

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 September 30, 2021

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)

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% 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
Depository Shares, each representing a 1/40th Interest in a Share of 4.45% Non-Cumulative Perpetual Preferred Stock, Series E	RF PRE	New York Stock Exchange

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:

As of November 2, 2021 there were 953,282,623 shares of the issuer's common stock, par value \$.01 per share, outstanding.

REGIONS FINANCIAL CORPORATION
FORM 10-Q
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Glossary of Defined Terms

Agencies - collectively, FNMA and GNMA.

ACL - Allowance for credit losses.

ALCO - Asset/Liability Management Committee.

ALLL - Allowance for loan and lease losses.

Allowance - Allowance for credit losses.

AMERIBOR - American Interbank Offered Rate.

AOCI - Accumulated other comprehensive income.

ARRC - Alternative Reference Rates Committee.

Ascentium - Ascentium Capital, LLC., an equipment finance entity acquired April 1, 2020.

ASU - Accounting Standards Update.

ATM - Automated teller machine.

Bank - Regions Bank.

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.

BSBY - Bloomberg Short-Term Bank Yield index.

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")

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.

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.

EnerBank - EnerBank USA, a consumer lending institution acquired October 1, 2021.

FASB - Financial Accounting Standards Board.

FCA - Financial Conduct Authority.

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.

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.

Fintechs - Financial Technology Companies.

FOMC - Federal Open Market Committee.

FRB - Federal Reserve Bank.

GAAP - Generally Accepted Accounting Principles in the United States.

GDP - Gross domestic product.

GNMA - Government National Mortgage Association.

HPI - Housing price index.

IRE - Investor real estate portfolio segment.

IRS - Internal Revenue Service.

LIBOR - London InterBank Offered Rate.

LROC - Liquidity Risk Oversight Committee.

LTV - Loan to value.

MBS - Mortgage-backed securities.

MSAs - Metropolitan Statistical Areas.

MSR - Mortgage servicing right.

NM - Not meaningful.

OAS - Option-adjusted spread.

OCC - Office of the Comptroller of the Currency.

OCI - Other comprehensive income.

PCD - Purchased credit deteriorated.

PD - Probability of default.

PPP - Paycheck Protection Program.

R&S - Reasonable and supportable.

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

Sabal - Sabal Capital Partners, LLC, a diversified financial services firm pending acquisition and expected to close in the fourth quarter of 2021, subject to regulatory approval.

SBA - Small Business Administration.

SBIC - Small Business Investment Company.

SCB - Stress Capital Buffer.

SEC - U.S. Securities and Exchange Commission.

SOFR - Secured Overnight Financing Rate.

TDR - Troubled debt restructuring.

U.S. - United States.

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

USD - United States dollar.

UTB - Unrecognized tax benefits.

VIE - Variable interest entity.

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

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, operations, 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 resurgences), actions taken by governmental authorities in response to the pandemic and their success, the effectiveness and acceptance of any vaccines, 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, 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, operations, 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 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 tax law, adverse changes in the economic environment, declining operations of the reporting unit or other factors.
- The effect of new tax legislation and/or interpretation of existing tax law, 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, credit loss provisions or actual credit losses where our allowance for credit 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, including fintechs, 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, including those related to the offering of digital banking and financial services, 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, including as a result of the recent change in U.S. presidential administration and control of the U.S. Congress, 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 and restrictions 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 businesses.
- Our ability to execute on our strategic and operational plans, including our ability to fully realize the financial and nonfinancial benefits relating to our strategic initiatives.
- The risks and uncertainties related to our acquisition or divestiture of businesses, including our recently completed acquisition of EnerBank and risks related to such acquisition, including that the expected synergies, cost savings and other financial or other benefits may not be realized within the expected timeframes, or might be less than projected; difficulties in integrating the business; and the inability of Regions to effectively cross-sell products to EnerBank's customers; as well as our pending acquisition of Sabal and risks related to such acquisition, including delays in closing the transaction; that the expected synergies, cost savings, and other financial or other benefits of the transaction might not be realized within the expected timeframes, or might be less than projected; and difficulties in integrating Sabal's business.
- 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 businesses, 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 businesses 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, civil unrest, 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, ransomware, “denial of service” attacks, “hacking” and identity theft, including account take-overs, a failure of which could disrupt our businesses 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, in particular Regions Bank, 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, 2020 and Quarterly Report on Form 10-Q for the quarter ended June 30, 2021, 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

	September 30, 2021	December 31, 2020
	(In millions, except share data)	
Assets		
Cash and due from banks	\$ 1,741	\$ 1,558
Interest-bearing deposits in other banks	25,766	16,398
Debt securities held to maturity (estimated fair value of \$1,010 and \$1,215, respectively)	945	1,122
Debt securities available for sale (amortized cost of \$28,480 and \$26,092, respectively)	28,986	27,154
Loans held for sale (includes \$857 and \$1,446 measured at fair value, respectively)	934	1,905
Loans, net of unearned income	83,270	85,266
Allowance for loan losses	(1,428)	(2,167)
Net loans	81,842	83,099
Other earning assets	1,269	1,217
Premises and equipment, net	1,805	1,897
Interest receivable	304	346
Goodwill	5,181	5,190
Residential mortgage servicing rights at fair value	410	296
Other identifiable intangible assets, net	101	122
Other assets	6,869	7,085
Total assets	\$ 156,153	\$ 147,389
Liabilities and Equity		
Deposits:		
Non-interest-bearing	\$ 57,145	\$ 51,289
Interest-bearing	74,894	71,190
Total deposits	132,039	122,479
Borrowed funds:		
Long-term borrowings	2,451	3,569
Total borrowed funds	2,451	3,569
Other liabilities	3,040	3,230
Total liabilities	137,530	129,278
Equity:		
Preferred stock, authorized 10 million shares, par value \$1.00 per share		
Non-cumulative perpetual, including related surplus, net of issuance costs; issued—1,750,000 and 1,850,000 shares, respectively	1,659	1,656
Common stock, authorized 3 billion shares, par value \$0.01 per share:		
Issued including treasury stock— 995,602,823 and 1,001,507,052 shares, respectively	10	10
Additional paid-in capital	12,479	12,731
Retained earnings	5,296	3,770
Treasury stock, at cost— 41,032,676 shares	(1,371)	(1,371)
Accumulated other comprehensive income, net	532	1,315
Total shareholders' equity	18,605	18,111
Noncontrolling interest	18	—
Total equity	18,623	18,111
Total liabilities and equity	\$ 156,153	\$ 147,389

See notes to consolidated financial statements.

REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
(In millions, except per share data)				
Interest income on:				
Loans, including fees	\$ 847	\$ 903	\$ 2,550	\$ 2,704
Debt securities	135	140	399	446
Loans held for sale	7	8	31	19
Other earning assets	17	8	45	32
Total interest income	1,006	1,059	3,025	3,201
Interest expense on:				
Deposits	15	32	51	156
Short-term borrowings	—	—	—	10
Long-term borrowings	26	39	79	147
Total interest expense	41	71	130	313
Net interest income	965	988	2,895	2,888
Provision for (benefit from) credit losses	(155)	113	(634)	1,368
Net interest income after provision for (benefit from) credit losses	1,120	875	3,529	1,520
Non-interest income:				
Service charges on deposit accounts	162	152	482	461
Card and ATM fees	129	115	372	321
Investment management and trust fee income	69	62	204	186
Capital markets income	87	61	248	165
Mortgage income	50	108	193	258
Securities gains (losses), net	1	3	3	4
Other	151	154	407	318
Total non-interest income	649	655	1,909	1,713
Non-interest expense:				
Salaries and employee benefits	552	525	1,630	1,519
Equipment and software expense	90	89	269	258
Net occupancy expense	75	80	227	235
Other	221	202	638	644
Total non-interest expense	938	896	2,764	2,656
Income before income taxes	831	634	2,674	577
Income tax expense	180	104	591	99
Net income	\$ 651	\$ 530	\$ 2,083	\$ 478
Net income available to common shareholders	\$ 624	\$ 501	\$ 1,986	\$ 403
Weighted-average number of shares outstanding:				
Basic	955	960	958	959
Diluted	962	962	965	961
Earnings per common share:				
Basic	\$ 0.65	\$ 0.52	\$ 2.07	\$ 0.42
Diluted	\$ 0.65	\$ 0.52	\$ 2.06	\$ 0.42

See notes to consolidated financial statements.

REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended September 30	
	2021	2020
	(In millions)	
Net income (loss)	\$ 651	\$ 530
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 (\$2) tax effect, respectively)	(2)	(2)
Net change in unrealized losses on securities transferred to held to maturity, net of tax	2	2
Unrealized gains on securities available for sale:		
Unrealized holding gains (losses) arising during the period (net of (\$24) and zero tax effect, respectively)	(75)	(2)
Less: reclassification adjustments for securities gains (losses) realized in net income (net of \$1 and \$1 tax effect, respectively)	—	2
Net change in unrealized gains on securities available for sale, net of tax	(75)	(4)
Unrealized gains on derivative instruments designated as cash flow hedges:		
Unrealized holding gains (losses) on derivatives arising during the period (net of \$6 and zero tax effect, respectively)	18	2
Less: reclassification adjustments for gains (losses) on derivative instruments realized in net income (net of \$27 and \$24 tax effect, respectively)	81	70
Net change in unrealized gains on derivative instruments, net of tax	(63)	(68)
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 (net of (\$4) and (\$2) tax effect, respectively)	(17)	(9)
Net change from defined benefit pension plans and other post employment benefits, net of tax	17	9
Other comprehensive income (loss), net of tax	(119)	(61)
Comprehensive income	\$ 532	\$ 469
	Nine Months Ended September 30	
	2021	2020
	(In millions)	
Net income (loss)	\$ 2,083	\$ 478
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 (\$1) and (\$2) tax effect, respectively)	(5)	(4)
Net change in unrealized losses on securities transferred to held to maturity, net of tax	5	4
Unrealized gains on securities available for sale:		
Unrealized holding gains (losses) arising during the period (net of (\$139) and \$212 tax effect, respectively)	(414)	629
Less: reclassification adjustments for securities gains (losses) realized in net income (net of \$1 and \$1 tax effect, respectively)	2	3
Net change in unrealized gains on securities available for sale, net of tax	(416)	626
Unrealized gains on derivative instruments designated as cash flow hedges:		
Unrealized holding gains (losses) on derivatives arising during the period (net of (\$59) and \$377 tax effect, respectively)	(174)	1,121
Less: reclassification adjustments for gains (losses) on derivative instruments realized in net income (net of \$79 and \$41 tax effect, respectively)	235	122
Net change in unrealized gains on derivative instruments, net of tax	(409)	999
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 (net of (\$11) and (\$8) tax effect, respectively)	(37)	(26)
Net change from defined benefit pension plans and other post employment benefits, net of tax	37	26
Other comprehensive income (loss), net of tax	(783)	1,655
Comprehensive income	\$ 1,300	\$ 2,133

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)									
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 stock transactions under compensation plans, net	—	—	—	—	10	—	—	—	10	—
BALANCE AT MARCH 31, 2020	2	\$ 1,310	957	\$ 10	\$ 12,695	\$ 3,364	\$ (1,371)	\$ 1,324	\$ 17,332	\$ —
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 Series D preferred stock	—	346	—	—	—	—	—	—	346	—
Impact of stock transactions under compensation plans, net and other	—	—	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
BALANCE AT JULY 1, 2020	2	\$ 1,656	960	\$ 10	\$ 12,703	\$ 2,978	\$ (1,371)	\$ 1,626	\$ 17,602	\$ 26
Net income	—	—	—	—	—	530	—	—	530	—
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	—	(61)	(61)	—
Cash dividends declared	—	—	—	—	—	(149)	—	—	(149)	—
Preferred stock dividends	—	—	—	—	—	(29)	—	—	(29)	—
Impact of stock transactions under compensation plans, net and other	—	—	—	—	11	—	—	—	11	—
Other	—	—	—	—	—	—	—	—	—	(26)
BALANCE AT SEPTEMBER 30, 2020	2	\$ 1,656	960	\$ 10	\$ 12,714	\$ 3,330	\$ (1,371)	\$ 1,565	\$ 17,904	—

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)									
BALANCE AT JANUARY 1, 2021	2	\$ 1,656	960	\$ 10	\$ 12,731	\$ 3,770	\$ (1,371)	\$ 1,315	\$ 18,111	\$ —
Net income	—	—	—	—	—	642	—	—	642	—
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	—	(723)	(723)	—
Cash dividends declared	—	—	—	—	—	(149)	—	—	(149)	—
Preferred stock dividends	—	—	—	—	—	(28)	—	—	(28)	—
Impact of common stock transactions under compensation plans, net	—	—	1	—	9	—	—	—	9	—
BALANCE AT MARCH 31, 2021	<u>2</u>	<u>\$ 1,656</u>	<u>961</u>	<u>\$ 10</u>	<u>\$ 12,740</u>	<u>\$ 4,235</u>	<u>\$ (1,371)</u>	<u>\$ 592</u>	<u>\$ 17,862</u>	<u>\$ —</u>
BALANCE AT APRIL 1, 2021	2	\$ 1,656	961	\$ 10	\$ 12,740	\$ 4,235	\$ (1,371)	\$ 592	\$ 17,862	\$ —
Net income	—	—	—	—	—	790	—	—	790	—
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	—	59	59	—
Cash dividends declared	—	—	—	—	—	(147)	—	—	(147)	—
Preferred stock dividends	—	—	—	—	—	(29)	—	—	(29)	—
Net proceeds from issuance of Series E preferred stock	—	390	—	—	—	—	—	—	390	—
Redemption of Series A preferred stock	—	(387)	—	—	(100)	(13)	—	—	(500)	—
Impact of common stock share repurchases	—	—	(8)	—	(167)	—	—	—	(167)	—
Impact of common stock transactions under compensation plans, net	—	—	2	—	(6)	—	—	—	(6)	—
BALANCE AT JUNE 30, 2021	<u>2</u>	<u>\$ 1,659</u>	<u>955</u>	<u>\$ 10</u>	<u>\$ 12,467</u>	<u>\$ 4,836</u>	<u>\$ (1,371)</u>	<u>\$ 651</u>	<u>\$ 18,252</u>	<u>\$ —</u>
BALANCE AT JULY 1, 2021	2	\$ 1,659	955	\$ 10	\$ 12,467	\$ 4,836	\$ (1,371)	\$ 651	\$ 18,252	\$ —
Net income	—	—	—	—	—	651	—	—	651	—
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	—	(119)	(119)	—
Cash dividends declared	—	—	—	—	—	(164)	—	—	(164)	—
Preferred stock dividends	—	—	—	—	—	(27)	—	—	(27)	—
Impact of stock transactions under compensation plans, net	—	—	—	—	12	—	—	—	12	—
Other	—	—	—	—	—	—	—	—	—	18
BALANCE AT SEPTEMBER 30, 2021	<u>2</u>	<u>\$ 1,659</u>	<u>955</u>	<u>\$ 10</u>	<u>\$ 12,479</u>	<u>\$ 5,296</u>	<u>\$ (1,371)</u>	<u>\$ 532</u>	<u>\$ 18,605</u>	<u>\$ 18</u>

See notes to consolidated financial statements.

REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30	
	2021	2020
	(In millions)	
Operating activities:		
Net income	\$ 2,083	\$ 478
Adjustments to reconcile net income to net cash from operating activities:		
Provision for (benefit from) credit losses	(634)	1,368
Depreciation, amortization and accretion, net	293	360
Securities (gains) losses, net	(3)	(4)
Deferred income tax expense (benefit)	200	(234)
Originations and purchases of loans held for sale	(5,236)	(4,684)
Proceeds from sales of loans held for sale	6,024	4,328
(Gain) loss on sale of loans, net	(194)	(181)
(Gain) loss on early extinguishment of debt	20	8
Net change in operating assets and liabilities:		
Other earning assets	(67)	269
Interest receivable and other assets	(192)	—
Other liabilities	(84)	513
Other	59	104
Net cash from operating activities	2,269	2,325
Investing activities:		
Proceeds from maturities of debt securities held to maturity	177	141
Proceeds from sales of debt securities available for sale	77	175
Proceeds from maturities of debt securities available for sale	4,400	3,360
Purchases of debt securities available for sale	(7,128)	(6,396)
Net proceeds from (payments for) bank-owned life insurance	(2)	(3)
Proceeds from sales of loans	436	193
Purchases of loans	(1,004)	(1,266)
Purchases of mortgage servicing rights	(58)	(35)
Net change in loans	2,804	(2,522)
Net purchases of other assets	(54)	(96)
Payment for acquisition of a business, net of cash received	—	(381)
Net cash from investing activities	(352)	(6,830)
Financing activities:		
Net change in deposits	9,560	20,970
Net change in short-term borrowings	—	(2,050)
Proceeds from long-term borrowings	647	4,698
Payments on long-term borrowings	(1,749)	(9,569)
Net proceeds from issuance of preferred stock	390	346
Payment for redemption of preferred stock	(500)	—
Cash dividends on common stock	(446)	(446)
Cash dividends on preferred stock	(84)	(75)
Repurchases of common stock	(167)	—
Taxes paid related to net share settlement of equity awards	(20)	(7)
Other	3	(3)
Net cash from financing activities	7,634	13,864
Net change in cash and cash equivalents	9,551	9,359
Cash and cash equivalents at beginning of year	17,956	4,114
Cash and cash equivalents at end of period	\$ 27,507	\$ 13,473

See notes to consolidated financial statements.

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

Nine Months Ended September 30, 2021 and 2020

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, 2020. Regions has evaluated all subsequent events for potential recognition and disclosure through the filing date of this Form 10-Q.

During 2021, the Company adopted new accounting guidance related to several topics. See Note 12 for related disclosures.

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:

September 30, 2021								
		Recognized in OCI ⁽¹⁾			Not Recognized in OCI			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	
(In millions)								
Debt securities held to maturity:								
Mortgage-backed securities:								
Residential agency	\$ 405	\$ —	\$ (14)	\$ 391	\$ 25	\$ —	\$ 416	
Commercial agency	555	—	(1)	554	40	—	594	
	<u>\$ 960</u>	<u>\$ —</u>	<u>\$ (15)</u>	<u>\$ 945</u>	<u>\$ 65</u>	<u>\$ —</u>	<u>\$ 1,010</u>	
Debt securities available for sale:								
U.S. Treasury securities	\$ 783	\$ 2	\$ (1)	\$ 784			\$ 784	
Federal agency securities	96	2	(1)	97			97	
Mortgage-backed securities:								
Residential agency	19,414	404	(133)	19,685			19,685	
Residential non-agency	1	—	—	1			1	
Commercial agency	6,207	219	(41)	6,385			6,385	
Commercial non-agency	557	7	—	564			564	
Corporate and other debt securities	1,422	49	(1)	1,470			1,470	
	<u>\$ 28,480</u>	<u>\$ 683</u>	<u>\$ (177)</u>	<u>\$ 28,986</u>			<u>\$ 28,986</u>	
December 31, 2020								
		Recognized in OCI ⁽¹⁾			Not Recognized in OCI			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	
(In millions)								
Debt securities held to maturity:								
Mortgage-backed securities:								
Residential agency	\$ 554	\$ —	\$ (19)	\$ 535	\$ 34	\$ —	\$ 569	
Commercial agency	589	—	(2)	587	59	—	646	
	<u>\$ 1,143</u>	<u>\$ —</u>	<u>\$ (21)</u>	<u>\$ 1,122</u>	<u>\$ 93</u>	<u>\$ —</u>	<u>\$ 1,215</u>	
Debt securities available for sale:								
U.S. Treasury securities	\$ 178	\$ 5	\$ —	\$ 183			\$ 183	
Federal agency securities	102	3	—	105			105	
Mortgage-backed securities:								
Residential agency	18,455	625	(4)	19,076			19,076	
Residential non-agency	1	—	—	1			1	
Commercial agency	5,659	346	(6)	5,999			5,999	
Commercial non-agency	571	15	—	586			586	
Corporate and other debt securities	1,126	78	—	1,204			1,204	
	<u>\$ 26,092</u>	<u>\$ 1,072</u>	<u>\$ (10)</u>	<u>\$ 27,154</u>			<u>\$ 27,154</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 \$9.4 billion and \$10.3 billion at September 30, 2021, and December 31, 2020, respectively, were pledged to secure public funds, trust deposits and certain borrowing arrangements. Included within total pledged securities is approximately \$24 million of encumbered U.S. Treasury securities at both September 30, 2021, and December 31, 2020.

The amortized cost and estimated fair value of debt securities held to maturity and debt securities available for sale at September 30, 2021, 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	\$ 405	\$ 416
Commercial agency	555	594
	<u>\$ 960</u>	<u>\$ 1,010</u>
Debt securities available for sale:		
Due in one year or less	\$ 324	\$ 327
Due after one year through five years	1,098	1,129
Due after five years through ten years	765	779
Due after ten years	114	116
Mortgage-backed securities:		
Residential agency	19,414	19,685
Residential non-agency	1	1
Commercial agency	6,207	6,385
Commercial non-agency	557	564
	<u>\$ 28,480</u>	<u>\$ 28,986</u>

The following tables present gross unrealized losses and the related estimated fair value of debt securities available for sale at September 30, 2021, and December 31, 2020. 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.

		September 30, 2021					
		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:							
U.S. Treasury securities	\$ 360	\$ (1)	\$ 4	\$ —	\$ 364	\$ (1)	
Federal agency securities	64	(1)	—	—	64	(1)	
Mortgage-backed securities:							
Residential agency	\$ 7,849	\$ (128)	\$ 220	\$ (5)	\$ 8,069	\$ (133)	
Commercial agency	1,594	(28)	354	(13)	1,948	(41)	
Corporate and other debt securities	328	(1)	—	—	328	(1)	
	<u>\$ 10,195</u>	<u>\$ (159)</u>	<u>\$ 578</u>	<u>\$ (18)</u>	<u>\$ 10,773</u>	<u>\$ (177)</u>	

		December 31, 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	\$	914	\$	(4)	\$	101	\$	—	\$	1,015	\$	(4)
Commercial agency		819		(6)		—		—		819		(6)
	\$	1,733	\$	(10)	\$	101	\$	—	\$	1,834	\$	(10)

The number of individual debt positions in an unrealized loss position in the tables above increased from 129 at December 31, 2020, to 337 at September 30, 2021. The increase in the number of securities and the total amount of unrealized losses from year-end 2020 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 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 were immaterial for the three and nine months ended September 30, 2021 and 2020. 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 not identify any positions where impairment was believed to exist in either of the three and nine months ended September 30, 2021 or 2020.

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:

	September 30, 2021	December 31, 2020
	(In millions)	
Commercial and industrial	\$ 41,748	\$ 42,870
Commercial real estate mortgage—owner-occupied	5,446	5,405
Commercial real estate construction—owner-occupied	252	300
Total commercial	47,446	48,575
Commercial investor real estate mortgage	5,608	5,394
Commercial investor real estate construction	1,704	1,869
Total investor real estate	7,312	7,263
Residential first mortgage	17,347	16,575
Home equity lines	3,875	4,539
Home equity loans	2,556	2,713
Indirect—vehicles	500	934
Indirect—other consumer	2,123	2,431
Consumer credit card	1,136	1,213
Other consumer	975	1,023
Total consumer	28,512	29,428
Total loans, net of unearned income	<u>\$ 83,270</u>	<u>\$ 85,266</u>

During the nine months ended September 30, 2021 and 2020, Regions purchased approximately \$986 million and \$1.3 billion in indirect-other consumer, residential first mortgage and commercial and industrial loans from third parties, respectively.

At September 30, 2021, \$16.2 billion in securities and net eligible loans held by Regions were pledged for potential borrowings from the FHLB. At September 30, 2021, an additional \$12.8 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 \$1.2 billion as of September 30, 2021, with related income of \$45 million for the nine months ended September 30, 2021.

ALLOWANCE FOR CREDIT LOSSES

Regions determines the appropriate level of the allowance on a quarterly basis. 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, 2020, for a description of the methodology.

As of September 30, 2021, Regions' total loans included \$1.5 billion of PPP loans. These loans are guaranteed by the Federal government and as the guarantee is not separable from the loans, Regions recorded an immaterial allowance on these loans.

ROLLFORWARD OF ALLOWANCE FOR CREDIT LOSSES

During the nine months ended September 30, 2021, Regions decreased the allowance by \$794 million to \$1.5 billion, which represents management's best estimate of expected losses over the life of the portfolio. The decrease was due primarily to continued improvement in the economic outlook and strong credit trends. While the allowance estimate reflects these benefits, elevated levels of imprecision remain due to continued uncertainty regarding the timing of full economic recovery.

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. Regions' models are sensitive to changes in the economic scenarios. The September 30, 2021 economic forecast was relatively consistent with the June 2021 forecast with the exception of the HPI and S&P 500 index which had increases during the quarter. Risks to the economic forecast and the model limitations are considered through model adjustments and the qualitative framework.

The following tables present analyses of the allowance by portfolio segment for the three and nine months ended September 30, 2021 and 2020.

	Three Months Ended September 30, 2021			
	Commercial	Investor Real Estate	Consumer	Total
	(In millions)			
Allowance for loan losses, July 1, 2021	\$ 858	\$ 91	\$ 648	\$ 1,597
Provision for (benefit from) loan losses	(122)	(3)	(14)	(139)
Loan losses:				
Charge-offs	(22)	—	(37)	(59)
Recoveries	16	1	12	29
Net loan (losses) recoveries	(6)	1	(25)	(30)
Allowance for loan losses, September 30, 2021	730	89	609	1,428
Reserve for unfunded credit commitments, July 1, 2021	61	13	13	87
Provision for (benefit from) unfunded credit commitments	(7)	(5)	(4)	(16)
Reserve for unfunded credit commitments, September 30, 2021	54	8	9	71
Allowance for credit losses, September 30, 2021	\$ 784	\$ 97	\$ 618	\$ 1,499

	Three Months Ended September 30, 2020			
	Commercial	Investor Real Estate	Consumer	Total
	(In millions)			
Allowance for loan losses, July 1, 2020	\$ 1,271	\$ 160	\$ 845	\$ 2,276
Provision for (benefit from) loan losses	59	30	24	113
Loan losses:				
Charge-offs	(86)	—	(53)	(139)
Recoveries	11	—	15	26
Net loan (losses) recoveries	(75)	—	(38)	(113)
Allowance for loan losses, September 30, 2020	1,255	190	831	2,276
Reserve for unfunded credit commitments, July 1, 2020	107	27	15	149
Provision for (benefit from) unfunded credit commitments	26	(22)	(4)	—
Reserve for unfunded credit commitments, September 30, 2020	133	5	11	149
Allowance for credit losses, September 30, 2020	\$ 1,388	\$ 195	\$ 842	\$ 2,425

Nine Months Ended September 30, 2021				
	Commercial	Investor Real Estate	Consumer	Total
	(In millions)			
Allowance for loan losses, January 1, 2021	\$ 1,196	\$ 183	\$ 788	\$ 2,167
Provision for (benefit from) loan losses	(408)	(78)	(93)	(579)
Loan losses:				
Charge-offs	(105)	(19)	(132)	(256)
Recoveries	47	3	46	96
Net loan (losses) recoveries	(58)	(16)	(86)	(160)
Allowance for loan losses, September 30, 2021	730	89	609	1,428
Reserve for unfunded credit commitments, January 1, 2021	97	14	15	126
Provision for (benefit from) unfunded credit commitments	(43)	(6)	(6)	(55)
Reserve for unfunded credit commitments, September 30, 2021	54	8	9	71
Allowance for credit losses, September 30, 2021	\$ 784	\$ 97	\$ 618	\$ 1,499

Nine Months Ended September 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	(3)	7	434	438
Allowance for loan losses, January 1, 2020 (adjusted for change in accounting guidance)	\$ 534	\$ 52	\$ 721	\$ 1,307
Provision for (benefit from) loan losses	932	137	258	1,327
Initial allowance on acquired PCD loans	60	—	—	60
Loan losses:				
Charge-offs	(299)	—	(188)	(487)
Recoveries	28	1	40	69
Net loan (losses) recoveries	(271)	1	(148)	(418)
Allowance for loan losses, September 30, 2020	1,255	190	831	2,276
Reserve for unfunded credit commitments, December 31, 2019	41	4	—	45
Cumulative change in accounting guidance	36	13	14	63
Reserve for unfunded credit commitments, January 1, 2020 (adjusted for change in accounting guidance)	77	17	14	108
Provision (credit) for unfunded credit losses	56	(12)	(3)	41
Reserve for unfunded credit commitments, September 30, 2020	133	5	11	149
Allowance for credit losses, September 30, 2020	\$ 1,388	\$ 195	\$ 842	\$ 2,425

PORTFOLIO SEGMENT RISK FACTORS

Regions' portfolio segments are commercial, investor real estate and consumer. Classes within each segment present unique credit risks. Refer to Note 6 "Allowance for Credit Losses" in the Annual Report on Form 10-K for the year ended December 31, 2020 for information regarding Regions' portfolio segments and related classes, as well as the risks specific to each.

CREDIT QUALITY INDICATORS

The commercial and investor real estate portfolio segments' primary credit quality indicator is internal risk ratings which are detailed by categories related to underlying credit quality and probability of default. Regions assigns these risk ratings 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. Regions' ratings are aligned to federal banking regulators' definitions and are utilized to develop the associated allowance. Refer to Note 6 "Allowance for Credit Losses" in the Annual Report on Form 10-K for the year ended December 31, 2020 for information regarding commercial risk ratings.

Regions' consumer portfolio segment has various classes that present unique credit risks. Regions considers factors such as periodic updates of FICO scores, accrual status, days past due status, unemployment rates, home prices 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.

The following tables present applicable credit quality indicators for the loan portfolio segments and classes, excluding loans held for sale, by vintage year as of September 30, 2021 and December 31, 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, 2020 for more information regarding Regions' credit quality indicators.

September 30, 2021										
	Term Loans						Revolving Loans	Revolving Loans Converted to Amortizing	Unallocated ⁽¹⁾	Total
	Origination Year									
	2021	2020	2019	2018	2017	Prior				
(In millions)										
Commercial and industrial:										
Risk Rating:										
Pass ⁽²⁾	\$ 9,076	\$ 6,132	\$ 4,429	\$ 2,155	\$ 1,813	\$ 2,835	\$ 13,312	\$ —	\$ (105)	\$39,647
Special Mention	39	80	187	177	\$ 24	\$ 77	515	—	—	1,099
Substandard Accrual	74	45	60	100	\$ 23	\$ 9	332	—	—	643
Non-accrual	73	25	54	11	\$ 14	\$ 17	165	—	—	359
Total commercial and industrial	\$ 9,262	\$ 6,282	\$ 4,730	\$ 2,443	\$ 1,874	\$ 2,938	\$ 14,324	\$ —	\$ (105)	\$41,748
Commercial real estate mortgage—owner-occupied:										
Risk Rating:										
Pass	\$ 1,114	\$ 1,213	\$ 740	\$ 734	\$ 425	\$ 845	\$ 139	\$ —	\$ (5)	\$ 5,205
Special Mention	3	41	4	19	6	18	1	—	—	92
Substandard Accrual	1	8	38	8	9	17	—	—	—	81
Non-accrual	2	6	11	14	20	14	1	—	—	68
Total commercial real estate mortgage—owner-occupied:	\$ 1,120	\$ 1,268	\$ 793	\$ 775	\$ 460	\$ 894	\$ 141	\$ —	\$ (5)	\$ 5,446
Commercial real estate construction—owner-occupied:										
Risk Rating:										
Pass	\$ 43	\$ 61	\$ 28	\$ 31	\$ 22	\$ 46	\$ 1	\$ —	\$ —	\$ 232
Special Mention	—	—	—	2	—	1	—	—	—	3
Substandard Accrual	—	—	—	2	3	1	—	—	—	6
Non-accrual	—	1	1	—	1	8	—	—	—	11
Total commercial real estate construction—owner-occupied:	\$ 43	\$ 62	\$ 29	\$ 35	\$ 26	\$ 56	\$ 1	\$ —	\$ —	\$ 252
Total commercial	\$10,425	\$ 7,612	\$ 5,552	\$ 3,253	\$ 2,360	\$ 3,888	\$ 14,466	\$ —	\$ (110)	\$47,446
Commercial investor real estate mortgage:										
Risk Rating:										
Pass	\$ 1,464	\$ 841	\$ 1,138	\$ 770	\$ 139	\$ 103	\$ 479	\$ —	\$ (6)	\$ 4,928
Special Mention	28	107	163	2	8	9	—	—	—	317
Substandard Accrual	39	67	166	57	15	8	7	—	—	359
Non-accrual	—	—	—	1	—	3	—	—	—	4
Total commercial investor real estate mortgage	\$ 1,531	\$ 1,015	\$ 1,467	\$ 830	\$ 162	\$ 123	\$ 486	\$ —	\$ (6)	\$ 5,608

September 30, 2021

	Term Loans							Revolving Loans	Revolving Loans Converted to Amortizing	Unallocated ⁽¹⁾	Total
	Origination Year										
	2021	2020	2019	2018	2017	Prior					
(In millions)											
Commercial investor real estate construction:											
Risk Rating:											
Pass	\$ 133	\$ 295	\$ 524	\$ 79	\$ 1	\$ 2	\$ 668	\$ —	\$ (10)	\$ 1,692	
Special Mention	1	8	3	—	—	—	—	—	—	12	
Substandard Accrual	—	—	—	—	—	—	—	—	—	—	
Non-accrual	—	—	—	—	—	—	—	—	—	—	
Total commercial investor real estate construction	\$ 134	\$ 303	\$ 527	\$ 79	\$ 1	\$ 2	\$ 668	\$ —	\$ (10)	\$ 1,704	
Total investor real estate	\$ 1,665	\$ 1,318	\$ 1,994	\$ 909	\$ 163	\$ 125	\$ 1,154	\$ —	\$ (16)	\$ 7,312	
Residential first mortgage:											
FICO scores											
Above 720	\$ 3,148	\$ 5,452	\$ 1,248	\$ 491	\$ 694	\$ 2,878	\$ —	\$ —	\$ —	\$13,911	
681-720	365	385	125	65	70	388	—	—	—	1,398	
620-680	172	176	86	58	52	390	—	—	—	934	
Below 620	28	47	44	47	48	471	—	—	—	685	
Data not available	47	47	21	9	11	117	10	—	157	419	
Total residential first mortgage	\$ 3,760	\$ 6,107	\$ 1,524	\$ 670	\$ 875	\$ 4,244	\$ 10	\$ —	\$ 157	\$17,347	
Home equity lines:											
FICO scores											
Above 720	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,855	\$ 48	\$ —	\$ 2,903	
681-720	—	—	—	—	—	—	398	12	—	410	
620-680	—	—	—	—	—	—	269	12	—	281	
Below 620	—	—	—	—	—	—	142	8	—	150	
Data not available	—	—	—	—	—	—	98	4	29	131	
Total home equity lines	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3,762	\$ 84	\$ 29	\$ 3,875	
Home equity loans											
FICO scores											
Above 720	\$ 430	\$ 348	\$ 176	\$ 164	\$ 239	\$ 653	\$ —	\$ —	\$ —	\$ 2,010	
681-720	65	40	28	22	26	81	—	—	—	262	
620-680	24	15	14	14	17	67	—	—	—	151	
Below 620	4	3	6	8	11	49	—	—	—	81	
Data not available	1	2	2	3	5	20	—	—	19	52	
Total home equity loans	\$ 524	\$ 408	\$ 226	\$ 211	\$ 298	\$ 870	\$ —	\$ —	\$ 19	\$ 2,556	
Indirect—vehicles:											
FICO scores											
Above 720	\$ —	\$ —	\$ 12	\$ 189	\$ 75	\$ 46	\$ —	\$ —	\$ —	\$ 322	
681-720	—	—	3	29	12	9	—	—	—	53	
620-680	—	—	2	27	12	10	—	—	—	51	
Below 620	—	—	2	25	15	14	—	—	—	56	
Data not available	—	—	—	3	3	3	—	—	9	18	
Total indirect- vehicles	\$ —	\$ —	\$ 19	\$ 273	\$ 117	\$ 82	\$ —	\$ —	\$ 9	\$ 500	

September 30, 2021

	Term Loans							Revolving Loans	Revolving Loans Converted to Amortizing	Unallocated ⁽¹⁾	Total									
	Origination Year																			
	2021	2020	2019	2018	2017	Prior														
(In millions)																				
Indirect—other consumer:																				
FICO scores																				
Above 720	\$	314	\$	311	\$	430	\$	260	\$	96	\$	60	\$	—	\$	—	\$	—	\$	1,471
681-720		58		53		109		74		28		17		—		—		—		339
620-680		11		14		49		41		17		11		—		—		—		143
Below 620		—		3		14		12		5		4		—		—		—		38
Data not available		—		—		3		3		1		1		—		—		124		132
Total indirect- other consumer	\$	383	\$	381	\$	605	\$	390	\$	147	\$	93	\$	—	\$	—	\$	124	\$	2,123
Consumer credit card:																				
FICO scores																				
Above 720	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—	\$	642	\$	—	\$	—	\$	642
681-720		—		—		—		—		—		—		236		—		—		236
620-680		—		—		—		—		—		—		189		—		—		189
Below 620		—		—		—		—		—		—		75		—		—		75
Data not available		—		—		—		—		—		—		8		—		(14)		(6)
Total consumer credit card	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—	\$	1,150	\$	—	\$	(14)	\$	1,136
Other consumer:																				
FICO scores																				
Above 720	\$	174	\$	131	\$	89	\$	41	\$	12	\$	3	\$	113	\$	—	\$	—	\$	563
681-720		56		33		22		8		2		1		53		—		—		175
620-680		38		22		14		5		1		1		39		—		—		120
Below 620		9		7		6		3		1		—		15		—		—		41
Data not available		71		—		—		—		—		—		3		—		2		76
Total other consumer	\$	348	\$	193	\$	131	\$	57	\$	16	\$	5	\$	223	\$	—	\$	2	\$	975
Total consumer loans	\$	5,015	\$	7,089	\$	2,505	\$	1,601	\$	1,453	\$	5,294	\$	5,145	\$	84	\$	326	\$	28,512
Total Loans	\$	17,105	\$	16,019	\$	10,051	\$	5,763	\$	3,976	\$	9,307	\$	20,765	\$	84	\$	200	\$	83,270

December 31, 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 ⁽²⁾	\$ 12,260	\$ 6,115	\$ 3,550	\$ 2,413	\$ 1,166	\$ 2,493	\$ 12,138	\$ —	\$ (39)	\$40,096
Special Mention	133	250	376	84	5	48	722	—	—	1,618
Substandard Accrual	41	50	78	55	20	4	490	—	—	738
Non-accrual	42	59	97	20	23	19	158	—	—	418
Total commercial and industrial	\$ 12,476	\$ 6,474	\$ 4,101	\$ 2,572	\$ 1,214	\$ 2,564	\$ 13,508	\$ —	\$ (39)	\$42,870

December 31, 2020											
	Term Loans Origination Year						Revolving Loans	Revolving Loans Converted to Amortizing	Unallocated ⁽¹⁾	Total	
	2020	2019	2018	2017	2016	Prior					
(In millions)											
Commercial real estate mortgage—owner-occupied:											
Risk Rating:											
Pass	\$ 1,379	\$ 882	\$ 913	\$ 547	\$ 401	\$ 801	\$ 140	\$ —	\$ (3)	\$ 5,060	
Special Mention	18	31	23	22	10	44	6	—	—	154	
Substandard Accrual	3	38	16	16	4	15	2	—	—	94	
Non-accrual	14	23	19	21	6	14	—	—	—	97	
Total commercial real estate mortgage—owner-occupied:	\$ 1,414	\$ 974	\$ 971	\$ 606	\$ 421	\$ 874	\$ 148	\$ —	\$ (3)	\$ 5,405	
Commercial real estate construction—owner-occupied:											
Risk Rating:											
Pass	\$ 61	\$ 75	\$ 39	\$ 24	\$ 24	\$ 40	\$ 9	\$ —	\$ —	\$ 272	
Special Mention	1	—	—	2	2	—	—	—	—	5	
Substandard Accrual	—	3	1	3	4	3	—	—	—	14	
Non-accrual	—	—	—	1	—	8	—	—	—	9	
Total commercial real estate construction—owner-occupied:	\$ 62	\$ 78	\$ 40	\$ 30	\$ 30	\$ 51	\$ 9	\$ —	\$ —	\$ 300	
Total commercial	\$ 13,952	\$ 7,526	\$ 5,112	\$ 3,208	\$ 1,665	\$ 3,489	\$ 13,665	\$ —	\$ (42)	\$ 48,575	
Commercial investor real estate mortgage:											
Risk Rating:											
Pass	\$ 1,663	\$ 1,243	\$ 1,137	\$ 252	\$ 65	\$ 162	\$ 332	\$ —	\$ (5)	\$ 4,849	
Special Mention	5	77	76	15	—	7	—	—	—	180	
Substandard Accrual	69	114	57	—	2	9	—	—	—	251	
Non-accrual	—	44	1	—	—	1	68	—	—	114	
Total commercial investor real estate mortgage	\$ 1,737	\$ 1,478	\$ 1,271	\$ 267	\$ 67	\$ 179	\$ 400	\$ —	\$ (5)	\$ 5,394	
Commercial investor real estate construction:											
Risk Rating:											
Pass	\$ 224	\$ 601	\$ 266	\$ 1	\$ —	\$ 1	\$ 679	\$ —	\$ (11)	\$ 1,761	
Special Mention	30	36	31	—	—	—	9	—	—	106	
Substandard Accrual	1	1	—	—	—	—	—	—	—	2	
Non-accrual	—	—	—	—	—	—	—	—	—	—	
Total commercial investor real estate construction	\$ 255	\$ 638	\$ 297	\$ 1	\$ —	\$ 1	\$ 688	\$ —	\$ (11)	\$ 1,869	
Total investor real estate	\$ 1,992	\$ 2,116	\$ 1,568	\$ 268	\$ 67	\$ 180	\$ 1,088	\$ —	\$ (16)	\$ 7,263	
Residential first mortgage:											
FICO scores											
Above 720	\$ 5,564	\$ 1,738	\$ 809	\$ 1,023	\$ 1,279	\$ 2,709	\$ —	\$ —	\$ —	\$ 13,122	
681-720	525	189	103	112	113	360	—	—	—	1,402	
620-680	211	100	73	64	67	404	—	—	—	919	
Below 620	31	44	50	51	60	499	—	—	—	735	
Data not available	52	23	13	16	15	126	10	—	142	397	
Total residential first mortgage	\$ 6,383	\$ 2,094	\$ 1,048	\$ 1,266	\$ 1,534	\$ 4,098	\$ 10	\$ —	\$ 142	\$ 16,575	

December 31, 2020

	December 31, 2020										Revolving Loans Converted to Amortizing	Unallocated ⁽¹⁾	Total					
	Term Loans Origination Year						Revolving Loans											
	2020	2019	2018	2017	2016	Prior												
(In millions)																		
Home equity lines:																		
FICO scores																		
Above 720	\$	—	\$	—	\$	—	\$	—	\$	—	\$	3,334	\$	45	\$	—	\$	3,379
681-720		—		—		—		—		—		492		10		—		502
620-680		—		—		—		—		—		319		11		—		330
Below 620		—		—		—		—		—		181		7		—		188
Data not available		—		—		—		—		—		107		3		30		140
Total home equity lines	\$	—	\$	—	\$	—	\$	—	\$	—	\$	4,433	\$	76	\$	30	\$	4,539
Home equity loans																		
FICO scores																		
Above 720	\$	417	\$	251	\$	233	\$	325	\$	304	\$	580	\$	—	\$	—	\$	2,110
681-720		57		40		35		39		37		76		—		—		284
620-680		21		17		19		22		25		65		—		—		169
Below 620		2		7		9		13		15		52		—		—		98
Data not available		1		2		2		4		5		17		—		—		52
Total home equity loans	\$	498	\$	317	\$	298	\$	403	\$	386	\$	790	\$	—	\$	21	\$	2,713
Indirect—vehicles:																		
FICO scores																		
Above 720	\$	—	\$	18	\$	305	\$	137	\$	92	\$	40	\$	—	\$	—	\$	592
681-720		—		5		50		22		16		8		—		—		101
620-680		—		4		44		23		18		8		—		—		97
Below 620		—		3		42		26		24		14		—		—		109
Data not available		—		—		4		6		4		4		—		—		35
Total indirect- vehicles	\$	—	\$	30	\$	445	\$	214	\$	154	\$	74	\$	—	\$	17	\$	934
Indirect—other consumer:																		
FICO scores																		
Above 720	\$	297	\$	721	\$	392	\$	138	\$	60	\$	31	\$	—	\$	—	\$	1,639
681-720		39		173		116		41		18		9		—		—		396
620-680		9		73		63		27		12		6		—		—		190
Below 620		1		22		22		9		5		2		—		—		61
Data not available		—		3		3		2		1		1		—		—		145
Total indirect- other consumer	\$	346	\$	992	\$	596	\$	217	\$	96	\$	49	\$	—	\$	135	\$	2,431
Consumer credit card:																		
FICO scores																		
Above 720	\$	—	\$	—	\$	—	\$	—	\$	—	\$	667	\$	—	\$	—	\$	667
681-720		—		—		—		—		—		255		—		—		255
620-680		—		—		—		—		—		208		—		—		208
Below 620		—		—		—		—		—		91		—		—		91
Data not available		—		—		—		—		—		7		—		(15)		(8)
Total consumer credit card	\$	—	\$	—	\$	—	\$	—	\$	—	\$	1,228	\$	—	\$	(15)	\$	1,213

December 31, 2020

	December 31, 2020										Revolving Loans Converted to Amortizing	Unallocated ⁽¹⁾	Total
	Term Loans Origination Year						Revolving Loans						
	2020	2019	2018	2017	2016	Prior							
(In millions)													
Other consumer:													
FICO scores													
Above 720	\$ 209	\$ 163	\$ 84	\$ 30	\$ 7	\$ 3	\$ 117	\$ —	\$ —	\$ 613			
681-720	61	44	20	5	1	1	52	—	—	184			
620-680	34	28	13	4	1	1	42	—	—	123			
Below 620	11	11	6	3	1	—	19	—	—	51			
Data not available	46	1	—	—	—	—	3	—	2	52			
Total other consumer	\$ 361	\$ 247	\$ 123	\$ 42	\$ 10	\$ 5	\$ 233	\$ —	\$ 2	\$ 1,023			
Total consumer loans	\$ 7,588	\$ 3,680	\$ 2,510	\$ 2,142	\$ 2,180	\$ 5,016	\$ 5,904	\$ 76	\$ 332	\$ 29,428			
Total Loans	\$ 23,532	\$ 13,322	\$ 9,190	\$ 5,618	\$ 3,912	\$ 8,685	\$ 20,657	\$ 76	\$ 274	\$ 85,266			

(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.

(2) Commercial and industrial lending includes PPP lending in the 2020 and 2021 vintage years.

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 September 30, 2021 and December 31, 2020. Loans on non-accrual status with no related allowance included \$150 million and \$112 million of commercial and industrial loans as of September 30, 2021 and December 31, 2020, respectively. Non-accrual loans with no related allowance typically include loans where the underlying collateral is deemed sufficient to recover all remaining principal. Loans that have been fully charged-off do not appear in the tables below.

	September 30, 2021							
	Accrual Loans							
	30-59 DPD	60-89 DPD	90+ DPD	Total 30+ DPD	Total Accrual	Non-accrual	Total	
	(In millions)							
Commercial and industrial	\$ 26	\$ 8	\$ 3	\$ 37	\$ 41,389	\$ 359	\$ 41,748	
Commercial real estate mortgage—owner-occupied	5	2	2	9	5,378	68	5,446	
Commercial real estate construction—owner-occupied	—	1	—	1	241	11	252	
Total commercial	31	11	5	47	47,008	438	47,446	
Commercial investor real estate mortgage	—	—	—	—	5,604	4	5,608	
Commercial investor real estate construction	—	—	—	—	1,704	—	1,704	
Total investor real estate	—	—	—	—	7,308	4	7,312	
Residential first mortgage	71	29	112	212	17,310	37	17,347	
Home equity lines	17	5	20	42	3,831	44	3,875	
Home equity loans	6	4	13	23	2,549	7	2,556	
Indirect—vehicles	6	2	2	10	500	—	500	
Indirect—other consumer	7	4	3	14	2,123	—	2,123	
Consumer credit card	7	5	11	23	1,136	—	1,136	
Other consumer	11	1	2	14	975	—	975	
Total consumer	125	50	163	338	28,424	88	28,512	
	\$ 156	\$ 61	\$ 168	\$ 385	\$ 82,740	\$ 530	\$ 83,270	

December 31, 2020

	Accrual Loans				Total Accrual	Non-accrual	Total
	30-59 DPD	60-89 DPD	90+ DPD	Total 30+ DPD (In millions)			
Commercial and industrial	\$ 37	\$ 22	\$ 7	\$ 66	\$ 42,452	\$ 418	\$ 42,870
Commercial real estate mortgage—owner-occupied	4	1	1	6	5,308	97	5,405
Commercial real estate construction—owner-occupied	1	—	—	1	291	9	300
Total commercial	42	23	8	73	48,051	524	48,575
Commercial investor real estate mortgage	3	—	—	3	5,280	114	5,394
Commercial investor real estate construction	—	—	—	—	1,869	—	1,869
Total investor real estate	3	—	—	3	7,149	114	7,263
Residential first mortgage	104	41	156	301	16,522	53	16,575
Home equity lines	24	11	19	54	4,493	46	4,539
Home equity loans	10	7	13	30	2,705	8	2,713
Indirect—vehicles	15	4	4	23	934	—	934
Indirect—other consumer	12	8	5	25	2,431	—	2,431
Consumer credit card	8	6	14	28	1,213	—	1,213
Other consumer	12	3	2	17	1,023	—	1,023
Total consumer	185	80	213	478	29,321	107	29,428
	\$ 230	\$ 103	\$ 221	\$ 554	\$ 84,521	\$ 745	\$ 85,266

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 1 "Summary of Significant Accounting Policies" and Note 6 "Allowance for Credit Losses" in the Annual Report on Form 10-K for the year ended December 31, 2020 for additional information regarding the Company's TDRs, including their impact on the allowance and designation of TDRs in periods subsequent to the modification.

As provided in the Consolidated Appropriations Act passed into law on December 27, 2020, which extended initial guidance provided in the CARES Act, certain loan modifications related to the COVID-19 pandemic beginning March 1, 2020 through the earlier of 60 days after the end of the pandemic or January 1, 2022 are eligible for relief from TDR classification. Regions elected this provision; therefore, modified loans that met the required guidelines for relief are not considered TDRs and are excluded from the disclosures below. The Consolidated Appropriations 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 September 30, 2021 and December 31, 2020.

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.

Three Months Ended September 30, 2021			
	Number of Obligors	Recorded Investment	Financial Impact of Modifications Considered TDRs
		(Dollars in millions)	Increase in Allowance at Modification
Commercial and industrial	18	\$ 24	\$ —
Commercial real estate mortgage—owner-occupied	10	4	—
Commercial real estate construction—owner-occupied	1	1	—
Total commercial	29	29	—
Commercial investor real estate mortgage	1	1	—
Commercial investor real estate construction	—	—	—
Total investor real estate	1	1	—
Residential first mortgage	99	16	2
Home equity lines	1	—	—
Home equity loans	33	3	—
Consumer credit card	1	—	—
Indirect—vehicles and other consumer	16	1	—
Total consumer	150	20	2
	180	\$ 50	\$ 2
Three Months Ended September 30, 2020			
	Number of Obligors	Recorded Investment	Financial Impact of Modifications Considered TDRs
		(Dollars in millions)	Increase in Allowance at Modification
Commercial and industrial	26	\$ 27	\$ —
Commercial real estate mortgage—owner-occupied	7	9	—
Commercial real estate construction—owner-occupied	—	—	—
Total commercial	33	36	—
Commercial investor real estate mortgage	2	36	—
Commercial investor real estate construction	2	4	—
Total investor real estate	4	40	—
Residential first mortgage	94	32	4
Home equity lines	—	—	—
Home equity loans	9	1	—
Consumer credit card	1	—	—
Indirect—vehicles and other consumer	11	—	—
Total consumer	115	33	4
	152	\$ 109	\$ 4

Nine Months Ended September 30, 2021			
			Financial Impact of Modifications Considered TDRs
	Number of Obligors	Recorded Investment	Increase in Allowance at Modification
	(Dollars in millions)		
Commercial and industrial	59	\$ 74	\$ —
Commercial real estate mortgage—owner-occupied	24	7	—
Commercial real estate construction—owner-occupied	2	2	—
Total commercial	85	83	—
Commercial investor real estate mortgage	7	77	—
Commercial investor real estate construction	—	—	—
Total investor real estate	7	77	—
Residential first mortgage	435	77	7
Home equity lines	6	1	—
Home equity loans	40	4	—
Consumer credit card	1	—	—
Indirect—vehicles and other consumer	68	2	—
Total consumer	550	84	7
	642	\$ 244	\$ 7

Nine Months Ended September 30, 2020			
			Financial Impact of Modifications Considered TDRs
	Number of Obligors	Recorded Investment	Increase in Allowance at Modification
	(Dollars in millions)		
Commercial and industrial	119	\$ 221	\$ —
Commercial real estate mortgage—owner-occupied	17	14	—
Commercial real estate construction—owner-occupied	1	1	—
Total commercial	137	236	—
Commercial investor real estate mortgage	9	37	—
Commercial investor real estate construction	3	4	—
Total investor real estate	12	41	—
Residential first mortgage	177	43	6
Home equity lines	—	—	—
Home equity loans	36	3	—
Consumer credit card	12	—	—
Indirect—vehicles and other consumer	22	—	—
Total consumer	247	46	6
	396	\$ 323	\$ 6

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 September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
	(In millions)			
Carrying value, beginning of period	\$ 392	\$ 249	\$ 296	\$ 345
Additions	39	32	116	67
Increase (decrease) in fair value:				
Due to change in valuation inputs or assumptions	(3)	—	49	(94)
Economic amortization associated with borrower repayments ⁽¹⁾	(18)	(14)	(51)	(51)
Carrying value, end of period	<u>\$ 410</u>	<u>\$ 267</u>	<u>\$ 410</u>	<u>\$ 267</u>

(1) "Economic amortization associated with borrower repayments" includes both total loan payoffs as well as partial paydowns. Regions' MSR decay methodology is a discounted net cash flow approach.

In the nine months ended 2021 and 2020, the Company purchased the rights to service residential mortgage loans on a flow basis for approximately \$58 million and \$35 million, respectively.

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:

	September 30	
	2021	2020
	(Dollars in millions)	
Unpaid principal balance	\$ 36,370	\$ 33,740
Weighted-average CPR (%)	10.3 %	16.3 %
Estimated impact on fair value of a 10% increase	\$ (30)	\$ (22)
Estimated impact on fair value of a 20% increase	\$ (53)	\$ (40)
Option-adjusted spread (basis points)	530	621
Estimated impact on fair value of a 10% increase	\$ (9)	\$ (6)
Estimated impact on fair value of a 20% increase	\$ (18)	\$ (12)
Weighted-average coupon interest rate	3.6 %	4.0 %
Weighted-average remaining maturity (months)	294	283
Weighted-average servicing fee (basis points)	27.3	27.4

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 September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
	(In millions)		(In millions)	
Servicing related fees and other ancillary income	\$ 26	\$ 23	\$ 75	\$ 71

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 income.

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 2020 Annual Report on Form 10-K for additional information. Also see Note 11 for additional information.

The table below presents an analysis of commercial MSRs under the amortization measurement method:

	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
	(In millions)		(In millions)	
Carrying value, beginning of period	\$ 86	\$ 64	\$ 74	\$ 59
Additions	5	11	24	21
Economic amortization associated with borrower repayments ⁽¹⁾	(4)	(3)	(11)	(8)
Carrying value, end of period	<u>\$ 87</u>	<u>\$ 72</u>	<u>\$ 87</u>	<u>\$ 72</u>

(1) "Economic amortization associated with borrower repayments" includes both total loan payoffs as well as partial paydowns.

Regions periodically evaluates the commercial MSRs for impairment based on fair value. The estimated fair value of the commercial MSRs was approximately \$96 million at September 30, 2021 and \$81 million December 31, 2020.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
	(In millions)		(In millions)	
Servicing related fees and other ancillary income	\$ 8	\$ 4	\$ 18	\$ 14

NOTE 5. SHAREHOLDERS' EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME

PREFERRED STOCK

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

								September 30, 2021	December 31, 2020
	Issuance Date	Earliest Redemption Date	Dividend Rate ⁽¹⁾	Liquidation Amount	Liquidation Preference per Share	Liquidation preference per Depositary Share	Ownership Interest per Depositary Share	Carrying Amount	Carrying Amount
	(Dollars in millions, except per share data)								
Series A ⁽²⁾	11/1/2012	12/15/2017	6.375 %	\$ —	\$ 1,000	\$ 25	1/40th	\$ —	\$ 387
Series B	4/29/2014	9/15/2024	6.375 % ⁽³⁾	500	1,000	25	1/40th	433	433
Series C	4/30/2019	5/15/2029	5.700 % ⁽⁴⁾	500	1,000	25	1/40th	490	490
Series D	6/5/2020	9/15/2025	5.750 % ⁽⁵⁾	350	100,000	1,000	1/100th	346	346
Series E	5/4/2021	6/15/2026	4.450 %	400	1,000	25	1/40th	390	—
				\$ 1,750				\$ 1,659	\$ 1,656

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

(2) The shares were fully redeemed on June 15, 2021.

(3) 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%.

(4) 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%.

(5) 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%.

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, at any time following a regulatory capital treatment event for the Series B, Series C, Series D, and Series E preferred stock.

Regions completed the issuance of Series E preferred stock during the second quarter of 2021. The Company incurred \$10 million of issuance costs associated with the transaction. The Company began paying quarterly dividends on September 15, 2021. The Series A preferred stock was redeemed in the second quarter of 2021.

The Board declared a total of \$62 million and \$69 million in cash dividends on Series A, Series B, and Series C preferred stock during the first nine months of 2021 and 2020, respectively. The Board declared \$15 million in cash dividends on Series D preferred stock during the first nine months of 2021; the initial quarterly dividend for Series D was declared in the third quarter of 2020 for \$6 million. The initial quarterly dividend of \$7 million for the Series E preferred stock was declared in the third quarter of 2021. Therefore, a total of \$84 million in cash dividends on total preferred stock was declared in the first nine months of 2021 compared to the total of \$75 million in cash dividends on total preferred stock for the same period in 2020.

In the event Series B, Series C, Series D or Series E preferred shares are redeemed at the liquidation amounts, \$67 million, \$10 million, \$4 million, or \$10 million in excess of the redemption amount over the carrying amount will be recognized, respectively. 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 common shareholders' equity. The remaining amounts listed represent issuance costs that were recorded as reductions to preferred stock, including related surplus, and will be recorded as reductions to net income available to common shareholders.

COMMON STOCK

Regions was not required to participate in the 2021 CCAR; the Company chose to participate in part to have the Federal Reserve re-evaluate Regions' SCB. Regions received the results of the voluntary test on June 28, 2021. The Federal Reserve communicated that the Company exceeded all minimum capital levels under the Federal Reserve's Supervisory Stress Test. Effective October 1, 2021, Regions' preliminary SCB requirement for the fourth quarter of 2021 through the third quarter of 2022 will be floored at 2.5 percent.

As part of the Company's capital plan, on April 21, 2021, the Board authorized the repurchase of up to \$2.5 billion of the Company's common stock, permitting purchases from the second quarter of 2021 through the first quarter of 2022. In the second quarter of 2021, Regions repurchased approximately 8.0 million shares of common stock under this plan which reduced shareholders' equity by \$167 million. Included in these share repurchases were approximately 1.0 million shares that were repurchased as part of the amendment to the Company's deferred investment plan for its directors. All of these shares were immediately retired upon repurchase and therefore, were not be included in treasury stock. The Company did not repurchase shares in either the first or third quarters of 2021 or throughout 2020.

During 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. This mandate was subsequently extended through the second quarter of 2021, but was lifted in the third quarter of 2021. The Board approved a common stock increase to \$0.17 per share for the third quarter of 2021. Prior to the common stock increase, Regions declared \$0.155 per share in dividends for both the first six months of 2021 and the first nine months of 2020. Therefore, Regions declared a total of \$0.48 per common share for the first nine months of 2021 compared to a total of \$0.465 per common share for the first nine months of 2020.

ACCUMULATED OTHER COMPREHENSIVE INCOME

The following tables present the balances and activity in AOCI on a pre-tax and net of tax basis for the three and nine months ended September 30, 2021 and 2020:

	Three Months Ended September 30, 2021		
	Pre-tax AOCI Activity	Tax Effect ⁽¹⁾	Net AOCI Activity
	(In millions)		
Total accumulated other comprehensive income (loss), beginning of period	\$ 871	\$ (220)	\$ 651
Unrealized losses on securities transferred to held to maturity:			
Beginning balance	\$ (17)	\$ 4	\$ (13)
Reclassification adjustments for amortization of unrealized losses ⁽²⁾	2	—	2
Ending balance	\$ (15)	\$ 4	\$ (11)
Unrealized gains (losses) on securities available for sale:			
Beginning balance	\$ 606	\$ (153)	\$ 453
Unrealized gains (losses) arising during the period	(99)	24	(75)
Reclassification adjustments for securities (gains) losses realized in net income ⁽³⁾	(1)	1	—
Change in AOCI from securities available for sale activity in the period	(100)	25	(75)
Ending balance	\$ 506	\$ (128)	\$ 378
Unrealized gains (losses) on derivative instruments designated as cash flow hedges:			
Beginning balance	\$ 1,147	\$ (289)	\$ 858
Unrealized holding gains (losses) on derivatives arising during the period	24	(6)	18
Reclassification adjustments for (gains) losses realized in net income ⁽²⁾	(108)	27	(81)
Change in AOCI from derivative activity in the period	(84)	21	(63)
Ending balance	\$ 1,063	\$ (268)	\$ 795
Defined benefit pension plans and other post employment benefit plans:			
Beginning balance	\$ (865)	\$ 218	\$ (647)
Reclassification adjustments for amortization of actuarial gains (losses) and settlements realized in net income ⁽⁴⁾	21	(4)	17
Ending balance	\$ (844)	\$ 214	\$ (630)
Total other comprehensive income (loss)	(161)	42	(119)
Total accumulated other comprehensive income (loss), end of period	\$ 710	\$ (178)	\$ 532

	Three Months Ended September 30, 2020		
	Pre-tax AOCI Activity	Tax Effect ⁽¹⁾	Net AOCI Activity
	(In millions)		
Total accumulated other comprehensive income (loss), beginning of period	\$ 2,174	\$ (548)	\$ 1,626
Unrealized losses on securities transferred to held to maturity:			
Beginning balance	\$ (27)	\$ 7	\$ (20)
Reclassification adjustments for amortization of unrealized losses ⁽²⁾	4	(2)	2
Ending balance	\$ (23)	\$ 5	\$ (18)
Unrealized gains (losses) on securities available for sale:			
Beginning balance	\$ 1,116	\$ (281)	\$ 835
Unrealized gains (losses) arising during the period	(2)	—	(2)
Reclassification adjustments for securities (gains) losses realized in net income ⁽³⁾	(3)	1	(2)
Change in AOCI from securities available for sale activity in the period	(5)	1	(4)
Ending balance	\$ 1,111	\$ (280)	\$ 831
Unrealized gains (losses) on derivative instruments designated as cash flow hedges:			
Beginning balance	\$ 1,857	\$ (468)	\$ 1,389
Unrealized holding gains (losses) on derivatives arising during the period	2	—	2
Reclassification adjustments for (gains) losses realized in net income ⁽²⁾	(94)	24	(70)
Change in AOCI from derivative activity in the period	(92)	24	(68)
Ending balance	\$ 1,765	\$ (444)	\$ 1,321
Defined benefit pension plans and other post employment benefit plans:			
Beginning balance	\$ (772)	\$ 194	\$ (578)
Reclassification adjustments for amortization of actuarial gains (losses) and settlements realized in net income ⁽⁴⁾	11	(2)	9
Ending balance	\$ (761)	\$ 192	\$ (569)
Total other comprehensive income (loss)	(82)	21	(61)
Total accumulated other comprehensive income (loss), end of period	\$ 2,092	\$ (527)	\$ 1,565

	Nine Months Ended September 30, 2021		
	Pre-tax AOCI Activity	Tax Effect ⁽¹⁾ (In millions)	Net AOCI Activity
Total accumulated other comprehensive income (loss), beginning of period	\$ 1,759	\$ (444)	\$ 1,315
Unrealized losses on securities transferred to held to maturity:			
Beginning balance	\$ (21)	\$ 5	\$ (16)
Reclassification adjustments for amortization of unrealized losses ⁽²⁾	6	(1)	5
Ending balance	\$ (15)	\$ 4	\$ (11)
Unrealized gains (losses) on securities available for sale:			
Beginning balance	\$ 1,062	\$ (268)	\$ 794
Unrealized gains (losses) arising during the period	(553)	139	(414)
Reclassification adjustments for securities (gains) losses realized in net income ⁽³⁾	(3)	1	(2)
Change in AOCI from securities available for sale activity in the period	(556)	140	(416)
Ending balance	\$ 506	\$ (128)	\$ 378
Unrealized gains (losses) on derivative instruments designated as cash flow hedges:			
Beginning balance	\$ 1,610	\$ (406)	\$ 1,204
Unrealized holding gains (losses) on active hedges arising during the period	(233)	59	(174)
Reclassification adjustments for (gains) losses realized in net income ⁽²⁾	(314)	79	(235)
Change in AOCI from derivative activity in the period	(547)	138	(409)
Ending balance	\$ 1,063	\$ (268)	\$ 795
Defined benefit pension plans and other post employment benefit plans:			
Beginning balance	\$ (892)	\$ 225	\$ (667)
Reclassification adjustments for amortization of actuarial gains (losses) and settlements realized in net income ⁽⁴⁾	48	(11)	37
Ending balance	\$ (844)	\$ 214	\$ (630)
Total other comprehensive income (loss)	(1,049)	266	(783)
Total accumulated other comprehensive income (loss), end of period	\$ 710	\$ (178)	\$ 532

Nine Months Ended September 30, 2020			
	Pre-tax AOCI Activity	Tax Effect ⁽¹⁾	Net AOCI Activity
	(In millions)		
Total accumulated other comprehensive income (loss), beginning of period	\$ (120)	\$ 30	\$ (90)
Unrealized losses on securities transferred to held to maturity:			
Beginning balance	\$ (29)	\$ 7	\$ (22)
Reclassification adjustments for amortization of unrealized losses ⁽²⁾	6	(2)	4
Ending balance	\$ (23)	\$ 5	\$ (18)
Unrealized gains (losses) on securities available for sale:			
Beginning balance	\$ 274	\$ (69)	\$ 205
Unrealized gains (losses) arising during the period	841	(212)	629
Reclassification adjustments for securities (gains) losses realized in net income ⁽³⁾	(4)	1	(3)
Change in AOCI from securities available for sale activity in the period	837	(211)	626
Ending balance	\$ 1,111	\$ (280)	\$ 831
Unrealized gains (losses) on derivative instruments designated as cash flow hedges:			
Beginning balance	\$ 430	\$ (108)	\$ 322
Unrealized holding gains (losses) on derivatives arising during the period	1,498	(377)	1,121
Reclassification adjustments for (gains) losses realized in net income ⁽²⁾	(163)	41	(122)
Change in AOCI from derivative activity in the period	1,335	(336)	999
Ending balance	\$ 1,765	\$ (444)	\$ 1,321
Defined benefit pension plans and other post employment benefit plans:			
Beginning balance	\$ (795)	\$ 200	\$ (595)
Amounts reclassified for amortization of actuarial gains (losses) and settlements realized in net income ⁽⁴⁾	34	(8)	26
Ending balance	\$ (761)	\$ 192	\$ (569)
Total other comprehensive income	2,212	(557)	1,655
Total accumulated other comprehensive income, end of period	\$ 2,092	\$ (527)	\$ 1,565

- (1) The impact of all AOCI activity is shown net of the related tax impact, calculated using an effective tax rate of approximately 25%.
- (2) Reclassification amount is recognized in net interest income in the consolidated statements of income.
- (3) Reclassification amount is recognized in securities gains (losses), net in the consolidated statements of income.
- (4) Reclassification amount is recognized in other non-interest expense in the consolidated statements of income. Additionally, these accumulated other comprehensive income (loss) components are included in the computation of net periodic pension cost (see Note 7 for additional details).

NOTE 6. EARNINGS PER COMMON SHARE

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
	(In millions, except per share amounts)			
Numerator:				
Net income	\$ 651	\$ 530	\$ 2,083	\$ 478
Preferred stock dividends and other ⁽¹⁾	(27)	(29)	(97)	(75)
Net income available to common shareholders	<u>\$ 624</u>	<u>\$ 501</u>	<u>\$ 1,986</u>	<u>\$ 403</u>
Denominator:				
Weighted-average common shares outstanding—basic	955	960	958	959
Potential common shares	<u>7</u>	<u>2</u>	<u>7</u>	<u>2</u>
Weighted-average common shares outstanding—diluted	<u>962</u>	<u>962</u>	<u>965</u>	<u>961</u>
Earnings per common share:				
Basic	\$ 0.65	\$ 0.52	\$ 2.07	\$ 0.42
Diluted	0.65	0.52	2.06	0.42

(1) Preferred stock dividends and other for the nine months ended September 30, 2021 includes \$13 million of issuance costs associated with the redemption of Series A preferred shares in the second quarter of 2021.

The effects from the assumed exercise of 4 million in restricted stock units and awards and performance stock units for both the three months and nine months ended September 30, 2021 was 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. The effects from the assumed exercise of 9 million and 8 million in stock options, restricted stock unit and awards and performance stock units for the three and nine months ended September 30, 2020, 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 share.

NOTE 7. 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 September 30					
	2021	2020	2021	2020	2021	2020
	(In millions)					
Service cost	\$ 9	\$ 9	\$ —	\$ 2	\$ 9	\$ 11
Interest cost	12	17	—	1	12	18
Expected return on plan assets	(35)	(37)	—	—	(35)	(37)
Amortization of actuarial loss	12	9	1	2	13	11
Settlement charge	—	—	8	—	8	—
Net periodic pension cost (credit)	<u>\$ (2)</u>	<u>\$ (2)</u>	<u>\$ 9</u>	<u>\$ 5</u>	<u>\$ 7</u>	<u>\$ 3</u>

	Qualified Plans		Non-qualified Plans		Total	
	Nine Months Ended September 30					
	2021	2020	2021	2020	2021	2020
	(In millions)					
Service cost	\$ 28	\$ 26	\$ 3	\$ 4	\$ 31	\$ 30
Interest cost	36	49	1	3	37	52
Expected return on plan assets	(106)	(112)	—	—	(106)	(112)
Amortization of actuarial loss	35	29	5	5	40	34
Settlement charge	—	—	8	—	8	—
Net periodic pension cost (credit)	<u>\$ (7)</u>	<u>\$ (8)</u>	<u>\$ 17</u>	<u>\$ 12</u>	<u>\$ 10</u>	<u>\$ 4</u>

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

The settlement charge relates to the settlement of liabilities under the SERP for certain plan participants in 2021.

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 nine months of 2021.

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 nine months ended September 30, 2021 or 2020.

NOTE 8. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

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

	September 30, 2021			December 31, 2020		
	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	\$ 1,400	\$ —	\$ 19	\$ 2,100	\$ 77	\$ —
Derivatives in cash flow hedging relationships:						
Interest rate swaps ⁽²⁾	17,000	260	1	16,000	1,181	—
Interest rate floors ⁽³⁾⁽⁴⁾	3,500	178	—	5,750	430	—
Total derivatives in cash flow hedging relationships	20,500	438	1	21,750	1,611	—
Total derivatives designated as hedging instruments	<u>\$ 21,900</u>	<u>\$ 438</u>	<u>\$ 20</u>	<u>\$ 23,850</u>	<u>\$ 1,688</u>	<u>\$ —</u>
Derivatives not designated as hedging instruments:						
Interest rate swaps	\$ 79,155	\$ 911	\$ 953	\$ 76,764	\$ 1,492	\$ 1,464
Interest rate options	15,329	54	20	13,806	90	28
Interest rate futures and forward commitments	3,040	13	5	4,270	11	26
Other contracts	9,415	216	217	9,924	68	80
Total derivatives not designated as hedging instruments	<u>\$ 106,939</u>	<u>\$ 1,194</u>	<u>\$ 1,195</u>	<u>\$ 104,764</u>	<u>\$ 1,661</u>	<u>\$ 1,598</u>
Total derivatives	<u>\$ 128,839</u>	<u>\$ 1,632</u>	<u>\$ 1,215</u>	<u>\$ 128,614</u>	<u>\$ 3,349</u>	<u>\$ 1,598</u>
Total gross derivative instruments, before netting		\$ 1,632	\$ 1,215		\$ 3,349	\$ 1,598
Less: Netting adjustments ⁽⁵⁾		991	1,159		2,428	1,545
Total gross derivative instruments, after netting ⁽⁶⁾		<u>\$ 641</u>	<u>\$ 56</u>		<u>\$ 921</u>	<u>\$ 53</u>

(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) Includes accrued interest of \$12 million at September 30, 2021 and \$28 million at December 31, 2020, respectively.

(3) Includes accrued interest of \$9 million at September 30, 2021 and \$12 million at December 31, 2020, respectively.

(4) Estimated fair value includes premium of approximately \$41 million as of September 30, 2021 and \$83 million as of December 31, 2020 to be amortized over the remaining life. Approximately \$32 million of the decrease since December 31, 2020 related to hedges that were terminated during the first nine months of 2021 and were not amortized into earnings as of the date of termination.

(5) Netting adjustments represent amounts recorded to convert derivative assets and derivative liabilities from a gross basis to a net basis in accordance with applicable accounting guidance. The net basis takes into account the impact of cash collateral received or posted, legally enforceable master netting agreements, and variation margin that allow Regions to settle derivative contracts with the counterparty on a net basis and to offset the net position with the related cash collateral.

(6) 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 September 30, 2021 and December 31, 2020, financial instruments posted of \$24 million, for both periods, 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, 2020, 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. As of September 30, 2021, Regions is hedging its exposure to the variability in future cash flows for forecasted transactions through 2025.

During the nine months ended September 30, 2021, the Company terminated \$2.3 billion in notional of floor hedges. During the three and nine months ended September 30, 2021, the Company terminated \$5.0 billion and \$10.6 billion, respectively, in notional of cash flow swap hedges. The following table presents the pre-tax impact of terminated cash flow hedges on AOCI. The balance of terminated cash flow hedges in AOCI will be amortized into earnings through 2026.

	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
	(In millions)			
Unrealized gains on terminated hedges included in AOCI- Beginning	\$ 494	\$ 68	\$ 121	\$ 78
Unrealized gains on terminated hedges arising during the period	243	62	658	56
Reclassification adjustments for amortization of unrealized (gains) into net income	(49)	(3)	(91)	(7)
Unrealized gains on terminated hedges included in AOCI-Ending	<u>\$ 688</u>	<u>\$ 127</u>	<u>\$ 688</u>	<u>\$ 127</u>

Regions expects to reclassify into earnings approximately \$341 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 \$259 million in pre-tax net gains related to the amortization of discontinued cash flow hedges.

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

	Three Months Ended September 30, 2021	
	Interest Income	Interest Expense
	Loans, Including Fees	Long-term Borrowings
	(In millions)	
Total amounts presented in the consolidated statements of income	\$ 847	\$ 26
Gains/(losses) on fair value hedging relationships:		
Interest rate contracts:		
Amounts related to interest settlements on derivatives	\$ —	\$ 3
Recognized on derivatives	—	(11)
Recognized on hedged items	—	11
Net income recognized on fair value hedges	<u>\$ —</u>	<u>\$ 3</u>
Gains/(losses) on cash flow hedging relationships: ⁽¹⁾		
Interest rate contracts:		
Realized gains (losses) reclassified from AOCI into net income ⁽²⁾	\$ 108	\$ —
Income (expense) recognized on cash flow hedges	<u>\$ 108</u>	<u>\$ —</u>

	Three Months Ended September 30, 2020	
	Interest Income	Interest Expense
	Loans, Including Fees	Long-term Borrowings
	(In millions)	
Total amounts presented in the consolidated statements of income	\$ 903	\$ 39
Gains/(losses) on fair value hedging relationships:		
Interest rate contracts:		
Amounts related to interest settlements on derivatives	\$ —	\$ 12
Recognized on derivatives	—	(12)
Recognized on hedged items	—	12
Net income recognized on fair value hedges	\$ —	\$ 12
Gains/(losses) on cash flow hedging relationships: ⁽¹⁾		
Interest rate contracts:		
Realized gains (losses) reclassified from AOCI into net income ⁽²⁾	\$ 94	\$ —
Income (expense) recognized on cash flow hedges	\$ 94	\$ —
	Nine Months Ended September 30, 2021	
	Interest Income	Interest Expense
	Loans, Including Fees	Long-term Borrowings
	(In millions)	
Total amounts presented in the consolidated statements of income	\$ 2,550	\$ 79
Gains/(losses) on fair value hedging relationships:		
Interest rate contracts:		
Amounts related to interest settlements on derivatives	\$ —	\$ 17
Recognized on derivatives	—	(37)
Recognized on hedged items	—	37
Income (expense) recognized on fair value hedges	\$ —	\$ 17
Gains/(losses) on cash flow hedging relationships: ⁽¹⁾		
Interest rate contracts:		
Realized gains (losses) reclassified from AOCI into net income ⁽²⁾	\$ 314	\$ —
Income (expense) recognized on cash flow hedges	\$ 314	\$ —
	Nine Months Ended September 30, 2020	
	Interest Income	Interest Expense
	Loans, Including Fees	Long-term Borrowings
	(In millions)	
Total amounts presented in the consolidated statements of income	\$ 2,704	\$ 147
Gains/(losses) on fair value hedging relationships:		
Interest rate contracts:		
Amounts related to interest settlements on derivatives	\$ —	\$ 27
Recognized on derivatives	—	65
Recognized on hedged items	—	(65)
Income (expense) recognized on fair value hedges	\$ —	\$ 27
Gains/(losses) on cash flow hedging relationships: ⁽¹⁾		
Interest rate contracts:		
Realized gains (losses) reclassified from AOCI into net income ⁽²⁾	\$ 163	\$ —
Income (expense) recognized on cash flow hedges	\$ 163	\$ —

(1) See Note 5 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.

	September 30, 2021		December 31, 2020	
	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)				
Long-term borrowings	\$ (1,376)	\$ 21	\$ (2,171)	\$ (64)

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 September 30, 2021 and December 31, 2020, Regions had \$695 million and \$924 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 September 30, 2021 and December 31, 2020, Regions had \$1.4 billion and \$1.9 billion, 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 income. As of September 30, 2021 and December 31, 2020, the total notional amount related to these contracts was \$4.3 billion and \$4.1 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 income for the periods presented below:

Derivatives Not Designated as Hedging Instruments	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
(In millions)				
Capital markets income:				
Interest rate swaps	\$ 5	\$ 15	\$ 25	\$ 7
Interest rate options	8	(1)	25	31
Interest rate futures and forward commitments	2	4	14	11
Other contracts	1	2	8	2
Total capital markets income	16	20	72	51
Mortgage income:				
Interest rate swaps	(8)	(6)	(46)	98
Interest rate options	(9)	12	(24)	38
Interest rate futures and forward commitments	6	11	17	12
Total mortgage income	(11)	17	(53)	148
	\$ 5	\$ 37	\$ 19	\$ 199

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 2022 and 2029. Swap participations, whereby Regions has sold credit protection have maturities between 2021 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 September 30, 2021 was approximately \$476 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 September 30, 2021 and 2020 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 September 30, 2021 and December 31, 2020, were \$109 million and \$74 million, respectively, for which Regions had posted collateral of \$108 million and \$74 million, respectively, in the normal course of business.

NOTE 9. 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, 2020 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:

	September 30, 2021				December 31, 2020			
	Level 1	Level 2	Level 3 ⁽¹⁾	Total Estimated Fair Value	Level 1	Level 2	Level 3 ⁽¹⁾	Total Estimated Fair Value
(In millions)								
Recurring fair value measurements								
Debt securities available for sale:								
U.S. Treasury securities	\$ 784	\$ —	\$ —	\$ 784	\$ 183	\$ —	\$ —	\$ 183
Federal agency securities	—	97	—	97	—	105	—	105
Mortgage-backed securities (MBS):								
Residential agency	—	19,685	—	19,685	—	19,076	—	19,076
Residential non-agency	—	—	1	1	—	—	1	1
Commercial agency	—	6,385	—	6,385	—	5,999	—	5,999
Commercial non-agency	—	564	—	564	—	586	—	586
Corporate and other debt securities	—	1,469	1	1,470	—	1,200	4	1,204
Total debt securities available for sale	\$ 784	\$ 28,200	\$ 2	\$ 28,986	\$ 183	\$ 26,966	\$ 5	\$ 27,154
Loans held for sale	\$ —	\$ 857	\$ —	\$ 857	\$ —	\$ 1,446	\$ —	\$ 1,446
Marketable equity securities	\$ 507	\$ —	\$ —	\$ 507	\$ 388	\$ —	\$ —	\$ 388
Residential mortgage servicing rights	\$ —	\$ —	\$ 410	\$ 410	\$ —	\$ —	\$ 296	\$ 296
Derivative assets ⁽²⁾ :								
Interest rate swaps	\$ —	\$ 1,171	\$ —	\$ 1,171	\$ —	\$ 2,750	\$ —	\$ 2,750
Interest rate options	—	212	20	232	—	477	43	520
Interest rate futures and forward commitments	—	13	—	13	—	11	—	11
Other contracts	—	216	—	216	2	65	1	68
Total derivative assets	\$ —	\$ 1,612	\$ 20	\$ 1,632	\$ 2	\$ 3,303	\$ 44	\$ 3,349
Equity investments	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 74	\$ —	\$ 74
Derivative liabilities ⁽²⁾ :								
Interest rate swaps	\$ —	\$ 973	\$ —	\$ 973	\$ —	\$ 1,464	\$ —	\$ 1,464
Interest rate options	—	20	—	20	—	28	—	28
Interest rate futures and forward commitments	—	5	—	5	—	26	—	26
Other contracts	—	214	3	217	2	72	6	80
Total derivative liabilities	\$ —	\$ 1,212	\$ 3	\$ 1,215	\$ 2	\$ 1,590	\$ 6	\$ 1,598
Non-recurring fair value measurements⁽³⁾								
Loans held for sale	\$ —	\$ —	\$ 9	\$ 9	\$ —	\$ —	\$ 4	\$ 4
Equity investments without a readily determinable fair value	—	—	25	25	—	—	12	12
Foreclosed property and other real estate	—	—	10	10	—	—	5	5

(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.

(3) From time to time, certain assets may be recorded at fair value on a non-recurring basis, and the related fair value adjustments disclosed are typically a result of the application of lower of cost or fair value accounting or a write-down occurring during the periods indicated.

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 nine months ended September 30, 2021 and 2020, respectively.

	Residential mortgage servicing rights			
	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
	(In millions)			
Carrying value, beginning of period	\$ 392	\$ 249	\$ 296	\$ 345
Total realized/unrealized gains (losses) included in earnings ⁽¹⁾	(21)	(14)	(2)	(145)
Additions	39	32	116	67
Carrying value, end of period	<u>\$ 410</u>	<u>\$ 267</u>	<u>\$ 410</u>	<u>\$ 267</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 September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
	(In millions)			
Loans held for sale	\$ (1)	\$ (1)	\$ (1)	\$ (6)
Equity investments without a readily determinable fair value	13	—	14	(3)
Foreclosed property and other real estate	(4)	(3)	(4)	(13)

The following tables present detailed information regarding material assets and liabilities measured at fair value using significant unobservable inputs (Level 3) as of September 30, 2021, and December 31, 2020. 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 September 30, 2021, and December 31, 2020, are included. Following the tables are descriptions of the valuation techniques and the sensitivity of the techniques to changes in the significant unobservable inputs.

	September 30, 2021			
	Level 3 Estimated Fair Value at September 30, 2021	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⁾	\$410	Discounted cash flow	Weighted-average CPR (%)	6.9% - 21.3% (10.3%)
			OAS (%)	4.2% - 9.6% (5.3%)

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

December 31, 2020				
Level 3 Estimated Fair Value at December 31, 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⁾	\$296	Discounted cash flow	Weighted-average CPR (%)	8.1% - 31.2% (15.6%)
			OAS (%)	4.8% - 9.5% (5.6%)

(1) See Note 7 to the consolidated financial statements of the Annual Report on Form 10-K for the year ended December 31, 2020 for additional disclosures related to assumptions used in the fair value calculation for 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 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 first 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 Company also elected to measure certain commercial loans held for sale at fair value, as these loans are actively traded in the secondary market. The Company is able to obtain fair value estimates for substantially all of these loans through a third party valuation service that is broadly used by market participants. While most of the loans are traded in the market, the volume and level of trading activity is subject to variability and the loans are not exchange-traded. The balance of commercial loans held for sale was immaterial at September 30, 2021 and December 31, 2020.

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

	September 30, 2021			December 31, 2020		
	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)					
Residential first mortgage loans held for sale, at fair value	\$ 848	\$ 822	\$ 26	\$ 1,439	\$ 1,362	\$ 77

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 income. 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 income during the three and nine months ended September 30, 2021 and 2020. 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 September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
	(In millions)			
Net gains (losses) resulting for the change in fair value of mortgage loans held for sale	\$ (10)	\$ 7	\$ (50)	\$ 37

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 September 30, 2021 are as follows:

	September 30, 2021				
	Carrying Amount	Estimated Fair Value ⁽¹⁾	Level 1	Level 2	Level 3
	(In millions)				
Financial assets:					
Cash and cash equivalents	\$ 27,507	\$ 27,507	\$ 27,507	\$ —	\$ —
Debt securities held to maturity	945	1,010	—	1,010	—
Debt securities available for sale	28,986	28,986	784	28,200	2
Loans held for sale	934	934	—	925	9
Loans (excluding leases), net of unearned income and allowance for loan losses ⁽²⁾⁽³⁾	80,403	80,800	—	—	80,800
Other earning assets ⁽⁴⁾	1,149	1,149	507	642	—
Derivative assets	1,632	1,632	—	1,612	20
Financial liabilities:					
Derivative liabilities	1,215	1,215	—	1,212	3
Deposits	132,039	132,046	—	132,046	—
Long-term borrowings	2,451	2,917	—	2,886	31
Loan commitments and letters of credit	102	102	—	—	102

- (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 premium on the loan portfolio's net carrying amount at September 30, 2021 was \$397 million or 0.5 percent.
- (3) Excluded from this table is the sales-type, direct financing, and leveraged lease carrying amount of \$1.4 billion at September 30, 2021.
- (4) Excluded from this table is the operating lease carrying amount of \$120 million at September 30, 2021.

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, 2020 are as follows:

	December 31, 2020				
	Carrying Amount	Estimated Fair Value ⁽¹⁾	Level 1	Level 2	Level 3
			(In millions)		
Financial assets:					
Cash and cash equivalents	\$ 17,956	\$ 17,956	\$ 17,956	\$ —	\$ —
Debt securities held to maturity	1,122	1,215	—	1,215	—
Debt securities available for sale	27,154	27,154	183	26,966	5
Loans held for sale	1,905	1,905	—	1,901	4
Loans (excluding leases), net of unearned income and allowance for loan losses ⁽²⁾⁽³⁾	81,597	82,773	—	—	82,773
Other earning assets ⁽⁴⁾	1,017	1,017	388	629	—
Derivative assets	3,349	3,349	2	3,303	44
Equity investments	74	74	—	74	—
Financial liabilities:					
Derivative liabilities	1,598	1,598	2	1,590	6
Deposits	122,479	122,511	—	122,511	—
Long-term borrowings	3,569	4,063	—	3,592	471
Loan commitments and letters of credit	151	151	—	—	151

- (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 premium on the loan portfolio's net carrying amount at December 31, 2020 was \$1.2 billion or 1.4 percent.
- (3) Excluded from this table is the sales-type, direct financing, and leveraged lease carrying amount of \$1.5 billion at December 31, 2020.
- (4) Excluded from this table is the operating lease carrying amount of \$200 million at December 31, 2020.

NOTE 10. 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, 2020.

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. Accordingly, the prior period was updated to reflect these enhancements. In the first quarter of 2021, the net interest income allocation methodology was enhanced. All net interest income including the FTP offset, activities of the treasury function, securities portfolio and interest rate risk activities is allocated to the three reporting segments.

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

Three Months Ended September 30, 2021					
	Corporate Bank	Consumer Bank	Wealth Management	Other	Consolidated
	(In millions)				
Net interest income	\$ 444	\$ 486	\$ 35	\$ —	\$ 965
Provision for (benefit from) credit losses	75	58	2	(290)	(155)
Non-interest income	208	307	96	38	649
Non-interest expense	274	531	98	35	938
Income before income taxes	303	204	31	293	831
Income tax expense	76	51	8	45	180
Net income	227	153	23	248	651
Average assets	\$ 58,644	\$ 33,003	\$ 2,030	\$ 61,953	\$ 155,630

Three Months Ended September 30, 2020					
	Corporate Bank	Consumer Bank	Wealth Management	Other	Consolidated
	(In millions)				
Net interest income	\$ 445	\$ 510	\$ 33	\$ —	\$ 988
Provision for credit losses	83	71	3	(44)	113
Non-interest income	159	343	87	66	655
Non-interest expense	248	521	85	42	896
Income before income taxes	273	261	32	68	634
Income tax expense (benefit)	68	65	8	(37)	104
Net income	205	196	24	105	530
Average assets	\$ 63,464	\$ 34,570	\$ 2,014	\$ 42,797	\$ 142,845

Nine Months Ended September 30, 2021					
	Corporate Bank	Consumer Bank	Wealth Management	Other	Consolidated
	(In millions)				
Net interest income	\$ 1,321	\$ 1,471	\$ 103	\$ —	\$ 2,895
Provision for (benefit from) credit losses	230	183	8	(1,055)	(634)
Non-interest income	564	952	288	105	1,909
Non-interest expense	802	1,596	283	83	2,764
Income before income taxes	853	644	100	1,077	2,674
Income tax expense	213	161	25	192	591
Net income	640	483	75	885	2,083
Average assets	\$ 59,315	\$ 33,498	\$ 2,037	\$ 57,470	\$ 152,320

	Nine Months Ended September 30, 2020				
	Corporate Bank	Consumer Bank	Wealth Management	Other	Consolidated
	(In millions)				
Net interest income	\$ 1,227	\$ 1,557	\$ 104	\$ —	\$ 2,888
Provision for credit losses	210	234	9	915	1,368
Non-interest income	444	944	254	71	1,713
Non-interest expense	741	1,529	257	129	2,656
Income (loss) before income taxes	720	738	92	(973)	577
Income tax expense (benefit)	180	185	23	(289)	99
Net income (loss)	540	553	69	(684)	478
Average assets	\$ 61,374	\$ 34,531	\$ 2,028	\$ 37,905	\$ 135,838

NOTE 11. 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 is represented in unused commitments to extend credit, standby letters of credit and commercial letters of credit. Refer to Note 24 "Commitments, Contingencies and Guarantees" in the Annual Report on Form 10-K for the year ended December 31, 2020 for more information regarding these instruments.

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

	September 30, 2021	December 31, 2020
	(In millions)	
Unused commitments to extend credit	\$ 60,653	\$ 56,644
Standby letters of credit	1,783	1,742
Commercial letters of credit	52	132
Liabilities associated with standby letters of credit	31	25
Assets associated with standby letters of credit	32	25
Reserve for unfunded credit commitments	71	126

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 September 30, 2021, 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.

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. As previously disclosed, Regions is cooperating with an investigation by the CFPB into certain of Regions' overdraft practices and policies. 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 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.

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 September 30, 2021 and December 31, 2020, the Company's DUS servicing portfolio totaled approximately \$4.8 billion and \$4.5 billion, respectively. Regions' maximum quantifiable contingent liability related to its loss share guarantee was approximately \$1.6 billion and \$1.5 billion at September 30, 2021 and December 31, 2020, respectively. 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 at both September 30, 2021 and December 31, 2020. Refer to Note 1 "Summary of Significant Accounting Policies" in the Annual Report on Form 10-K for the year ended December 31, 2020, for additional information.

NOTE 12. RECENT ACCOUNTING PRONOUNCEMENTS

Standard	Description	Required Date of Adoption	Effect on Regions' financial statements or other significant matters
Standards Adopted (or partially adopted) in 2021			
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	The adoption of this guidance did not have a material impact.
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	The adoption of this guidance did not have a material impact.
ASU 2020-08, Codification Improvements to Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs	The amendments in this Update were issued to clarify that entities should reevaluate at each reporting period whether callable debt securities are within the scope of the guidance in Topic 310-20, which requires the premium on such debt securities to be amortized to the next call date.	January 1, 2021	The adoption of this guidance did not have a material impact.
ASU 2020-10, Codification Improvements	This Update was issued to make minor technical corrections and improvements to the Codification as part of an ongoing FASB project to clarify guidance and correct inconsistent application of unclear guidance. The ASU codifies in Section 50 (Disclosure) of various Codification Topics the disclosure guidance that includes an option to provide certain information either on the face of the financial statements or in notes to the financial statements that was previously codified only in Section 45 (Other Presentation Matters). It also amends various Codification Topics to clarify guidance that may have been unclear when originally codified and that has resulted in inconsistent application.	January 1, 2021	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 2021			
ASU 2021-01 Reference Rate Reform (Topic 848)	The Update was issued to clarify that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to contracts that are affected by the discounting transition. Specifically, certain provisions in Topic 848, if elected by an entity, would apply to derivative instruments that use an interest rate for margining, discounting, or contract price alignment that is modified as a result of reference rate reform. Amendments in this ASU to the expedients and exceptions in Topic 848 are included to capture the incremental consequences of the scope refinement and to tailor the existing guidance to derivative instruments affected by the discounting transition.	The Update is effective upon issuance and can be applied through December 31, 2022	The adoption of this guidance did not have a material impact.
ASU 2021-06 Presentation of Financial Statements (Topic 205), Financial Services—Depository and Lending (Topic 942), and Financial Services—Investment Companies (Topic 946)	The FASB issued this Update to amend certain guidance pursuant to SEC rulemaking, including amendments to financial disclosures about acquired and disposed businesses and updates of statistical disclosures required for banking and savings loan registrants.	The Update is effective upon issuance	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 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)	This Update simplifies accounting for convertible instruments by removing certain separation models. Additionally, it revises and clarifies guidance on the derivatives scope exception to make the exception easier to apply.	January 1, 2022	Regions is evaluating the impact upon adoption; however, the impact is not expected to be material.
ASU 2021-04, Earnings Per Share (Topic 260), Debt—Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)	The Update clarified how an issuer should account for modifications made to equity-classified written call options (i.e. a warrant to purchase the issuer's common stock). The guidance in the Update requires the issuer to treat a modification of an equity-classified warrant that does not cause the warrant to become liability-classified as an exchange of the original warrant for a new warrant. This guidance applies whether the modification is structured as an amendment to the terms and conditions of the warrant or as termination of the original warrant and issuance of a new warrant.	January 1, 2022	Regions is evaluating the impact upon adoption; however, the impact is not expected to be material.
ASU 2021-05 Leases (Topic 842): Lessors—Certain Leases with Variable Lease Payments	The Board issued this ASU to amend the lessor lease classification guidance under ASC 842. Under the amendments, a lessor must classify a lease that includes variable lease payments that do not depend on an index or rate as an operating lease if it would otherwise be classified as a sales-type or direct financing lease and would result in the recognition of a selling loss at a lease commencement. The amendments address concerns raised during the FASB's post implementation review that recognizing an immediate loss for these leases, as would otherwise be required	January 1, 2022	Regions is evaluating the impact upon adoption; however, the impact is not expected to be material.

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, 2020, 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 Regions' Annual Report on Form 10-K. See Note 1 "Basis of Presentation" and Note 12 "Recent Accounting Pronouncements" to the consolidated financial statements for further detail. The emphasis of this discussion will be on the three and nine months ended September 30, 2021 compared to the three and nine months ended September 30, 2020 for the consolidated statements of income. For the consolidated balance sheets, the emphasis of this discussion will be the balances as of September 30, 2021 compared to December 31, 2020.

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 September 30, 2021, Regions operated 1,310 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 10 "Business Segment Information" to the consolidated financial statements for more information regarding Regions' segment reporting structure.

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.

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.

On February 27, 2020, Regions announced that it had 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.

On June 8, 2021, Regions entered into an agreement to acquire EnerBank USA, a consumer lending institution specializing in home improvement lending headquartered in Salt Lake City, Utah. The transaction closed on October 1, 2021, and resulted in the addition of approximately \$3.1 billion in loans to consumers.

On October 4, 2021, Regions entered into an agreement to acquire Sabal Capital Partners, LLC, a diversified financial services firm that facilitates lending in the small-balance commercial real estate market headquartered in Irvine, California. The transaction is expected to close in the fourth quarter of 2021, subject to regulatory approval.

THIRD 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. The October 2021 baseline forecast anticipates real GDP growth of 5.5 percent in 2021, 4.6 percent in 2022, and 2.9 percent in 2023. While the downside risks posed by the COVID-19 virus have not been eliminated, they nonetheless have diminished with further progress on the vaccination front, but global supply chain and logistics bottlenecks remain a constraint on growth. Ample liquidity in the household and corporate sectors along with accommodative monetary and fiscal policy will be supportive of growth. That said, Regions expects that by mid-2023 the economy will be back on the path of growth around 2.0 percent that prevailed prior to the pandemic. As has been the case since the onset of the pandemic, there remains a heightened degree of uncertainty around economic forecasts being made at present.

The dominant theme in the economic data over recent months is the growing imbalance between the supply side of the economy and the demand side. Due to an unprecedented degree of fiscal and monetary policy support, greater numbers of people being vaccinated against the COVID-19 virus, and further easing of restrictions on economic activity, the demand side of the economy is notably robust. The supply side of the economy, however, is simply unable to keep pace. Shortages of labor and non-labor inputs and shipping bottlenecks have driven up costs to producers and acted as drags on output growth. Moreover, the extent to which they have been drawn down over recent months means inventories are no longer providing a meaningful buffer between demand and supply. The growing imbalance between demand and supply has contributed to the sharp acceleration in inflation over recent months.

Supply/demand imbalances remain evident in the labor market data. As of September, the level of nonfarm employment was 4.97 million jobs below the pre-pandemic peak, while there are over three million fewer people in the labor force than was the case prior to the pandemic. Yet, there are over ten million open jobs waiting to be filled, and it seems clear that firms would be hiring more workers if they were available. While it had been expected that labor supply constraints would begin easing in the fall months, there is little evidence thus far showing that to be the case. The supply/demand imbalance in the labor market is leading to more upward pressure on wages than would seem consistent with the remaining degree of labor market slack, with average hourly earnings rising across all broad industry groups. It should be noted, however, that with the various rounds of pandemic-related transfer payments having largely run their course, labor earnings have resumed their role as the main driver of growth in personal income.

The acceleration in the growth of labor income comes at a time when the personal saving rate remains significantly elevated, with an estimated \$2.3 trillion more in household saving than would have been the case had pre-pandemic income and saving trends been maintained. Moreover, after having fallen by \$6.26 trillion (annualized) in the second quarter of 2020, household net worth has since risen by \$31.09 trillion, reflecting higher house prices and higher equity prices. Households have also been paring down non-mortgage debt, and household debt burdens continue to hover near record-lows. As such, conditions are in place for continued growth in consumer spending over coming quarters. Residential investment is expected to be a support for real GDP growth over coming quarters, but to a lesser degree than had previously been the case. Despite mortgage interest rates remaining favorable, notably lean inventories have fueled rapid house price appreciation over the past year, thus eroding affordability. Though still notably rapid, the pace of house price appreciation has begun to moderate, and further moderation is expected through the forecast horizon.

As measured by the CPI, inflation has been at or above 5.0 percent in each month since May 2021, which is expected to remain the case into early-2022. While factors such as base effects and normalization effects that boosted inflation in the summer months have faded from the data, supply chain bottlenecks, higher shipping costs, and higher labor costs remain as sources of more persistent inflation pressures. As such, while inflation is expected to slow from current rates, it is likely to remain above the FOMC's 2.0 percent target rate through 2022. That said, the FOMC continues to believe that inflation pressures are mostly transitory which, along with their stated willingness to let inflation run above their target rate for "some time," makes it unlikely they will respond to higher inflation in the near term. While it is expected that the FOMC will begin tapering the pace of the Fed's monthly asset purchases in the fourth quarter of 2021, no changes in the Fed funds rate target range are expected until either late-2022 or early-2023. As such, monetary policy is expected to remain accommodative over the forecast horizon.

The October baseline forecast incorporates the infrastructure bill which has garnered bipartisan support in Congress, which would result in roughly \$579 billion in spending above what has previously been assumed. While there is scope for further fiscal policy measures, at present there are no specific details on either the spending side or the tax side of the ledger and, as such, no such changes are incorporated into the current baseline forecast. It should also be noted that expectations of the potential economic effects of the infrastructure bill and any additional spending should be tempered by the fact that any such spending would be phased in over an eight-to-ten year period and would be at least partially offset by tax increases. As such, the net effect on GDP growth in any given year over the forecast horizon would be relatively small.

Patterns of economic activity within the Regions footprint are expected be broadly similar to those seen in the U.S. as a whole. While an above-average exposure to manufacturing across much of the footprint will be a tailwind to growth within the footprint, supply chain and logistics bottlenecks mean that growth will be slower than would otherwise be the case. To the extent remote working remains part of the post-pandemic landscape, states such as Florida, Georgia, the Carolinas, Tennessee, and Texas that have consistently benefited from above-average degrees of in-migration should continue to do so, which will provide support to the broader economies of these states.

The continued signs of economic improvement, with consideration of uncertainty inherent in the forecast, impacted Regions' forecast utilized in calculating the ACL as of September 30, 2021. 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. In the third quarter of 2021, the economic forecast continued to show signs of recovery. While some uncertainty remains, the economic forecast shows a much more positive outlook as the economy is more fully open. There are select areas where the COVID-19 pandemic impacted third quarter conditions, as discussed below. Regions expects that the pandemic will continue to influence economic conditions and the Company's financial results in future quarters, albeit at a diminishing rate.

While most non-branch associates continued to work remotely during the third quarter of 2021, Regions began the process of returning remote working associates to office locations in October 2021.

As of September 30, 2021, the outstanding balance of special COVID-related payment deferrals and forbearances, which were not government guaranteed, had declined to an immaterial amount.

As a certified SBA lender, Regions provided its customers with the loan process under the PPP. Program funding ended in the second quarter of 2021 and the forgiveness process is ongoing. Regions originated PPP loans totaling approximately \$6.2 billion, of which approximately 26,000 loans totaling approximately \$1.5 billion remained outstanding as of September 30, 2021. Regions expects that approximately 80% to 85% of the total \$6.2 billion of PPP loans will be forgiven by year-end 2021.

Regions continues to have strong liquidity and capital levels, which have the Company well-prepared to respond to customer borrowing needs. The Company has ample sources of liquidity that include a 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 also affected non-interest income. Due to changes in customer behavior, combined with continued enhancements to overdraft practices and transaction postings, the Company estimates consumer service charges will remain 10 percent to 15 percent below pre-pandemic levels. See Table 24 "Non-Interest Income" for more 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.

Capital

During the third quarter of 2020, the FRB finalized Regions' SCB requirement for the fourth quarter of 2020 through the third quarter of 2021 at 3.0 percent. In the second quarter of 2021, Regions received the results of the Company's voluntary participation in 2021 CCAR. The FRB communicated that the Company exceeded all minimum capital levels under the supervisory stress test and the Company's stress capital buffer for the fourth quarter of 2021 through the third quarter of 2022 will be floored at 2.5 percent.

As part of the Company's capital plan, on April 21, 2021, the Board authorized the repurchase of up to \$2.5 billion of the Company's common stock, permitting purchases from the second quarter of 2021 through the first quarter of 2022. For the third quarter of 2021, Regions temporarily paused the repurchase of shares until the close of the EnerBank acquisition which was completed on October 1, 2021.

On October 20, 2021, the Company declared a cash dividend for the fourth quarter of 2021 of \$0.17 per share of common stock, which was in compliance with the FRB's SCB framework.

The Company intends to operate at a range for CET1 of 9.25 percent to 9.75 percent, with the expectation to manage to the mid-point by year-end 2021. The Company regularly performs internal stress testing which can result in modifications to the operating range.

Third Quarter Results

Regions reported net income available to common shareholders of \$624 million, or \$0.65 per diluted share, in the third quarter of 2021 compared to \$501 million, or \$0.52 per diluted share, in the third quarter of 2020.

For the third quarter of 2021, net interest income (taxable-equivalent basis) totaled \$976 million, down \$24 million compared to the third quarter of 2020. The net interest margin (taxable-equivalent basis) was 2.76 percent for the third quarter of 2021 and 3.13 percent in the third quarter of 2020. The decrease in net interest income was primarily driven by a decrease in average loan balances and re-mixing into lower yielding lending portfolios. Net interest margin was negatively impacted by excess cash balances due to continued deposit growth as well as the repricing of fixed-rate loan and securities portfolios at lower market interest rates. Refer to Table 20 "Consolidated Average Daily Balances and Yield/Rate Analysis" for further details.

The benefit from credit losses totaled \$155 million in the third quarter of 2021, as compared to a provision of \$113 million during the third quarter of 2020. The current quarter benefit was primarily due to positive credit performance and continued improvement in the economic forecast. Refer to the "Allowance for Credit Losses" section for further detail.

Net charge-offs totaled \$30 million, or an annualized 0.14 percent of average loans, in the third quarter of 2021, compared to \$113 million, or an annualized 0.50 percent for the third quarter of 2020. The decrease was primarily driven by broad-based improvements across most portfolios. See Note 3 "Loans and the Allowance for Credit Losses" to the consolidated financial statements for additional information.

The allowance was 1.80 percent of total loans, net of unearned income at September 30, 2021 compared to 2.69 percent at December 31, 2020. The decrease was impacted by the factors discussed above. The allowance was 283 percent of total non-performing loans at September 30, 2021 compared to 308 percent at December 31, 2020. Total non-performing loans (excluding loans held for sale) declined to 0.64 percent of total loans, net of unearned income, at September 30, 2021 compared to 0.87 percent at December 31, 2020. Refer to the "Allowance for Credit Losses" section for further detail.

Non-interest income was \$649 million for the third quarter of 2021, a \$6 million decrease from the third quarter of 2020. The decrease was primarily driven by a decline in mortgage income and a gain on an equity investment that was recognized in the third quarter of 2020. These decreases were largely offset by increased capital markets income and other miscellaneous income. See Table 24 "Non-Interest Income" for more detail.

Total non-interest expense was \$938 million in the third quarter of 2021, a \$42 million increase from the third quarter of 2020. The increase was primarily driven by higher salaries and employee benefits expense and a loss on early extinguishment of debt incurred in the quarter. See Table 25 "Non-Interest Expense" for more detail.

Income tax expense for the three months ended September 30, 2021 was \$180 million compared to \$104 million for the same period in 2020. See "Income Taxes" toward the end of the Management's Discussion and Analysis section of this report for more detail.

Expectations

2021 Expectations	
Category	Expectation ⁽¹⁾
Total Adjusted Revenue	Up modestly (dependent on timing and amount of PPP forgiveness)
Adjusted Non-Interest Expense	Up modestly
Adjusted Average Loans	Down low single digits
Adjusted Ending Loans	Up low single digits
Net charge-offs / average loans	Approximately 25 basis points
Effective tax rate ⁽²⁾	22-23%

(1) The impacts from the fourth quarter 2021 EnerBank USA and Sabal Capital Partners, LLC acquisitions are not considered in these expectations.

(2) Does not include the impact of potential tax legislation.

Regions believes that expressing certain expectations as non-GAAP measures will assist investors in analyzing the operating results of the Company and predicting future performance on the same basis as that applied by management. The reconciliation with respect to these forward-looking non-GAAP measures is expected to be consistent with the actual non-GAAP reconciliations within Management's Discussion and Analysis of this Form 10-Q. For more information related to the Company's 2021 expectations, refer to the related sub-sections discussed in more detail within Management's Discussion and Analysis of this Form 10-Q.

BALANCE SHEET ANALYSIS

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents increased approximately \$9.6 billion from year-end 2020 to September 30, 2021, due primarily to an increase in cash on deposit with the FRB. Elevated cash from deposit growth is held at the FRB. Deposit growth was primarily driven by pandemic-related deposit inflows resulting in higher consumer account balances and new account growth during the first nine months of 2021. 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

	September 30, 2021	December 31, 2020
	(In millions)	
U.S. Treasury securities	\$ 784	\$ 183
Federal agency securities	97	105
Mortgage-backed securities:		
Residential agency	20,076	19,611
Residential non-agency	1	1
Commercial agency	6,939	6,586
Commercial non-agency	564	586
Corporate and other debt securities	1,470	1,204
	<u>\$ 29,931</u>	<u>\$ 28,276</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 \$1.7 billion from December 31, 2020 to September 30, 2021. The increase from year-end was primarily the result of the purchase of approximately \$2.0 billion in U.S treasury securities, mortgage-backed securities and corporate and other debt securities during the second quarter of 2021.

LOANS HELD FOR SALE

Loans held for sale totaled \$934 million at September 30, 2021, consisting of \$850 million of residential real estate mortgage loans, \$81 million of commercial mortgage and other loans, and \$3 million of non-performing loans. At December 31, 2020, loans held for sale totaled \$1.9 billion, consisting of \$1.4 billion of residential real estate mortgage loans, \$460 million of commercial mortgage and other loans, and \$6 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 fluctuate depending on the timing of origination and sale to third parties.

LOANS

Loans, net of unearned income, represented approximately 59 percent of Regions' interest-earning assets as of September 30, 2021. The following table presents the distribution of Regions' loan portfolio by portfolio segment and class, net of unearned income:

Table 2—Loan Portfolio

	September 30, 2021	December 31, 2020
	(In millions, net of unearned income)	
Commercial and industrial	\$ 41,748	\$ 42,870
Commercial real estate mortgage—owner-occupied ⁽¹⁾	5,446	5,405
Commercial real estate construction—owner-occupied ⁽¹⁾	252	300
Total commercial	47,446	48,575
Commercial investor real estate mortgage	5,608	5,394
Commercial investor real estate construction	1,704	1,869
Total investor real estate	7,312	7,263
Residential first mortgage	17,347	16,575
Home equity lines	3,875	4,539
Home equity loans	2,556	2,713
Indirect—vehicles	500	934
Indirect—other consumer	2,123	2,431
Consumer credit card	1,136	1,213
Other consumer	975	1,023
Total consumer	28,512	29,428
	<u>\$ 83,270</u>	<u>\$ 85,266</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 2020 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. Refer to Note 6 "Allowance for Credit Losses" in the Annual Report on Form 10-K for the year ended December 31, 2020 for additional information regarding Regions' portfolio segments and related classes, as well as the risks specific to each.

While the economic environment continues to improve as the economy re-opens, there are select industries that continue to experience impacts of the COVID-19 pandemic. See Table 3 and Table 4 below 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 decreased \$1.1 billion since year-end 2020. The September 30, 2021 balance includes \$1.5 billion of PPP loans, a decrease of \$2.1 billion compared to year-end 2020, reflecting PPP forgiveness. While line utilization levels remain well below pre-pandemic levels, utilization levels slightly increased by the end of the third quarter compared to the inflection point reached in the second quarter. Excluding PPP lending balances, commercial loan balances increased since year-end 2020 driven by growth in healthcare, transportation, technology and defense, as well as equipment lending through Ascentium.

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

September 30, 2021			
	Loans	Unfunded Commitments	Total Exposure
	(In millions)		
Administrative, support, waste and repair	\$ 1,501	\$ 1,227	\$ 2,728
Agriculture	331	229	560
Educational services	2,954	923	3,877
Energy	1,455	2,463	3,918
Financial services	4,858	5,538	10,396
Government and public sector	2,744	527	3,271
Healthcare	3,876	2,291	6,167
Information	1,845	1,184	3,029
Manufacturing	4,643	4,326	8,969
Professional, scientific and technical services	2,226	1,366	3,592
Real estate ⁽¹⁾	6,817	8,175	14,992
Religious, leisure, personal and non-profit services	1,849	667	2,516
Restaurant, accommodation and lodging	1,702	418	2,120
Retail trade	2,377	2,143	4,520
Transportation and warehousing	2,889	1,503	4,392
Utilities	2,134	2,862	4,996
Wholesale goods	3,265	3,281	6,546
Other ⁽²⁾	(20)	3,153	3,133
Total commercial	<u>\$ 47,446</u>	<u>\$ 42,276</u>	<u>\$ 89,722</u>

December 31, 2020 ⁽³⁾			
	Loans	Unfunded Commitments	Total Exposure
	(In millions)		
Administrative, support, waste and repair	\$ 1,605	\$ 1,017	\$ 2,622
Agriculture	424	332	756
Educational services	3,055	852	3,907
Energy	1,676	2,337	4,013
Financial services	4,416	4,905	9,321
Government and public sector	2,907	621	3,528
Healthcare	4,141	2,468	6,609
Information	1,699	1,096	2,795
Manufacturing	4,555	4,216	8,771
Professional, scientific and technical services	2,467	1,594	4,061
Real estate ⁽¹⁾	7,285	7,456	14,741
Religious, leisure, personal and non-profit services	1,966	810	2,776
Restaurant, accommodation and lodging	2,196	341	2,537
Retail trade	2,578	2,178	4,756
Transportation and warehousing	2,731	1,415	4,146
Utilities	1,829	2,758	4,587
Wholesale goods	3,050	3,303	6,353
Other ⁽²⁾	(5)	1,774	1,769
Total commercial	<u>\$ 48,575</u>	<u>\$ 39,473</u>	<u>\$ 88,048</u>

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

(2) "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.

(3) 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.

Regions has identified certain industry sectors within the commercial and investor real estate portfolio segments that have the highest risk due to COVID-19. A bottom-up review was performed in all three quarters of 2021, which narrowed the high-risk industry sectors compared to year-end 2020. As of September 30, 2021, these high-risk industries include energy, consumer services and travel, retail, restaurants, and hotels. Identified COVID-19 high-risk balances have declined \$2.7 billion from \$5.2 billion at year-end 2020 to \$2.5 billion as of September 30, 2021.

Industries and sub-sectors 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. Regions is closely monitoring customers in these industries and has frequent dialogue with these customers. All loans within these tables are in the commercial portfolio segment, unless specifically identified as IRE. PPP loan balances are not included in Table 4 as these loans are not considered high risk, as they are fully guaranteed by the U.S. government.

Table 4—COVID-19 High-Risk Industries

	Balance Outstanding	September 30, 2021		
		% of Total Loans ⁽¹⁾	Utilization %	% Criticized ⁽²⁾
		(\$ in millions)		
Commercial				
Energy - oil & gas extraction, oilfield services, coal	\$ 930	1.1 %	48 %	22 %
Consumer services & travel - amusement, arts and recreation, charter bus industry, taxi & limousine service	559	0.7 %	76 %	8 %
Retail (non-essential) - clothing, miscellaneous store retailers	204	0.2 %	45 %	2 %
Restaurants - full services	531	0.6 %	69 %	32 %
Total commercial	2,224	2.7 %	57 %	19 %
REITs and IRE				
Hotels - full service, limited service, extended stay	298	0.4 %	95 %	95 %
Total REITs and IRE	298	0.4 %	95 %	95 %
Total COVID-19 high-risk industries	\$ 2,522			

(1) Amounts have been calculated using whole dollar values.

(2) Regions defines classified loans as commercial and investor real estate loans risk-rated substandard accrual and non-accrual, and criticized loans as those risk-rated special mention, substandard accrual and non-accrual. Criticized loans are also referred to as "criticized and classified".

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 \$49 million in comparison to 2020 year-end balances.

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 \$772 million in comparison to 2020 year-end balances. The increase in residential first mortgage loans was primarily driven by an increase in originations due to continued historically low market interest rates. Approximately \$4.8 billion in new loan originations were retained on the balance sheet through the first nine months of 2021.

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 \$664 million in comparison to 2020 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 September 30, 2021. 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 5—Home Equity Lines of Credit - Future Principal Payment Resets

	First Lien	% of Total	Second Lien	% of Total	Total
	(Dollars in millions)				
2021	\$ 73	1.90 %	\$ 52	1.34 %	\$ 125
2022	69	1.77 %	67	1.73 %	136
2023	95	2.43 %	73	1.89 %	168
2024	136	3.52 %	100	2.58 %	236
2025	137	3.53 %	150	3.88 %	287
2026-2031	1,502	38.76 %	1,158	29.89 %	2,660
2031-2035	149	3.85 %	109	2.80 %	258
Thereafter	3	0.08 %	2	0.05 %	5
Total	<u>\$ 2,164</u>	<u>55.84 %</u>	<u>\$ 1,711</u>	<u>44.16 %</u>	<u>\$ 3,875</u>

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 \$157 million in comparison to 2020 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 6—Estimated Current Loan to Value Ranges

	September 30, 2021				
	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%	\$ 5	\$ 1	\$ 1	\$ 3	\$ 1
Above 80% - 100%	1,923	9	16	19	5
80% and below	15,142	2,123	1,632	2,342	174
Data not available	277	31	62	8	4
	\$ 17,347	\$ 2,164	\$ 1,711	\$ 2,372	\$ 184

	December 31, 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%	\$ 20	\$ 4	\$ 2	\$ 5	\$ 4
Above 80% - 100%	2,510	32	82	22	12
80% and below	13,790	2,417	1,888	2,452	207
Data not available	255	32	82	7	4
	\$ 16,575	\$ 2,485	\$ 2,054	\$ 2,486	\$ 227

Indirect—Vehicles

Indirect-vehicles lending, which was lending initiated through third-party business partners, largely consists of loans made through automotive dealerships. This portfolio decreased \$434 million from year-end 2020 as Regions has discontinued its indirect auto lending business. The Company remains 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 decreased \$308 million from year-end 2020 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 \$77 million from year-end 2020.

Other Consumer

Other consumer loans primarily include direct consumer loans, overdrafts and other revolving loans. Other consumer loans decreased \$48 million from year-end 2020.

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

The allowance consists of two components: the allowance for loan losses and the reserve for unfunded credit commitments. Discussion of the methodology used to calculate the allowance is included in Note 1 "Summary of Significant Accounting Policies" and Note 6 "Allowance for Credit Losses" to the consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2020, as well as related discussion in Management's Discussion and Analysis.

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.

The allowance totaled \$1.5 billion at September 30, 2021 compared to \$2.3 billion at December 31, 2020, 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 7 below. While many of these items overlap regarding impact, they are included in the category most relevant.

Table 7— Allowance Changes

	Three Months Ended	
	September 30, 2021	September 30, 2020
	(In millions)	
Allowance for credit losses, beginning balance	\$ 1,684	\$ 2,425
Net charge-offs	(30)	(113)
Provision over (less than) net charge-offs:		
Economic outlook and adjustments	(91)	(22)
Changes in portfolio credit quality	(66)	115
Changes in specific reserves	(21)	52
Other portfolio changes ⁽¹⁾	23	(32)
Total provision over (less than) net charge-offs	(185)	—
Allowance for credit losses, ending balance	\$ 1,499	\$ 2,425
	Nine Months Ended	
	September 30, 2021	September 30, 2020
	(In millions)	
Allowance for credit losses, beginning balance (as adjusted for change in accounting guidance) ⁽³⁾	\$ 2,293	\$ 1,415
Initial allowance on acquired PCD loans	—	60
Net charge-offs	(160)	(418)
Provision over (less than) net charge-offs:		
Economic outlook and adjustments	(485)	488
Changes in portfolio credit quality	(147)	539
Changes in specific reserves	(74)	78
Other portfolio changes ⁽¹⁾	72	187
Initial provision impact of non-PCD acquired loans ⁽²⁾	—	76
Total provision over (less than) net charge-offs	(794)	950
Allowance for credit losses, ending balance	\$ 1,499	\$ 2,425

(1) This line item includes the net impact of portfolio growth, portfolio run-off, pay-downs and changes in the mix of total outstanding loans. This line item excludes the impact of PPP loans of \$1.5 billion as of September 30, 2021, which are fully backed by the U.S. government and have an immaterial associated allowance.

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

(3) 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 in the first quarter of 2020.

Credit metrics are monitored throughout the quarter in order to understand external macro-views, trends and industry outlooks, as well as Regions' internal specific views of credit metrics and trends. The third quarter of 2021 exhibited continued strong asset quality performance, reflecting broad-based improvements across most portfolios. Commercial and investor real estate criticized balances decreased approximately \$168 million, classified balances decreased \$107 million, and total net

charge-offs decreased \$17 million compared to the second quarter of 2021. Non-performing loans, excluding held for sale, and non-performing assets decreased approximately \$136 million and \$234 million, respectively, compared to the second quarter of 2021. Additionally, mortgage LTVs are holding up well and while the HPI remained strong in the third quarter of 2021, the pace of house price appreciation has begun to moderate and further moderation is expected through the forecast horizon.

Regions continued to perform a bottom-up review of loan portfolios during the third quarter of 2021, which resulted in no change to the sectors considered high-risk compared to the second quarter of 2021; however the balance of loans in COVID-19 high-risk industry segments declined approximately \$200 million from June 30, 2021. Refer to the "Portfolio Characteristics" section for more information about the high-risk industries. As the credit risk within Regions' loan portfolio continues to be evaluated, both negative and positive factors of the economic landscape were considered in determining the allowance estimate.

As economic activity continued to accelerate due to the largely reopened economy, the third quarter of 2021 showed continued signs of economic improvement. Regions' September 2021 forecast was relatively consistent with the June 2021 forecast with continued increases in HPI and some caution around GDP growth. Regions' economic forecast utilized in the September 30, 2021 allowance estimate considered sustained reopening of the economy, further vaccine distribution and continued increases in consumer spending on goods and services. Refer to the Economic Environment in Regions' Banking Markets within the "Third Quarter Overview" section for more information. Furthermore, Regions benchmarks its internal forecast with external forecasts and external data available.

The table below reflects a range of macroeconomic factors utilized in the Base forecast over the two-year R&S forecast period as of September 30, 2021. The unemployment rate is the most significant macroeconomic factor among the CECL models. Unemployment rates in the third quarter and the forecasted periods remained normalized.

Table 8— Macroeconomic Factors in the Forecast

	Pre-R&S Period	Base R&S Forecast							
		September 30, 2021							
	3Q2021	4Q2021	1Q2022	2Q2022	3Q2022	4Q2022	1Q2023	2Q2023	3Q2023
Real GDP, annualized % change	3.8 %	5.6 %	5.2 %	4.1 %	3.2 %	2.6 %	2.3 %	2.2 %	2.3 %
Unemployment rate	5.2 %	4.8 %	4.6 %	4.4 %	4.2 %	4.1 %	4.0 %	3.9 %	3.8 %
HPI, year-over-year % change	18.1 %	16.0 %	12.9 %	8.1 %	4.0 %	3.4 %	3.5 %	3.6 %	3.8 %
S&P 500	4,450	4,557	4,600	4,630	4,657	4,693	4,726	4,764	4,805

The continued improvement in the economic outlook and positive credit performance during the quarter (described above) were significant drivers of the modeled decreases in the allowance.

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 September 30, 2021 general imprecision allowance was reduced compared to the second quarter of 2021, but continues to reflect management's caution with respect to the modeled reductions in the allowance given the uncertainty surrounding the pace of economic recovery, including the potential for higher inflation, as the changing status of the pandemic unfolds.

Based on the overall analysis performed, management deemed an allowance of \$1.5 billion to be appropriate to absorb expected credit losses in the loan and credit commitment portfolios as of September 30, 2021.

Details regarding the allowance and net charge-offs, including an analysis of activity from the previous year's totals, are included in Table 9 "Allowance for Credit Losses." As noted above, economic trends such as interest rates, unemployment, volatility in commodity prices, inflation and collateral valuations as well as the length and depth of the COVID-19 pandemic and policy accommodations will impact the future levels of net charge-offs and may result in volatility of certain credit metrics during the remainder of 2021 and beyond.

Table 9—Allowance for Credit Losses

	Nine Months Ended September 30	
	2021	2020
	(Dollars in millions)	
Allowance for loan losses at January 1	\$ 2,167	\$ 869
Cumulative change in accounting guidance ⁽¹⁾	—	438
Allowance for loan losses, January 1 (as adjusted for change in accounting guidance) ⁽¹⁾	2,167	1,307
Loans charged-off:		
Commercial and industrial	101	291
Commercial real estate mortgage—owner-occupied	3	8
Commercial real estate construction—owner-occupied	1	—
Commercial investor real estate mortgage	19	—
Residential first mortgage	1	3
Home equity lines	5	9
Home equity loans	1	2
Indirect—vehicles	4	16
Indirect—other consumer	47	58
Consumer credit card	33	46
Other consumer	41	54
	256	487
Recoveries of loans previously charged-off:		
Commercial and industrial	44	24
Commercial real estate mortgage—owner-occupied	3	4
Commercial real estate construction—owner-occupied	—	—
Commercial investor real estate mortgage	3	1
Residential first mortgage	3	3
Home equity lines	11	8
Home equity loans	3	2
Indirect—vehicles	4	8
Indirect—other consumer	4	1
Consumer credit card	8	7
Other consumer	13	11
	96	69
Net charge-offs (recoveries):		
Commercial and industrial	57	267
Commercial real estate mortgage—owner-occupied	—	4
Commercial real estate construction—owner-occupied	1	—
Commercial investor real estate mortgage	16	(1)
Residential first mortgage	(2)	—
Home equity lines	(6)	1
Home equity loans	(2)	—
Indirect—vehicles	—	8
Indirect—other consumer	43	57
Consumer credit card	25	39
Other consumer	28	43
	160	418
Provision for (benefit from) loan losses	(579)	1,327
Initial allowance on acquired PCD loans	—	60
Allowance for loan losses at September 30	1,428	2,276
Reserve for unfunded credit commitments at January 1	126	45
Cumulative change in accounting guidance ⁽¹⁾	—	63
Provision for (benefit from) unfunded credit losses	(55)	41
Reserve for unfunded credit commitments at September 30	71	149
Allowance for credit losses at September 30	\$ 1,499	\$ 2,425
Loans, net of unearned income, outstanding at end of period	\$ 83,270	\$ 88,359
Average loans, net of unearned income, outstanding for the period	\$ 84,214	\$ 88,199

	Nine Months Ended September 30	
	2021	2020
	(Dollars in millions)	
Net loan charge-offs (recoveries) as a % of average loans, annualized ⁽²⁾ :		
Commercial and industrial	0.18 %	0.78 %
Commercial real estate mortgage—owner-occupied	— %	0.10 %
Commercial real estate construction—owner-occupied	0.50 %	— %
Total commercial	0.16 %	0.71 %
Commercial investor real estate mortgage	0.40 %	(0.03)%
Commercial investor real estate construction	— %	— %
Total investor real estate	0.30 %	(0.03)%
Residential first mortgage	(0.02)%	— %
Home equity—lines of credit	(0.20)%	0.02 %
Home equity—closed-end	(0.09)%	— %
Indirect—vehicles	0.03 %	0.73 %
Indirect—other consumer	2.62 %	2.49 %
Consumer credit card	2.97 %	4.10 %
Other consumer	3.85 %	5.03 %
Total consumer	0.40 %	0.66 %
Total	0.25 %	0.63 %
Ratios:		
Allowance for credit losses at end of period to loans, net of unearned income	1.80 %	2.74 %
Allowance for credit losses at end of period to loans, excluding PPP, net (non-GAAP) ⁽³⁾	1.83 %	2.90 %
Allowance for loan losses at end of period to loans, net of unearned income	1.71 %	2.58 %
Allowance for credit losses at end of period to non-performing loans, excluding loans held for sale	283 %	316 %
Allowance for loan losses at end of period to non-performing loans, excluding loans held for sale	269 %	297 %

(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) Amounts have been calculated using whole dollar values.

(3) See Table 19 for calculation.

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

Table 10—Allowance Allocation

	September 30, 2021			December 31, 2020		
	Loan Balance	Allowance Allocation	Allowance to Loans % ⁽¹⁾	Loan Balance	Allowance Allocation	Allowance to Loans % ⁽¹⁾
(Dollars in millions)						
Commercial and industrial	\$ 41,748	\$ 647	1.5 %	\$ 42,870	\$ 1,027	2.4 %
Commercial real estate mortgage—owner-occupied	5,446	128	2.4	5,405	242	4.5
Commercial real estate construction—owner-occupied	252	9	3.6	300	24	8.0
Total commercial	47,446	784	1.7	48,575	1,293	2.7
Commercial investor real estate mortgage	5,608	86	1.5	5,394	167	3.1
Commercial investor real estate construction	1,704	11	0.6	1,869	30	1.6
Total investor real estate	7,312	97	1.3	7,263	197	2.7
Residential first mortgage	17,347	129	0.7	16,575	155	0.9
Home equity lines	3,875	92	2.4	4,539	122	2.7
Home equity loans	2,556	30	1.2	2,713	33	1.2
Indirect—vehicles	500	4	0.8	934	19	2.0
Indirect—other consumer	2,123	177	8.3	2,431	241	9.9
Consumer credit card	1,136	123	10.8	1,213	161	13.3
Other consumer	975	63	6.5	1,023	72	7.0
Total consumer	28,512	618	2.2	29,428	803	2.7
Total	\$ 83,270	\$ 1,499	1.8 %	\$ 85,266	\$ 2,293	2.7 %
Less: SBA PPP loans	1,536	2	0.2 %	3,624	1	—
Total, excluding PPP loans ⁽²⁾	\$ 81,734	\$ 1,497	1.8 %	\$ 81,642	\$ 2,292	2.8 %

(1) Amounts have been calculated using whole dollar values.

(2) Non-GAAP; see Table 19 for reconciliation.

TROUBLED DEBT RESTRUCTURINGS (TDRs)

TDRs are modified loans in which a concession is provided to a borrower experiencing financial difficulty. As provided initially in the CARES Act passed into law on March 27, 2020 and subsequently extended through the Consolidated Appropriations Act signed into law on December 27, 2020, certain loan modifications related to the COVID-19 pandemic beginning March 1, 2020 through the earlier of 60 days after the end of the pandemic or January 1, 2022 are eligible for relief from TDR classification. Regions elected this provision of both Acts; therefore, modified loans that met the required guidelines for relief are not considered TDRs and are excluded from the disclosures below.

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 11—Troubled Debt Restructurings

	September 30, 2021		December 31, 2020	
	Loan Balance	Allowance for Credit Losses	Loan Balance	Allowance for Credit Losses
	(In millions)			
Accruing:				
Commercial	\$ 86	\$ 5	\$ 77	\$ 6
Investor real estate	28	—	44	1
Residential first mortgage	223	31	188	23
Home equity lines	29	4	35	5
Home equity loans	61	9	78	8
Consumer credit card	—	—	1	—
Other consumer	4	—	4	—
	<u>431</u>	<u>49</u>	<u>427</u>	<u>43</u>
Non-accrual status or 90 days past due and still accruing:				
Commercial	74	10	124	18
Residential first mortgage	32	5	42	6
Home equity lines	3	—	2	—
Home equity loans	6	1	7	1
	<u>115</u>	<u>16</u>	<u>175</u>	<u>25</u>
Total TDRs - Loans	<u>\$ 546</u>	<u>\$ 65</u>	<u>\$ 602</u>	<u>\$ 68</u>
TDRs - Held For Sale	2	—	1	—
Total TDRs	<u>\$ 548</u>	<u>\$ 65</u>	<u>\$ 603</u>	<u>\$ 68</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 12—Analysis of Changes in Commercial and Investor Real Estate TDRs

	Nine Months Ended September 30, 2021		Nine Months Ended September 30, 2020	
	Commercial	Investor Real Estate	Commercial	Investor Real Estate
	(In millions)			
Balance, beginning of period	\$ 201	\$ 44	\$ 245	\$ 33
Additions	53	71	232	35
Charge-offs	(9)	—	(52)	—
Other activity, inclusive of payments and removals ⁽¹⁾	(85)	(87)	(173)	(23)
Balance, end of period	<u>\$ 160</u>	<u>\$ 28</u>	<u>\$ 252</u>	<u>\$ 45</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 \$15 million of commercial loans and \$41 million of investor real estate loans refinanced or restructured as new loans and removed from TDR classification for the nine months ended September 30, 2021. During the nine months ended September 30, 2020, \$18 million of

commercial loans and \$12 million of 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 13—Non-Performing Assets

	September 30, 2021	December 31, 2020
	(Dollars in millions)	
Non-performing loans:		
Commercial and industrial	\$ 359	\$ 418
Commercial real estate mortgage—owner-occupied	68	97
Commercial real estate construction—owner-occupied	11	9
Total commercial	438	524
Commercial investor real estate mortgage	4	114
Total investor real estate	4	114
Residential first mortgage	37	53
Home equity lines	44	46
Home equity loans	7	8
Total consumer	88	107
Total non-performing loans, excluding loans held for sale	530	745
Non-performing loans held for sale	3	6
Total non-performing loans ⁽¹⁾	533	751
Foreclosed properties	13	25
Total non-performing assets ⁽¹⁾	\$ 546	\$ 776
Accruing loans 90 days past due:		
Commercial and industrial	\$ 3	\$ 7
Commercial real estate mortgage—owner-occupied	2	1
Total commercial	5	8
Residential first mortgage ⁽²⁾	68	99
Home equity lines	20	19
Home equity loans	13	13
Indirect—vehicles	2	4
Indirect—other consumer	3	5
Consumer credit card	11	14
Other consumer	2	2
Total consumer	119	156
	\$ 124	\$ 164
Non-performing loans ⁽¹⁾ to loans and non-performing loans held for sale	0.64 %	0.88 %
Non-performing assets ⁽¹⁾ to loans, foreclosed properties, non-marketable investments, and non-performing loans held for sale	0.66 %	0.91 %

(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 \$44 million at September 30, 2021 and \$57 million at December 31, 2020.

Non-performing loans at September 30, 2021 have decreased compared to year-end levels, driven by improvement in retail, energy and administrative, support and waste repair.

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.

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

Table 14— Analysis of Non-Accrual Loans

	Non-Accrual Loans, Excluding Loans Held for Sale Nine Months Ended September 30, 2021			
	Commercial	Investor Real Estate	Consumer ⁽¹⁾	Total
	(In millions)			
Balance at beginning of period	\$ 524	\$ 114	\$ 107	\$ 745
Additions	379	4	3	386
Net payments/other activity	(242)	(1)	(22)	(265)
Return to accrual	(116)	—	—	(116)
Charge-offs on non-accrual loans ⁽²⁾	(92)	(19)	—	(111)
Transfers to held for sale ⁽³⁾	(13)	(94)	—	(107)
Transfers to real estate owned	(2)	—	—	(2)
Balance at end of period	<u>\$ 438</u>	<u>\$ 4</u>	<u>\$ 88</u>	<u>\$ 530</u>

	Non-Accrual Loans, Excluding Loans Held for Sale Nine Months Ended September 30, 2020			
	Commercial	Investor Real Estate	Consumer ⁽¹⁾	Total
	(In millions)			
Balance at beginning of period	\$ 431	\$ 2	\$ 74	\$ 507
Additions	661	121	21	803
Net payments/other activity	(165)	(5)	(2)	(172)
Return to accrual	(67)	—	—	(67)
Charge-offs on non-accrual loans ⁽²⁾	(272)	—	—	(272)
Transfers to held for sale ⁽³⁾	(14)	—	—	(14)
Transfers to real estate owned	(4)	—	—	(4)
Sales	(14)	—	—	(14)
Balance at end of period	<u>\$ 556</u>	<u>\$ 118</u>	<u>\$ 93</u>	<u>\$ 767</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 \$7 million and \$6 million recorded upon transfer for the nine months ended September 30, 2021 and 2020, respectively.

GOODWILL

Goodwill totaled \$5.2 billion at both September 30, 2021 and December 31, 2020 and is allocated to each of Regions' reportable segments (each a reporting unit), at which level goodwill is tested for impairment on an annual basis or more often if events and circumstances indicate the fair value of the reporting unit may have declined below the carrying value (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, 2020 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).

The result of the assessment performed for the third quarter of 2021 did not indicate that the estimated fair values of the Company's reporting units (Corporate Bank, Consumer Bank and Wealth Management) had declined below their respective carrying values. Therefore, Regions determined that a test of goodwill impairment was not required for any of Regions' reporting units for the September 30, 2021 interim period.

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 and competitive pricing and convenient branch locations for its customers. Regions also serves customers through providing centralized, high-quality banking services and the Company's digital channels and contact center.

The following table summarizes deposits by category:

Table 15—Deposits

	September 30, 2021	December 31, 2020
	(In millions)	
Non-interest-bearing demand	\$ 57,145	\$ 51,289
Interest-bearing checking	25,217	24,484
Savings	14,573	11,635
Money market—domestic	30,736	29,719
Time deposits	4,368	5,341
Customer deposits	132,039	122,468
Corporate treasury time deposits	—	11
	<u>\$ 132,039</u>	<u>\$ 122,479</u>

Total deposits at September 30, 2021 increased approximately \$9.6 billion compared to year-end 2020 levels, driven by increases in all categories other than customer time deposits. Increases across those categories were primarily driven by pandemic-related deposit inflows resulting in increased consumer customer deposit balances and new account growth. To a lesser degree, growth in non-interest bearing demand is due to an increase in deposits from business customers who continue to retain excess liquidity. Customer time deposits decreased due to maturities, and continued lower interest rates resulted in a decrease in the utilization of time deposit accounts.

LONG-TERM BORROWINGS

Table 16—Long-Term Borrowings

	September 30, 2021	December 31, 2020
	(In millions)	
Regions Financial Corporation (Parent):		
3.20% senior notes due February 2021	\$ —	\$ 360
3.80% senior notes due August 2023	—	997
2.25% senior notes due May 2025	745	744
1.80% senior notes due August 2028	645	—
7.75% subordinated notes due September 2024	100	100
6.75% subordinated debentures due November 2025	155	155
7.375% subordinated notes due December 2037	298	298
Valuation adjustments on hedged long-term debt	(21)	64
	<u>1,922</u>	<u>2,718</u>
Regions Bank:		
2.75% senior notes due April 2021	—	190
3 month LIBOR plus 0.38% of floating rate senior notes due April 2021	—	66
6.45% subordinated notes due June 2037	496	496
Ascentium note securitizations	30	97
Other long-term debt	3	2
	<u>529</u>	<u>851</u>
Total consolidated	<u>\$ 2,451</u>	<u>\$ 3,569</u>

Long-term borrowings decreased by approximately \$1.1 billion since year-end 2020 due primarily to redemptions of parent and bank debt. See the "Liquidity" section for further detail of Regions' borrowing capacity with the FHLB, which is currently not being utilized.

On January 12, 2021, Regions sent notices of redemption, which resulted in the redemption on January 22, 2021, of its 3.20% senior notes due February 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.

On February 19, 2021, Regions Bank sent notices of redemption, which resulted in the redemption on March 1, 2021 of its 2.75% senior bank notes due April 1, 2021 and of its senior floating rate bank notes due April 1, 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.

On August 12, 2021, Regions issued \$650 million of 1.80% senior notes due August 2028 which were effectively converted to floating rate notes at 1 month LIBOR through the simultaneous execution of an interest rate swap. Also on August 12, 2021, Regions sent notices of redemption, which resulted in the redemption on August 23, 2021, of its 3.80% senior notes due August 2023 pursuant to their terms, at an aggregate redemption price equal to 100% of the principal amount of the notes being redeemed and any accrued and unpaid interest to, but excluding, the redemption date. In conjunction with the redemption, Regions incurred related early extinguishment pre-tax charges totaling \$20 million.

At September 30, 2021, one Ascentium note securitization class remained outstanding with an interest rate of 2.12% maturing in October 2025. At December 31, 2020, the Ascentium note securitizations had various classes and had a weighted-average interest rate of 2.12% with remaining maturities ranging from 3 years to 5 years and a weighted-average of 4.3 years.

SHAREHOLDERS' AND TOTAL EQUITY

Shareholders' equity was \$18.6 billion at September 30, 2021 as compared to \$18.1 billion at December 31, 2020. During the first nine months of 2021, net income increased shareholders' equity by \$2.1 billion, cash dividends on common stock reduced shareholders' equity by \$460 million, and cash dividends on preferred stock reduced shareholders' equity by \$84 million. Changes in AOCI decreased shareholders' equity by \$783 million, 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 nine months ended September 30, 2021. 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. During the second quarter of 2021, the Company issued Series E preferred stock, which increased shareholders' equity by \$390 million. During the second quarter of 2021, the Company also redeemed all of the outstanding shares of its Series A preferred stock, which decreased shareholders' equity by \$500 million. Common stock repurchased during the first nine months of 2021 reduced shareholders' equity \$167 million. These shares were immediately retired and therefore are not included in treasury stock.

Total equity includes noncontrolling interest of \$18 million, representing the unowned portion of a low income housing tax credit fund syndication, of which Regions held the majority interest at September 30, 2021.

See Note 5 "Shareholders' Equity and Accumulated Other Comprehensive Income" 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 "Supervision and Regulation" subsection of the "Business" section in the 2020 Annual Report on Form 10-K and the "Regulatory Requirements" section of Management's Discussion and Analysis in the 2020 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 2020 Annual Report on Form 10-K.

In the third quarter of 2020, the federal banking agencies finalized a rule related to 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. At September 30, 2021, the impact of the add-back on CET1 was approximately \$390 million, or approximately 36 basis points.

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

Table 17—Basel III Regulatory Capital Requirements

	September 30, 2021 Ratio ⁽¹⁾	December 31, 2020 Ratio	Minimum Requirement	To Be Well Capitalized
Common equity Tier 1 capital:				
Regions Financial Corporation	10.76 %	9.84 %	4.50 %	N/A
Regions Bank	12.35	12.17	4.50	6.50 %
Tier 1 capital:				
Regions Financial Corporation	12.30 %	11.39 %	6.00 %	6.00 %
Regions Bank	12.35	12.17	6.00	8.00
Total capital:				
Regions Financial Corporation	14.09 %	13.56 %	8.00 %	10.00 %
Regions Bank	13.72	13.89	8.00	10.00
Leverage capital:				
Regions Financial Corporation	8.81 %	8.71 %	4.00 %	N/A
Regions Bank	8.85	9.30	4.00	5.00 %

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

In October of 2020, the SCB framework that was finalized in the first quarter of 2020, was implemented. This new framework created a firm-specific risk sensitive buffer that is applied to regulatory minimum capital levels to help determine effective minimum ratio requirements. The SCB is now floored at 2.5 percent to ensure effective minimum capital levels do not decline as a result of this rule change. At implementation, the SCB replaced the current Capital Conservation Buffer, which was a static 2.5 percent in addition to the minimum risk-weighted asset ratios shown above.

During the third quarter of 2020, and in connection with the results of its supervisory stress test released in June 2020, the Federal Reserve finalized Regions' SCB requirement for the fourth quarter of 2020 through the third quarter of 2021 at 3.0 percent. The 3.0 percent requirement represented the amount of capital degradation under the supervisory severely adverse scenario, inclusive of four quarters of planned common stock dividends. In the second quarter of 2021, Regions received the results of the Company's voluntary participation in 2021 CCAR. The FRB communicated that the Company exceeded all minimum capital levels under the supervisory stress test and the Company's stress capital buffer for the fourth quarter of 2021 through the third quarter of 2022 is floored at 2.5 percent.

The Company intends to operate at a range for CET1 of 9.25 percent to 9.75 percent, with the expectation to manage to the mid-point by year-end 2021. The Company regularly performs internal stress testing which can result in modifications to the operating range.

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.

LIQUIDITY

Regions maintains a robust liquidity management framework designed to effectively manage liquidity risk in accordance with sound risk management principals and regulatory expectations. The 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, liquidity stress testing, liquidity risk limits, contingency funding plans, and collateral management. While the framework is designed to comply with liquidity regulations, the processes are further tailored to be commensurate with Regions' operating model and risk profile.

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 2020 Annual Report on Form 10-K for additional information.

RATINGS

Table 18 "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 18—Credit Ratings

	As of September 30, 2021			
	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	Positive	Stable

N/A - Not applicable.

On July 13, 2021, Fitch upgraded Regions' outlook from Stable to Positive citing improved credit quality and returns relative to peers.

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 2020 Annual Report on Form 10-K for more information.

A security rating is not a recommendation to buy, sell or hold securities, and the ratings are subject to revision or withdrawal at any time by the assigning rating agency. Each rating should be evaluated independently of any other rating. Additional information on the credit rating ranking within the overall classification system is located on the website of each credit rating agency.

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 balances of loans", "adjusted ending balances of loans", "ACL to loans excluding PPP, net ratio", "adjusted net interest margin", "adjusted efficiency ratio", "adjusted fee income ratio", "return on average tangible common shareholders' equity" on a consolidated operations basis, 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 basis 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
- Metrics for incentive compensation

Average total loans and ending total loans are presented including commercial loans reclassified from held for sale and excluding loan balances related to loans originated through the SBA's PPP program, the indirect-other consumer exit portfolio and the indirect-vehicles exit portfolio to arrive at adjusted average total loans (non-GAAP) and adjusted ending total loans (non-GAAP). Regions believes adjusting average and ending 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 loans excluding PPP 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 and the related credit loss is excluded from the total allowance for credit losses.

Net interest margin is presented excluding the impact of SBA PPP loans and excess cash, defined as cash exceeding \$750 million. Regions believes the adjusted net interest margin (non-GAAP) provides investors with meaningful additional information about Regions' performance when margin associated with the SBA's PPP loans and excess cash are excluded from net interest margin (GAAP).

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 Tier 1 capital, 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 (GAAP) to adjusted average total loans (non-GAAP), 2) a reconciliation of ending total loans (GAAP) to adjusted ending total loans (non-GAAP), 3) a reconciliation of ending total loans excluding PPP loans (non-GAAP), a reconciliation of ACL (GAAP) to ACL excluding PPP loans' ACL (non-GAAP), and a computation of ACL to ending loans excluding PPP loans (non-GAAP), 4) a reconciliation of net interest margin (GAAP) to adjusted net interest margin (non-GAAP), 5) a reconciliation of net income (GAAP) to net income available to common shareholders (GAAP), 6) a reconciliation of non-interest expense (GAAP) to adjusted non-interest expense (non-GAAP), 7) a reconciliation of net interest income, taxable equivalent basis (GAAP) to adjusted net interest income, taxable equivalent basis (non-GAAP), 8) a reconciliation of non-interest income (GAAP) to adjusted non-interest income (non-GAAP), 9) a computation of adjusted total revenue (non-GAAP), 10) a computation of the adjusted efficiency ratio (non-GAAP), 11) a computation of the adjusted fee income ratio (non-GAAP), and 12) 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 19—GAAP to Non-GAAP Reconciliations

	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
(Dollars in millions)				
ADJUSTED AVERAGE BALANCES OF LOANS				
Average total loans (GAAP)	\$ 83,350	\$ 89,370	\$ 84,214	\$ 88,199
Add: Commercial loans held for sale reclassified to the portfolio ⁽¹⁾	—	—	122	—
Less: SBA PPP loans	2,138	4,558	3,273	2,597
Less: Indirect—other consumer exit portfolio	806	1,318	916	1,502
Less: Indirect—vehicles	557	1,223	698	1,447
Adjusted average total loans (non-GAAP)	<u>\$ 79,849</u>	<u>\$ 82,271</u>	<u>\$ 79,449</u>	<u>\$ 82,653</u>

- (1) On December 31, 2020, Regions reclassified a certain portfolio of approximately \$239 million of commercial and industrial loans to loans held for sale. On June 1, 2021, Regions made the decision not to sell the respective loans, therefore the remaining balance of approximately \$193 million was reclassified back into the held for investment portfolio.

	<u>September 30, 2021</u>	<u>December 31, 2020</u>
	<u>(Dollars in millions)</u>	
ADJUSTED ENDING BALANCES OF LOANS		
Ending total loans (GAAP)	\$ 83,270	\$ 85,266
Add: Commercial loans held for sale reclassified to the portfolio ⁽¹⁾	—	239
Less: SBA PPP loans	1,536	3,624
Less: Indirect—other consumer exit portfolio	760	1,101
Less: Indirect—vehicles	500	934
Adjusted ending total loans (non-GAAP)	<u>\$ 80,474</u>	<u>\$ 79,846</u>

- (1) On December 31, 2020, Regions reclassified a certain portfolio of approximately \$239 million of commercial and industrial loans to loans held for sale. As of June 1, 2021, the remaining loan balance of approximately \$193 million had been reclassified back into the held for investment portfolio.

	September 30, 2021	December 31, 2020	September 30, 2020
		(Dollars in millions)	
ACL/LOANS, EXCLUDING PPP, NET			
Ending total loans (GAAP)	\$ 83,270	\$ 85,266	\$ 88,359
Less: SBA PPP loans	1,536	3,624	4,594
Ending total loans excluding PPP, net (non-GAAP)	\$ 81,734	\$ 81,642	\$ 83,765
ACL at period end	\$ 1,499	\$ 2,293	\$ 2,425
Less: SBA PPP loans' ACL	2	1	—
ACL excluding PPP loans' ACL (non-GAAP)	\$ 1,497	\$ 2,292	2,425
ACL/Loans, excluding PPP, net (non-GAAP)	1.83 %	2.81 %	2.90 %

	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
ADJUSTED NET INTEREST MARGIN				
Net interest margin (GAAP)	2.76 %	3.13 %	2.86 %	3.24 %
Impact of SBA PPP loans ⁽¹⁾	(0.05)%	0.01 %	(0.04)%	0.02 %
Impact of excess cash ⁽²⁾	0.59 %	0.27 %	0.52 %	0.15 %
Adjusted net interest margin (non-GAAP)	<u>3.30 %</u>	<u>3.41 %</u>	<u>3.34 %</u>	<u>3.41 %</u>

- (1) The impact of SBA PPP loans was determined using average PPP loan balances of \$2.1 billion and \$3.3 billion for the three and nine months ended September 30, 2021, respectively, and \$4.6 billion and \$2.6 billion for the three and nine months ended September 30, 2020, respectively. Related SBA PPP net interest income totaled \$31 million and \$113 million for the three and nine months ended September 30, 2021, respectively, and \$31 million and \$49 million for the three and nine months ended September 30, 2020, respectively.
- (2) The impact of excess cash was determined using the average cash balance in excess of \$750 million, which approximates the average cash balance for the four quarters preceding the outbreak of the COVID 19 pandemic, and related net interest income. Excess cash totaled \$24.4 billion and \$20.9 billion for the three and nine months ended September 30, 2021, respectively, and \$9.6 billion and \$5.0 billion for the three and nine months ended September 30, 2020, respectively. The related net interest income totaled \$3 million and \$8 million for the three and nine months ended September 30, 2021, respectively, and \$1 million and \$2 million for the three and nine months ended September 30, 2020, respectively.

		Three Months Ended September 30		Nine Months Ended September 30	
		2021	2020	2021	2020
		(Dollars in millions)			
INCOME					
Net income (loss) (GAAP)		\$ 651	\$ 530	\$ 2,083	\$ 478
Preferred dividends and other (GAAP) ⁽¹⁾		(27)	(29)	(97)	(75)
Net income (loss) available to common shareholders (GAAP)	A	<u>\$ 624</u>	<u>\$ 501</u>	<u>\$ 1,986</u>	<u>\$ 403</u>
ADJUSTED EFFICIENCY AND FEE INCOME RATIOS					
Non-interest expense (GAAP)	B	\$ 938	\$ 896	\$ 2,764	\$ 2,656
Significant items:					
Contribution to Regions' Financial Corporation foundation		—	—	(3)	—
Branch consolidation, property and equipment charges		—	(3)	(5)	(24)
Salary and employee benefits—severance charges		—	(2)	(5)	(5)
Loss on early extinguishment of debt		(20)	(2)	(20)	(8)
Professional, legal and regulatory expenses		—	—	—	(7)
Acquisition expenses		—	—	—	(1)
Adjusted non-interest expense (non-GAAP)	C	<u>\$ 918</u>	<u>\$ 889</u>	<u>\$ 2,731</u>	<u>\$ 2,611</u>
Net interest income (GAAP)	D	<u>\$ 965</u>	<u>\$ 988</u>	<u>\$ 2,895</u>	<u>\$ 2,888</u>
Taxable-equivalent adjustment		11	12	34	37
Net interest income, taxable-equivalent basis	E	976	1,000	2,929	2,925
Non-interest income (GAAP)	F	649	655	1,909	1,713
Significant items:					
Securities (gains) losses, net		(1)	(3)	(3)	(4)
Gains on equity investment		—	(44)	(3)	(44)
Leveraged lease termination gains		(2)	—	(2)	(2)
Bank owned life insurance ⁽²⁾		—	—	(18)	—
Adjusted non-interest income (non-GAAP)	G	<u>\$ 646</u>	<u>\$ 608</u>	<u>\$ 1,883</u>	<u>\$ 1,663</u>
Total revenue	D+F=H	<u>\$ 1,614</u>	<u>\$ 1,643</u>	<u>\$ 4,804</u>	<u>\$ 4,601</u>
Adjusted total revenue	D+G=I	<u>\$ 1,611</u>	<u>\$ 1,596</u>	<u>\$ 4,778</u>	<u>\$ 4,551</u>
Total revenue, taxable-equivalent basis	E+F=J	<u>\$ 1,625</u>	<u>\$ 1,655</u>	<u>\$ 4,838</u>	<u>\$ 4,638</u>
Adjusted total revenue, taxable-equivalent basis (non-GAAP)	E+G=K	<u>\$ 1,622</u>	<u>\$ 1,608</u>	<u>\$ 4,812</u>	<u>\$ 4,588</u>
Efficiency ratio (GAAP) ⁽³⁾	B/J	57.71 %	54.13 %	57.14 %	57.27 %
Adjusted efficiency ratio (non-GAAP) ⁽³⁾	C/K	56.58 %	55.28 %	56.77 %	56.93 %
Fee income ratio (GAAP) ⁽³⁾	F/J	39.95 %	39.57 %	39.47 %	36.94 %
Adjusted fee income ratio (non-GAAP) ⁽³⁾	G/K	39.83 %	37.81 %	39.14 %	36.26 %
RETURN ON AVERAGE TANGIBLE COMMON SHAREHOLDERS' EQUITY					
Average shareholders' equity (GAAP)		\$ 18,453	\$ 17,759	\$ 18,165	\$ 17,203
Less: Average intangible assets (GAAP)		5,285	5,322	5,295	5,214
Average deferred tax liability related to intangibles (GAAP)		(96)	(103)	(99)	(96)
Average preferred stock (GAAP)		1,659	1,656	1,658	1,459
Average tangible common shareholders' equity (non-GAAP)	L	<u>\$ 11,605</u>	<u>\$ 10,884</u>	<u>\$ 11,311</u>	<u>10,626</u>
Return on average tangible common shareholders' equity (non-GAAP) ⁽⁴⁾	A/L	21.34 %	18.32 %	23.48 %	5.07 %

		September 30, 2021	December 31, 2020
		(Dollars in millions, except per share data)	
TANGIBLE COMMON RATIOS			
Ending shareholders' equity (GAAP)	\$	18,605	\$ 18,111
Less: Ending intangible assets (GAAP)		5,282	5,312
Ending deferred tax liability related to intangibles (GAAP)		(97)	(106)
Ending preferred stock (GAAP)		1,659	1,656
Ending tangible common shareholders' equity (non-GAAP)	M \$	11,761	\$ 11,249
Ending total assets (GAAP)	\$	156,153	\$ 147,389
Less: Ending intangible assets (GAAP)		5,282	5,312
Ending deferred tax liability related to intangibles (GAAP)		(97)	(106)
Ending tangible assets (non-GAAP)	N \$	150,968	\$ 142,183
End of period shares outstanding	O	955	960
Tangible common shareholders' equity to tangible assets (non-GAAP) ⁽³⁾	M/N	7.79 %	7.91 %
Tangible common book value per share (non-GAAP) ⁽³⁾	M/O \$	12.32	\$ 11.71

NM - Not Meaningful

- (1) Preferred stock dividends and other for the nine months ended September 30, 2021 includes \$13 million of issuance costs associated with the redemption of Series A preferred shares in the second quarter of 2021.
- (2) The second quarter 2021 amount relates to an individual BOLI claim benefit, which is a tax-free gain.
- (3) Amounts have been calculated using whole dollar values.
- (4) Income statement amounts have been annualized in calculation.

OPERATING RESULTS

NET INTEREST INCOME AND MARGIN

Table 20—Consolidated Average Daily Balances and Yield/Rate Analysis

	Three Months Ended September 30					
	2021			2020		
	Average Balance	Income/ Expense	Yield/ Rate ⁽¹⁾	Average Balance	Income/ Expense	Yield/ Rate ⁽¹⁾
(Dollars in millions; yields on taxable-equivalent basis)						
Assets						
Earning assets:						
Federal funds sold and securities purchased under agreements to resell	\$ 2	\$ —	0.18 %	\$ —	\$ —	— %
Debt securities ⁽²⁾	29,308	135	1.85	24,950	140	2.24
Loans held for sale	1,044	7	2.64	1,147	8	2.89
Loans, net of unearned income ⁽³⁾⁽⁴⁾	83,350	858	4.07	89,370	915	4.06
Interest bearing deposits in other banks	25,144	9	0.15	10,372	2	0.10
Other earning assets ⁽⁵⁾	1,303	8	2.06	1,323	6	1.79
Total earning assets	140,151	1,017	2.88	127,162	1,071	3.35
Unrealized gains/(losses) on securities available for sale, net ⁽²⁾	674			1,143		
Allowance for loan losses	(1,581)			(2,308)		
Cash and due from banks	1,937			2,174		
Other non-earning assets	14,449			14,674		
	<u>\$ 155,630</u>			<u>\$ 142,845</u>		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Savings	\$ 14,328	4	0.13	\$ 10,935	4	0.14
Interest-bearing checking	25,277	2	0.03	22,098	4	0.07
Money market	30,765	2	0.02	29,146	8	0.12
Time deposits	4,527	7	0.55	6,150	16	1.08
Other deposits	1	—	1.50	13	—	1.87
Total interest-bearing deposits ⁽⁶⁾	74,898	15	0.08	68,342	32	0.19
Long-term borrowings	2,774	26	3.65	5,829	39	2.63
Total interest-bearing liabilities	77,672	41	0.20	74,171	71	0.38
Non-interest-bearing deposits ⁽⁶⁾	56,999	—	—	48,314	—	—
Total funding sources	134,671	41	0.12	122,485	71	0.23
Net interest spread ⁽²⁾			<u>2.67</u>			<u>2.97</u>
Other liabilities	2,506			2,576		
Shareholders' equity	18,453			17,759		
Noncontrolling interest	—			25		
	<u>\$ 155,630</u>			<u>\$ 142,845</u>		
Net interest income /margin on a taxable-equivalent basis ⁽⁷⁾		<u>\$ 976</u>	<u>2.76 %</u>		<u>\$ 1,000</u>	<u>3.13 %</u>

(1) Amounts have been calculated using whole dollar values.

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

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

(4) Interest income includes net loan fees of \$34 million and \$21 million for the three months ended September 30, 2021 and 2020, respectively.

(5) Due to the impact of interest bearing deposits in other banks on the balance sheet in 2021, other earning assets and interest bearing deposits in other banks for prior periods have been revised to reflect the 2021 presentation.

(6) 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 0.04% and 0.11% for the three months ended September 30, 2021 and 2020, respectively.

(7) The computation of taxable-equivalent net interest income is based on the statutory federal income tax rate of 21% for both September 30, 2021 and 2020 adjusted for applicable state income taxes net of the related federal tax benefit.

Nine Months Ended September 30						
	2021			2020		
	Average Balance	Income/Expense	Yield/Rate ⁽¹⁾	Average Balance	Income/Expense	Yield/Rate ⁽¹⁾
(Dollars in millions; yields on taxable-equivalent basis)						
Assets						
Earning assets:						
Federal funds sold and securities purchased under agreements to resell	\$ 4	\$ —	0.14 %	\$ —	\$ —	— %
Debt securities ⁽²⁾	28,381	399	1.88	24,184	446	2.46
Loans held for sale	1,341	31	3.07	824	19	3.12
Loans, net of unearned income ⁽³⁾⁽⁴⁾	84,214	2,584	4.08	88,199	2,741	4.13
Interest bearing deposits in other banks	21,695	20	0.13	5,778	6	0.15
Other earning assets ⁽⁵⁾	1,293	25	2.51	1,417	26	2.43
Total earning assets	136,928	3,059	2.97	120,402	3,238	3.58
Unrealized gains (losses) on securities available for sale, net ⁽²⁾	722			896		
Allowance for loan losses	(1,870)			(1,829)		
Cash and due from banks	1,987			2,053		
Other non-earning assets	14,553			14,316		
	<u>\$ 152,320</u>			<u>\$ 135,838</u>		
Liabilities and Stockholders' Equity						
Interest-bearing liabilities:						
Savings	\$ 13,535	14	0.14	\$ 9,973	11	0.15
Interest-bearing checking	24,835	6	0.03	21,046	32	0.20
Money market	30,322	7	0.03	27,395	46	0.22
Time deposits	4,830	24	0.65	6,712	63	1.27
Other deposits	3	—	1.20	333	4	1.58
Total interest-bearing deposits ⁽⁵⁾	73,525	51	0.09	65,459	156	0.32
Federal funds purchased and securities sold under agreements to repurchase	—	—	—	50	1	1.39
Other short-term borrowings	—	—	—	1,064	9	1.13
Long-term borrowings	2,954	79	3.55	7,261	147	2.68
Total interest-bearing liabilities	76,479	130	0.23	73,834	313	0.57
Non-interest-bearing deposits ⁽⁵⁾	55,163	—	—	42,323	—	—
Total funding sources	131,642	130	0.13	116,157	313	0.36
Net interest spread ⁽²⁾			<u>2.75</u>			<u>3.01</u>
Other liabilities	2,513			2,470		
Shareholders' equity	18,165			17,203		
Noncontrolling interest	—			8		
	<u>\$ 152,320</u>			<u>\$ 135,838</u>		
Net interest income and other financing income/margin on a taxable-equivalent basis ⁽⁷⁾		<u>\$ 2,929</u>	<u>2.86 %</u>		<u>\$ 2,925</u>	<u>3.24 %</u>

(1) Amounts have been calculated using whole dollar values.

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

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

(4) Interest income includes net loan fees of \$108 million and \$26 million for the nine months ended September 30, 2021 and 2020, respectively.

(5) Due to the impact of interest bearing deposits in other banks on the balance sheet in 2021, other earning assets and interest bearing deposits in other banks for prior periods have been revised to reflect the 2021 presentation.

(6) 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 0.05% and 0.19% for the nine months ended September 30, 2021 and 2020, respectively.

(7) The computation of taxable-equivalent net interest income is based on the statutory federal income tax rate of 21% for both September 30, 2021 and 2020 adjusted for applicable state income taxes net of the related federal tax benefit.

Net interest income decreased for the third quarter 2021 compared to the same period in 2020 and slightly increased for the first nine months of 2021 compared to the same period in 2020. The net interest income decline in the third quarter was due to lower long-term rates, but was partially offset by lower deposit and borrowing costs, active cash management strategies, and an outsized credit interest recovery during the quarter. Interest income on loans for the first three and nine months of 2021 and 2020 was aided by the Company's hedging strategy, with benefits expanding as more notional became active throughout 2020. The hedges had a positive impact of approximately \$314 million for the first nine months of 2021 compared to \$163 million in the same period of 2020.

Net interest margin declined for both the third quarter and first nine months of 2021, compared to the same periods in 2020, primarily driven by continued elevated liquidity as indicated by higher cash balances. Regions continues to prudently manage its excess liquidity balances through extinguishments of long-term borrowings and securities purchases. Net interest margin for the third quarter and first nine months of 2021 compared to the same periods of 2020 was negatively impacted by the repricing of fixed-rate loan portfolios and the securities portfolio at lower market interest rates. Excluding the impact of PPP lending and excess cash, which Regions considers to be balances in excess of \$750 million, adjusted net interest margin (non-GAAP) for the third quarter 2021 and the nine months ended September 30, 2021 compared to the same periods in 2020 declined modestly to 3.30% and 3.34%, respectively. See Table 19 "GAAP to Non-GAAP Reconciliations" for a reconciliation of adjusted net interest margin.

Exclusive of the impact from PPP loans, excess cash, an outsized credit recovery experienced in the third quarter, and the fourth quarter EnerBank and Sabal acquisitions, net interest income is expected to be stable in the fourth quarter; aided by hedging, balance sheet management strategies, and deposit rates.

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 where all rates fall to levels consistent with historical minimums. 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 September 30, 2021, Regions was asset sensitive to both gradual and instantaneous parallel yield curve shifts as compared to the base case for the 12-month measurement horizon ending September 2022.

The third quarter of 2021 continued the trend of growth in low-cost deposits and cash balances held with the Federal Reserve. Retention of these balance sheet liquidity inflows is uncertain and much of the recent deposit growth may be more rate sensitive under a rising rate scenario. Therefore, additional sensitivity analysis focused on pandemic-related "surge" deposit pricing behavior and retention is outlined in Table 21.

The estimated exposure associated with the rising and falling rate scenarios in the table below reflects the combined impacts of movements in short-term and long-term interest rates. Currently, net interest income sensitivity to short-term rates is approximately neutral when excluding pandemic-related deposit increases; however, it will increase in 2023 and beyond as receive fixed interest rate swap hedges begin to mature. An increase or reduction in short-term interest rates (such as the Fed Funds rate, the rate of Interest on Excess Reserves and 1-month LIBOR) will drive the yield on assets and liabilities contractually tied to such rates higher or lower. Under either environment, it is expected that changes in funding costs and balance sheet hedging income will completely offset the change in asset yields until those hedges mature. Importantly, the potential to retain "surge" deposits with lower than expected repricing behavior represents an opportunity for further net interest income growth in the increasing rate scenario as well.

Net interest income remains exposed to intermediate yield curve tenors. While this was a headwind to net interest income during the pandemic, it also represents a tailwind to net interest income growth as the yield curve steepens. An increase in intermediate and long-term interest rates (such as intermediate to longer-term U.S. Treasuries, swap and mortgage rates) will drive yields higher on certain fixed rate, newly originated or renewed loans, increase prospective yields on certain investment

portfolio purchases, and reduce amortization of premium expense on existing securities in the investment portfolio. The opposite is true in an environment where intermediate and long-term interest rates fall. Approximately 70% of fixed rate asset production is at the 5-year tenor point or shorter.

The interest rate sensitivity analysis presented below in Table 21 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 and industry liquidity, 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 management's best estimate for balance sheet growth in the coming 12 months. However, the behavior of pandemic-related "surge" deposits under a rising rate scenario is uncertain. Therefore, Table 21 includes two balance sheet scenarios to help inform a potential range of outcomes. The first is an opportunity scenario, and assumes that these deposits behave more like stable, legacy balances, which is consistent with historical disclosures. The second is a reduction scenario assuming that these depositors will be more sensitive to rate, requiring a higher interest rate in order to hold their balances with the bank. For this scenario, "surge" deposits are assumed to encompass all balance growth on legacy accounts evidenced from February 2020 to September 2021, or approximately \$27 billion. These deposits, including non-interest bearing products, are attributed with a 75% repricing beta in rising rate scenarios. Importantly, the impact to net interest income under a changing rate environment is the same whether the "surge" deposit balances are held at a higher beta or the balances attrite and the funding is replaced with wholesale sources. Given the evolving nature of the environment, estimates have been conservatively derived. Should the balances remain with the Company longer or demonstrate less sensitivity to interest rates, there is potential for upside (e.g. the opportunity scenario). The disclosure in Table 21 does not prescribe a view as to the longevity of surge deposits on the balance sheet.

The behavior of deposit pricing in response to changes in interest rate levels is largely informed by analyses of prior rate cycles. In the base case scenario and falling rate scenarios in Table 21, interest-bearing deposit rates remain in the single digits. The deposit beta model is dynamic across both interest rate level and time. Currently, the Scenario One gradual +100 basis point shock outlined in the table below includes an approximate 20% to 25% interest-bearing deposit beta for legacy deposits. Again, the "surge" deposit interest-bearing deposit beta is bookended in each scenario, assuming legacy betas and a 75% beta, respectively. Deposit pricing outperformance or underperformance of 5% in that scenario would increase or decrease net interest income by approximately \$30 million, respectively.

In rising rate scenarios only, management assumes that the mix of legacy deposits will change versus the base case 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 \$3 billion over 12 months in the gradual +100 basis point scenario in Table 21.

The table below summarizes Regions' positioning over the next 12 months in various parallel yield curve shifts (i.e., including all yield curve tenors). The scenarios are inclusive of all interest rate hedging activities. More information regarding hedges is disclosed in Table 22 and its accompanying description. Importantly, outstanding receive-fixed cash flow hedges begin to mature in December 2022. While those maturities are outside of the 12-month horizon of the analysis outlined in Table 21, the hedge maturity profile will begin to add asset sensitivity at a time when markets currently expect the FOMC to begin to increase short-term interest rates. The EnerBank acquisition, which closed October 1, 2021, is excluded from the analysis outlined in Table 21. EnerBank is initially estimated to have little impact on Regions' interest rate risk position. Over time, as its fixed-rate, brokered time deposit funding matures and fixed-rate loan balances grow, EnerBank is expected to assist Regions in being modestly less asset sensitive. The combined impacts from hedge maturities and the EnerBank acquisition will add rising rate exposure (i.e. increase sensitivity) to the interest rate shocks in Table 21 in 2023 and beyond.

Table 21—Interest Rate Sensitivity

	Scenario One: Estimated Annual Change in Net Interest Income September 30, 2021 ⁽¹⁾⁽²⁾⁽³⁾	Scenario Two: Estimated Annual Change in Net Interest Income September 30, 2021 ⁽¹⁾⁽²⁾⁽⁴⁾
	(In millions)	
<u>Gradual Change in Interest Rates</u>		
+ 200 basis points	\$474	\$215
+ 100 basis points	258	128
- 100 basis points (floored) ⁽⁵⁾	(77)	(77)
<u>Instantaneous Change in Interest Rates</u>		
+ 200 basis points	\$606	\$287
+ 100 basis points	346	186
- 100 basis points (floored) ⁽⁵⁾	(100)	(100)

- (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. While not included in the table, hedge maturities partially offset by EnerBank impacts are expected to add rising rate exposure by 2023.
- (2) All cash flow hedges are fully reflected within the measurement horizon (See Table 23 for additional information regarding hedge maturity dates).
- (3) Scenario assumes all deposits (including "surge" deposits) perform consistently with historical experiences.
- (4) Scenario accounts for uncertainty in "surge" deposit balances. Assumes a 75% beta on "surge" balances, calculated as legacy deposit growth experienced since February 2020 (\$27 billion as of September 2021).
- (5) The -100 basis point (floored) scenario represents a rate shock where all rates are floored at historical lows observed during the pandemic.

Regions has 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, equates to the lesser of the shock scenario amount, or a rate equal to the historical all-time minimum. Further, the scenarios presented do not allow for negative rates. The falling rate scenarios in Table 21 above quantify the expected impact for both gradual and instantaneous shocks under this environment.

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. Interest rate swaps are contractual agreements typically entered into to exchange fixed for variable rate (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 22—Hedging Derivatives by Interest Rate Risk Management Strategy

	September 30, 2021				
	Notional Amount	Maturity (Years)	Weighted-Average		Strike Price ⁽¹⁾
			Receive Rate ⁽¹⁾	Pay Rate ⁽¹⁾	
	(Dollars in millions)				
Derivatives in fair value hedging relationships:					
Receive fixed/pay variable swaps	\$ 1,400	5.0	0.6 %	0.1 %	— %
Derivatives in cash flow hedging relationships:					
Receive fixed/pay variable swaps	17,000	1.9	0.8	0.1	—
Interest rate floors	3,500	2.8	—	—	2.2
Total derivatives designated as hedging instruments	\$ 21,900	2.3	0.7 %	0.1 %	2.2 %

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

As of September 30, 2021, all of the cash flow hedging relationships designated in Table 22 above were active. Total cash flow hedges have a current weighted average maturity of approximately 2.3 years. During the third quarter, Regions shortened a portion of its future hedge exposure to balance its future interest rate risk needs with the evolving macro-economic environment and its changing balance sheet. Swap notionals of \$5 billion with a weighted-average life of 4.4 years were re-structured to mature in December 2022. Year-to-date, total notional of \$11.3 billion has been replaced with shorter maturity swaps. In addition, longer maturity receive fixed swap termination trades of \$1.3 billion in the second quarter of 2021 were intended to offset some of the sensitivity impact from adding \$2.0 billion fixed-rate securities during the second quarter.

Importantly, the gain on unwound hedges is deferred and amortized into net interest income over the life of the original hedge, creating no change in the expected net interest income profile relative to the discounted future cash flows under market forward rates at the time the hedges are unwound. These changes and the resulting hedge maturity profile allow for an increasing asset sensitive balance sheet position when the FOMC seems more likely to move short-term rates higher. Further, the industry transition away from LIBOR rates is not expected to materially impact either hedge effectiveness or income recognition on the Company's current portfolio of hedges.

The following table presents cash flow hedge notional amounts outstanding at each year-end period. The initial hedge maturities begin in December 2022.

Table 23—Schedule of Notional for Cash Flow Hedging Derivatives

	Notional Amount				
	Years Ended				
	2021 ⁽¹⁾	2022 ⁽¹⁾	2023	2024	2025
(In millions)					
Receive fixed/pay variable swaps	\$ 17,000	\$ 8,000	\$ 5,450	\$ 4,450	\$ —
Interest rate floors	3,500	3,500	3,500	1,000	250
Cash flow hedges	<u>\$ 20,500</u>	<u>\$ 11,500</u>	<u>\$ 8,950</u>	<u>\$ 5,450</u>	<u>\$ 250</u>

(1) All cash flow hedges active within the 12-month measurement horizon are included in the income sensitivity levels as disclosed in Table 21.

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, 2020 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 income.

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 8 “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

On March 5, 2021, the FCA announced that LIBOR will not be available for use after December 31, 2021. Further, existing contracts referencing 1-week or 2-month USD LIBOR settings must be remediated no later than December 31, 2021. Existing contracts referencing all other USD LIBOR settings must be remediated no later than June 30, 2023. Regions holds instruments that may be impacted by the discontinuance of LIBOR, including loans, investments, derivative products, floating-rate obligations, and other financial instruments that use LIBOR as a benchmark rate. However, Regions’ LIBOR exposure is primarily in settings other than 1-week or 2-month USD LIBOR. 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 of LIBOR. Steps to mitigate risks associated with the transition are being overseen by Regions’ Executive LIBOR Steering Committee. Regions is following industry efforts to develop alternative reference rates and is operationally ready to offer new benchmarks as they are adopted by regulatory agencies and industry groups.

Regions has taken proactive steps to facilitate the transition on behalf of customers, which include:

- The adoption and ongoing implementation of fallback provisions that provide for the determination of replacement rates for LIBOR-linked financial products.
- The adoption of new products linked to alternative reference rates, such as adjustable-rate mortgages, consistent with guidance provided by the US regulators, ARRC, and GSEs.
- The discontinuation of LIBOR-based commercial lending after mid-September. The Company has already made preparations to provide multiple alternative rates based on market competition and demand. Regions has participated in, evaluated, or made preparations to lend with a number of other indexes, including SOFR, BSBY, and AMERIBOR.

Regions continues to evaluate its financial and operational infrastructure in its effort to transition all financial and strategic processes, systems, and models to reference rates other than LIBOR. Regions has also implemented processes to educate all client-facing associates and coordinate communications with customers regarding the transition.

As of September 30, 2021, Regions had approximately \$33.7 billion of total outstanding commercial and investor real estate loans and approximately \$1 billion of total consumer loans that reference LIBOR. Regions also has securities within its investment portfolio of \$368 million that reference LIBOR. Furthermore, Regions’ Series B and C preferred stock reference LIBOR when their dividend rate begins to float after 2023 and had total carrying values of \$433 million and \$490 million, respectively, as of September 30, 2021.

In the third quarter of 2020, Regions adopted temporary accounting relief for affected transactions that reference LIBOR. See Note 1 “Summary of Significant Accounting Policies” in Regions’ Annual Report on Form 10-K for the year ended December 31, 2020 for details.

LIQUIDITY

Liquidity is an important factor in the financial condition of Regions and sustains Regions’ ability to meet the needs of the Company and its customers. Regions’ goal in liquidity management is to maintain liquidity sources and reserves sufficient to satisfy the cash flow requirements of depositors and borrowers, under normal and stressed conditions. Accordingly, Regions maintains a variety of liquidity sources, as further described below. Furthermore, Regions performs specific procedures,

including scenario analyses and stress testing to evaluate and maintain appropriate levels of available liquidity in alignment with liquidity risk.

Regions' operation of its business provides a generally balanced liquidity base which is comprised of customer assets, consisting principally of loans, and funding provided by customer deposits and borrowed funds. Maturities in the loan portfolio provide a steady flow of funds, and are supplemented by Regions' relatively steady deposit base.

The securities portfolio serves as a primary source and storehouse of liquidity. Proceeds from maturities and principal and interest payments of securities provide a continual flow of funds available for cash needs (see Note 2 "Debt Securities" to the consolidated financial statements). Furthermore, the highly liquid nature of the portfolio (for example, the agency guaranteed MBS portfolio) can be readily used as a source of cash through various secured borrowing arrangements. Cash reserves, liquid assets and secured borrowing capabilities (including borrowing capacity at the FHLB, as discussed below) aid in the management of liquidity in normal and stressed conditions, and/or meeting the need of contingent events such as obligations related to potential litigation. (See Note 11 "Commitments, Contingencies and Guarantees" to the consolidated financial statements for additional discussion of the Company's funding requirements.) Liquidity needs can also be met by borrowing funds in national money markets, though Regions does maintain limits on short-term unsecured funding due to the volatility that can affect such markets.

The balance with the FRB is the primary component of the balance sheet line item, "interest-bearing deposits in other banks." At September 30, 2021, Regions had approximately \$25.8 billion in cash on deposit with the FRB, an increase from approximately \$16.4 billion at December 31, 2020, which has continued to be impacted by 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 September 30, 2021, based on assets pledged as collateral on that date, was \$12.8 billion.

Regions' financing arrangement with the FHLB adds additional flexibility in managing the Company's liquidity position. As of September 30, 2021, Regions had no FHLB borrowings and its total borrowing capacity from the FHLB totaled approximately \$16.2 billion. FHLB borrowing capacity is contingent on the amount of collateral pledged to the FHLB. Regions Bank pledges certain securities and loans as collateral, which comprise its FHLB borrowing capacity. Additionally, investment in FHLB stock is required based on membership and 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 2020 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. See Note 5 "Shareholders' Equity and Accumulated Other Comprehensive Income" to the consolidated financial statements for further information.

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 \$1.5 billion at September 30, 2021. Overall liquidity 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.

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, 2020 for a discussion of risk characteristics of each loan type.

INFORMATION SECURITY RISK

Regions faces 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, which have increased in recent years. This trend is expected to continue for a number of reasons, including increases in technology-based products and services used by us and our customers, the growing use of mobile, cloud, and other emerging technologies, 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.

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.

Even when 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 that enable customer transactions. The related fraud losses, as well as the costs of re-issuing new cards, may impact Regions' financial results. In addition, Regions also relies on some vendors to provide certain business infrastructure components, 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. Refer to the "Information Security Risk" section in Management's Discussion and Analysis included in the Annual Report on Form 10-K for the year ended December 31, 2020 for further discussion of Regions' information security risk.

PROVISION FOR (BENEFIT FROM) CREDIT LOSSES

The provision for (benefit from) 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. The benefit from credit losses totaled \$155 million in the third quarter of 2021 compared to the provision for credit losses of \$113 million during the third quarter of 2020. The benefit from credit losses totaled \$634 million for the first nine months of 2021 compared to the provision for credit losses of \$1.4 billion for the first nine months of 2020. Refer to the "Allowance" section for further detail.

NON-INTEREST INCOME

Table 24—Non-Interest Income

	Three Months Ended September 30		Quarter-to-Date Change 9/30/2021 vs. 9/30/2020	
	2021	2020	Amount	Percent
(Dollars in millions)				
Service charges on deposit accounts	\$ 162	\$ 152	\$ 10	6.6 %
Card and ATM fees	129	115	14	12.2 %
Mortgage income	50	108	(58)	(53.7)%
Capital markets income	87	61	26	42.6 %
Investment management and trust fee income	69	62	7	11.3 %
Bank-owned life insurance	18	17	1	5.9 %
Investment services fee income	26	23	3	13.0 %
Commercial credit fee income	23	20	3	15.0 %
Gain on equity investment ⁽¹⁾	—	44	(44)	(100.0)%
Securities gains (losses), net	1	3	(2)	(66.7)%
Market value adjustments on employee benefit assets - other	5	14	(9)	(64.3)%
Other miscellaneous income	79	36	43	119.4 %
	<u>\$ 649</u>	<u>\$ 655</u>	<u>\$ (6)</u>	<u>(0.9)%</u>
	Nine Months Ended September 30		Year-to-Date 9/30/2021 vs. 9/30/2020	
	2021	2020	Amount	Percent
(Dollars in millions)				
Service charges on deposit accounts	\$ 482	\$ 461	\$ 21	4.6 %
Card and ATM fees	372	321	51	15.9 %
Mortgage income	193	258	(65)	(25.2)%
Capital markets income	248	165	83	50.3 %
Investment management and trust fee income	204	186	18	9.7 %
Bank-owned life insurance	68	52	16	30.8 %
Investment services fee income	78	62	16	25.8 %
Commercial credit fee income	68	55	13	23.6 %
Gain on equity investment ⁽¹⁾	3	44	(41)	(93.2)%
Securities gains (losses), net	3	4	(1)	(25.0)%
Market value adjustments on employee benefit assets - other	20	5	15	300.0 %
Other miscellaneous income	170	100	70	70.0 %
	<u>\$ 1,909</u>	<u>\$ 1,713</u>	<u>\$ 196</u>	<u>11.4 %</u>

NM - Not Meaningful

(1) The 2021 amount is a gain on the sale of an equity investment, whereas the 2020 amount is a valuation gain on the investment that was sold in the first quarter 2021.

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 increases during the third quarter and the first nine months of 2021 compared to the same periods of 2020 were the result of elevated consumer spending in 2021 as the pace of economic activity continued to accelerate. While service charge revenue improved, changes to customer spending behaviors as a result of the pandemic, combined with enhancements to overdraft practices and transaction posting procedures, are expected to keep service charges approximately ten to fifteen percent below pre-pandemic levels. See the "Third 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. Card and ATM fees increased in both the third quarter and the first nine months of 2021 compared to the same periods of 2020, driven by increased debit card spending and transaction volume.

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 decrease in mortgage income in the third quarter of 2021 compared to the same period in 2020 was due primarily to lower mortgage refinance production. The decrease in mortgage income for the nine months ended September 30, 2021 was due to lower mortgage refinance production in the second and third quarters compared to the elevated production volume experienced in the same periods in 2020, as well as losses on mortgage servicing rights and related economic hedges.

Capital markets income—Capital markets income primarily relates to capital raising activities that include securities underwriting and placement, loan syndication, as well as foreign exchange, derivatives, merger and acquisition and other advisory services. Capital markets income increased in the third quarter of 2021 and the first nine months of 2021 compared to the same periods in 2020 primarily due to increases in merger and acquisition advisory fees and loan syndication revenue. Additionally, capital markets income for the nine months ended 2021 compared to the same period in 2020 benefited from increases in securities and underwriting placement fees and fees generated from the placement of permanent financing for real estate.

Investment management and trust fee income—Investment management and trust fee income represents income from asset management services provided to individuals, businesses and institutions. Investment management and trust fee income increased in the third quarter and first nine months of 2021 compared to the same periods of 2020 due primarily to favorable market conditions and an increase in sales.

Bank-owned life insurance—Bank-owned life insurance income primarily represents income earned from the appreciation of the cash surrender value of insurance contracts held and the proceeds of insurance benefits. Bank-owned life insurance increased during the the first nine months of 2021 compared to the same period of 2020 due primarily to an \$18 million individual BOLI claim benefit recognized in the second quarter of 2021.

Investment services fee income—Investment services fee income represents income earned from investment advisory services. Investment services fee income increased during the third quarter and the first nine months of 2021 compared to the same periods of 2020 due primarily to stronger financial advisor production and favorable market conditions.

Commercial credit fee income—Commercial credit fee income includes letters of credit fees and unused commercial commitment fees. Commercial credit fee income increased during the first nine months of 2021 compared to the same period of 2020 primarily driven by an increase in unused commercial line fees. While line utilization reached an inflection point in the second quarter of 2021, overall credit line utilization remains lower than the same period of 2020.

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 are the reflection of market value variations related to assets held for certain employee benefits. The adjustments are offset in salaries and benefits.

Other miscellaneous income—Other miscellaneous income includes net revenue from affordable housing, valuation adjustments to equity investments (other than the item shown separately above), 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. Other miscellaneous income increased in the third quarter and the first nine months of 2021 compared to the same periods of 2020 primarily due to increases in commercial loan and leasing related fee income generated from the 2020 acquisition of Ascentium, SBIC income and increases in the values of certain other equity investments.

NON-INTEREST EXPENSE

Table 25—Non-Interest Expense

	Three Months Ended September 30		Quarter-to-Date Change 9/30/2021 vs. 9/30/2020	
	2021	2020	Amount	Percent
(Dollars in millions)				
Salaries and employee benefits	\$ 552	\$ 525	\$ 27	5.1 %
Equipment and software expense	90	89	1	1.1 %
Net occupancy expense	75	80	(5)	(6.3)%
Outside services	38	44	(6)	(13.6)%
Marketing	23	22	1	4.5 %
Professional, legal and regulatory expenses	21	22	(1)	(4.5)%
Credit/checkcard expenses	16	12	4	33.3 %
FDIC insurance assessments	11	10	1	10.0 %
Branch consolidation, property and equipment charges	—	3	(3)	(100.0)%
Visa class B shares expense	4	5	(1)	(20.0)%
Loss on early extinguishment of debt	20	2	18	NM
Other miscellaneous expenses	88	82	6	7.3 %
	<u>\$ 938</u>	<u>\$ 896</u>	<u>\$ 42</u>	<u>4.7 %</u>
	Nine Months Ended September 30		Year-to-Date 9/30/2021 vs. 9/30/2020	
	2021	2020	Amount	Percent
(Dollars in millions)				
Salaries and employee benefits	\$ 1,630	\$ 1,519	\$ 111	7.3 %
Equipment and software expense	269	258	11	4.3 %
Net occupancy expense	227	235	(8)	(3.4)%
Outside services	115	133	(18)	(13.5)%
Marketing	74	68	6	8.8 %
Professional, legal and regulatory expenses	65	68	(3)	(4.4)%
Credit/checkcard expenses	47	37	10	27.0 %
FDIC insurance assessments	32	36	(4)	(11.1)%
Branch consolidation, property and equipment charges	5	24	(19)	(79.2)%
Visa class B shares expense	14	18	(4)	(22.2)%
Loss on early extinguishment of debt	20	8	12	150.0 %
Other miscellaneous expenses	266	252	14	5.6 %
	<u>\$ 2,764</u>	<u>\$ 2,656</u>	<u>\$ 108</u>	<u>4.1 %</u>

NM - Not Meaningful

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. During the third quarter and first nine months of 2021, salaries and benefits expense increased compared to the same periods in 2020 primarily driven by higher variable-based compensation associated with elevated fee income. Also contributing to the increase for the first nine months of 2021 was an increase in 401(k) and other benefits expenses as a result of positive market valuation adjustments. A decline in base salaries in the third quarter and first nine months of 2021 partially offset the increases in total salaries and benefits expense. Full-time equivalent headcount decreased to 18,963 at September 30, 2021 from 19,766 at September 30, 2020, reflecting the continuing impact of the Company's efficiency initiatives implemented as part of its strategic priorities.

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 third quarter and the first nine months of 2021 compared to the same periods in 2020 due primarily to Regions exiting a third party lending relationship.

Credit/Checkcard expenses—Credit/Checkcard expenses include credit and checkcard fraud and expenses. Credit/checkcard increased in the first nine months of 2021 compared to the same period in 2020 primarily due to an increase in debit card 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.

Loss on early extinguishment of debt—During the third quarter of 2021, Regions redeemed its 3.80% senior bank notes and incurred related early extinguishment pre-tax charges totaling \$20 million. During the first nine months of 2020, Regions incurred early extinguishment charges of \$8 million related to the redemption of two Regions Bank senior notes and early terminations of FHLB advances.

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.

INCOME TAXES

The Company's income tax expense for the three months ended September 30, 2021 was \$180 million compared to \$104 million for the three months ended September 30, 2020, resulting in effective tax rates of 21.7 percent and 16.5 percent, respectively. The income tax expense for the nine months ended September 30, 2021 was \$591 million compared to \$99 million for the nine months ended September 30, 2020, resulting in effective tax rates of 22.1 percent and 17.1 percent, respectively. The Company expects the full-year tax rate to range from approximately 22 percent to 23 percent for 2021, excluding the impact of unanticipated discrete items and the impact of potential tax legislation.

The effective tax rate is affected by many factors including, but not limited to, the level of pre-tax income, the mix of income between various tax jurisdictions with differing tax rates, enacted tax legislation, net tax benefits related to affordable housing investments, bank-owned life insurance income, 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.

At September 30, 2021, the Company reported a net deferred tax liability of \$430 million compared to a net deferred tax liability of \$505 million at December 31, 2020. The decrease in the net deferred tax liability was primarily due to the decrease in unrealized gains on available for sale securities and derivative instruments, which was partially offset by a decrease in the deferred tax asset related to allowance for loan losses.

ASCENTIU 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, and as of September 30, 2021, \$30 million of long-term debt remained. Assets acquired and liabilities assumed were recorded at estimated fair value.

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 nominal discount. 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 were immaterial.

In conjunction with the acquisition, Regions initially recognized goodwill of \$348 million and other intangible assets of \$47 million. Purchase accounting adjustments of \$16 million reduced goodwill during the measurement period. 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.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The information presented in the "Market Risk" section of Part 1, Item 2 is incorporated herein by reference.

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 September 30, 2021, 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 11, "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

There are no material changes to the risk factors set forth in Regions' Annual Report on Form 10-K for the year ended December 31, 2020.

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

As part of the Company's capital plan, on April 21, 2021, Regions announced the Board's authorization of the repurchase of up to \$2.5 billion of the Company's common stock, permitting purchases from the second quarter of 2021 through the first quarter of 2022. Regions did not repurchase any outstanding common stock during the three month period ended September 30, 2021 due to a temporary pause in share repurchases until the EnerBank closing on October 1, 2021.

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 the Form 10-Q filed by registrant on August 6, 2012.](#)
- 3.2 [Certificate of Designations, incorporated by reference to Exhibit 3.3 to the Form 8-A filed by registrant on April 28, 2014.](#)
- 3.3 [Certificate of Designations, incorporated by reference to Exhibit 3.4 to the Form 8-A filed by registrant on April 29, 2019.](#)
- 3.4 [Certificate of Designations, incorporated by reference to Exhibit 3.1 to the Form 8-K filed by registrant on June 5, 2020.](#)
- 3.5 [Certificate of Designations, incorporated by reference to Exhibit 3.6 to the Form 8-A filed by registrant on May 3, 2021.](#)
- 3.6 [By-laws as amended and restated, incorporated by reference to Exhibit 3.2 to the Form 8-K filed by registrant on July 21, 2021.](#)
- 10.1 [Amendment Number Two to the Regions Financial Corporation Post 2006 Supplemental Executive Retirement Plan Amended and Restated as of January 1, 2020, incorporated by reference to Exhibit 10.1 to the Form 8-K filed by registrant on October 19, 2021.](#)
- 10.2 [Amendment One to the Regions Financial Corporation Non-Qualified Excess 401\(k\) Plan \(Amended and Restated as of June 1, 2020\).](#)
- 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 for the quarter ended September 30, 2021, formatted in Inline XBRL: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Income; (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 for the quarter ended September 30, 2021, 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: November 4, 2021

Regions Financial Corporation

/s/ HARDIE B. KIMBROUGH, JR.

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