor real estate, energy and natural resources, manufacturing and restaurant commercial loans that represent potential for migration in the third quarter.

In order to arrive at the estimated range of potential problem loans for the next quarter, credit personnel forecast certain larger dollar loans that may potentially be downgraded to non-accrual at a future time, depending upon the occurrence of future events. A variety of factors are included in the assessment of potential problem loans, including a borrower's capacity and willingness to meet contractual repayment terms, make principal curtailments or provide additional collateral when necessary and provide current and complete financial information, including global cash flows, contingent liabilities and sources of liquidity. For other loans (for example, smaller dollar loans), a trend analysis is also incorporated to determine an estimate of potential future downgrades. In addition, the economic environment and industry trends are evaluated in the establishment of the estimated range of potential problem loans for the next quarter. Current trends will additionally influence the size of the estimated range. Because of the inherent uncertainty in forecasting future events, the estimated range of potential problem loans ultimately represents the estimated aggregate dollar amounts of loans, as opposed to an individual listing of loans.

Many of the loans on which the potential problem loan estimate is based are considered criticized and classified. Detailed disclosures for substandard accrual loans (as well as other credit quality metrics) are included in Note 3 "Loans and the Allowance for Credit Losses" to the consolidated financial statements.

The following table provides an analysis of non-accrual loans (excluding loans held for sale) by portfolio segment:

Table 18— Analysis of Non-Accrual Loans

Non-Accrual Loans, Excluding Loans Held for Sale Six Months Ended June 30, 2020				
	Commercial	Investor Real Estate	Consumer ⁽¹⁾	Total
	(In millions)			
Balance at beginning of period	\$ 431	\$ 2	\$ 74	\$ 507
Additions	432	1	12	445
Net payments/other activity	(99)	(2)	(2)	(103)
Return to accrual	(13)	—	—	(13)
Charge-offs on non-accrual loans ⁽²⁾	(195)	—	—	(195)
Transfers to held for sale ⁽³⁾	(11)	—	—	(11)
Transfers to real estate owned	(4)	—	—	(4)
Sales	(12)	—	—	(12)
Balance at end of period	<u>\$ 529</u>	<u>\$ 1</u>	<u>\$ 84</u>	<u>\$ 614</u>

Non-Accrual Loans, Excluding Loans Held for Sale Six Months Ended June 30, 2019				
	Commercial	Investor Real Estate	Consumer ⁽¹⁾	Total
	(In millions)			
Balance at beginning of period	\$ 382	\$ 11	\$ 103	\$ 496
Additions	250	1	—	251
Net payments/other activity	(82)	(4)	(8)	(94)
Return to accrual	(13)	—	—	(13)
Charge-offs on non-accrual loans ⁽²⁾	(63)	—	—	(63)
Transfers to held for sale ⁽³⁾	(22)	—	—	(22)
Transfers to real estate owned	(2)	—	—	(2)
Sales	(20)	—	—	(20)
Balance at end of period	<u>\$ 430</u>	<u>\$ 8</u>	<u>\$ 95</u>	<u>\$ 533</u>

(1) All net activity within the consumer portfolio segment other than sales and transfers to held for sale (including related charge-offs) is included as a single net number within the net payments/other activity line.

(2) Includes charge-offs on loans on non-accrual status and charge-offs taken upon sale and transfer of non-accrual loans to held for sale.

(3) Transfers to held for sale are shown net of charge-offs of \$4 million and \$5 million recorded upon transfer for the six months ended June 30, 2020 and 2019, respectively.

GOODWILL

Goodwill totaled \$5.2 billion at June 30, 2020 and \$4.8 billion at December 31, 2019. The increase was related to the Company's acquisition of Ascentium during the second quarter of 2020.

Based on recent events and circumstances, Regions concluded that a triggering event had occurred in the second quarter which required Regions to perform a quantitative goodwill impairment test. The results of the test did not require Regions to record a goodwill impairment charge as all three reporting units continued to have a fair value in excess of book value. Regions will continue to monitor for indicators of impairment throughout 2020. Refer to Note 5 "Goodwill" to the consolidated financial statements for further information.

Refer to Note 1 "Summary of Significant Accounting Policies" to the consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2019 for further discussion of when Regions tests goodwill for impairment and the Company's methodology and valuation approaches used to determine the estimated fair value of each reporting unit.

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 convenient branch locations for its customers. Regions also serves customers through providing centralized, high-quality banking services and alternative product delivery channels such as mobile and internet banking.

The following table summarizes deposits by category:

Table 19—Deposits

	June 30, 2020	December 31, 2019
	(In millions)	
Non-interest-bearing demand	\$ 47,964	\$ 34,113
Savings	10,698	8,640
Interest-bearing transaction	22,407	20,046
Money market—domestic	29,263	25,326
Time deposits	6,428	7,442
Customer deposits	116,760	95,567
Corporate treasury time deposits	19	108
Corporate treasury other deposits	—	1,800
	<u>\$ 116,779</u>	<u>\$ 97,475</u>

Total deposits at June 30, 2020 increased approximately \$19.3 billion compared to year-end 2019 levels, due to increases in non-interest-bearing demand, savings, interest-bearing transaction and domestic money market categories. These increases were offset by decreases in corporate treasury other deposits and customer time deposits. Non-interest-bearing demand deposits increased as customers began to pay down line of credit draws using liquidity sources outside of the bank and brought the elevated cash levels back to Regions. Savings, interest-bearing transaction and domestic money market categories increased due to customers choosing to keep excess cash from government stimulus and funds from PPP loans in their deposit accounts. Additionally, lower consumer spend due to the economic environment impacted increased balances. Customer time deposits decreased due to maturities during the second quarter, and lower rates during the second quarter drove a decrease in the utilization of time deposit accounts. Corporate treasury other deposits decreased as these deposits were used to supplement incremental balance sheet funding at year-end 2019, but were not utilized at the end of the second quarter of 2020.

SHORT-TERM BORROWINGS

Short-term borrowings, which consist of FHLB advances, were zero at June 30, 2020 as compared to \$2.1 billion at December 31, 2019. The levels of these borrowings can fluctuate depending on the Company's funding needs and the sources utilized. FHLB borrowings decreased from December 31, 2019 to June 30, 2020 as the increase in deposits reduced the need for funding from the FHLB.

Short-term secured borrowings, such as securities sold under agreements to repurchase and FHLB advances, are a core portion of Regions funding strategy. The securities financing market and specifically short-term FHLB advances continue to provide reliable funding at attractive rates. See the "Liquidity" section for further detail of Regions' borrowing capacity with the FHLB.

LONG-TERM BORROWINGS

Table 20—Long-Term Borrowings

	June 30, 2020	December 31, 2019
	(In millions)	
Regions Financial Corporation (Parent):		
3.20% senior notes due February 2021	\$ 359	\$ 358
2.75% senior notes due August 2022	998	997
3.80% senior notes due August 2023	997	996
2.25% senior notes due April 2025	745	—
7.75% subordinated notes due September 2024	100	100
6.75% subordinated debentures due November 2025	156	156
7.375% subordinated notes due December 2037	298	298
Valuation adjustments on hedged long-term debt	115	45
	3,768	2,950
Regions Bank:		
FHLB advances	401	2,501
2.75% senior notes due April 2021	191	549
3 month LIBOR plus 0.38% of floating rate senior notes due April 2021	66	350
3.374% senior notes converting to 3 month LIBOR plus 0.50%, callable August 2020, due August 2021	499	499
3 month LIBOR plus 0.50% of floating rate senior notes, callable August 2020, due August 2021	499	499
6.45% subordinated notes due June 2037	495	495
Ascentium note securitizations	459	—
Other long-term debt	30	32
Valuation adjustments on hedged long-term debt	—	4
	2,640	4,929
Total consolidated	\$ 6,408	\$ 7,879

Long-term borrowings decreased by approximately \$1.5 billion since year-end 2019, due primarily to the decrease in FHLB advances of \$2.1 billion, partially offset by several other debt transactions. As mentioned above in the "Short-Term Borrowings" section, the increase in deposits also reduced the need for long-term borrowings from the FHLB. See the "Liquidity" section for further detail of Regions' borrowing capacity with the FHLB. In the second quarter of 2020, Regions issued \$750 million of senior notes due 2025. The issuance was largely offset by a partial tender of the two Regions Bank Senior Notes due April 2021. In conjunction with the partial tender of the two senior bank notes and early terminations of FHLB advances, Regions incurred related early extinguishment pre-tax charges totaling \$6 million. Lastly, through the Ascentium acquisition, Regions acquired securitized borrowings, which the Company will manage within its broader liability management process and in line with the allowable terms of the contracts.

Long-term FHLB advances have a weighted-average interest rate of 0.55 percent at June 30, 2020 and 1.9 percent at December 31, 2019, with remaining maturities ranging from less than 1 year to 8 years and a weighted-average of less than 1 year.

The Ascentium note securitizations have various classes and have a weighted-average interest rate of 2.25% as of June 30, 2020, with remaining maturities ranging from 4 years to 7 years and a weighted-average of 6.2 years.

On August 3, 2020, Regions Bank sent notices of redemption, which will result in the redemption on August 13, 2020 of its Senior Fixed-to-Floating Rate Bank Notes due August 13, 2021 and of its Senior Floating Rate Bank Notes due August 13, 2021 pursuant to their terms, at an aggregate redemption price equal to the sum of 100% of the principal amount of the notes being redeemed and any accrued and unpaid interest to, but excluding, the redemption date. The aggregate principal balance of the two series of notes being redeemed is \$1 billion.

SHAREHOLDERS' EQUITY

Shareholders' equity was \$17.6 billion at June 30, 2020 as compared to \$16.3 billion at December 31, 2019. During the first six months of 2020, net loss decreased shareholders' equity by \$52 million, cash dividends on common stock reduced shareholders' equity by \$298 million and cash dividends on preferred stock reduced shareholder's equity by \$46 million. The cumulative effect from the adoption of CECL decreased shareholders' equity by \$377 million. See Note 1 "Basis of Presentation" for information about the CECL adoption. Changes in accumulated other comprehensive income increased shareholders' equity by \$1.7 billion, primarily due to the net change in unrealized gains (losses) on securities available for sale and derivative instruments as a result of changes in market interest rates during the six months ended June 30, 2020. The derivative instruments are hedges designed to protect net interest income in a low short-term interest rate environment, such as the one that currently exists. Lastly, during the second quarter of 2020, the Company issued Series D preferred stock, which increased stockholders' equity by \$346 million.

Total equity includes noncontrolling interest of \$26 million, representing the unowned portion of a low income housing tax credit fund syndication, of which Regions held the majority interest at June 30, 2020.

On June 25, 2020, the Federal Reserve indicated that the Company exceeded all minimum capital levels under the supervisory stress test. See Note 6 "Stockholders' Equity and Accumulated Other Comprehensive Income (Loss)" and the "Regulatory Capital Requirements" section for additional information.

REGULATORY REQUIREMENTS

Regions and Regions Bank are required to comply with regulatory capital requirements established by Federal and State banking agencies. These regulatory capital requirements involve quantitative measures of the Company's assets, liabilities and selected off-balance sheet items, and also qualitative judgments by the regulators. Failure to meet minimum capital requirements can subject the Company to a series of increasingly restrictive regulatory actions.

Under the Basel III Rules, Regions is designated as a standardized approach bank. Additional discussion of the Basel III Rules, their applicability to Regions, recent proposals and final rules issued by the federal banking agencies and recent laws enacted that impact regulatory requirements is included in the "Regulatory Requirements" section of Management's Discussion and Analysis in the 2019 Annual Report on Form 10-K. Additional discussion is also included in Note 13 "Regulatory Capital Requirements and Restrictions" to the consolidated financial statements in the 2019 Annual Report on Form 10-K.

In late March 2020, the federal banking agencies published an interim final rule related to revised transition of the impact of CECL on regulatory capital requirements. The rule allows an add-back to regulatory capital for the impacts of CECL for a two-year period. At the end of the two years, the impact is then phased-in over the following three years. The add-back is calculated as the impact of initial adoption, adjusted for 25 percent of subsequent changes in the allowance. This amount was approximately \$613 million at June 30, 2020, an increase of \$175 million from March 31, 2020. The impact of the addback on the CET1 ratio was approximately 56 basis points at June 30, 2020, an increase of 16 basis points from March 31, 2020.

The following table summarizes the applicable holding company and bank regulatory requirements:

Table 21—Regulatory Capital Requirements

Transitional Basis Basel III Regulatory Capital Rules	June 30, 2020 Ratio ⁽¹⁾	December 31, 2019 Ratio	Minimum Requirement	To Be Well Capitalized
Basel III common equity Tier 1 capital:				
Regions Financial Corporation	8.87%	9.68%	4.50%	N/A
Regions Bank	11.06	11.58	4.50	6.50%
Tier 1 capital:				
Regions Financial Corporation	10.38%	10.91%	6.00%	6.00%
Regions Bank	11.06	11.58	6.00	8.00
Total capital:				
Regions Financial Corporation	12.57%	12.68%	8.00%	10.00%
Regions Bank	12.77	12.92	8.00	10.00
Leverage capital:				
Regions Financial Corporation	8.43%	9.65%	4.00%	N/A
Regions Bank	9.00	10.24	4.00	5.00%

(1) The current quarter Basel III CET1 capital, Tier 1 capital, Total capital, and Leverage capital ratios are estimated.

In the first quarter of 2020, the Federal Reserve finalized the stress capital buffer framework which, when implemented in October 2020, will create a firm-specific risk sensitive buffer to be applied to regulatory minimum capital levels in determining effective minimum ratio requirements. The stress capital buffer will be floored at 2.5% to ensure effective minimum capital levels do not decline as a result of this rule change. When implemented, the stress capital buffer will replace the current Capital Conservation Buffer, which is a static 2.5% in addition to the minimum risk-weighted asset ratios shown above.

During the second quarter of 2020, the Federal Reserve released the results of its supervisory stress test and indicated that Regions exceeded all minimum capital levels under the severely adverse scenario. Regions' preliminary stress capital buffer requirement for the fourth quarter of 2020 through the third quarter of 2021, as determined by the Federal Reserve, is 3.0%, representing the amount of capital degradation under the supervisory severely adverse scenario, inclusive of four quarters of planned common stock dividends. Regions' final stress capital buffer is to be determined by August 31, 2020.

The Federal Reserve approved its rule for tailoring enhanced prudential standards for bank holding companies with \$100 billion or more in total consolidated assets. The framework outlines tailored standards for matters related to capital and liquidity. Regions is a "Category IV" institution under these rules. See the "Supervision and Regulation" subsection of the "Business" section in the 2019 Annual Report on Form 10-K for more information.

LIQUIDITY

Regions maintains a robust liquidity management framework designed to effectively manage liquidity risk in accordance with sound risk management principals, as well as regulatory requirements as applicable to Regions' Category IV status under the tailoring rules. Regions' framework establishes sustainable processes and tools to effectively identify, measure, mitigate, monitor, and report liquidity risks beginning with Regions' Liquidity Management Policy and the Liquidity Risk Appetite Statements approved by the Board. Processes within the liquidity management framework include, but are not limited to, liquidity risk governance, cash management, cash flow forecasting, liquidity stress testing, liquidity risk limits, contingency funding plans, and collateral management. The framework is designed to simultaneously meet the expectations of regulations, as well as be aligned with Regions' business mix and operating model and their impact to liquidity management.

See the "Liquidity" section for more information. Also, see the "Supervision and Regulation—Liquidity Regulation" subsection of the "Business" section, the "Risk Factors" section and the "Liquidity" section in the 2019 Annual Report on Form 10-K for additional information.

RATINGS

Table 22 "Credit Ratings" reflects the debt ratings information of Regions Financial Corporation and Regions Bank by Standard and Poor's ("S&P"), Moody's, Fitch and Dominion Bond Rating Service ("DBRS").

Table 22—Credit Ratings

	As of June 30, 2020			
	S&P	Moody's	Fitch	DBRS
Regions Financial Corporation				
Senior unsecured debt	BBB+	Baa2	BBB+	AL
Subordinated debt	BBB	Baa2	BBB	BBBH
Regions Bank				
Short-term	A-2	P-1	F1	R-IL
Long-term bank deposits	N/A	A2	A-	A
Senior unsecured debt	A-	Baa2	BBB+	A
Subordinated debt	BBB+	Baa2	BBB	AL
Outlook	Stable	Stable	Stable	Stable

	As of December 31, 2019			
	S&P	Moody's	Fitch	DBRS
Regions Financial Corporation				
Senior unsecured debt	BBB+	Baa2	BBB+	AL
Subordinated debt	BBB	Baa2	BBB	BBBH
Regions Bank				
Short-term	A-2	P-1	F1	R-IL
Long-term bank deposits	N/A	A2	A-	A
Senior unsecured debt	A-	Baa2	BBB+	A
Subordinated debt	BBB+	Baa2	BBB	AL
Outlook	Stable	Positive	Positive	Stable

N/A - Not applicable.

On April 3, 2020, Moody's revised outlooks for Regions Bank and Regions Financial Corporation to stable from positive citing expectations for a contracting economy in 2020 which is expected to have a direct negative impact on U.S. banks' asset quality and profitability.

On April 9, 2020, Fitch revised the outlook for Regions Financial Corporation to stable from positive as part of an overall revision of its U.S. bank sector and rating outlook. Revision to the overall outlook was driven by concerns over the negative financial and economic impacts from the COVID-19 pandemic.

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, and acceptability of its letters of credit, thereby potentially adversely impacting Regions' financial condition and liquidity. See the "Risk Factors" section in the Annual Report on Form 10-K for the year ended December 31, 2019 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.

NON-GAAP MEASURES

The table below presents computations of earnings and certain other financial measures, which exclude certain significant items that are included in the financial results presented in accordance with GAAP. These non-GAAP financial measures include “adjusted average total loans”, “ending total loans excluding PPP, net”, “ACL to adjusted ending total loans ratio”, “adjusted efficiency ratio”, “adjusted fee income ratio”, “return on average tangible common shareholders' equity”, and end of period “tangible common shareholders' equity”, and related ratios. Regions believes that expressing earnings and certain other financial measures excluding these significant items 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 because 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. Management and the Board utilize these non-GAAP financial measures as follows:

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

Average total loans are presented excluding the indirect vehicles exit portfolio to arrive at adjusted average total loans (non-GAAP). Regions believes adjusting average total loans provides a meaningful calculation of loan growth rates and presents them on the same basis as that applied by management.

Ending total loans are presented excluding loan balances related to loans originated through the SBA's PPP program. Regions believes the related ACL to adjusted ending loans ratio provides meaningful information about credit loss allowance levels when the SBA's PPP loans, which are fully backed by the U.S. government, are excluded from total loans.

The adjusted efficiency ratio (non-GAAP), which is a measure of productivity, is generally calculated as adjusted non-interest expense divided by adjusted total revenue on a taxable-equivalent basis. The adjusted fee income ratio (non-GAAP) is generally calculated as adjusted non-interest income divided by adjusted total revenue on a taxable-equivalent basis. Management uses these ratios to monitor performance and believes these measures provide meaningful information to investors. Non-interest expense (GAAP) is presented excluding adjustments to arrive at adjusted non-interest expense (non-GAAP), which is the numerator for the adjusted efficiency ratio. Non-interest income (GAAP) is presented excluding adjustments to arrive at adjusted non-interest income (non-GAAP), which is the numerator for the adjusted fee income ratio. Net interest income on a taxable-equivalent basis and non-interest income are added together to arrive at total revenue on a taxable-equivalent basis. Adjustments are made to arrive at adjusted total revenue on a taxable-equivalent basis (non-GAAP), which is the denominator for the adjusted efficiency and adjusted fee income ratios.

Tangible common shareholders' 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 CET1, the calculation of which is codified in federal banking regulations. Analysts and banking regulators have assessed Regions' capital adequacy using the tangible common shareholders' equity measure. Because tangible common shareholders' equity is not formally defined by GAAP, this measure is considered to be a non-GAAP financial measure and other entities may calculate it differently than Regions' disclosed calculations. Since analysts and banking regulators may assess Regions' capital adequacy using tangible common shareholders' equity, Regions believes that it is useful to provide investors the ability to assess Regions' capital adequacy on this same basis.

Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied and are not audited. 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 selected items does not represent the amount that effectively accrues directly to shareholders.

The following tables provide: 1) a reconciliation of average total loans to adjusted average total loans (non-GAAP), 2) a reconciliation of ending total loans to ending total loans excluding PPP loans and a computation of ACL to ending loans excluding PPP loans, 3) a reconciliation of net income (loss) (GAAP) to net income (loss) available to common shareholders (GAAP), 4) a reconciliation of non-interest expense (GAAP) to adjusted non-interest expense (non-GAAP), 5) a reconciliation of net interest income/margin, taxable equivalent basis (GAAP) to adjusted net interest income/margin, taxable equivalent basis (non-GAAP), 6) a reconciliation of non-interest income (GAAP) to adjusted non-interest income (non-GAAP), 7) a computation of adjusted total revenue (non-GAAP), 8) a computation of the adjusted efficiency ratio (non-GAAP), 9) a computation of the adjusted fee income ratio (non-GAAP), and 10) a reconciliation of average and ending shareholders' equity (GAAP) to average and ending tangible common shareholders' equity (non-GAAP) and calculations of related ratios (non-GAAP).

Table 23—GAAP to Non-GAAP Reconciliations

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
	(Dollars in millions)			
ADJUSTED AVERAGE BALANCES OF LOANS				
Average total loans	\$ 91,964	\$ 83,905	\$ 87,607	\$ 83,816
Less: Indirect—vehicles	1,441	2,578	1,561	2,750
Adjusted average total loans (non-GAAP)	<u>\$ 90,523</u>	<u>\$ 81,327</u>	<u>\$ 86,046</u>	<u>\$ 81,066</u>
	June 30, 2020	December 31, 2019	June 30, 2019	
	(Dollars in millions)			
ACL/LOANS, EXCLUDING PPP, NET				
Ending total loans	\$ 90,548	\$ 82,963	\$ 83,553	
Less: SBA PPP loans	4,498	—	—	
Ending total loans excluding PPP, net (non-GAAP)	<u>\$ 86,050</u>	<u>\$ 82,963</u>	<u>\$ 83,553</u>	
ACL at period end	<u>\$ 2,425</u>	<u>\$ 914</u>	<u>\$ 903</u>	
ACL/Loans, excluding PPP, net (non-GAAP)	<u>2.82%</u>	<u>1.10%</u>	<u>1.08%</u>	

		Three Months Ended June 30		Six Months Ended June 30	
		2020	2019	2020	2019
(Dollars in millions)					
INCOME (LOSS)					
Net income (loss) (GAAP)		\$ (214)	\$ 390	\$ (52)	\$ 784
Preferred dividends (GAAP)		(23)	(16)	(46)	(32)
Net income (loss) available to common shareholders (GAAP)	A	<u>\$ (237)</u>	<u>\$ 374</u>	<u>\$ (98)</u>	<u>\$ 752</u>
ADJUSTED EFFICIENCY AND FEE INCOME RATIOS					
Non-interest expense (GAAP)	B	\$ 924	\$ 861	\$ 1,760	\$ 1,721
Significant items:					
Branch consolidation, property and equipment charges		(10)	(2)	(21)	(8)
Salary and employee benefits—severance charges		(2)	(2)	(3)	(4)
Loss on early extinguishment of debt		(6)	—	(6)	—
Professional, legal and regulatory expenses		(7)	—	(7)	—
Acquisition expenses		(1)	—	(1)	—
Adjusted non-interest expense (non-GAAP)	C	<u>\$ 898</u>	<u>\$ 857</u>	<u>\$ 1,722</u>	<u>\$ 1,709</u>
Net interest income (GAAP)	D	\$ 972	\$ 942	\$ 1,900	\$ 1,890
Taxable-equivalent adjustment		13	14	25	27
Net interest income, taxable-equivalent basis	E	<u>985</u>	<u>956</u>	<u>1,925</u>	<u>1,917</u>
Non-interest income (GAAP)	F	573	494	1,058	996
Significant items:					
Securities (gains) losses, net		(1)	19	(1)	26
Leveraged lease termination gains		—	—	(2)	—
Gain on sale of affordable housing residential mortgage loans ⁽¹⁾		—	—	—	(8)
Adjusted non-interest income (non-GAAP)	G	<u>\$ 572</u>	<u>\$ 513</u>	<u>\$ 1,055</u>	<u>\$ 1,014</u>
Total revenue	D+F=H	<u>\$ 1,545</u>	<u>\$ 1,436</u>	<u>\$ 2,958</u>	<u>\$ 2,886</u>
Adjusted total revenue	D+G=I	<u>\$ 1,544</u>	<u>\$ 1,455</u>	<u>\$ 2,955</u>	<u>\$ 2,904</u>
Total revenue, taxable-equivalent basis	E+F=J	<u>\$ 1,558</u>	<u>\$ 1,450</u>	<u>\$ 2,983</u>	<u>\$ 2,913</u>
Adjusted total revenue, taxable-equivalent basis (non-GAAP)	E+G=K	<u>\$ 1,557</u>	<u>\$ 1,469</u>	<u>\$ 2,980</u>	<u>\$ 2,931</u>
Efficiency ratio (GAAP)	B/J	59.35 %	59.37%	59.01 %	59.09%
Adjusted efficiency ratio (non-GAAP)	C/K	57.75 %	58.33%	57.82 %	58.31%
Fee income ratio (GAAP)	F/J	36.78 %	34.09%	35.48 %	34.20%
Adjusted fee income ratio (non-GAAP)	G/K	36.77 %	34.96%	35.42 %	34.61%
RETURN ON AVERAGE TANGIBLE COMMON SHAREHOLDERS' EQUITY					
Average shareholders' equity (GAAP)		\$ 17,384	\$ 15,927	\$ 16,922	\$ 15,562
Less: Average intangible assets (GAAP)		5,373	4,933	5,159	4,937
Average deferred tax liability related to intangibles (GAAP)		(94)	(94)	(93)	(94)
Average preferred stock (GAAP)		1,409	1,154	1,360	988
Average tangible common shareholders' equity (non-GAAP)	L	<u>\$ 10,696</u>	<u>\$ 9,934</u>	<u>\$ 10,496</u>	<u>\$ 9,731</u>
Return on average tangible common shareholders' equity (non-GAAP) ⁽²⁾	A/L	<u>(8.90)%</u>	<u>15.11%</u>	<u>(1.87)%</u>	<u>15.58%</u>

		June 30, 2020	December 31, 2019
		(Dollars in millions, except per share data)	
TANGIBLE COMMON RATIOS			
Ending shareholders' equity (GAAP)		\$ 17,602	\$ 16,295
Less: Ending intangible assets (GAAP)		5,330	4,950
Ending deferred tax liability related to intangibles (GAAP)		(103)	(92)
Ending preferred stock (GAAP)		1,656	1,310
Ending tangible common shareholders' equity (non-GAAP)	M	\$ 10,719	\$ 10,127
Ending total assets (GAAP)		\$ 144,070	\$ 126,240
Less: Ending intangible assets (GAAP)		5,330	4,950
Ending deferred tax liability related to intangibles (GAAP)		(103)	(92)
Ending tangible assets (non-GAAP)	N	\$ 138,843	\$ 121,382
End of period shares outstanding	O	960	957
Tangible common shareholders' equity to tangible assets (non-GAAP)	M/N	7.72%	8.34%
Tangible common book value per share (non-GAAP)	M/O	\$ 11.16	\$ 10.58

- (1) The gain on sale of affordable housing residential mortgage loans in the first quarter of 2019 was the result of the sale of approximately \$167 million of loans.
- (2) Income statement amounts have been annualized in calculation.

OPERATING RESULTS

NET INTEREST INCOME AND MARGIN

Table 24—Consolidated Average Daily Balances and Yield/Rate Analysis

	Three Months Ended June 30					
	2020			2019		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
(Dollars in millions; yields on taxable-equivalent basis)						
Assets						
Earning assets:						
Debt securities ⁽¹⁾	\$ 23,828	\$ 148	2.49%	\$ 24,675	\$ 163	2.65%
Loans held for sale	807	6	3.06	398	4	4.14
Loans, net of unearned income ⁽²⁾⁽³⁾	91,964	911	3.96	83,905	1,006	4.79
Other earning assets	7,541	11	0.53	2,299	18	3.07
Total earning assets	124,140	1,076	3.46	111,277	1,191	4.27
Unrealized gains/(losses) on securities available for sale, net ⁽¹⁾	1,031			(136)		
Allowance for loan losses	(1,860)			(857)		
Cash and due from banks	2,070			1,857		
Other non-earning assets	14,439			13,974		
	<u>\$ 139,820</u>			<u>\$ 126,115</u>		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Savings	\$ 10,152	3	0.13	\$ 8,806	3	0.16
Interest-bearing checking	21,755	6	0.11	18,869	33	0.71
Money market	27,870	10	0.13	24,350	49	0.79
Time deposits	6,690	21	1.26	7,800	33	1.69
Other deposits	72	—	1.64	1,210	7	2.36
Total interest-bearing deposits ⁽⁴⁾	66,539	40	0.24	61,035	125	0.82
Federal funds purchased and securities sold under agreements to repurchase	—	—	—	244	1	2.41
Other short-term borrowings	1,558	2	0.53	1,965	13	2.54
Long-term borrowings	7,567	49	2.56	10,855	96	3.52
Total interest-bearing liabilities	75,664	91	0.48	74,099	235	1.27
Non-interest-bearing deposits ⁽⁴⁾	44,382	—	—	33,883	—	—
Total funding sources	120,046	91	0.30	107,982	235	0.87
Net interest spread ⁽¹⁾			<u>2.98</u>			<u>3.00</u>
Other liabilities	2,390			2,195		
Shareholders' equity	17,384			15,927		
Noncontrolling Interest	—			11		
	<u>\$ 139,820</u>			<u>\$ 126,115</u>		
Net interest income /margin on a taxable-equivalent basis ⁽⁵⁾		<u>\$ 985</u>	<u>3.19%</u>		<u>\$ 956</u>	<u>3.45%</u>

(1) Debt securities are included on an amortized cost basis with yield, net interest spread, and net interest margin calculated accordingly.

(2) Loans, net of unearned income include non-accrual loans for all periods presented.

(3) Interest income includes net loan fees of \$3 million and \$2 million for the three months ended June 30, 2020 and 2019, respectively.

(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 0.14% and 0.53% for the three months ended June 30, 2020 and 2019, respectively.

(5) The computation of taxable-equivalent net interest income is based on the statutory federal income tax rate of 21% for both June 30, 2020 and 2019 adjusted for applicable state income taxes net of the related federal tax benefit.

	Six Months Ended June 30					
	2020			2019		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
(Dollars in millions; yields on taxable-equivalent basis)						
Assets						
Earning assets:						
Debt securities—taxable ⁽¹⁾	\$ 23,797	\$ 306	2.57%	\$ 24,685	\$ 328	2.66%
Loans held for sale	660	11	3.32	350	7	3.92
Loans, net of unearned income ⁽²⁾⁽³⁾	87,607	1,826	4.17	83,816	2,000	4.78
Other earning assets	4,921	24	0.96	2,256	40	3.60
Total earning assets	116,985	2,167	3.70	111,107	2,375	4.28
Unrealized gains (losses) on securities available for sale, net ⁽¹⁾	771			(290)		
Allowance for loan losses	(1,588)			(850)		
Cash and due from banks	1,992			1,875		
Other non-earning assets	14,135			13,988		
	<u>\$ 132,295</u>			<u>\$ 125,830</u>		
Liabilities and Stockholders' Equity						
Interest-bearing liabilities:						
Savings	\$ 9,487	7	0.15	\$ 8,829	7	0.17
Interest-bearing checking	20,514	28	0.28	19,087	66	0.70
Money market	26,510	38	0.28	24,171	89	0.74
Time deposits	6,996	47	1.35	7,637	60	1.59
Other deposits	495	4	1.58	933	11	2.35
Total interest-bearing deposits ⁽⁴⁾	64,002	124	0.39	60,657	233	0.77
Federal funds purchased and securities sold under agreements to repurchase	76	1	1.39	293	3	2.41
Other short-term borrowings	1,601	9	1.13	1,851	24	2.54
Long-term borrowings	7,985	108	2.69	11,301	198	3.49
Total interest-bearing liabilities	73,664	242	0.66	74,102	458	1.25
Non-interest-bearing deposits ⁽⁴⁾	39,294	—	—	33,889	—	—
Total funding sources	112,958	242	0.43	107,991	458	0.85
Net interest spread ⁽¹⁾			<u>3.04</u>			<u>3.03</u>
Other liabilities	2,415			2,272		
Stockholders' equity	16,922			15,562		
Noncontrolling Interest	—			5		
	<u>\$ 132,295</u>			<u>\$ 125,830</u>		
Net interest income and other financing income/margin on a taxable-equivalent basis ⁽¹⁾⁽⁵⁾		<u>\$ 1,925</u>	<u>3.31%</u>		<u>\$ 1,917</u>	<u>3.48%</u>

(1) Debt securities are included on an amortized cost basis with yield, net interest spread, and net interest margin calculated accordingly.

(2) Loans, net of unearned income include non-accrual loans for all periods presented.

(3) Interest income includes net loan fees of \$5 million and \$3 million for the six months ended June 30, 2020 and 2019, respectively.

(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 0.23% and 0.50% for the six months ended June 30, 2020 and 2019, respectively.

(5) The computation of taxable-equivalent net interest income is based on the statutory federal income tax rate of 21% for both June 30, 2020 and 2019 adjusted for applicable state income taxes net of the related federal tax benefit.

For the second quarter of 2020, net interest income (taxable-equivalent basis) totaled \$985 million compared to \$956 million in the second quarter of 2019. The net interest margin (taxable-equivalent basis) was 3.19 percent for the second quarter of 2020 compared to 3.45 percent for the second quarter of 2019. Net interest income (taxable-equivalent basis) totaled \$1.9 billion for the first six months of both 2020 and 2019. Net interest margin (taxable-equivalent basis) was 3.31 percent and 3.48 percent for the first six months of 2020 and 2019, respectively. The quarter-over-quarter increase in net interest income was primarily driven by increases in loan balances due to PPP lending, the Company's equipment finance company acquisition and increased line

utilization on commercial credit lines. Net interest income also benefited from the execution of the Company's interest rate hedging strategy. The hedges are designed to protect net interest income in a low short-term interest rate environment, such as the one that currently exists, and had a positive impact of approximately \$69 million for the first six months of 2020, of which \$60 million was realized in the three months ended June 30, 2020.

The declines in net interest margin for the second quarter 2020 and the first six months of 2020, compared to the same periods in 2019, were primarily driven by elevated liquidity levels, increases in loan balances due to PPP lending, the Company's equipment finance company acquisition and increased utilization on commercial credit lines.

MARKET RISK—INTEREST RATE RISK

Regions' primary market risk is interest rate risk. This includes uncertainty with respect to absolute interest rate levels as well as relative interest rate levels, which are 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 to market rate movements 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 results 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 pricing of deposit accounts, prepayments and other option risks. Regions considers these factors, as well as the degree of certainty or uncertainty surrounding their future behavior.

The primary objective of asset/liability management at Regions is to coordinate balance sheet composition with interest rate risk management to sustain 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 derived using "market forward rates." The standard set of interest rate scenarios includes the traditional instantaneous parallel rate shifts of plus 100 and 200 basis points. Given low market rates by historical standards, the Company focuses on a falling rate shock scenario with most yield curve tenors floored near zero and a reduction in mortgage indices based on historical minimums as explained in the following section. In addition to parallel curve shifts, multiple curve steepening and flattening scenarios are contemplated. Regions includes simulations of gradual interest rate movements phased in over a six-month period that may more realistically mimic the speed of potential interest rate movements.

Exposure to Interest Rate Movements—As of June 30, 2020, Regions was modestly asset sensitive to both gradual and instantaneous parallel yield curve shifts as compared to the base case for the measurement horizon ending June 2021. The second quarter showed strong balance sheet growth, particularly in low-cost deposits and cash balances held with the Federal Reserve. These trends increase reported asset sensitivity levels; however, they are expected to normalize over time.

The estimated exposure associated with falling rate scenarios in the table below reflects the combined impacts of movements in short-term and long-term interest rates. The decline in short-term interest rates (such as the Fed Funds rate, the rate of Interest on Excess Reserves and 1 month LIBOR) will lead to a reduction of yield on assets and liabilities contractually tied to such rates. Under that environment, it is expected that declines in funding costs and increases in balance sheet hedging income will completely offset the decline in asset yields. Therefore, net interest income sensitivity to short-term rates is approximately neutral. Net interest income remains exposed to longer yield curve tenors. A reduction in intermediate and long-term interest rates (such as intermediate to longer-term U.S. Treasuries, swap and mortgage rates) will drive yields lower on certain fixed rate, newly originated or renewed loans, reduce prospective yields on certain investment portfolio purchases, and increase amortization of premium expense on existing securities in the investment portfolio.

The table below summarizes Regions' positioning in various parallel yield curve shifts (i.e., including all yield curve tenors). The scenarios are inclusive of all interest rate risk hedging activities. Forward starting hedges that have been transacted are contemplated to the extent they start within the measurement horizon. Twelve-month horizon asset sensitivity levels are expected to continue to decline through 2020 as forward starting hedges move completely into the measurement window and recent balance sheet growth begins to normalize. More information regarding forward starting hedges is disclosed in Table 26 and its accompanying description.

Table 25—Interest Rate Sensitivity

	Estimated Annual Change in Net Interest Income June 30, 2020 ⁽¹⁾⁽²⁾ (In millions)
Gradual Change in Interest Rates	
+ 200 basis points	\$154
+ 100 basis points	94
- 100 basis points (floored) ⁽³⁾	(57)
Instantaneous Change in Interest Rates	
+ 200 basis points	\$160
+ 100 basis points	117
- 100 basis points (floored) ⁽³⁾	(72)

- (1) Disclosed interest rate sensitivity levels represent the 12 month forward looking net interest income changes as compared to market forward rate cases and include expected balance sheet growth and remixing.
- (2) Forward starting cash flow hedges already transacted will reduce sensitivity levels through 2020 as they continue to move into the measurement horizon. See Table 27 for additional information regarding hedge start dates.
- (3) The -100 basis point (floored) scenario represents a 12 month average rate shock of -16 basis points and -64 basis points to approximately zero for 1 month LIBOR and the 10 year U.S. Treasury yield, respectively. Mortgage yield shocks are floored at their historical minimums minus 35 basis points.

As market interest rates increased in recent years, Regions had established scenarios by which yield curve tenors will fall to a consistent level. The shock magnitude for each tenor, when compared to market forward rates, equated to the lesser of the shock scenario amount, or a rate 35 basis points lower than the historical all-time minimum. Recent market volatility and new historic lows established for longer yield curve tenors have resulted in a shock scenario where the majority of rates now fall to approximately zero. Mortgage rates, which have retained somewhat elevated levels, are still being shocked in the manner previously described. Further, the scenarios presented do not allow for negative rates. The falling rate scenarios in Table 25 above quantify the expected impact for both gradual and instantaneous shocks under this environment.

As discussed above, the interest rate sensitivity analysis presented in Table 25 is informed by a variety of assumptions and estimates regarding the progression of the balance sheet in both the baseline scenario as well as the scenarios of instantaneous and gradual shifts in the yield curve. Though there are many assumptions which affect the estimates for net interest income, those pertaining to deposit pricing, deposit mix and overall balance sheet composition are particularly impactful. Given the uncertainties associated with the prolonged period of low interest rates, management evaluates the impact to its sensitivity analysis of these key assumptions. Sensitivity calculations are hypothetical and should not be considered to be predictive of future results.

The Company's baseline balance sheet assumptions include loan and deposit normalization reflecting management's best estimate. The behavior of deposits in response to changes in interest rate levels is largely informed by analyses of prior rate cycles, but with suitable adjustments based on management's expectations in the current environment. In the base case scenario and falling rate scenarios in Table 25, interest-bearing deposit rates achieve historical lows. In rising rate scenarios only, management assumes that the mix of deposits will change versus the base case balance sheet assumptions as informed by analyses of prior rate cycles. Management assumes that in rising rate scenarios, some shift from non-interest bearing to interest-bearing products will occur. The magnitude of the shift is rate dependent and equates to approximately \$2.5 billion over 12 months in the gradual +100 basis point scenario in Table 25. While estimates should be used as a guide, differences may result driven by the pace of rate changes, and other market competitive factors.

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).

Derivatives—Regions uses financial derivative instruments for management of interest rate sensitivity. 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. Derivatives are also used to offset the risks associated with customer derivatives, which include interest rate, credit and foreign exchange risks. 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.

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 by customers 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 and floors in balance sheet hedging strategies to effectively convert a portion of its fixed-rate funding position to a variable-rate position and to effectively convert a portion of its variable-rate loan portfolios to fixed-rate. Regions also uses derivatives to economically 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.

The following table presents additional information about the hedging interest rate derivatives used by Regions to manage interest rate risk:

Table 26—Hedging Derivatives by Interest Rate Risk Management Strategy

	June 30, 2020				
	Weighted-Average				
	Notional Amount	Maturity (Years)	Receive Rate ⁽¹⁾	Pay Rate ⁽¹⁾	Strike Price ⁽¹⁾
	(Dollars in millions)				
Derivatives in fair value hedging relationships:					
Receive fixed/pay variable swaps	\$ 3,100	2.9	1.7%	0.2%	—%
Derivatives in cash flow hedging relationships:					
Receive fixed/pay variable swaps	16,000	4.8	1.9	0.2	—
Interest rate floors	6,750	4.3	—	—	2.1
Total derivatives designated as hedging instruments	\$ 25,850	4.4	1.9%	0.2%	2.1%

(1) Variable rate indexes on swap and floor contracts reference a combination of short-term LIBOR benchmarks, primarily 1 month LIBOR.

A portion of the cash flow hedging relationships designated in Table 26 above are forward starting as of June 30, 2020, including \$2.25 billion notional of the outstanding cash flow swaps and \$2.0 billion notional of the outstanding cash flow floors. Forward starting swaps and floors have maturities of approximately five years from their respective start dates, and further information regarding the timeline for start dates has been disclosed in Table 27.

The following table presents cash flow hedge notional amounts with start dates prior to the year-end periods shown through 2026. All cash flow hedge notional amounts mature prior to the end of 2027.

Table 27—Schedule of Notional for Cash Flow Hedging Derivatives

	Notional Amount						
	Years Ended						
	2020 ⁽¹⁾⁽²⁾	2021 ⁽¹⁾⁽²⁾	2022	2023	2024	2025	2026
	(In millions)						
Receive fixed/pay variable swaps	\$ 15,250	\$ 16,000	\$16,000	\$ 13,700	\$ 12,700	\$ 3,750	\$ 1,250
Interest rate floors	6,500	6,750	6,750	6,750	4,000	250	—
Cash flow hedges	\$ 21,750	\$ 22,750	\$22,750	\$ 20,450	\$ 16,700	\$ 4,000	\$ 1,250

- (1) As forward starting cash flow hedges are transacted within the 12 month measurement horizon, they will reduce 12 month net interest income sensitivity levels as disclosed in Table 25.
- (2) As of June 30, 2020, \$13.75 billion of the \$16.0 billion notional of the cash flow swaps and \$4.75 billion of the \$6.75 billion notional of the interest rate floors are active. During the third quarter of 2020, \$1.25 billion notional of interest rate swaps become active and \$1.75 billion notional of interest rate floors become active. An additional \$250 million notional of interest rate swaps become active in the fourth quarter of 2020. The remaining \$750 million notional of interest rate swaps and \$250 million notional of interest rate floors become active in the first quarter of 2021.

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. All hedging interest rate swap derivatives traded by Regions are subject to mandatory clearing. The counterparty risk for cleared trades effectively moves from the executing broker to the clearinghouse allowing Regions to benefit from the risk mitigation controls in place at the respective clearinghouse. The “Credit Risk” section in Regions’ Annual Report on Form 10-K for the year ended December 31, 2019 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 derivative instruments with similar characteristics are used to hedge market risk and minimize volatility associated with this portfolio. Instruments used to service customers are held in the trading account, with changes in value recorded in the consolidated statements of operations.

The primary objective of Regions’ hedging strategies is to mitigate the impact of interest rate changes, from an economic perspective, on net interest income and the net present value of its balance sheet. The overall effectiveness of these hedging strategies is subject to market conditions, the quality of Regions’ execution, the accuracy of its valuation assumptions, counterparty credit risk and changes in interest rates. See Note 9 “Derivative Financial Instruments and Hedging Activities” to the consolidated financial statements for a tabular summary of Regions’ quarter-end derivatives positions and further discussion.

Regions accounts for residential MSRs at fair market value with any changes to fair value being recorded within mortgage income. Regions enters into derivative transactions to economically mitigate the impact of market value fluctuations related to residential MSRs. Derivative instruments entered into in the future could be materially different from the current risk profile of Regions’ current portfolio.

LIBOR Transition—In 2017, the Financial Conduct Authority, which regulates LIBOR, announced that by the end of 2021, panel banks will no longer be required to submit estimates that are used to construct LIBOR, confirming that the continuation of LIBOR will not be guaranteed beyond that date. Regions holds instruments that may be impacted by the likely discontinuance of LIBOR, including loans, investments, derivative products, floating-rate obligations, and other financial instruments that use LIBOR as a benchmark rate. The Company has established a LIBOR Transition Program, which includes dedicated leadership and staff, with all relevant business lines and support groups engaged. As part of this program, the Company continues to identify, assess, and monitor risks associated with the discontinuation, unavailability, or non-representativeness of LIBOR. Regions is also coordinating with regulatory agencies and industry groups to identify appropriate alternative rates for contracts expiring after 2021, and preparing for this transition as it relates to both new and existing exposures. Significant uncertainty remains; however, steps to mitigate risks associated with the transition are being overseen by Regions’ Executive LIBOR Steering Committee. Continuing activities of the LIBOR Transition Program include facilitating the transition of all financial and strategic processes, systems, and models; performing assessments of the transition’s impact to contracts and products; evaluating necessary operational and infrastructure enhancements to implement alternative benchmark rates; and coordinating communications with customers.

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 residential MSR, all of which tend to be sensitive to interest rate movements. Each of these assets is also exposed to prepayment risk due to factors which are not necessarily the result of interest rates, but rather due to changes in policies or programs related, either directly or indirectly, to the U.S. Government's governance over certain lending and financing within the mortgage market. Such policies can work to either encourage or discourage financing dynamics and represent a risk that is extremely difficult to forecast and may be the result of non-economic factors. The Company attempts to monitor and manage such exposures within reasonable expectations while acknowledging all such risks cannot be foreseen or avoided. Further, Regions has prepayment risk that would be reflected in non-interest income in the form of servicing income on the residential MSRs. Regions actively monitors prepayment exposure as part of its overall net interest income forecasting and interest rate risk management.

LIQUIDITY

Liquidity is an important factor in the financial condition of Regions and affects Regions' ability to meet the borrowing needs and deposit withdrawal requirements of its customers. Regions maintains strong liquidity levels that position the Company to respond to stressed environments. As discussed below, Regions has a variety of liquidity sources, which it continues to utilize to fund customer needs.

On March 27, 2020, the CARES Act was signed into law as a response to the economic uncertainty amid the COVID-19 pandemic. A focus of the Act is the establishment of federally guaranteed loans for small businesses under the PPP. Regions, a certified SBA lender, has and will continue to assist its customers through the process of utilizing this program. As a lending institution in this program, additional liquidity is available to the Company through the Federal Reserve's Paycheck Protection Program Liquidity Facility. As of June 30, 2020, Regions has not used the Paycheck Protection Program Liquidity Facility.

Regions intends to fund its obligations primarily through cash generated from normal operations. Regions also has obligations related to potential litigation contingencies. See Note 12 "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, borrowed funds and shareholders' equity. Regions' goal in liquidity management is to satisfy the cash flow requirements of depositors and borrowers, while at the same time meeting the Company's cash flow needs in normal and stressed conditions. Having and using various sources of liquidity to satisfy the Company's funding requirements is important.

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' liquidity policy requires the holding company to maintain cash sufficient to cover the greater of (1) 18 months of debt service and other cash needs or (2) a minimum cash balance of \$500 million. Cash and cash equivalents at the holding company totaled \$2.7 billion at June 30, 2020. Compliance with the holding company cash requirements is reported to the Risk Committee of the Board on a quarterly basis. Regions also has minimum liquidity requirements for the Bank and subsidiaries. These minimum requirements are informed by internal stress testing measures which are reflective of Regions' portfolio and business mix. The Bank's funding and contingency planning does not currently assume any reliance on short-term unsecured sources. Risk limits are established by the Board through its Risk Appetite Statement and Liquidity Policy. The Company's Board, LROC and ALCO regularly review compliance with the established limits.

The securities portfolio is one of Regions' primary sources of liquidity. Proceeds from maturities and principal and interest payments of securities provide a constant flow of funds available for cash needs (see Note 2 "Debt Securities" to the consolidated financial statements). The agency guaranteed mortgage-backed securities portfolio is another source of liquidity in various secured borrowing capacities.

Maturities in the loan portfolio also provide a steady flow of funds. Regions' liquidity is further enhanced by its relatively stable customer deposit base. Liquidity needs can also be met by borrowing funds in state and national money markets, although Regions does not assume reliance on short-term unsecured sources of funding.

The balance with the FRB is the primary component of the balance sheet line item, "interest-bearing deposits in other banks." At June 30, 2020, Regions had approximately \$11.5 billion in cash on deposit with the FRB, an increase from approximately \$2.5 billion at December 31, 2019, due to the significant increase in deposits associated with government programs offered in relation to COVID-19. Refer to the "Cash and Cash Equivalents" section for more information.

Regions' borrowing availability with the FRB as of June 30, 2020, based on assets pledged as collateral on that date, was \$14.7 billion.

Regions' financing arrangement with the FHLB adds additional flexibility in managing the Company's liquidity position. As of June 30, 2020, Regions' outstanding balance of FHLB borrowings was \$401 million and its total borrowing capacity from the FHLB totaled approximately \$17.2 billion. FHLB borrowing capacity is contingent on the amount of collateral pledged to the FHLB. Regions Bank pledged certain securities, commercial and real estate mortgage loans, residential first mortgage loans on one-to-four family dwellings and home equity lines of credit as collateral for the outstanding FHLB advances. Additionally, investment in FHLB stock is required in relation to the level of outstanding borrowings. The FHLB has been and is expected to continue to be a reliable and economical source of funding.

Regions maintains a shelf registration statement with the SEC that can be utilized by Regions to issue various debt and/or equity securities. Additionally, Regions' Board has authorized Regions Bank to issue up to \$10 billion in aggregate principal amount of bank notes outstanding at any one time. Refer to Note 12 "Borrowings" to the consolidated financial statements in the 2019 Annual Report on Form 10-K for additional information.

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

CREDIT RISK

Regions' objective regarding credit risk is to maintain a credit portfolio that provides for stable credit costs with acceptable volatility through an economic cycle. Regions has various processes to manage credit risk as described below. In order to assess the risk profile of the loan portfolio, Regions considers risk factors within the loan portfolio segments and classes, the current U.S. economic environment and that of its primary banking markets, as well as counterparty risk. See the "Portfolio Characteristics" section of the Annual Report on Form 10-K for the year ended December 31, 2019 for a discussion of risk characteristics of each loan type.

INFORMATION SECURITY RISK

Regions faces a variety of operational risks, including information security risks. Information security risks, such as evolving and adaptive cyber attacks that are conducted regularly against Regions and other large financial institutions to compromise or disable information systems, have generally increased in recent years. This trend is expected to continue for a number of reasons, including the proliferation of new technologies, including technology-based products and services used by us and our customers, the increasing use of mobile devices and cloud technologies, the ability to conduct more financial transactions online, and the increasing sophistication and activities of organized crime, hackers, terrorists, nation-states, activists and other external parties or fraud on the part of employees.

Regions devotes significant financial and non-financial resources to identify and mitigate threats to the confidentiality, availability and integrity of its information systems. Regions regularly assesses the threats and vulnerabilities to its environment, so it can update and maintain its systems and controls to effectively mitigate these risks. Layered security controls are designed to complement each other to protect customer information and transactions. Regions regularly tests its control environment utilizing practices such as penetration testing and more targeted assessments to ensure its controls are working as expected. Regions will continue to commit the resources necessary to mitigate these growing cyber risks, as well as continue to develop and enhance controls, processes and technology to respond to evolving disruptive technology and to protect its systems from attacks or unauthorized access. In addition, Regions maintains a strong commitment to a comprehensive risk management program that includes due diligence and oversight of third-party relationships with vendors.

As a result of the COVID-19 pandemic, Regions has experienced a modest increase in cyber events, such as phishing attacks and malicious traffic from outside the United States. However, the Company's layered control environment has effectively detected and prevented any material impact related to these events.

Regions' system of internal controls also incorporates an organization-wide protocol for the appropriate reporting and escalation of information security matters to management and the Board, to ensure effective and efficient resolution and, if necessary, disclosure of any matters. The Board is actively engaged in the oversight of Regions' continuous efforts to reinforce and enhance its operational resilience and receives education to ensure that their oversight efforts accommodate for the ever-evolving information security threat landscape. The Board monitors Regions' information management risk policies and practices primarily through its Risk Committee, which oversees areas of operational risk such as information technology activities; risks associated with development, infrastructure, and cybersecurity; approval and oversight of internal and third-party information security risk assessments, strategies, policies and programs; and disaster recovery, business continuity, and incident response plans. Additionally, the Board's Audit Committee regularly reviews Regions' cybersecurity practices, mainly by receiving reports on the cybersecurity management program prepared by the Chief Information Security Officer, Risk Management, and Internal Audit. The Board annually reviews the information security program and, through its various committees, is briefed at least quarterly on information security matters.

Regions participates in information sharing organizations such as FS-ISAC, to gather and share information with peer banks and other financial institutions to better prepare and protect its information systems from attack. FS-ISAC is a nonprofit organization whose objective is to protect the financial services sector against cyber and physical threats and risk. It acts as a trusted third party that provides anonymity to allow members to submit threat, vulnerability and incident information in a non-attributable and trusted manner so information that would normally not be shared is instead made available to other members for the greater good of the membership. In addition to FS-ISAC, Regions is a member of BITS. BITS serves the financial community and its members by providing industry best practices on a variety of security and fraud topics.

Regions has contracts with vendors to provide denial of service mitigation. These vendors have also committed the necessary resources to support Regions in the event of a cyber event. Even though Regions devotes significant resources to combat cyber security risks, there is no guarantee that these measures will provide absolute security. As an additional security measure, Regions has engaged a computer forensics firm and an industry-leading consulting firm on retainer in case of a cyber event. Regions has also developed and maintains robust business continuity and disaster recovery plans that it could implement in the event of a cyber event to mitigate the effects of any such event and minimize necessary recovery time. Some of Regions' financial risk exposure with respect to data breaches may be offset by applicable insurance.

Even if Regions successfully prevents cyber attacks to its own network, the Company may still incur losses that result from customers' account information being obtained through breaches of retailers' networks where customers have transacted business. The fraud losses, as well as the costs of investigations and re-issuing new customer cards, may impact Regions' financial results. In addition, Regions also relies on some vendors to provide certain components of its business infrastructure, and although Regions actively assesses and monitors the information security capabilities of these vendors, Regions' reliance on them may also increase exposure to information security risk.

In the event of a cyber-attack or other data breach, Regions may be required to incur significant expenses, including with respect to remediation costs, costs of implementing additional preventative measures, addressing any reputational harm and addressing any related regulatory inquiries or civil litigation arising from the event.

PROVISION FOR CREDIT LOSSES

The provision for credit losses is used to maintain the allowance for loan losses and the reserve for unfunded credit losses at a level that in management's judgment is appropriate to absorb expected credit losses over the contractual life of the loan and credit commitment portfolio at the balance sheet date. Regions adopted CECL on January 1, 2020. Upon adoption, Regions classified the provision for unfunded credit losses as provision for credit losses. Prior to 2020, the provision for unfunded credit losses was included in non-interest expense. The provision for credit losses totaled \$882 million in the second quarter of 2020 compared to the provision for loan losses of \$92 million during the second quarter of 2019. The provision for credit losses totaled \$1.3 billion for the first six months of 2020 compared to the provision for loan losses of \$183 million during the first six months of 2019. Refer to the "Allowance for Credit Losses" section for further detail.

NON-INTEREST INCOME

Table 28—Non-Interest Income

	Three Months Ended June 30		Quarter-to-Date Change 6/30/2020 vs. 6/30/2019	
	2020	2019	Amount	Percent
(Dollars in millions)				
Service charges on deposit accounts	\$ 131	\$ 181	\$ (50)	(27.6)%
Card and ATM fees	101	120	(19)	(15.8)%
Investment management and trust fee income	62	59	3	5.1 %
Capital markets income	95	39	56	143.6 %
Mortgage income	82	31	51	164.5 %
Investment services fee income	17	20	(3)	(15.0)%
Commercial credit fee income	17	18	(1)	(5.6)%
Bank-owned life insurance	18	19	(1)	(5.3)%
Securities gains (losses), net	1	(19)	20	105.3 %
Market value adjustments on employee benefit assets - other	16	(2)	18	NM
Other miscellaneous income	33	28	5	17.9 %
	<u>\$ 573</u>	<u>\$ 494</u>	<u>\$ 79</u>	<u>16.0 %</u>
	Six Months Ended June 30		Year-to-Date 6/30/2020 vs. 6/30/2019	
	2020	2019	Amount	Percent
(Dollars in millions)				
Service charges on deposit accounts	\$ 309	\$ 356	\$ (47)	(13.2)%
Card and ATM fees	206	229	(23)	(10.0)%
Investment management and trust fee income	124	116	8	6.9 %
Capital markets income	104	81	23	28.4 %
Mortgage income	150	58	92	158.6 %
Investment services fee income	39	39	—	— %
Commercial credit fee income	35	36	(1)	(2.8)%
Bank-owned life insurance	35	42	(7)	(16.7)%
Securities gains (losses), net	1	(26)	27	(103.8)%
Market value adjustments on employee benefit assets - defined benefit	—	5	(5)	(100.0)%
Market value adjustments on employee benefit assets - other	(9)	(3)	(6)	(200.0)%
Other miscellaneous income	64	63	1	1.6 %
	<u>\$ 1,058</u>	<u>\$ 996</u>	<u>\$ 62</u>	<u>6.2 %</u>

NM - Not Meaningful

Service charges on deposit accounts—Service charges on deposit accounts include non-sufficient fund and overdraft fees, corporate analysis service charges, overdraft protection fees and other customer transaction-related service charges. The decreases during the second quarter and first six months of 2020 compared to the same periods of 2019 were the result of lower customer spending due to the COVID-19 pandemic. Government stimulus programs resulting from the COVID-19 pandemic aided in the increase of customer deposits, and this elevated customer liquidity also caused a reduction in overdraft charges. If spend levels continue to persist, service charges on deposit accounts will continue to be negatively impacted for the rest of the year. See the "Second Quarter Overview" section for further detail.

Card and ATM fees—Card and ATM fees include the combined amounts of credit card/bank card income and debit card and ATM related revenue. The decreases in the second quarter of 2020 and first six months of 2020 compared to the same periods of 2019 were driven primarily by decreases in bank card and consumer credit card income as a result of decreased debit and credit

card spend and transaction volumes associated with the COVID-19 pandemic. If spend levels continue to persist, card and ATM fees will continue to be negatively impacted for the rest of the year. See the "Second Quarter Overview" section for further detail.

Capital markets income—Capital markets income primarily relates to capital raising activities that include securities underwriting and placement, loan syndication and placement, as well as foreign exchange, derivatives, merger and acquisition and other advisory services. The increases in the second quarter and first six months of 2020 compared to the same periods of 2019 were primarily driven by a record quarter for debt and equity underwriting and fees generated from the placement of permanent financing for real estate in the second quarter of 2020. Capital markets income was also favorably impacted by positive market-related credit valuation adjustments tied to credit derivatives within commercial swap income totaling \$34 million during the second quarter of 2020, compared to negative adjustments totaling \$7 million the second quarter of 2019. These valuation adjustments for the first six months of 2020 netted to virtually no impact as the negative valuation adjustments in the first quarter of 2020 recovered in the second quarter as credit spreads improved, compared to a negative adjustment of \$9 million the first six months of 2019.

Mortgage income—Mortgage income is generated through the origination and servicing of residential mortgage loans for long-term investors and sales of residential mortgage loans in the secondary market. The increases in mortgage income in the second quarter and first six months of 2020 compared to the same periods of 2019 were due primarily to increases in loan production and sales income as lower interest rates during the current quarter and first six months of 2020 increased loan application activity. Additionally, MSR valuation adjustments and related hedge activity positively impacted the change in mortgage income.

Bank-owned life insurance—Bank-owned life insurance decreased in the first six months of 2020 compared to the same period in 2019 due primarily to a decrease in claims benefits in the first quarter of 2020 and favorable market adjustments in the first quarter of 2019.

Securities gains (losses), net—Net securities gains (losses) primarily result from the Company's asset/liability management process. See Table 1 "Debt Securities" section for additional information.

Market value adjustments on employee benefit assets—Market value adjustments on employee benefit assets, both defined benefit and other, are the reflection of market value variations related to assets held for certain employee benefits. The adjustments reported as employee benefit assets - other are offset in salaries and benefits. Changes to market valuation adjustments in 2020 compared to 2019 are driven by the overall performance of the equity markets. The decrease in market valuation adjustments for the first six months of 2020 compared to 2019 is due to a decline in the equity markets in the first quarter of 2020. The markets somewhat recovered during the second quarter of 2020, leading to an increase compared to the second quarter of 2019. Furthermore, the Company repositioned its defined benefit employee benefits assets portfolio during the second quarter of 2019 into investments that are no longer subject to the volatility of the equity markets.

Other miscellaneous income—Other miscellaneous income includes net revenue from affordable housing, valuation adjustments to equity investments, fees from safe deposit boxes, check fees and other miscellaneous income. Net revenue from affordable housing includes actual gains and losses resulting from the sale of affordable housing investments, cash distributions from the investments and any related impairment charges.

At June 30, 2020, the Company's recorded investment in approximately 1,100,000 common shares of nCino Inc. was approximately \$24 million. On July 14, 2020, nCino executed an initial public offering. However, the Company is subject to a conventional post-issuance 180 day lock-up period, which prevents the sale of its position. Realized and unrealized gains and losses will be recognized within other miscellaneous income.

NON-INTEREST EXPENSE

Table 29—Non-Interest Expense

	Three Months Ended June 30		Quarter-to-Date Change 6/30/2020 vs. 6/30/2019	
	2020	2019	Amount	Percent
(Dollars in millions)				
Salaries and employee benefits	\$ 527	\$ 469	\$ 58	12.4 %
Net occupancy expense	76	80	(4)	(5.0)%
Furniture and equipment expense	86	84	2	2.4 %
Outside services	44	52	(8)	(15.4)%
Professional, legal and regulatory expenses	28	26	2	7.7 %
Marketing	22	23	(1)	(4.3)%
FDIC insurance assessments	15	12	3	25.0 %
Credit/checkcard expenses	12	18	(6)	(33.3)%
Branch consolidation, property and equipment charges	10	2	8	400.0 %
Visa class B shares expense	9	3	6	200.0 %
Loss on early extinguishment of debt	6	—	6	NM
Other miscellaneous expenses	89	92	(3)	(3.3)%
	<u>\$ 924</u>	<u>\$ 861</u>	<u>\$ 63</u>	<u>7.3 %</u>
	Six Months Ended June 30		Year-to-Date 6/30/2020 vs. 6/30/2019	
	2020	2019	Amount	Percent
(Dollars in millions)				
Salaries and employee benefits	\$ 994	\$ 947	\$ 47	5.0 %
Net occupancy expense	155	162	(7)	(4.3)%
Furniture and equipment expense	169	160	9	5.6 %
Outside services	89	97	(8)	(8.2)%
Professional, legal and regulatory expenses	46	46	—	— %
Marketing	46	46	—	— %
FDIC insurance assessments	26	25	1	4.0 %
Credit/checkcard expenses	25	34	(9)	(26.5)%
Branch consolidation, property and equipment charges	21	8	13	162.5 %
Visa class B shares expense	13	7	6	85.7 %
Provision (credit) for unfunded credit losses ⁽¹⁾	—	(1)	1	100.0 %
Loss on early extinguishment of debt	6	—	6	NM
Other miscellaneous expenses	170	190	(20)	(10.5)%
	<u>\$ 1,760</u>	<u>\$ 1,721</u>	<u>\$ 39</u>	<u>2.3 %</u>

NM - Not Meaningful

(1) Upon adoption of CECL on January 1, 2020, the provision for credit losses presented within net interest income after provision for credit losses is the sum of the provision for loan losses and the provision for unfunded credit commitments. Prior to the adoption of CECL, the provision for unfunded commitments was included in other non-interest expense.

Salaries and employee benefits—Salaries and employee benefits consist of salaries, incentive compensation, long-term incentives, payroll taxes, and other employee benefits such as 401(k), pension, and medical, life and disability insurance, as well as, expenses from liabilities held for employee benefit purposes. Salaries and employee benefits increased during the second quarter and the first six months of 2020 compared to the same periods in 2019, driven primarily by higher production-based incentives, increased pay related to the COVID-19 pandemic, and annual merit raises that occurred in the second quarter of 2020. In addition, full-time equivalent headcount increased to 20,073 at June 30, 2020 from 19,765 at June 30, 2019, primarily due to the additional associates from the Ascentium acquisition.

Net occupancy expense—Net occupancy expense includes rent, depreciation, ad valorem taxes, utilities, insurance, and maintenance. Net occupancy expense decreased in the first six months of 2020 compared to the same period in 2019 primarily due to lower maintenance expenses resulting from the shelter in place orders during the COVID-19 pandemic.

Furniture and equipment expense—Furniture and equipment expense includes depreciation, maintenance and repairs, rent, taxes, and other expenses of equipment utilized by Regions and its affiliates. Furniture and equipment expense increased during the first six months of 2020 compared to the same period in 2019 primarily due to increases in rental expenses and maintenance and repairs related to investments in technology.

Outside Services—Outside services consists of expenses related to routine services provided by third parties, such as contract labor, servicing costs, data processing, loan pricing and research, data license purchases, data subscriptions, and check printing. Outside services decreased during the second quarter and the first six months of 2020 compared to the same periods in 2019 due to Regions exiting a third party lending relationship in late 2019, combined with decreases in other outside services.

Credit/checkcard expenses—Credit/checkcard expenses include credit and checkcard fraud and expenses. Credit/checkcard expenses decreased during the second quarter and first six months of 2020 compared to the same periods in 2019 primarily due to a decline in checkcard fraud.

Branch consolidation, property and equipment charges—Branch consolidation, property and equipment charges include valuation adjustments related to owned branches when the decision to close them is made. Accelerated depreciation and lease write-off charges are recorded for leased branches through and at the actual branch close date. Branch consolidation, property and equipment charges also include costs related to occupancy optimization initiatives.

Visa class B shares expense—Visa class B shares expense is associated with shares sold in a prior year. The Visa class B shares have restrictions tied to the finalization of certain covered litigation. Visa class B shares expense increased in both the second quarter and first six months of 2020 compared to the same periods in 2019 as a result of increases in Visa's stock price.

Loss on early extinguishment of debt—During the second quarter of 2020, Regions executed the partial debt extinguishment of two senior bank notes and early terminations of FHLB advances, incurring related early extinguishment pre-tax charges totaling \$6 million. See the "Long-Term Borrowings" section for additional information.

Other miscellaneous expenses—Other miscellaneous expenses include expenses related to communications, postage, supplies, certain credit-related costs, foreclosed property expenses, mortgage repurchase costs, operational losses and other costs (benefits) related to employee benefit plans. Other miscellaneous expenses decreased during the first six months of 2020 compared to the same period in 2019 primarily due to lower operational losses and declines in expenses related to non-service related pension costs.

INCOME TAXES

The Company's income benefit from continuing operations for the three months ended June 30, 2020 was \$47 million compared to income tax expense of \$93 million for the three months ended June 30, 2019, resulting in effective tax rates of 18.3 percent and 19.4 percent, respectively. The income tax benefit for the six months ended June 30, 2020 was \$5 million compared to income tax expense of \$198 million for the six months ended June 30, 2019, resulting in effective tax rates of 10.1 percent and 20.2 percent, respectively. The effective tax rates are lower in both current year periods due primarily to a consistent level of permanent income tax preferences having a proportionally larger impact relative to pre-tax earnings, which were negatively impacted in the current year because of the COVID-19 pandemic.

Many factors impact the effective tax rate including, but not limited to, the level of pre-tax income (loss), the mix of income (loss) between various tax jurisdictions with differing tax rates, net tax benefits related to affordable housing investments, bank-owned life insurance, tax-exempt interest, and nondeductible expenses. In addition, the effective tax rate is affected by items that may occur in any given period but are not consistent from period-to-period, such as the termination of certain leveraged leases, share-based payments, valuation allowance changes and changes to unrecognized tax benefits. Accordingly, the comparability of the effective tax rate between periods may be impacted.

On January 1, 2020, the Company adopted CECL. This resulted in an adjustment to the opening balance of the allowance. The tax impact of this adjustment increased deferred tax assets by approximately \$126 million. See Note 1 "Basis of Presentation" to the consolidated financial statements for further information.

At June 30, 2020, the Company reported a net deferred tax liability of \$538 million compared to a net deferred tax liability of \$328 million at December 31, 2019. The increase in the net deferred tax liability was primarily due to an increase in unrealized gains on derivative instruments and available for sale securities, partially offset by an increase in the deferred tax asset related to the allowance.

ASCENTIUM ACQUISITION

On April 1, 2020, Regions completed its acquisition of an equipment finance company Ascentium Capital, LLC. The acquisition gives Regions the ability to increase business loans and leases to small business customers using Ascentium's tech-enabled same-day credit decision and funding capabilities.

As a result of the acquisition Regions recorded approximately \$2.4 billion of assets and assumed \$1.9 billion of liabilities. Of the total assets acquired, \$1.9 billion were loans and leases that are included in Regions' commercial and industrial loan portfolio. Of the liabilities assumed, \$1.8 billion were long-term borrowings. Regions subsequently paid down a significant portion of the borrowings, as discussed below. Assets acquired and liabilities assumed were recorded at estimated fair value.

These fair value estimates are considered preliminary as of June 30, 2020. Fair value estimates, including loans, intangible assets and goodwill, are subject to change for up to one year after the acquisition date as additional information becomes available.

Of the loans acquired, a portion were determined to be credit deteriorated on the date of purchase. Purchased loans that have experienced a more than insignificant deterioration in credit quality since origination are considered to be credit deteriorated. PCD loans are initially recorded at purchase price less the ALLL recognized at acquisition. Subsequent credit loss activity is recorded within the provision for credit losses.

Regions recorded PCD loans of \$873 million as a result of the acquisition, which was reflective of a purchase discount as the Company is not expected to collect the contractual cash flows of the loans. Regions recorded an ALLL related to these loans of \$60 million, which was included in the total acquired asset value as part of the acquisition.

The non-credit discount related to Ascentium's PCD loans and the fair value mark on non-PCD loans will be amortized to interest income over the contractual life of the loan using the effective interest method. The amortization will not be material.

In conjunction with the acquisition, Regions recognized goodwill of \$348 million and other intangible assets of \$47 million. Intangible assets are comprised of trademarks, customer lists and other intangibles. Intangible assets will be amortized over the expected useful life of each recognized asset.

Subsequent to the acquisition, Regions paid down a significant portion of the long-term borrowings, and as of June 30, 2020, \$459 million of long-term debt remained, which is associated with three securitizations. The securitization debt has various classes and associated maturity dates and has an effective interest rate of 2.25%. The Company will manage these securitized borrowings within its broader liability management process and in line with the allowable terms of the contracts.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Reference is made to pages 92 through 96 included in Management's Discussion and Analysis.

Item 4. Controls and Procedures

Based on an evaluation, as of the end of the period covered by this Form 10-Q, under the supervision and with the participation of Regions' management, including its Chief Executive Officer and Chief Financial Officer, the Chief Executive Officer and Chief Financial Officer have concluded that Regions' disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) are effective. During the quarter ended June 30, 2020, there have been no changes in Regions' internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, Regions' internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Information required by this item is set forth in Note 12, "Commitments, Contingencies and Guarantees" in the Notes to the Consolidated Financial Statements (Unaudited) in Part I. Item 1. of this report, which is incorporated by reference.

Item 1A. Risk Factors

An investment in the Company involves risk, some of which, including market, liquidity, credit, operational, legal, compliance, reputational and strategic risks, could be substantial and is inherent in our business. This risk also includes the possibility that the value of the investment could decrease considerably, and dividends or other distributions concerning the investment could be reduced or eliminated. Discussed below is a risk factor that could adversely affect Regions' financial results and condition, as well as the value of, and return on investment in the Company, that was not included in Part II, Item 1A of the 2019 Annual Report on Form 10-K as it arose after the filing.

Our business, financial condition, liquidity, capital and results of operations have been, and will likely continue to be, adversely affected by the COVID-19 pandemic.

The COVID-19 pandemic has created economic and financial disruptions that have adversely affected, and are likely to continue to adversely affect, our business, financial condition, liquidity, capital and results of operations. We cannot predict at this time the extent to which the COVID-19 pandemic will continue to negatively affect our business, financial condition, liquidity, capital and results of operations. The extent of any continued or future adverse effects of the COVID-19 pandemic will depend on future developments, which are highly uncertain and outside our control, including the scope and duration of the pandemic (including the possibility of resurgence of COVID-19 after initial abatement), the direct and indirect impact of the pandemic on our employees, clients, customers, counterparties and service providers, as well as other market participants, and actions taken by governmental authorities and other third parties in response to the pandemic.

The COVID-19 pandemic has contributed to (i) increased unemployment and decreased consumer confidence and business generally, leading to an increased risk of delinquencies, defaults and foreclosures; (ii) sudden and significant declines, and significant increases in volatility, in financial markets; (iii) ratings downgrades, credit deterioration and defaults in many industries, including transportation, natural resources (in particular oil and gas), hospitality and commercial real estate; (iv) significant draws on credit lines as customers seek to increase liquidity; (v) significant reductions in the targeted federal funds rate (which was reduced to a target rate of between zero and 0.25% in the first quarter and may be reduced to below zero if the Federal Reserve determines economic conditions warrant); (vi) increased spending on our business continuity efforts, which may in turn require that we further cut costs and investments in other areas; and (vii) heightened cybersecurity, information security and operational risks as a result of work-from-home arrangements. In addition, we also face an increased risk of client disputes, litigation and governmental and regulatory scrutiny as a result of the effects of the COVID-19 pandemic on market and economic conditions and actions governmental authorities take in response to those conditions.

We are prioritizing the safety of our customers and employees, and have temporarily closed a small number of branches and have limited branch activity to drive-through services or in-office appointments. Additionally, approximately 90% of non-branch associates are working remotely. If these measures are not effective in serving our customers or affect the productivity of our associates, they may lead to significant disruptions in our business operations.

Many of our counterparties and third-party service providers have also been, and may further be, affected by "stay-at-home" or similar orders, market volatility and other factors that increase their risks of business disruption or that may otherwise affect their ability to perform under the terms of any agreements with us or provide essential services. Even in areas in which stay-at-home or similar orders have been eased or lifted, resurgence of COVID-19 may require such measures to be re-imposed at a later time. As a result, our operational and other risks are generally expected to remain elevated until the pandemic subsides.

We have experienced an increase in cyber events, such as phishing attacks and malicious traffic from outside the United States. Our layered control environment has effectively detected and prevented any material impact related to these events to date. Our information security risks are generally expected to remain elevated until the pandemic subsides.

We are offering special financial assistance to support customers who are experiencing financial hardships related to the COVID-19 pandemic, including waivers of certain withdrawal fees from time deposits and savings and money market accounts, loan payment deferrals and extensions, credit card payment extensions, consumer mortgage payment forbearance and payment deferment, suspending initiation of new repossessions of automobiles and other vehicles and suspending new residential property foreclosures on consumer real estate loans. If such measures are not effective in mitigating the effects of the COVID-19 pandemic on borrowers, we may experience higher rates of default and increased credit losses in future periods. In addition, in many cases, the initial periods of payment deferrals, extensions, and forbearances may soon end, which may require us to provide additional assistance or lead to higher rates of default and increased credit losses.

Additionally, we are a certified and qualified SBA lender and have provided approximately \$4.5 billion in PPP loans. These assistance efforts may adversely affect our revenue and results of operations and may make our results more difficult to forecast

as the PPP forgiveness process has just begun and the timing and amount of forgiveness to which our borrowers will be entitled cannot be predicted. The PPP and other government programs in which we may participate are complex and our participation may lead to governmental and regulatory scrutiny, negative publicity and damage to our reputation. Further, Regions has been named in lawsuits in connection with its participation in the PPP and may be named in additional lawsuits in the future

Certain industries where Regions has credit exposure, including restaurants (in particular, casual dining restaurants), hotels, agriculture, commercial retail, and transportation, have experienced significant operational challenges as a result of the COVID-19 pandemic. These negative effects have resulted in a number of corporate lending clients making higher than usual draws on outstanding lines of credit, which may negatively affect our liquidity if current economic conditions persist. The effects of the COVID-19 pandemic may also cause our commercial customers to be unable to pay their loans as they come due or decrease the value of collateral, which we expect would cause significant increases in our credit losses. The pandemic may also alter consumer behavior, including spending patterns. Accordingly, certain of these industries may continue to be negatively impacted even after the pandemic has subsided.

Our earnings and cash flows are dependent to a large degree on net interest income (the difference between interest income from loans and investments and interest expense on deposits and borrowings). Net interest income is significantly affected by market rates of interest. The significant reductions to the federal funds rate has led to a decrease in the rates and yields on U.S. Treasury securities. If interest rates are reduced further in response to the COVID-19 pandemic, we expect that our net interest income will decline, perhaps significantly. The overall effect of lower interest rates cannot be predicted at this time and depends on future actions the Federal Reserve may take to increase or reduce the targeted federal funds rate in response to the COVID-19 pandemic, and resulting economic conditions.

The effects of the COVID-19 pandemic on economic and market conditions have increased demands on our liquidity as we meet our customers' and clients' needs. During the third quarter of

2020, the Federal Reserve has required large banks, including Regions, to preserve capital by suspending share repurchases, capping dividend payments at the amount paid in the second quarter, and further limiting dividends according to a formula based on recent net income. In addition, the Federal Reserve is requiring large firms, including Regions, to update and resubmit their capital plans later this year to reflect current economic stresses. The Federal Reserve has indicated that it will evaluate these resubmitted plans and that it may extend the restrictions on capital actions on a quarter-by-quarter basis as the economic situation continues to evolve. We must comply with these restrictions and will otherwise continue to exercise prudent capital management and monitor the business environment. In particular, if the Federal Reserve extends the dividend restriction that is based on recent net income, and the pandemic continues or worsens, it may be difficult for us to maintain our dividend at its current level.

The COVID-19 pandemic may impact our assessment of our goodwill. During the second quarter of 2020, Regions concluded that a triggering event had occurred in the second quarter which required Regions to perform a quantitative goodwill impairment test. The results of the test did not require Regions to record a goodwill impairment charge as all three reporting units continued to have a fair value in excess of book value. Risks to our goodwill assessment are generally expected to increase until the pandemic subsides.

Governmental authorities worldwide have taken unprecedented measures to stabilize the markets and support economic growth. The success of these measures is unknown and they may not be sufficient to address the negative effects of the COVID-19 pandemic or avert severe and prolonged reductions in economic activity.

Other negative effects of the COVID-19 pandemic that may impact our business, financial condition, liquidity, capital and results of operations cannot be predicted at this time, but it is likely that our business, financial condition, liquidity, capital and results of operations will continue to be adversely affected until the pandemic subsides and the U.S. economy begins to recover. Further, the COVID-19 pandemic may also have the effect of heightening many of the other risks described in the section entitled "Risk Factors" in our most recent Annual Report on Form 10-K and any subsequent Quarterly Report on Form 10-Q. Until the pandemic subsides, we expect continued draws on lines of credit, reduced revenues from our lending businesses, increased credit losses in our lending portfolios and decreased fee income. Even after the pandemic subsides, it is possible that the U.S. and other major economies continue to experience a prolonged recession, which we expect would materially and adversely affect our business, financial condition, liquidity, capital and results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On June 27, 2019, Regions announced the Board authorization of the repurchase of up to \$1.370 billion of the Company's common stock, permitting repurchases from the beginning of the third quarter of 2019 through the end of the second quarter of 2020. Regions did not repurchase any outstanding common stock during the three month period ended June 30, 2020, and given the uncertainty in the overall economic environment as a result of the COVID-19 pandemic, no share repurchases are currently anticipated for 2020.

On June 25, 2020, the Federal Reserve indicated that the Company exceeded all minimum capital levels under the supervisory stress test. The capital plan submitted to the Federal Reserve reflected no share repurchases through year-end 2020.

Item 6. Exhibits

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

- 3.1 [Amended and Restated Certificate of Incorporation, incorporated by reference to Exhibit 3.1 to Form 10-Q Quarterly Report filed by registrant on August 6, 2012.](#)
- 3.2 [Certificate of Designations, incorporated by reference to Exhibit 3.3 to Form 8-A filed by registrant on November 1, 2012.](#)
- 3.3 [Certificate of Designations, incorporated by reference to Exhibit 3.3 to the Form 8-A filed by registrant on April 28, 2014.](#)
- 3.4 [Certificate of Designations, incorporated by reference to Exhibit 3.4 to the Form 8-A filed by registrant on April 29, 2019.](#)
- 3.5 [Certificate of Designations, incorporated by reference to Exhibit 3.1 to the Form 8-K filed by registrant on June 5, 2020.](#)
- 3.6 [By-laws as amended and restated, incorporated by reference to Exhibit 3.2 to Form 8-K Current Report filed by registrant on July 24, 2019.](#)
- 4.1 [Deposit Agreement, dated as of June 5, 2020, by and among Regions Financial Corporation, Computershare Inc. and Computershare Trust Company, N.A., jointly as depositary, and the holders from time to time of the depositary receipts described therein, incorporated by reference to Exhibit 4.1 to the Form 8-K filed by registrant on June 5, 2020.](#)
- 4.2 [Form of depositary receipt representing the Depositary Shares, incorporated by reference to Exhibit 4.2 to the Form 8-K filed by registrant on June 5, 2020.](#)
- 10.1 [2020 Form of Notice and Form of Director Restricted Stock Unit Award Agreement under Regions Financial Corporation 2015 Long Term Incentive Plan.](#)
- 10.2 [2020 Form of Notice and Form of Restricted Stock Unit Award Agreement under Regions Financial Corporation 2015 Long Term Incentive Plan.](#)
- 10.3 [2020 Form of Notice and Form of Performance Stock Unit Award Agreement under Regions Financial Corporation 2015 Long Term Incentive Plan.](#)
- 10.4 [2020 Form of Notice and Form of Performance Unit Award Agreement under Regions Financial Corporation 2015 Long Term Incentive Plan.](#)
- 10.5 [Regions Financial Corporation Non-Qualified Excess 401\(k\) Plan \(Amended and Restated as of June 1, 2020\) \(formerly named the Regions Financial Corporation Supplemental 401\(k\) Plan\).](#)
- 31.1 [Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 31.2 [Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 32 [Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101 The following materials from Regions' Form 10-Q Report for the quarterly period ended June 30, 2020, formatted in Inline XBRL: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Comprehensive Income; (iv) the Consolidated Statements of Changes in Shareholders' Equity; (v) the Consolidated Statements of Cash Flows; and (vi) the Notes to the Consolidated Financial Statements.
- 104 The cover page of Regions' Form 10-Q Report for the quarter ended June 30, 2020, formatted in Inline XBRL (included within the Exhibit 101 attachments).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DATE: August 5, 2020

Regions Financial Corporation

/s/ HARDIE B. KIMBROUGH, JR.

Hardie B. Kimbrough, Jr.
Executive Vice President and Controller
(Chief Accounting Officer and Authorized Officer)

CERTIFICATIONS

I, John M. Turner, Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Regions Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2020

/s/ JOHN M. TURNER, JR.

John M. Turner, Jr.
President and Chief Executive Officer

CERTIFICATIONS

I, David J. Turner, Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Regions Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2020

/s/ DAVID J. TURNER, JR.

David J. Turner, Jr.
Senior Executive Vice President and
Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Regions Financial Corporation (the “Company”) on Form 10-Q for the quarter ended June 30, 2020 (the “Report”), I, John M. Turner, Jr., Chief Executive Officer of the Company, and David J. Turner, Jr., Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to our knowledge:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JOHN M. TURNER, JR.

John M. Turner, Jr.
President and Chief Executive Officer

/s/ DAVID J. TURNER, JR.

David J. Turner, Jr.
Chief Financial Officer

Date: August 5, 2020

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signatures that appear in typed form within the electronic version of this written statement required by Section 906, has been provided to Regions Financial Corporation and will be retained by Regions Financial Corporation and furnished to the Securities and Exchange Commission or its staff upon request.