

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, 2020

or

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

For the transition period from _____ **to** _____

Commission File Number: 000-55106

BBVA USA Bancshares, Inc.

(Exact name of registrant as specified in its charter)

Texas

(State or other jurisdiction of
incorporation or organization)

20-8948381

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

2200 Post Oak Blvd. Houston, Texas

(Address of principal executive offices)

77056

(Zip Code)

(205) 297-3000

(Registrant's telephone number, including area code)

Not Applicable

(Former name or former address, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act: None

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.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class

Common Stock (par value \$0.01 per share)

Outstanding as of October 23, 2020

222,963,891 shares

Explanatory Note

The registrant meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this report with certain reduced disclosures as permitted by those instructions.

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Glossary of Acronyms and Terms

The following listing provides a comprehensive reference of common acronyms and terms used throughout the document:

AFS	Available For Sale
ASC	Accounting Standards Codification
ASC 326	ASU 2016-13, <i>Financial Instruments - Credit Losses</i>
ASU	Accounting Standards Update
Basel III	Global regulatory framework developed by the Basel Committee on Banking Supervision
Bank	BBVA USA
BBVA	Banco Bilbao Vizcaya Argentaria, S.A.
BBVA Group	BBVA and its consolidated subsidiaries
BOLI	Bank Owned Life Insurance
BSI	BBVA Securities Inc.
Cash Flow Hedge	A hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability
CD	Certificate of Deposit and/or time deposits
CET1	Common Equity Tier 1
CET1 Risk-Based Capital Ratio	Ratio of Common Equity Tier 1 capital to risk-weighted assets
CFPB	Consumer Financial Protection Bureau
Company	BBVA USA Bancshares, Inc. and its subsidiaries
CRA	Community Reinvestment Act
ERM	Enterprise Risk Management
EVE	Economic Value of Equity
Exchange Act	Securities and Exchange Act of 1934, as amended
Fair Value Hedge	A hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
Federal Reserve Board	Board of Governors of the Federal Reserve System
FHC	Financial holding company
FHLB	Federal Home Loan Bank
FICO	Fair Isaac Corporation
Fitch	Fitch Ratings
FNMA	Federal National Mortgage Association
HTM	Held To Maturity
IHC	Top-tier U.S. intermediate holding company
Large FBO	Foreign Banking Organization with \$100 billion or more in global total consolidated assets
LCR	Liquidity Coverage Ratio
Leverage Ratio	Ratio of Tier 1 capital to quarterly average on-balance sheet assets
Moody's	Moody's Investor Services, Inc.
MRA	Master Repurchase Agreement
MSR	Mortgage Servicing Rights
OREO	Other Real Estate Owned
OIS	Overnight Index Swap
Parent	BBVA USA Bancshares, Inc.
PPP	Paycheck Protection Program
Potential Problem Loans	Commercial loans rated substandard or below, which do not meet the definition of nonaccrual, TDR, or 90 days past due and still accruing

SBA	Small Business Administration
SBIC	Small Business Investment Company
SEC	Securities and Exchange Commission
Series A Preferred Stock	Floating Non-Cumulative Perpetual Preferred Stock, Series A
SOFR	Secured Overnight Financing Rate
S&P	Standard and Poor's Rating Services
Tailoring Rules	Rules adopted by the Federal Reserve Board on October 10, 2019 that adjust the thresholds at which certain enhanced prudential standards apply to bank holding companies and rules adopted jointly by the Federal Reserve Board, OCC and FDIC that adjust the thresholds at which certain capital and liquidity requirements apply to bank holding companies.
TBA	To be announced
TDR	Troubled Debt Restructuring
Tier 1 Risk-Based Capital Ratio	Ratio of Tier 1 capital to risk-weighted assets
Total Risk-Based Capital Ratio	Ratio of Total capital (the sum of Tier 1 capital and Tier 2 capital) to risk-weighted assets
U.S.	United States of America
U.S. Treasury	United States Department of the Treasury
U.S. GAAP	Accounting principles generally accepted in the U.S.

Unless otherwise specified, the terms “we,” “us,” “our,” and the “Company” are used to refer to BBVA USA Bancshares, Inc. and its subsidiaries, or any one or more of them, as the context may require. The term “Parent” refers to BBVA USA Bancshares, Inc. The term “BBVA” refers to Banco Bilbao Vizcaya Argentaria, S.A., the parent company of BBVA USA Bancshares, Inc.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements about the Company and its industry that involve substantial risks and uncertainties. Statements other than statements of current or historical fact, including statements regarding the Company's future financial condition, results of operations, business plans, liquidity, cash flows, projected costs, and the impact of any laws or regulations applicable to the Company, are forward-looking statements. Words such as “anticipates,” “believes,” “estimates,” “expects,” “forecasts,” “intends,” “plans,” “projects,” “may,” “will,” “should,” and other similar expressions are intended to identify these forward-looking statements. Such statements are subject to factors that could cause actual results to differ materially from anticipated results. Such factors include, but are not limited to, the following:

- national, regional and local economic conditions may be less favorable than expected, resulting in, among other things, increased charge-offs of loans, higher provisions for credit losses and/or reduced demand for the Company's services;
- disruptions to the credit and financial markets, either nationally or globally;
- the COVID-19 pandemic may continue to have an adverse impact on the Company's business and financial results;
- decline in real estate values or overall economic weakness could also have an adverse impact upon the value of real estate or other assets which the Company owns as a result of foreclosing a loan and its ability to realize value on such assets;
- legislative, regulatory or accounting changes, which may adversely affect our business and/or competitive position, impose additional costs on the Company or cause us to change our business practices;
- the fiscal and monetary policies of the federal government and its agencies;
- the impact of consumer protection regulations, including the CFPB's residential mortgage and other regulations, which could adversely affect the Company's business, financial condition or results of operations;
- the failure to satisfy capital adequacy and liquidity guidelines applicable to the Company;
- volatile or declining oil prices, which could have a negative impact on the economies and real estate markets of states such as Texas, resulting in, among other things, higher delinquencies and increased charge-offs in the energy lending portfolio as well as other commercial and consumer loan portfolios indirectly impacted by declining oil prices;
- a failure by the Company to effectively manage the risks the Company faces, including credit, operational and cyber security risks;
- failure to control concentration risk such as loan type, industry segment, borrower type or location of the borrower or collateral;
- changes in the creditworthiness of customers;
- downgrades to the Company's credit ratings;
- changes in interest rates which could affect interest rate spreads and net interest income;
- costs and effects of litigation, regulatory investigations, examinations or similar matters;
- disruptions in the Company's ability to access capital markets, which may adversely affect its capital resources and liquidity;
- increased loan losses or impairment of goodwill;
- the Company's heavy reliance on communications and information systems to conduct its business and reliance on third parties and affiliates to provide key components of its business infrastructure, any disruptions of which could interrupt the Company's operations or increase the costs of doing business;
- negative public opinion, which could damage the Company's reputation and adversely impact business and revenues;
- the Company depends on the expertise of key personnel, and if these individuals leave or change their roles without effective replacements, operations may suffer;
- the Company's financial reporting controls and procedures may not prevent or detect all errors or fraud;
- the Company is subject to certain risks related to originating and selling mortgages. It may be required to repurchase mortgage loans or indemnify mortgage loan purchases as a result of breaches of representations

and warranties, borrower fraud or certain breaches of its servicing agreements, and this could harm the Company's liquidity, results of operations and financial condition;

- increased pressures from competitors (both banks and non-banks) and/or an inability by the Company to remain competitive in the financial services industry, particularly in the markets which the Company serves, and keep pace with technological changes;
- unpredictable natural or other disasters, which could impact the Company's customers or operations;
- a loss of customer deposits, which could increase the Company's funding costs;
- the Company's dependence on the accuracy and completeness of information about clients and counterparties;
- changes in the Company's accounting policies or in accounting standards which could materially affect how the Company reports financial results and condition;
- the Company has in the past and may in the future pursue acquisitions, which could affect costs and from which the Company may not be able to realize anticipated benefits; and
- the Company may not be able to hire or retain additional qualified personnel and recruiting and compensation costs may increase as a result of turnover, both of which may increase costs and reduce profitability and may adversely impact the Company's ability to implement the Company's business strategies.

The forward-looking statements in this Quarterly Report on Form 10-Q speak only as of the time they are made and do not necessarily reflect the Company's outlook at any other point in time. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or for any other reason. However, readers should carefully review the risk factors set forth in other reports or documents the Company files periodically with the SEC.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

BBVA USA BANCSHARES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2020	December 31, 2019
	(In Thousands)	
Assets:		
Cash and due from banks	\$ 1,035,307	\$ 1,149,734
Federal funds sold, securities purchased under agreements to resell and interest bearing deposits	14,041,538	5,788,964
Cash and cash equivalents	15,076,845	6,938,698
Trading account assets	926,497	473,976
Debt securities available for sale	6,028,072	7,235,305
Debt securities held to maturity, net of allowance for debt securities held to maturity losses of \$15,105 at September 30, 2020 (fair value of \$9,779,195 and \$6,921,158 at September 30, 2020 and December 31, 2019, respectively)	9,428,931	6,797,046
Loans held for sale, at fair value	253,454	112,058
Loans	66,180,612	63,946,857
Allowance for loan losses	(1,804,423)	(920,993)
Net loans	64,376,189	63,025,864
Premises and equipment, net	1,063,923	1,087,698
Bank owned life insurance	758,391	750,224
Goodwill	2,328,296	4,513,296
Other assets	3,412,324	2,669,182
Total assets	\$ 103,652,922	\$ 93,603,347
Liabilities:		
Deposits:		
Noninterest bearing	\$ 26,803,670	\$ 21,850,216
Interest bearing	59,567,362	53,135,067
Total deposits	86,371,032	74,985,283
FHLB and other borrowings	3,560,973	3,690,044
Federal funds purchased and securities sold under agreements to repurchase	189,474	173,028
Accrued expenses and other liabilities	2,136,479	1,368,403
Total liabilities	92,257,958	80,216,758
Shareholder's Equity:		
Series A Preferred stock — \$0.01 par value, liquidation preference \$200,000 per share		
Authorized — 30,000,000 shares		
Issued — 1,150 shares at both September 30, 2020 and December 31, 2019	229,475	229,475
Common stock — \$0.01 par value:		
Authorized — 300,000,000 shares		
Issued — 222,963,891 shares at both September 30, 2020 and December 31, 2019	2,230	2,230
Surplus	14,032,321	14,043,727
Accumulated deficit	(3,264,295)	(917,227)
Accumulated other comprehensive income (loss)	365,374	(1,072)
Total BBVA USA Bancshares, Inc. shareholder's equity	11,365,105	13,357,133
Noncontrolling interests	29,859	29,456
Total shareholder's equity	11,394,964	13,386,589
Total liabilities and shareholder's equity	\$ 103,652,922	\$ 93,603,347

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

BBVA USA BANCSHARES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
(In Thousands)				
Interest income:				
Interest and fees on loans	\$ 644,643	\$ 771,245	\$ 2,029,886	\$ 2,359,500
Interest on debt securities available for sale	19,474	36,051	36,787	134,698
Interest on debt securities held to maturity	49,981	38,893	130,883	101,701
Interest on trading account assets	892	487	3,171	1,627
Interest and dividends on other earning assets	6,436	46,528	62,627	105,319
Total interest income	721,426	893,204	2,263,354	2,702,845
Interest expense:				
Interest on deposits	61,147	203,979	323,168	588,811
Interest on FHLB and other borrowings	14,644	32,975	57,756	104,901
Interest on federal funds purchased and securities sold under agreements to repurchase	3,736	15,137	38,668	24,886
Interest on other short-term borrowings	49	72	440	368
Total interest expense	79,576	252,163	420,032	718,966
Net interest income	641,850	641,041	1,843,322	1,983,879
Total provision for credit losses	150,977	140,629	1,047,427	477,939
Net interest income after provision for credit losses	490,873	500,412	795,895	1,505,940
Noninterest income:				
Service charges on deposit accounts	54,710	65,143	160,474	185,782
Card and merchant processing fees	48,628	50,385	142,135	146,742
Investment banking and advisory fees	40,013	28,324	111,805	67,939
Investment services sales fees	26,218	29,287	85,596	87,316
Money transfer income	27,109	26,020	77,118	73,273
Mortgage banking	13,741	8,204	55,060	19,011
Asset management fees	12,024	11,405	35,488	34,039
Corporate and correspondent investment sales	3,478	11,799	33,050	24,298
Bank owned life insurance	4,972	3,508	14,691	12,895
Investment securities gains, net	—	21,003	22,616	29,961
Other	53,767	66,241	153,223	182,104
Total noninterest income	284,660	321,319	891,256	863,360
Noninterest expense:				
Salaries, benefits and commissions	296,708	295,092	858,541	884,111
Professional services	78,018	72,903	226,338	210,583
Equipment	68,793	63,908	198,226	191,940
Net occupancy	41,145	42,241	122,573	123,298
Money transfer expense	18,897	18,005	53,991	50,273
Goodwill impairment	—	—	2,185,000	—
Other	92,067	106,738	339,469	318,969
Total noninterest expense	595,628	598,887	3,984,138	1,779,174
Net income (loss) before income tax (benefit) expense	179,905	222,844	(2,296,987)	590,126
Income tax expense (benefit)	13,664	39,899	(101,506)	106,014
Net income (loss)	166,241	182,945	(2,195,481)	484,112
Less: net income attributable to noncontrolling interests	401	514	1,374	1,669
Net income (loss) attributable to BBVA USA Bancshares, Inc.	165,840	182,431	(2,196,855)	482,443
Less: preferred stock dividends	3,286	4,561	11,406	13,771
Net income (loss) attributable to common shareholder	\$ 162,554	\$ 177,870	\$ (2,208,261)	\$ 468,672

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

BBVA USA BANCSHARES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In Thousands)			
Net income (loss)	\$ 166,241	\$ 182,945	\$ (2,195,481)	\$ 484,112
Other comprehensive income, net of tax:				
Net unrealized (losses) gains arising during period from debt securities available for sale	(6,311)	32,464	125,103	169,868
Less: reclassification adjustment for net gains on sale of debt securities available for sale in net income	—	16,023	17,220	22,857
Net change in net unrealized holding (losses) gains on debt securities available for sale	(6,311)	16,441	107,883	147,011
Change in unamortized net holding gains on debt securities held to maturity	1,644	2,223	4,924	5,905
Less: non-credit related impairment on debt securities held to maturity	—	—	—	82
Change in unamortized non-credit related impairment on debt securities held to maturity	102	175	341	675
Net change in unamortized holding gains on debt securities held to maturity	1,746	2,398	5,265	6,498
Unrealized holding (losses) gains arising during period from cash flow hedge instruments	(34,226)	33,662	251,544	131,665
Change in defined benefit plans	—	—	1,754	3,119
Other comprehensive (loss) income, net of tax	(38,791)	52,501	366,446	288,293
Comprehensive income (loss)	127,450	235,446	(1,829,035)	772,405
Less: comprehensive income attributable to noncontrolling interests	401	514	1,374	1,669
Comprehensive income (loss) attributable to BBVA USA Bancshares, Inc.	\$ 127,049	\$ 234,932	\$ (1,830,409)	\$ 770,736

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

BBVA USA BANCSHARES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY
(Unaudited)

	Preferred Stock	Common Stock	Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Non- Controlling Interests	Total Shareholder's Equity
(In Thousands)							
Three Months Ended September 30,							
Balance, June 30, 2019	\$ 229,475	\$ 2,230	\$ 14,364,527	\$ (768,290)	\$ 13,508	\$ 29,273	\$ 13,870,723
Net income	—	—	—	182,431	—	514	182,945
Other comprehensive income, net of tax	—	—	—	—	52,501	—	52,501
Preferred stock dividends	—	—	(4,561)	—	—	—	(4,561)
Capital contribution	—	—	—	—	—	10	10
Balance, September 30, 2019	<u>\$ 229,475</u>	<u>\$ 2,230</u>	<u>\$ 14,359,966</u>	<u>\$ (585,859)</u>	<u>\$ 66,009</u>	<u>\$ 29,797</u>	<u>\$ 14,101,618</u>
Three Months Ended September 30,							
Balance, June 30, 2020	\$ 229,475	\$ 2,230	\$ 14,035,607	\$ (3,430,135)	\$ 404,165	\$ 29,447	\$ 11,270,789
Net income	—	—	—	165,840	—	401	166,241
Other comprehensive loss, net of tax	—	—	—	—	(38,791)	—	(38,791)
Preferred stock dividends	—	—	(3,286)	—	—	—	(3,286)
Capital contribution	—	—	—	—	—	11	11
Balance, September 30, 2020	<u>\$ 229,475</u>	<u>\$ 2,230</u>	<u>\$ 14,032,321</u>	<u>\$ (3,264,295)</u>	<u>\$ 365,374</u>	<u>\$ 29,859</u>	<u>\$ 11,394,964</u>
	Preferred Stock	Common Stock	Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Non- Controlling Interests	Total Shareholder's Equity
(In Thousands)							
Nine Months Ended September 30,							
Balance, December 31, 2018	\$ 229,475	\$ 2,230	\$ 14,545,849	\$ (1,107,198)	\$ (186,848)	\$ 29,021	\$ 13,512,529
Cumulative effect adjustment related to ASU adoptions (1)	—	—	—	38,896	(35,436)	—	3,460
Balance, January 1, 2019	<u>\$ 229,475</u>	<u>\$ 2,230</u>	<u>\$ 14,545,849</u>	<u>\$ (1,068,302)</u>	<u>\$ (222,284)</u>	<u>\$ 29,021</u>	<u>\$ 13,515,989</u>
Net income	—	—	—	482,443	—	1,669	484,112
Other comprehensive income, net of tax	—	—	—	—	288,293	—	288,293
Issuance of common stock	—	—	802	—	—	—	802
Preferred stock dividends	—	—	(13,771)	—	—	(1,037)	(14,808)
Common stock dividends	—	—	(170,000)	—	—	—	(170,000)
Capital contribution	—	—	—	—	—	144	144
Vesting of restricted stock	—	—	(2,914)	—	—	—	(2,914)
Balance, September 30, 2019	<u>\$ 229,475</u>	<u>\$ 2,230</u>	<u>\$ 14,359,966</u>	<u>\$ (585,859)</u>	<u>\$ 66,009</u>	<u>\$ 29,797</u>	<u>\$ 14,101,618</u>
Nine Months Ended September 30,							
Balance, December 31, 2019	\$ 229,475	\$ 2,230	\$ 14,043,727	\$ (917,227)	\$ (1,072)	\$ 29,456	\$ 13,386,589
Cumulative effect adjustment related to ASC 326 adoption	—	—	—	(150,213)	—	—	(150,213)
Balance, January 1, 2020	<u>\$ 229,475</u>	<u>\$ 2,230</u>	<u>\$ 14,043,727</u>	<u>\$ (1,067,440)</u>	<u>\$ (1,072)</u>	<u>\$ 29,456</u>	<u>\$ 13,236,376</u>
Net (loss) income	—	—	—	(2,196,855)	—	1,374	(2,195,481)
Other comprehensive income, net of tax	—	—	—	—	366,446	—	366,446
Preferred stock dividends	—	—	(11,406)	—	—	(1,037)	(12,443)
Capital contribution	—	—	—	—	—	66	66
Balance, September 30, 2020	<u>\$ 229,475</u>	<u>\$ 2,230</u>	<u>\$ 14,032,321</u>	<u>\$ (3,264,295)</u>	<u>\$ 365,374</u>	<u>\$ 29,859</u>	<u>\$ 11,394,964</u>

(1) Related to the Company's adoption of ASU 2016-02, ASU 2017-12 and ASU 2018-02 on January 1, 2019.

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

BBVA USA BANCSHARES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
	2020	2019
(In Thousands)		
Operating Activities:		
Net (loss) income	\$ (2,195,481)	\$ 484,112
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	264,207	194,040
Goodwill impairment	2,185,000	—
Securities impairment	—	113
Amortization (accretion) of discount, loan fees and purchase market adjustments, net	48,741	(26,732)
Provision for credit losses	1,047,427	477,939
Net change in trading account assets	(452,521)	(326,344)
Net change in trading account liabilities	72,623	(5,891)
Originations and purchases of mortgage loans held for sale	(1,064,535)	(554,488)
Sale of mortgage loans held for sale	975,048	509,685
Deferred tax benefit	(180,700)	(11,611)
Investment securities gains, net	(22,616)	(29,961)
Net gain on sale of premises and equipment	(273)	(7,077)
Gain on sale of loans	—	(925)
Gain on sale of mortgage loans held for sale	(51,909)	(20,745)
Net (gain) loss on sale of other real estate and other assets	(198)	1,436
(Increase) decrease in other assets	(297,558)	95,117
Increase (decrease) in other liabilities	752,674	(14,147)
Net cash provided by operating activities	1,079,929	764,521
Investing Activities:		
Proceeds from sales of debt securities available for sale	863,712	2,442,176
Proceeds from prepayments, maturities and calls of debt securities available for sale	3,360,970	3,556,157
Purchases of debt securities available for sale	(2,928,381)	(2,454,096)
Proceeds from prepayments, maturities and calls of debt securities held to maturity	778,938	234,157
Purchases of debt securities held to maturity	(3,474,536)	(3,688,706)
Proceeds from sales of equity securities	82,362	180,375
Purchases of equity securities	(10,043)	(182,504)
Net change in loan portfolio	(2,625,679)	93,914
Proceeds from sales of loans	—	1,353,379
Purchases of premises and equipment	(113,044)	(88,647)
Proceeds from sales of premises and equipment	2,370	12,812
Proceeds from settlement of BOLI policies	6,575	3,331
Cash payments for premiums of BOLI policies	—	(26)
Proceeds from sales of other real estate owned	13,358	21,569
Net cash (used in) provided by investing activities	(4,043,398)	1,483,891
Financing Activities:		
Net increase in total deposits	11,391,671	1,414,158
Net increase in federal funds purchased and securities sold under agreements to repurchase	16,446	15,146
Net increase in other short-term borrowings	—	45
Proceeds from FHLB and other borrowings	1,000	4,436,995
Repayment of FHLB and other borrowings	(228,939)	(4,790,177)
Capital contribution for non-controlling interest	66	144
Vesting of restricted stock	—	(2,914)
Issuance of common stock	—	802
Common dividends paid	—	(170,000)
Preferred dividends paid	(12,443)	(14,808)
Net cash provided by financing activities	11,167,801	889,391
Net increase in cash, cash equivalents and restricted cash	8,204,332	3,137,803
Cash, cash equivalents and restricted cash at beginning of year	7,156,689	3,501,380
Cash, cash equivalents and restricted cash at end of period	\$ 15,361,021	\$ 6,639,183

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

BBVA USA BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation***General***

The accounting and reporting policies of the Company and the methods of applying those policies that materially affect the consolidated financial statements conform with U.S. GAAP and with general financial services industry practices. The accompanying unaudited consolidated financial statements include the accounts of BBVA USA Bancshares, Inc. and its subsidiaries and have been prepared in conformity with U.S. GAAP for interim financial information and in accordance with the instructions to Quarterly Report on Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission. In the opinion of management, all adjustments, consisting of normal and recurring items, necessary for the fair presentation of the condensed consolidated financial statements have been included. Operating results for the three and nine months ended September 30, 2020, are not necessarily indicative of the results that may be expected for the year ended December 31, 2020. These interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

The Company has evaluated subsequent events for potential recognition and disclosure through the filing date of this Quarterly Report on Form 10-Q to determine if either recognition or disclosure of significant events or transactions is required.

Use of Estimates in the Preparation of Consolidated Financial Statements

The preparation of consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period, the most significant of which relate to the allowance for credit losses and goodwill impairment. Actual results could differ from those estimates. The extent to which the COVID-19 pandemic impacts the results of operations and financial condition, will depend on future developments, which are highly uncertain and cannot be predicted.

Recently Adopted Accounting Standards***Credit Losses***

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses*, which introduces new guidance for the accounting for credit losses on instruments within its scope. The new approach changes the impairment model for most financial assets, and will require the use of an "expected credit loss" model for financial instruments measured at amortized cost and certain other instruments. This model applies to receivables, loans, held-to-maturity debt securities, and off-balance sheet credit exposures. This model requires entities to estimate the lifetime expected credit loss on such instruments and record an allowance that represents the portion of the amortized cost basis that the entity does not expect to collect. This allowance is deducted from the financial asset's amortized cost basis to present the net amount expected to be collected. The new expected credit loss model also applies to purchased financial assets with credit deterioration, superseding current accounting guidance for such assets.

The amended guidance also amends the impairment model for available-for-sale debt securities, requiring entities to determine whether all or a portion of the unrealized loss on such securities is a credit loss, and also eliminating the option for management to consider the length of time a security has been in an unrealized loss position as a factor in concluding whether or not a credit loss exists. The amended model states that an entity will recognize an allowance for credit losses on available-for-sale debt securities, instead of a direct reduction of the amortized cost basis of the investment, as required under current guidance. As a result, entities recognize improvements to estimated credit losses on available-for-sale debt securities immediately in earnings as opposed to in interest income over time. There are also additional disclosure requirements included in this guidance.

In November 2018, the FASB issued ASU 2018-19 and in April, May and November 2019 and February 2020, the FASB issued ASU 2019-04, ASU 2019-05, ASU 2019-11, and ASU 2020-02 respectively, which made minor clarifications to the guidance in ASU 2016-13.

The Company's implementation process included loss model development, data sourcing and validation, development of governance processes, development of a qualitative framework, documentation and governance surrounding economic forecast for credit loss purposes, evaluation of technical accounting topics, updates to allowance policies and methodology documentation, development of reporting processes and related internal controls.

The Company adopted this ASU, as amended on January 1, 2020 using a modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet credit exposures. Results for reporting periods beginning after January 1, 2020 are presented under this ASU, while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a net of tax increase to accumulated deficit of \$150.2 million as of January 1, 2020 for the cumulative effect of adopting this ASU.

The Company adopted this ASU using the prospective transition approach for debt securities for which other-than-temporary impairment has been recognized prior to January 1, 2020. As a result, the amortized cost basis remained the same before and after the effective date of this ASU. The effective interest rate on these debt securities was not changed. Amounts previously recognized in accumulated other comprehensive income as of January 1, 2020 related to improvements in cash flows expected to be collected will be accreted into income over the remaining life of the asset. Recoveries of amounts previously written off relating to improvements in cash flows after January 1, 2020 will be recorded in earnings when received.

The amended guidance in this ASU eliminates the current accounting model for purchased-credit-impaired loans, but requires an allowance to be recognized for purchased-credit-deteriorated assets (those that have experienced more-than-insignificant deterioration in credit quality since origination). The Company had no impact from purchased-credit-deteriorated assets upon adoption.

The following table illustrates the impact of ASC 326.

	January 1, 2020		
	As Reported Under ASC 326	Pre-ASC Adoption	Impact of ASC 326 Adoption
(In Thousands)			
Assets:			
Allowance for debt securities held to maturity losses	\$ 1,847	\$ —	\$ 1,847
Allowance for loan losses	1,105,924	920,993	184,931
Liabilities:			
Allowance for credit losses on letters of credit and unfunded commitments	76,946	66,955	9,991

The Company did not record a material allowance with respect to HTM and AFS securities as the portfolios consist primarily of U.S. Treasury and agency-backed securities that inherently have minimal credit risk.

See Note 2, Debt Securities Available for Sale and Debt Securities Held to Maturity, and Note 3, Loans and Allowance for Loan Losses, for the required disclosures in accordance with this ASU.

Fair Value Measurements

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurements*. The amendments in this ASU modified the disclosure requirements for fair value measurements in Topic 820, *Fair Value Measurements*. The Company adopted this ASU on January 1, 2020. The adoption of this standard did not have material impact on the financial condition or results of operation of the Company. See Note 9, Fair Value Measurements, for the modified disclosure in accordance with this ASU.

Internal-Use Software

In August 2018, the FASB issued ASU 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*. The amendments in this ASU align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software and hosting arrangements that include an internal-use software license. The Company adopted this ASU on January 1, 2020. The adoption of this standard did not have material impact on the financial condition or results of operation of the Company.

(2) Debt Securities Available for Sale and Debt Securities Held to Maturity

The following tables present the adjusted cost and approximate fair value of debt securities available for sale and debt securities held to maturity.

	September 30, 2020			
	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
(In Thousands)				
Debt securities available for sale:				
U.S. Treasury and other U.S. government agencies	\$ 2,154,055	\$ 51,784	\$ 14,830	\$ 2,191,009
Agency mortgage-backed securities	935,845	35,144	1,067	969,922
Agency collateralized mortgage obligations	2,812,087	54,656	238	2,866,505
States and political subdivisions	615	21	—	636
Total	<u>\$ 5,902,602</u>	<u>\$ 141,605</u>	<u>\$ 16,135</u>	<u>\$ 6,028,072</u>
Debt securities held to maturity:				
U.S. Treasury and other U.S. government agencies	\$ 1,290,667	\$ 121,608	\$ —	\$ 1,412,275
Collateralized mortgage obligations:				
Agency	7,638,230	211,081	10,399	7,838,912
Non-agency	31,760	5,946	435	37,271
Asset-backed securities and other	48,747	1,268	4,679	45,336
States and political subdivisions (1)	434,632	14,936	4,167	445,401
Total	<u>\$ 9,444,036</u>	<u>\$ 354,839</u>	<u>\$ 19,680</u>	<u>\$ 9,779,195</u>

(1) The Company recorded an allowance of \$15 million at September 30, 2020, related to state and political subdivisions, which is not included in the table above.

December 31, 2019					
	Amortized Cost	Gross Unrealized		Fair Value	
		Gains	Losses		
(In Thousands)					
Debt securities available for sale:					
U.S. Treasury and other U.S. government agencies	\$ 3,145,331	\$ 16,888	\$ 34,694	\$ 3,127,525	
Agency mortgage-backed securities	1,322,432	12,444	9,019	1,325,857	
Agency collateralized mortgage obligations	2,783,003	7,744	9,622	2,781,125	
States and political subdivisions	757	41	—	798	
Total	<u>\$ 7,251,523</u>	<u>\$ 37,117</u>	<u>\$ 53,335</u>	<u>\$ 7,235,305</u>	
Debt securities held to maturity:					
U.S. Treasury and other U.S. government agencies	\$ 1,287,049	\$ 53,399	\$ —	\$ 1,340,448	
Collateralized mortgage obligations:					
Agency	4,846,862	82,105	16,568	4,912,399	
Non-agency	37,705	5,923	1,154	42,474	
Asset-backed securities and other	52,355	1,266	2,017	51,604	
States and political subdivisions	573,075	8,652	7,494	574,233	
Total	<u>\$ 6,797,046</u>	<u>\$ 151,345</u>	<u>\$ 27,233</u>	<u>\$ 6,921,158</u>	

The investments held within the states and political subdivision caption of debt securities held to maturity relate to private placement transactions underwritten as loans by the Company but that meet the definition of a security within ASC Topic 320, *Investments – Debt Securities*.

As noted in Note 1, Basis of Presentation, the Company adopted ASC 326 on January 1, 2020, which had an immaterial impact on the Company's available for sale debt securities and held to maturity debt securities.

The Company records its HTM debt securities at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as AFS when they might be sold before they mature. The Company records its AFS debt securities at fair value with unrealized holding gains and losses reported in other comprehensive income.

The Company measures expected credit losses on held to maturity debt securities on a collective basis by major security type. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. The majority of the Company's HTM debt securities portfolio consists of U.S. government entities and agencies which are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major credit rating agencies and inherently have minimal risk of nonpayment and therefore has applied a zero credit loss assumption for these securities.

Under the revised guidance of ASC 326, if the fair value of a security falls below the amortized cost basis, the security will be evaluated to determine if any of the decline in value is attributable to credit losses or other factors. In making this assessment, the Company considers the extent to which fair value is less than amortized cost, any changes to the rating of the security, and adverse conditions specially related to the security, among other factors. If it is determined that a credit loss exists then an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. If the credit subsequently improves, the allowance is reversed. When the Company intends to sell an impaired AFS debt security or it is more likely than not that the security will be required to be sold prior to recovering the amortized cost basis, the security's amortized cost basis is written down to fair value through income.

A debt security is placed on nonaccrual status at the time any principal or interest payments become 90 days delinquent. The Company has elected to not measure an allowance on its accrued interest receivable as a result of the timely reversal of interest receivable deemed uncollectible. Interest accrued but not received for a security placed on nonaccrual is reversed against interest income.

The following tables disclose the fair value and the gross unrealized losses of the Company's available for sale debt securities that were in a loss position at September 30, 2020 and December 31, 2019, for which an allowance for credit losses has not been recorded at September 30, 2020. This information is aggregated by investment category and the length of time the individual securities have been in an unrealized loss position.

September 30, 2020							
	Securities in a loss position for less than 12 months		Securities in a loss position for 12 months or longer		Total		
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	
(In Thousands)							
Debt securities available for sale:							
U.S. Treasury and other U.S. government agencies	\$ 5,226	\$ 67	\$ 351,472	\$ 14,763	\$ 356,698	\$ 14,830	
Agency mortgage-backed securities	38,151	211	41,528	856	79,679	1,067	
Agency collateralized mortgage obligations	115,423	63	176,202	175	291,625	238	
Total	\$ 158,800	\$ 341	\$ 569,202	\$ 15,794	\$ 728,002	\$ 16,135	

December 31, 2019							
	Securities in a loss position for less than 12 months		Securities in a loss position for 12 months or longer		Total		
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	
(In Thousands)							
Debt securities available for sale:							
U.S. Treasury and other U.S. government agencies	\$ 59,496	\$ 208	\$ 819,360	\$ 34,486	\$ 878,856	\$ 34,694	
Agency mortgage-backed securities	245,191	851	592,312	8,168	837,503	9,019	
Agency collateralized mortgage obligations	880,485	4,768	579,679	4,854	1,460,164	9,622	
Total	\$ 1,185,172	\$ 5,827	\$ 1,991,351	\$ 47,508	\$ 3,176,523	\$ 53,335	

As indicated in the previous tables, at September 30, 2020, the Company held debt securities in unrealized loss positions. The Company has not recognized the unrealized losses into income for its securities because they are all backed by the U.S. government or government agencies and management does not intend to sell and it is likely that management will not be required to sell these securities before their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The fair value is expected to recover as the securities approach maturity.

The following table presents the activity in the allowance for debt securities held to maturity losses.

	Held to Maturity Debt Securities
	(In Thousands)
Three months ended September 30, 2020	
Allowance for debt securities held to maturity losses:	
Balance at beginning of period	\$ 15,017
Provision for credit losses	88
Securities charged off	—
Recoveries	—
Balance at end of period	<u>\$ 15,105</u>
Nine Months Ended September 30, 2020	
Allowance for debt securities held to maturity losses:	
Balance at beginning of period	\$ —
Impact of adopting ASC 326	1,847
Provision for credit losses	13,258
Securities charged off	—
Recoveries	—
Balance at end of period	<u>\$ 15,105</u>

The Company regularly evaluates each held to maturity debt security for credit losses on a quarterly basis. The Company has not recorded a provision for credit loss related to its agency securities because they are all backed by the U.S. government or government agencies and have been deemed to have zero expected credit loss as of September 30, 2020. These securities are evaluated quarterly to determine if they still qualify as a zero credit loss security. The Company has non-agency securities that have unrealized losses at September 30, 2020. The Company considers such factors as the extent to which the fair value has been below cost and the financial condition of the issuer.

The Company monitors the credit quality of its HTM debt securities through credit ratings. The following table presents the amortized cost of HTM debt securities, as of September 30, 2020, aggregated by credit quality indicator.

	September 30, 2020						
	Range of Ratings						
	AAA	AA+ / A -	BBB+ / B-	CCC+ / C	D	NR	Total
	(In Thousands)						
Debt securities held to maturity:							
U.S. Treasury and other U.S. government agencies	\$ 1,290,667	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,290,667
Collateralized mortgage obligations:							
Agency	7,638,230	—	—	—	—	—	7,638,230
Non-agency	310	8,223	10,950	5,670	2,741	3,866	31,760
Asset-backed securities and other	—	47,901	250	596	—	—	48,747
States and political subdivisions	—	257,076	177,556	—	—	—	434,632
	<u>\$ 8,929,207</u>	<u>\$ 313,200</u>	<u>\$ 188,756</u>	<u>\$ 6,266</u>	<u>\$ 2,741</u>	<u>\$ 3,866</u>	<u>\$ 9,444,036</u>

The contractual maturities of the securities portfolios are presented in the following table.

September 30, 2020	Amortized Cost	Fair Value
	(In Thousands)	
Debt securities available for sale:		
Maturing within one year	\$ 325,088	\$ 325,409
Maturing after one but within five years	1,400,509	1,449,556
Maturing after five but within ten years	6,417	6,514
Maturing after ten years	422,656	410,166
	2,154,670	2,191,645
Mortgage-backed securities and collateralized mortgage obligations	3,747,932	3,836,427
Total	\$ 5,902,602	\$ 6,028,072
Debt securities held to maturity:		
Maturing within one year	\$ 24,474	\$ 24,517
Maturing after one but within five years	1,419,845	1,541,388
Maturing after five but within ten years	177,387	185,275
Maturing after ten years	152,340	151,832
	1,774,046	1,903,012
Collateralized mortgage obligations	7,669,990	7,876,183
Total	\$ 9,444,036	\$ 9,779,195

The gross realized gains and losses recognized on sales of debt securities available for sale are shown in the table below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In Thousands)			
Gross gains	\$ —	\$ 21,003	\$ 22,616	\$ 29,961
Gross losses	—	—	—	—
Net realized gains	\$ —	\$ 21,003	\$ 22,616	\$ 29,961

(3) Loans and Allowance for Loan Losses

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are considered held-for-investment. Loans are stated at amortized cost, net of the allowance for loan losses. Amortized cost, or the recorded investment, is the principal balance outstanding, adjusted for charge-offs, deferred loan fees and direct costs on originated loans and unamortized premiums or discounts on purchased loans. Accrued interest receivable is reported in other assets on the Company's Unaudited Condensed Consolidated Balance Sheets. Interest income is accrued on the principal balance outstanding and is recognized on the interest method. Loan fees, net of direct costs and unamortized premiums and discounts are deferred and amortized as an adjustment to the yield of the related loan over the term of the loan and are included as a noncash adjustment in the net cash provided by operating activities in the Company's Unaudited Condensed Consolidated Statement of Cash Flows.

The Company has elected to not measure an allowance on its accrued interest receivable as a result of the timely reversal of interest receivable deemed uncollectible. It is the general policy of the Company to stop accruing interest income and apply subsequent interest payments as principal reductions when any commercial, industrial, commercial real estate or construction loan is 90 days or more past due as to principal or interest and/or the ultimate collection of either is in doubt, unless collection of both principal and interest is assured by way of collateralization, guarantees or other security. Accrual of interest income on consumer loans, including residential real estate loans, is generally suspended when any payment of principal or interest is more than 90 days delinquent or when foreclosure proceedings

have been initiated or repossession of the underlying collateral has occurred. When a loan is placed on a nonaccrual status, any interest previously accrued but not collected is reversed against current interest income unless the fair value of the collateral for the loan is sufficient to cover the accrued interest.

In general, a loan is returned to accrual status when none of its principal and interest is due and unpaid and the Company expects repayments of the remaining contractual principal and interest or when it is determined to be well secured and in the process of collection. Charge-offs on commercial loans are recognized when available information confirms that some or all of the balance is uncollectible. Consumer loans are subject to mandatory charge-off at a specified delinquency date consistent with regulatory guidelines. In general, charge-offs on consumer loans are recognized at the earlier of the month of liquidation or the month the loan becomes 120 days past due; residential loan deficiencies are charged off in the month the loan becomes 180 days past due; and credit card loans are charged off before the end of the month when the loan becomes 180 days past due with the related interest accrued but not collected reversed against current income. The Company determines past due or delinquency status of a loan based on contractual payment terms.

Troubled Debt Restructurings

A loan is accounted for as a TDR if the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. A TDR typically involves a modification of terms such as establishment of a below market interest rate, a reduction in the principal amount of the loan, a reduction of accrued interest or an extension of the maturity date at a stated interest rate lower than the current market rate for a new loan with similar risk. The Company's policy for measuring the allowance for credit losses on TDRs, including TDRs that have defaulted, is consistent with its policy for other loans held for investment. The Company's policy for returning nonaccrual TDRs to accrual status is consistent with its return to accrual policy for all other loans.

Allowance for Loan Losses

The allowance for loan losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Management uses discounted cash flows, default probabilities and loss severities to calculate the allowance for loan losses.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in unemployment rates, gross domestic product, or other relevant factors. The Company has internally developed a macroeconomic forecast which projects over a four-year reasonable and supportable forecast period. Management may change the horizon of the forecast in response to changes in portfolio composition or performance as well as changes in the economic environment. After the forecast period, the Company reverts to long run historical average default probabilities and loss severities using a linear model with a variable reversion speed determined on a portfolio basis, for those portfolios with sufficient history.

Economic Forecast: Management selects economic variables it believes to be most relevant based on the composition of the loan portfolio and customer base, including forecasted levels of employment, gross domestic product, real estate price indices, interest rates and corporate bond spreads. The Company uses an internally formulated and approved single baseline economic scenario for the collective estimation. However, management will assess the uncertainty associated with the baseline scenario in each period, and may make adjustments based on alternative scenarios applied through the qualitative framework.

Determining the Contractual Term: Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless management has a reasonable expectation at the reporting date that a troubled debt restructuring

will be executed with an individual borrower. While the Company does have contracts with extension or renewal options included, the vast majority are considered unconditionally cancellable.

The Company monitors the entire loan portfolio so that risks in the portfolio can be identified on a timely basis and an appropriate allowance maintained. Loan review procedures, including loan grading, periodic credit rescoring and trend analysis of portfolio performance, are utilized by the Company in order to ensure that potential problem loans are identified. Management's involvement continues throughout the process and includes participation in the work-out process and recovery activity. These formalized procedures are monitored internally and by regulatory agencies. The allowance for credit losses is measured on a collective basis when similar risk characteristics exist. The Company has identified the following portfolio segments: commercial, financial and agricultural; commercial real estate; residential real estate; and consumer. Commercial loans utilize internal risk ratings aligned with regulatory classifications to assess risks. Consumer loans utilize credit scoring models as the basis for assessing risk of consumer borrowers. The Company estimates the present value of cash shortfalls resulting from the sum of the marginal losses occurring in each time period, on an annual basis, over the estimated remaining life of the loan. The marginal losses are derived from the projection of principal balance, inclusive of principal cash flow and prepayment schedules, and parameters reflecting the severity of losses (LGD) in the case of default that is given by the marginal probability of default (Marginal PD) for each period of the portfolio's lifetime. The Company also includes the considerations of a forecasted macroeconomic scenario by adjusting the PDs and LGDs applied, with econometric models dependent on the aforementioned correlated macroeconomic variables included in the forecasted scenarios.

The allowance for credit losses on loans that do not share similar risk characteristics are estimated on an individual basis. Individual evaluations are typically performed for nonaccrual loans and certain accruing loans, based on dollar thresholds. These loans receive specific reserves allocated based on the present value of the loan's expected future cash flows, discounted at the loan's original effective rate, except where foreclosure or liquidation is probable or when the cash flows are predominately dependent on the value of the collateral. In these circumstances, impairment is measured based upon the fair value less cost to sell of the collateral.

The Company adjusts the loss estimates described above when it is determined that expected credit losses may not have been captured in the loss estimates. To adjust the loss estimates, the Company considers qualitative factors such as changes in risk profile/composition; current economic and business conditions and uncertainty of outlook, potentially including alternative economic scenarios; limitations in the data or models used in the collective estimation; credit risk management practices; and other external/environmental factors.

In order to estimate an allowance for credit losses on letters of credit and unfunded commitments, the Company uses a process consistent with that used in developing the allowance for loan losses. The Company estimates future fundings of current, noncancellable, unfunded commitments based on historical funding experience of these commitments before default and adjusted based on historical cancellations. Allowance for loan loss factors, which are based on product and loan grade, and are consistent with the factors used for loans, are applied to these funding estimates and discounted to the present value to arrive at the reserve balance. The allowance for credit losses on letters of credit and unfunded commitments is recognized in accrued expenses and other liabilities on the Company's Unaudited Condensed Consolidated Balance Sheets with changes recognized within noninterest expense in the Company's Unaudited Condensed Consolidated Statements of Income. See Note 8, Commitments, Contingencies and Guarantees for additional information.

The following table presents the composition of the loan portfolio.

	September 30, 2020	December 31, 2019
	(In Thousands)	
Commercial loans:		
Commercial, financial and agricultural	\$ 26,940,173	\$ 24,432,238
Real estate – construction	2,403,674	2,028,682
Commercial real estate – mortgage	13,695,800	13,861,478
Total commercial loans	43,039,647	40,322,398
Consumer loans:		
Residential real estate – mortgage	13,463,757	13,533,954
Equity lines of credit	2,441,723	2,592,680
Equity loans	194,367	244,968
Credit card	907,793	1,002,365
Consumer direct	2,023,696	2,338,142
Consumer indirect	4,109,629	3,912,350
Total consumer loans	23,140,965	23,624,459
Total loans	\$ 66,180,612	\$ 63,946,857

Accrued interest receivable totaling \$232 million and \$205 million at September 30, 2020 and December 31, 2019, respectively, was reported in other assets on the Company's Unaudited Condensed Balance Sheets and is excluded from the related footnote disclosures.

Allowance for Loan Losses and Credit Quality

The following table, which excludes loans held for sale, presents a summary of the activity in the allowance for loan losses. The portion of the allowance that has not been identified by the Company as related to specific loan categories has been allocated to the individual loan categories on a pro rata basis for purposes of the table below:

	Commercial, Financial and Agricultural	Commercial Real Estate (1)	Residential Real Estate (2)	Consumer (3)	Total
(In Thousands)					
Three months ended September 30, 2020					
Allowance for loan losses:					
Beginning balance	\$ 757,512	\$ 227,875	\$ 183,485	\$ 585,480	\$ 1,754,352
Provision (credit) for loan losses	7,128	89,086	65,974	(11,299)	150,889
Loans charged-off	(54,187)	(372)	(962)	(66,200)	(121,721)
Loan recoveries	3,398	121	1,041	16,343	20,903
Net (charge-offs) recoveries	(50,789)	(251)	79	(49,857)	(100,818)
Ending balance	<u>\$ 713,851</u>	<u>\$ 316,710</u>	<u>\$ 249,538</u>	<u>\$ 524,324</u>	<u>\$ 1,804,423</u>
Three months ended September 30, 2019					
Allowance for loan losses:					
Beginning balance	\$ 456,054	\$ 117,786	\$ 100,351	\$ 303,469	\$ 977,660
Provision for loan losses	28,787	6,410	3,214	102,218	140,629
Loans charged-off	(73,178)	(2,270)	(4,835)	(121,400)	(201,683)
Loan recoveries	3,236	79	3,183	19,087	25,585
Net charge-offs	(69,942)	(2,191)	(1,652)	(102,313)	(176,098)
Ending balance	<u>\$ 414,899</u>	<u>\$ 122,005</u>	<u>\$ 101,913</u>	<u>\$ 303,374</u>	<u>\$ 942,191</u>
Nine Months Ended September 30, 2020					
Allowance for loan losses:					
Beginning balance, prior to adoption of ASC 326	\$ 408,197	\$ 118,633	\$ 99,089	\$ 295,074	\$ 920,993
Impact of adopting ASC 326	18,389	(35,034)	47,390	154,186	184,931
Beginning balance, after adoption of ASC 326	426,586	83,599	146,479	449,260	1,105,924
Provision for loan losses	386,106	241,910	103,142	303,011	1,034,169
Loan charge-offs	(109,364)	(9,512)	(4,056)	(279,959)	(402,891)
Loan recoveries	10,523	713	3,973	52,012	67,221
Net charge-offs	(98,841)	(8,799)	(83)	(227,947)	(335,670)
Ending balance	<u>\$ 713,851</u>	<u>\$ 316,710</u>	<u>\$ 249,538</u>	<u>\$ 524,324</u>	<u>\$ 1,804,423</u>
Nine Months Ended September 30, 2019					
Allowance for loan losses:					
Beginning balance	\$ 393,315	\$ 112,437	\$ 101,929	\$ 277,561	\$ 885,242
Provision for loan losses	142,185	9,906	5,147	320,701	477,939
Loan charge-offs	(132,006)	(2,407)	(14,526)	(345,028)	(493,967)
Loan recoveries	11,405	2,069	9,363	50,140	72,977
Net charge-offs	(120,601)	(338)	(5,163)	(294,888)	(420,990)
Ending balance	<u>\$ 414,899</u>	<u>\$ 122,005</u>	<u>\$ 101,913</u>	<u>\$ 303,374</u>	<u>\$ 942,191</u>

- (1) Includes commercial real estate – mortgage and real estate – construction loans.
(2) Includes residential real estate – mortgage, equity lines of credit and equity loans.
(3) Includes credit card, consumer direct and consumer indirect loans.

For the three months ended September 30, 2020, the increase in the allowance for loan losses was primarily driven by deterioration in credit quality indicators of the loan portfolio, primarily driven by downgrades in the commercial loan portfolios due to the impact of the COVID-19 pandemic. For the nine months ended September 30, 2020, the increase in the allowance for loan losses was primarily driven by the deteriorating economic outlook resulting from the COVID-19 pandemic as well as the impact of declining oil prices.

The table below provides a summary of the allowance for loan losses and related loan balances by portfolio at December 31, 2019.

	Commercial, Financial and Agricultural	Commercial Real Estate (1)	Residential Real Estate (2)	Consumer (3)	Total
(In Thousands)					
December 31, 2019					
Ending balance of allowance attributable to loans:					
Individually evaluated for impairment	\$ 88,164	\$ 13,255	\$ 22,775	\$ 2,638	\$ 126,832
Collectively evaluated for impairment	320,033	105,378	76,314	292,436	794,161
Total allowance for loan losses	\$ 408,197	\$ 118,633	\$ 99,089	\$ 295,074	\$ 920,993
Ending balance of loans:					
Individually evaluated for impairment	\$ 238,653	\$ 78,301	\$ 155,728	\$ 13,362	\$ 486,044
Collectively evaluated for impairment	24,193,585	15,811,859	16,215,874	7,239,495	63,460,813
Total loans	\$ 24,432,238	\$ 15,890,160	\$ 16,371,602	\$ 7,252,857	\$ 63,946,857

- (1) Includes commercial real estate – mortgage and real estate – construction loans.
- (2) Includes residential real estate – mortgage, equity lines of credit and equity loans.
- (3) Includes credit card, consumer direct and consumer indirect loans.

The following table presents information on nonaccrual loans, by loan class at September 30, 2020.

	September 30, 2020	
	Nonaccrual	Nonaccrual With No Recorded Allowance
	(In Thousands)	
Commercial, financial and agricultural	\$ 660,254	\$ 67,309
Real estate – construction	12,614	—
Commercial real estate – mortgage	275,668	27,771
Residential real estate – mortgage	204,442	—
Equity lines of credit	37,216	—
Equity loans	8,758	—
Credit card	—	—
Consumer direct	9,134	—
Consumer indirect	24,954	—
Total loans	<u>\$ 1,233,040</u>	<u>\$ 95,080</u>

The following table presents information on individually evaluated impaired loans, by loan class at December 31, 2019.

	December 31, 2019					
	Individually Evaluated Impaired Loans With No Recorded Allowance			Individually Evaluated Impaired Loans With a Recorded Allowance		
	Recorded Investment	Unpaid Principal Balance	Allowance	Recorded Investment	Unpaid Principal Balance	Allowance
	(In Thousands)					
Commercial, financial and agricultural	\$ 51,203	\$ 52,991	\$ —	\$ 187,450	\$ 249,486	\$ 88,164
Real estate – construction	—	—	—	5,972	5,979	850
Commercial real estate – mortgage	46,232	51,286	—	26,097	27,757	12,405
Residential real estate – mortgage	—	—	—	111,623	111,623	8,974
Equity lines of credit	—	—	—	15,466	15,472	10,896
Equity loans	—	—	—	28,639	29,488	2,905
Credit card	—	—	—	—	—	—
Consumer direct	—	—	—	11,601	13,596	1,903
Consumer indirect	—	—	—	1,761	1,761	735
Total loans	<u>\$ 97,435</u>	<u>\$ 104,277</u>	<u>\$ —</u>	<u>\$ 388,609</u>	<u>\$ 455,162</u>	<u>\$ 126,832</u>

The following tables present information on individually impaired loans, by loan class for the three and nine months ended September 30, 2019.

	Three Months Ended September 30, 2019	
	Average Recorded Investment	Interest Income Recognized
	(In Thousands)	
Commercial, financial and agricultural	\$ 318,790	\$ 496
Real estate – construction	584	2
Commercial real estate – mortgage	77,165	221
Residential real estate – mortgage	109,450	691
Equity lines of credit	16,553	164
Equity loans	29,455	268
Credit card	—	—
Consumer direct	7,360	102
Consumer indirect	203	—
Total loans	<u>\$ 559,560</u>	<u>\$ 1,944</u>

	Nine Months Ended September 30, 2019	
	Average Recorded Investment	Interest Income Recognized
	(In Thousands)	
Commercial, financial and agricultural	\$ 377,390	\$ 2,033
Real estate – construction	436	6
Commercial real estate – mortgage	79,910	687
Residential real estate – mortgage	107,456	2,021
Equity lines of credit	15,617	514
Equity loans	30,568	816
Credit card	—	—
Consumer direct	6,459	233
Consumer indirect	280	—
Total loans	<u>\$ 618,116</u>	<u>\$ 6,310</u>

The Company monitors the credit quality of its commercial portfolio using an internal dual risk rating, which considers both the obligor and the facility. The obligor risk ratings are defined by ranges of default probabilities of the borrowers, through internally assigned letter grades (AAA through D2) and the facility risk ratings are defined by ranges of the loss given default. The combination of those two approaches results in the assessment of the likelihood of loss and it is mapped to the regulatory classifications. The Company assigns internal risk ratings at loan origination and at regular intervals subsequent to origination. Loan review intervals are dependent on the size and risk grade of the loan, and are generally conducted at least annually. Additional reviews are conducted when information affecting the loan's risk grade becomes available. The general characteristics of the risk grades are as follows:

- The Company's internally assigned letter grades "AAA" through "B-" correspond to the regulatory classification "Pass." These loans do not have any identified potential or well-defined weaknesses and have a high likelihood of orderly repayment. Exceptions exist when either the facility is fully secured by a CD and held at the Company or the facility is secured by properly margined and controlled marketable securities.
- Internally assigned letter grades "CCC+" through "CCC" correspond to the regulatory classification "Special Mention." Loans within this classification have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the institution's credit position at some future date. Special mention loans are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.
- Internally assigned letter grades "CCC-" through "D1" correspond to the regulatory classification "Substandard." A loan classified as substandard is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard loans have a well-defined

weakness or weaknesses that jeopardize the liquidation of the loan. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

- The internally assigned letter grade “D2” corresponds to the regulatory classification “Doubtful.” Loans classified as doubtful have all the weaknesses inherent in a loan classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable or improbable.

The Company considers payment history as the best indicator of credit quality for the consumer portfolio. Nonperforming loans in the tables below include loans classified as nonaccrual, loans 90 days or more past due and loans modified in a TDR 90 days or more past due.

The following tables, which exclude loans held for sale, illustrate the credit quality indicators associated with the Company's loans, by loan class.

Commercial									
September 30, 2020									
Recorded Investment of Term Loans by Origination Year									
	2020	2019	2018	2017	2016	Prior	Recorded Investment of Revolving Loans	Recorded Investment of Revolving Loans Converted to Term Loans	Total
(In Thousands)									
Commercial, financial and agricultural									
Pass	\$ 4,572,407	\$ 2,978,677	\$ 2,607,424	\$ 2,926,530	\$ 1,067,416	\$ 3,431,190	\$ 7,991,155	\$ —	\$ 25,574,799
Special Mention	48,114	27,997	64,487	50,861	25,958	55,495	357,594	—	630,506
Substandard	22,771	19,829	47,314	57,440	31,907	83,181	381,100	—	643,542
Doubtful	—	—	30,797	24,690	7,606	13,876	14,357	—	91,326
Total commercial, financial and agricultural	<u>\$ 4,643,292</u>	<u>\$ 3,026,503</u>	<u>\$ 2,750,022</u>	<u>\$ 3,059,521</u>	<u>\$ 1,132,887</u>	<u>\$ 3,583,742</u>	<u>\$ 8,744,206</u>	<u>\$ —</u>	<u>\$ 26,940,173</u>
Real estate - construction									
Pass	\$ 157,825	\$ 724,378	\$ 750,181	\$ 368,924	\$ 108,282	\$ 79,430	\$ 168,885	\$ —	\$ 2,357,905
Special Mention	—	—	—	18,982	1,532	454	—	—	20,968
Substandard	—	6,660	7,374	—	6,104	4,663	—	—	24,801
Doubtful	—	—	—	—	—	—	—	—	—
Total real estate - construction	<u>\$ 157,825</u>	<u>\$ 731,038</u>	<u>\$ 757,555</u>	<u>\$ 387,906</u>	<u>\$ 115,918</u>	<u>\$ 84,547</u>	<u>\$ 168,885</u>	<u>\$ —</u>	<u>\$ 2,403,674</u>
Commercial real estate - mortgage									
Pass	\$ 1,099,683	\$ 3,112,582	\$ 3,675,597	\$ 1,667,937	\$ 1,008,139	\$ 2,479,403	\$ 219,460	\$ —	\$ 13,262,801
Special Mention	2,854	27,804	110,568	4,164	25,520	37,157	—	—	208,067
Substandard	575	566	11,872	61,771	23,318	114,042	9,818	—	221,962
Doubtful	—	—	—	—	—	2,970	—	—	2,970
Total commercial real estate - mortgage	<u>\$ 1,103,112</u>	<u>\$ 3,140,952</u>	<u>\$ 3,798,037</u>	<u>\$ 1,733,872</u>	<u>\$ 1,056,977</u>	<u>\$ 2,633,572</u>	<u>\$ 229,278</u>	<u>\$ —</u>	<u>\$ 13,695,800</u>
December 31, 2019									
	Commercial, Financial and Agricultural		Real Estate - Construction		Commercial Real Estate - Mortgage				
(In Thousands)									
Pass	\$ 23,319,645		\$ 1,979,310		\$ 13,547,273				
Special Mention	543,928		67		168,679				
Substandard	488,813		49,305		134,420				
Doubtful	79,852		—		11,106				
	<u>\$ 24,432,238</u>		<u>\$ 2,028,682</u>		<u>\$ 13,861,478</u>				

Consumer									
September 30, 2020									
Recorded Investment of Term Loans by Origination Year									
	2020	2019	2018	2017	2016	Prior	Recorded Investment of Revolving Loans	Recorded Investment of Revolving Loans Converted to Term Loans	Total
(In Thousands)									
Residential real estate - mortgage									
Performing	\$ 1,774,759	\$ 2,373,282	\$ 1,184,954	\$ 1,244,319	\$ 1,375,615	\$ 5,266,254	\$ —	\$ —	\$ 13,219,183
Nonperforming	328	2,417	9,463	21,155	16,904	194,307	—	—	244,574
Total residential real estate - mortgage	<u>\$ 1,775,087</u>	<u>\$ 2,375,699</u>	<u>\$ 1,194,417</u>	<u>\$ 1,265,474</u>	<u>\$ 1,392,519</u>	<u>\$ 5,460,561</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 13,463,757</u>
Equity lines of credit									
Performing	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,397,594	\$ 3,468	\$ 2,401,062
Nonperforming	—	—	—	—	—	—	40,462	199	40,661
Total equity lines of credit	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,438,056</u>	<u>\$ 3,667</u>	<u>\$ 2,441,723</u>
Equity loans									
Performing	\$ 3,717	\$ 13,212	\$ 10,689	\$ 4,748	\$ 3,924	\$ 148,622	\$ —	\$ —	\$ 184,912
Nonperforming	14	—	473	163	—	8,805	—	—	9,455
Total equity loans	<u>\$ 3,731</u>	<u>\$ 13,212</u>	<u>\$ 11,162</u>	<u>\$ 4,911</u>	<u>\$ 3,924</u>	<u>\$ 157,427</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 194,367</u>
Credit card									
Performing	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 891,251	\$ —	\$ 891,251
Nonperforming	—	—	—	—	—	—	16,542	—	16,542
Total credit card	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 907,793</u>	<u>\$ —</u>	<u>\$ 907,793</u>
Consumer direct									
Performing	\$ 352,071	\$ 568,277	\$ 470,073	\$ 133,739	\$ 62,502	\$ 24,366	\$ 396,891	\$ —	\$ 2,007,919
Nonperforming	155	3,722	7,892	1,821	576	164	1,447	—	15,777
Total consumer direct	<u>\$ 352,226</u>	<u>\$ 571,999</u>	<u>\$ 477,965</u>	<u>\$ 135,560</u>	<u>\$ 63,078</u>	<u>\$ 24,530</u>	<u>\$ 398,338</u>	<u>\$ —</u>	<u>\$ 2,023,696</u>
Consumer indirect									
Performing	\$ 1,010,830	\$ 1,402,703	\$ 980,220	\$ 411,866	\$ 136,671	\$ 138,551	\$ —	\$ —	\$ 4,080,841
Nonperforming	512	4,675	10,095	6,479	3,715	3,312	—	—	28,788
Total consumer indirect	<u>\$ 1,011,342</u>	<u>\$ 1,407,378</u>	<u>\$ 990,315</u>	<u>\$ 418,345</u>	<u>\$ 140,386</u>	<u>\$ 141,863</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 4,109,629</u>
December 31, 2019									
	Residential Real Estate -Mortgage	Equity Lines of Credit	Equity Loans	Credit Card	Consumer Direct	Consumer Indirect			
(In Thousands)									
Performing	\$ 13,381,709	\$ 2,553,000	\$ 236,122	\$ 979,569	\$ 2,313,082	\$ 3,870,839			
Nonperforming	152,245	39,680	8,846	22,796	25,060	41,511			
	<u>\$ 13,533,954</u>	<u>\$ 2,592,680</u>	<u>\$ 244,968</u>	<u>\$ 1,002,365</u>	<u>\$ 2,338,142</u>	<u>\$ 3,912,350</u>			

The following tables present an aging analysis of the Company's past due loans, excluding loans classified as held for sale.

September 30, 2020									
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Nonaccrual	Accruing TDRs	Total Past Due, Nonaccrual or TDR	Not Past Due, Nonaccrual or TDR	Total	
(In Thousands)									
Commercial, financial and agricultural	\$ 22,632	\$ 12,890	\$ 21,261	\$ 660,254	\$ 19,713	\$ 736,750	\$ 26,203,423	\$ 26,940,173	
Real estate – construction	2,861	303	532	12,614	61	16,371	2,387,303	2,403,674	
Commercial real estate – mortgage	19,280	3,968	1,816	275,668	1,831	302,563	13,393,237	13,695,800	
Residential real estate – mortgage	88,035	49,344	39,728	204,442	55,132	436,681	13,027,076	13,463,757	
Equity lines of credit	13,418	6,300	3,445	37,216	—	60,379	2,381,344	2,441,723	
Equity loans	1,847	1,158	271	8,758	20,750	32,784	161,583	194,367	
Credit card	9,776	7,526	16,542	—	—	33,844	873,949	907,793	
Consumer direct	25,762	11,730	6,643	9,134	17,926	71,195	1,952,501	2,023,696	
Consumer indirect	34,116	9,744	3,834	24,954	—	72,648	4,036,981	4,109,629	
Total loans	<u>\$ 217,727</u>	<u>\$ 102,963</u>	<u>\$ 94,072</u>	<u>\$ 1,233,040</u>	<u>\$ 115,413</u>	<u>\$ 1,763,215</u>	<u>\$ 64,417,397</u>	<u>\$ 66,180,612</u>	

December 31, 2019									
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Nonaccrual	Accruing TDRs	Total Past Due and Impaired	Not Past Due or Impaired	Total	
(In Thousands)									
Commercial, financial and agricultural	\$ 29,273	\$ 16,462	\$ 6,692	\$ 268,288	\$ 1,456	\$ 322,171	\$ 24,110,067	\$ 24,432,238	
Real estate – construction	7,603	2	571	8,041	72	16,289	2,012,393	2,028,682	
Commercial real estate – mortgage	5,325	5,458	6,576	98,077	3,414	118,850	13,742,628	13,861,478	
Residential real estate – mortgage	72,571	21,909	4,641	147,337	57,165	303,623	13,230,331	13,533,954	
Equity lines of credit	15,766	6,581	1,567	38,113	—	62,027	2,530,653	2,592,680	
Equity loans	2,856	1,028	195	8,651	23,770	36,500	208,468	244,968	
Credit card	11,275	9,214	22,796	—	—	43,285	959,080	1,002,365	
Consumer direct	33,658	20,703	18,358	6,555	12,438	91,712	2,246,430	2,338,142	
Consumer indirect	83,966	28,430	9,730	31,781	—	153,907	3,758,443	3,912,350	
Total loans	<u>\$ 262,293</u>	<u>\$ 109,787</u>	<u>\$ 71,126</u>	<u>\$ 606,843</u>	<u>\$ 98,315</u>	<u>\$ 1,148,364</u>	<u>\$ 62,798,493</u>	<u>\$ 63,946,857</u>	

It is the Company's policy to classify TDRs that are not accruing interest as nonaccrual loans. It is also the Company's policy to classify TDR past due loans that are accruing interest as TDRs and not according to their past due status. The tables above reflect this policy.

In response to the COVID-19 pandemic, beginning in March 2020, the Company began providing financial hardship relief in the form of payment deferrals and forbearances to consumer and commercial customers across a wide array of lending products, as well as the suspension of vehicle repossessions and home foreclosures. The payment deferrals and forbearances generally cover periods of three to six months. In most cases as allowed under the CARES Act, these offers are not classified as TDRs and do not result in loans being placed on nonaccrual status. For loans that receive a payment deferral or forbearance under these hardship relief programs, the Company continues to accrue interest and recognize interest income during the period of the deferral. Depending on the terms of each program, all or a portion of this accrued interest may be paid directly by the borrower (either during the relief period, at the end of the relief period or at maturity of the loan). For certain programs, the maturity date of the loan may also be extended by the

number of payments deferred. Interest income will continue to be recognized at the original contractual interest rate unless that rate is concurrently modified upon entering the relief program (in which case, the modified rate would be used to recognize interest). At September 30, 2020, the Company had deferrals on approximately 13 thousand loans with an amortized cost of \$1.1 billion.

Modifications to borrowers' loan agreements are considered TDRs if a concession is granted for economic or legal reasons related to a borrower's financial difficulties that otherwise would not be considered. Within each of the Company's loan classes, TDRs typically involve modification of the loan interest rate to a below market rate or an extension or deferment of the loan. During the three months ended September 30, 2020, \$7.8 million of TDR modifications included an interest rate concession and \$113.3 million of TDR modifications resulted from modifications to the loan's structure. During the three months ended September 30, 2019, \$7.8 million of TDR modifications included an interest rate concession and \$25.0 million of TDR modifications resulted from modifications to the loan's structure. During the nine months ended September 30, 2020, \$17.3 million of TDR modifications included an interest rate concession and \$182.4 million of TDR modifications resulted from modifications to the loan's structure. During the nine months ended September 30, 2019, \$17.3 million of TDR modifications included an interest rate concession and \$57.8 million of TDR modifications resulted from modifications to the loan's structure.

The following tables present an analysis of the types of loans that were restructured and classified as TDRs, excluding loans classified as held for sale.

	Three Months Ended September 30, 2020		Three Months Ended September 30, 2019	
	Number of Contracts	Post-Modification Outstanding Recorded Investment	Number of Contracts	Post-Modification Outstanding Recorded Investment
	(Dollars in Thousands)			
Commercial, financial and agricultural	10	\$ 104,864	4	\$ 1,411
Real estate – construction	—	—	—	—
Commercial real estate – mortgage	2	5,589	2	18,115
Residential real estate – mortgage	19	6,706	29	8,523
Equity lines of credit	5	168	3	259
Equity loans	6	1,246	1	49
Credit card	—	—	—	—
Consumer direct	42	2,545	110	4,401
Consumer indirect	—	—	1	2

	Nine Months Ended September 30, 2020		Nine Months Ended September 30, 2019	
	Number of Contracts	Post-Modification Outstanding Recorded Investment	Number of Contracts	Post-Modification Outstanding Recorded Investment
	(Dollars in Thousands)			
Commercial, financial and agricultural	21	\$ 170,579	10	\$ 28,330
Real estate – construction	—	—	—	—
Commercial real estate – mortgage	5	7,886	6	20,638
Residential real estate – mortgage	34	8,528	65	15,574
Equity lines of credit	13	567	5	353
Equity loans	8	1,496	8	456
Credit card	—	—	—	—
Consumer direct	176	10,656	178	9,176
Consumer indirect	—	—	1	2

The impact to the allowance for loan losses related to modifications classified as TDRs was approximately \$5.4 million and \$6.7 million for the three months ended September 30, 2020 and 2019, respectively. The impact to the allowance for loan losses related to modifications classified as TDRs were \$10.6 million and \$18.3 million for the nine months ended September 30, 2020 and 2019, respectively.

The Company considers TDRs aged 90 days or more past due, charged off or classified as nonaccrual subsequent to modification, where the loan was not classified as a nonperforming loan at the time of modification, as subsequently defaulted.

The following tables provide a summary of initial subsequent defaults that occurred within one year of the restructure date. The tables exclude loans classified as held for sale as of period-end and includes loans no longer in default as of period-end.

	Three Months Ended September 30, 2020		Three Months Ended September 30, 2019	
	Number of Contracts	Recorded Investment at Default	Number of Contracts	Recorded Investment at Default
	(Dollars in Thousands)			
Commercial, financial and agricultural	1	\$ 16,739	—	\$ —
Real estate – construction	—	—	—	—
Commercial real estate – mortgage	—	—	1	599
Residential real estate – mortgage	—	—	1	234
Equity lines of credit	—	—	—	—
Equity loans	1	270	—	—
Credit card	—	—	—	—
Consumer direct	—	—	1	600
Consumer indirect	—	—	—	—

	Nine Months Ended September 30, 2020		Nine Months Ended September 30, 2019	
	Number of Contracts	Recorded Investment at Default	Number of Contracts	Recorded Investment at Default
	(Dollars in Thousands)			
Commercial, financial and agricultural	1	\$ 16,739	—	\$ —
Real estate – construction	—	—	—	—
Commercial real estate – mortgage	—	—	1	599
Residential real estate – mortgage	2	182	2	455
Equity lines of credit	1	65	—	—
Equity loans	1	270	2	151
Credit card	—	—	—	—
Consumer direct	5	235	4	2,610
Consumer indirect	—	—	—	—

At September 30, 2020 and December 31, 2019, there were \$100.6 million and \$43.8 million, respectively, of commitments to lend additional funds to borrowers whose terms have been modified in a TDR.

Foreclosure Proceedings

OREO totaled \$15 million and \$22 million at September 30, 2020 and December 31, 2019, respectively. OREO included \$8 million and \$14 million of foreclosed residential real estate properties at September 30, 2020 and December 31, 2019, respectively. As of September 30, 2020 and December 31, 2019, there were \$32 million and \$57 million, respectively, of loans secured by residential real estate properties for which formal foreclosure proceedings were in process.

(4) Loan Sales and Servicing

Loans held for sale were \$253 million and \$112 million at September 30, 2020 and December 31, 2019, respectively, and were comprised entirely of residential real estate - mortgage loans.

The following table summarizes the Company's activity in the loans held for sale portfolio and loan sales, excluding activity related to loans originated for sale in the secondary market.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In Thousands)			
Loans transferred from held for investment to held for sale	\$ —	\$ —	\$ —	\$ 1,196,883
Charge-offs on loans recognized at transfer from held for investment to held for sale	—	—	—	—
Loans and loans held for sale sold	—	10,897	—	1,092,195

The following table summarizes the Company's sales of loans originated for sale in the secondary market.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In Thousands)			
Residential real estate loans originated for sale in the secondary market sold (1)	\$ 403,190	\$ 188,550	\$ 923,139	\$ 488,940
Net gains recognized on sales of residential real estate loans originated for sale in the secondary market (2)	25,636	8,101	51,909	20,745
Servicing fees recognized (2)	2,550	2,703	7,726	8,007

(1) The Company has retained servicing responsibilities for all loans sold that were originated for sale in the secondary market.

(2) Recorded as a component of mortgage banking income in the Company's Unaudited Condensed Consolidated Statements of Income.

The following table provides the recorded balance of loans sold with retained servicing and the related MSR's.

	September 30, 2020		December 31, 2019	
	(In Thousands)			
Recorded balance of residential real estate mortgage loans sold with retained servicing (1)	\$	4,447,793	\$	4,534,202
MSR's (2)		28,731		42,022

(1) These loans are not included in loans on the Company's Unaudited Condensed Consolidated Balance Sheets.

(2) Recorded under the fair value method and included in other assets on the Company's Unaudited Condensed Consolidated Balance Sheets.

The fair value of MSR is significantly affected by mortgage interest rates available in the marketplace, which influence mortgage loan prepayment speeds. In general, during periods of declining rates, the fair value of MSR declines due to increasing prepayments attributable to increased mortgage-refinance activity. During periods of rising interest rates, the fair value of MSR generally increases due to reduced refinance activity. The Company maintains a non-qualifying hedging strategy to manage a portion of the risk associated with changes in the fair value of the MSR portfolio. This strategy includes the purchase of various trading securities. The interest income, mark-to-market adjustments and gain or loss from sale activities associated with these securities are expected to economically hedge a portion of the change in the fair value of the MSR portfolio.

The following table is an analysis of the activity in the Company's MSR.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In Thousands)			
Carrying value, at beginning of period	\$ 29,035	\$ 41,966	\$ 42,022	\$ 51,539
Additions	3,244	1,600	7,654	4,305
Increase (decrease) in fair value:				
Due to changes in valuation inputs or assumptions	(1,052)	(4,269)	(13,866)	(11,303)
Due to other changes in fair value (1)	(2,496)	(2,032)	(7,079)	(7,276)
Carrying value, at end of period	\$ 28,731	\$ 37,265	\$ 28,731	\$ 37,265

(1) Represents the realization of expected net servicing cash flows, expected borrower repayments and the passage of time.

See Note 9, Fair Value Measurements, for additional disclosures related to the assumptions and estimates used in determining fair value of MSR.

At September 30, 2020 and December 31, 2019, the sensitivity of the current fair value of the residential MSR to immediate 10% and 20% adverse changes in key economic assumptions are included in the following table:

	September 30, 2020	December 31, 2019
	(Dollars in Thousands)	
Fair value of MSR	\$ 28,731	\$ 42,022
Composition of residential loans serviced for others:		
Fixed rate mortgage loans	98.4%	98.1%
Adjustable rate mortgage loans	1.6	1.9
Total	100.0%	100.0%
Weighted average life (in years)	3.5	4.6
Prepayment speed:	29.5%	16.9%
Effect on fair value of a 10% increase	\$ (1,478)	\$ (2,906)
Effect on fair value of a 20% increase	(3,236)	(5,043)
Weighted average option adjusted spread:	6.2%	6.4%
Effect on fair value of a 10% increase	\$ (670)	\$ (1,159)
Effect on fair value of a 20% increase	(1,310)	(1,812)

The sensitivity calculations above are hypothetical and should not be considered to be predictive of future performance. As indicated, 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, in this table, the effect of an adverse variation in a particular assumption on the fair value of the MSR is calculated without changing any other assumption; while in reality, changes in one assumption may result in changes to another, which may magnify or counteract the effect of the change.

(5) Goodwill

A summary of the activity related to the Company's goodwill follows.

	(In Thousands)
Balance, at December 31, 2018	
Goodwill	\$ 9,835,400
Accumulated impairment losses	(4,852,104)
Goodwill, net at December 31, 2018	4,983,296
Impairment losses	(470,000)
Balance, at December 31, 2019	
Goodwill	9,835,400
Accumulated impairment losses	(5,322,104)
Goodwill, net at December 31, 2019	4,513,296
Impairment losses	(2,185,000)
Balance, at September 30, 2020	
Goodwill	9,835,400
Accumulated impairment losses	(7,507,104)
Goodwill, net at September 30, 2020	\$ 2,328,296

Goodwill is allocated to each of the Company's segments (each a reporting unit: Commercial Banking and Wealth, Retail Banking, and Corporate and Investment Banking).

At September 30, 2020 and December 31, 2019, the goodwill, net of accumulated impairment losses, attributable to each of the Company's three identified reporting units is as follows:

	September 30, 2020	December 31, 2019
	(In Thousands)	
Commercial Banking and Wealth	\$ 1,930,830	\$ 2,659,830
Retail Banking	135,660	1,427,660
Corporate and Investment Banking	261,806	425,806

Through September 30, 2020, the Company had recognized accumulated goodwill impairment losses of \$3.2 billion, \$2.7 billion, and \$883 million within the Commercial Banking and Wealth, Retail Banking, and Corporate and Investment Banking reporting units, respectively. In addition, the Company has previously recognized \$784 million of accumulated goodwill impairment losses from reporting units that no longer have a goodwill balance.

In accordance with the applicable accounting guidance, the Company performs annual tests to identify potential impairment of goodwill. The tests are required to be performed annually and more frequently if events or circumstances indicate a potential impairment may exist. The Company compares the fair value of each reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

The estimated fair value of the reporting unit is determined using a blend of both income and market approaches.

The Company completed its annual goodwill impairment test as of October 31, 2019. Additionally, on a quarterly basis, the Company evaluates whether a triggering event has occurred. During the three months ended March 31, 2020, the Company performed an interim impairment test due to the impact of COVID-19 pandemic on the economic environment. The interim impairment test indicated a goodwill impairment of \$164 million within the Corporate and Investment Banking reporting unit, \$729 million within the Commercial Banking and Wealth reporting unit, and \$1.3 billion within the Retail Banking reporting unit resulting in the Company recording a goodwill impairment charge of \$2.2 billion for the three months ended March 31, 2020. The primary causes of the goodwill impairment were economic and industry conditions, volatility in the market capitalization of U.S. banks, and management's downward revisions

to financial projections that resulted in the fair value of the reporting units being less than the carrying value of the reporting units.

At September 30, 2020, the Company assessed events and circumstances as it related to the continued impact of COVID-19 on the Company during the three months ended September 30, 2020, including: recent operating performance compared to revised financial projections, market conditions, regulatory actions and assessment, change in the business climate, company-specific factors, and trends in the banking industry. After assessing the indicators noted above, the Company determined that it was not more likely than not that the fair value of each reporting unit had declined below their carrying value as of September 30, 2020. Therefore, the Company determined that a test of goodwill impairment was not required for each of the reporting units for the September 30, 2020 interim period. The Company will continue to monitor for indicators of impairment throughout 2020 as the impact of the COVID-19 pandemic is highly uncertain and cannot be predicted.

(6) Derivatives and Hedging

The Company is a party to derivative instruments in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates and foreign currency exchange rates. The Company has made an accounting policy decision not to offset derivative fair value amounts under master netting agreements. See Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2019, for additional information on the Company's accounting policies related to derivative instruments and hedging activities. For derivatives cleared through central clearing houses the variation margin payments made are legally characterized as settlements of the derivatives. As a result, these variation margin payments are netted against the fair value of the respective derivative contracts in the balance sheet and related disclosures and there is no fair value presented for these contracts. The following table reflects the notional amount and fair value of derivative instruments included on the Company's Unaudited Condensed Consolidated Balance Sheets on a gross basis.

	September 30, 2020			December 31, 2019		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
		Derivative Assets (1)	Derivative Liabilities (2)		Derivative Assets (1)	Derivative Liabilities (2)
(In Thousands)						
Derivatives designated as hedging instruments:						
Fair value hedges:						
Interest rate swaps related to long-term debt	\$ 3,496,086	\$ 12,408	\$ 837	\$ 3,623,950	\$ 10,633	\$ 354
Total fair value hedges		12,408	837		10,633	354
Cash flow hedges:						
Interest rate contracts:						
Swaps related to commercial loans	10,000,000	—	—	10,000,000	—	—
Swaps related to FHLB advances	120,000	—	3,000	120,000	—	2,864
Foreign currency contracts:						
Forwards related to currency fluctuations	1,178	—	87	2,597	102	—
Total cash flow hedges		—	3,087		102	2,864
Total derivatives designated as hedging instruments		\$ 12,408	\$ 3,924		\$ 10,735	\$ 3,218
Free-standing derivatives not designated as hedging instruments:						
Interest rate contracts:						
Forward contracts related to held for sale mortgages	\$ 794,989	\$ 638	\$ 1,993	\$ 289,990	\$ 148	\$ 514
Option contracts related to mortgage servicing rights	—	—	—	60,000	38	—
Interest rate lock commitments	636,349	16,305	—	146,941	3,088	—
Equity contracts:						
Purchased equity option related to equity-linked CDs	50,831	774	—	152,130	4,460	—
Written equity option related to equity-linked CDs	41,065	—	625	128,620	—	3,765
Foreign exchange contracts:						
Forwards and swaps related to commercial loans	385,230	2,678	1,883	443,493	167	3,872
Spots related to commercial loans	336	—	1	48,626	7	68
Swap associated with sale of Visa, Inc. Class B shares	172,368	—	6,435	161,904	—	5,904
Futures contracts (3)	2,240,000	—	—	2,110,000	—	—
Trading account assets and liabilities:						
Interest rate contracts for customers	40,169,859	711,389	155,542	35,503,973	313,573	97,881
Foreign exchange contracts for customers	1,400,345	37,928	35,640	1,039,507	22,766	20,678
Total trading account assets and liabilities		749,317	191,182		336,339	118,559
Total free-standing derivative instruments not designated as hedging instruments		\$ 769,712	\$ 202,119		\$ 344,247	\$ 132,682

- (1) Derivative assets, except for trading account assets that are recorded as a component of trading account assets on the Company's Unaudited Condensed Consolidated Balance Sheets, are recorded in other assets on the Company's Unaudited Condensed Consolidated Balance Sheets.
- (2) Derivative liabilities are recorded in accrued expenses and other liabilities on the Company's Unaudited Condensed Consolidated Balance Sheets.
- (3) Changes in fair value are cash settled daily; therefore, there is no ending balance at any given reporting period.

Hedging Derivatives

The Company uses derivative instruments to manage the risk of earnings fluctuations caused by interest rate volatility. For those financial instruments that qualify and are designated as a hedging relationship, either a fair value hedge or cash flow hedge, the effect of interest rate movements on the hedged assets or liabilities will generally be offset by change in fair value of the derivative instrument.

Fair Value Hedges

The Company enters into fair value hedging relationships using interest rate swaps to mitigate the Company's exposure to losses in value as interest rates change. Derivative instruments that are used as part of the Company's interest rate risk management strategy include interest rate swaps that relate to the pricing of specific balance sheet assets and liabilities.

Interest rate swaps are used to convert the Company's fixed rate long-term debt to a variable rate. The critical terms of the interest rate swaps match the terms of the corresponding hedged items. All components of each derivative instrument's gain or loss are included in the assessment of hedge effectiveness.

The Company recognized no gains or losses for the three and nine months ended September 30, 2020 and 2019, related to hedged firm commitments no longer qualifying as a fair value hedge. At September 30, 2020, the fair value hedges had a weighted average expected remaining term of 2.7 years.

Cash Flow Hedges

The Company enters into cash flow hedging relationships using interest rate swaps and options, such as caps and floors, to mitigate exposure to the variability in future cash flows or other forecasted transactions associated with its floating rate assets and liabilities. The Company uses interest rate swaps and options to hedge the repricing characteristics of its floating rate commercial loans and FHLB advances. The Company also uses foreign currency forward contracts to hedge its exposure to fluctuations in foreign currency exchange rates due to a portion of money transfer expense being denominated in foreign currency. All components of each derivative instrument's gain or loss are included in the assessment of hedge effectiveness. The initial assessment of expected hedge effectiveness is based on regression analysis. The ongoing periodic measures of hedge ineffectiveness are based on the expected change in cash flows of the hedged item caused by changes in the benchmark interest rate. There were no gains or losses reclassified from other comprehensive income because of the discontinuance of cash flow hedges related to certain forecasted transactions that are probable of not occurring for the three and nine months ended September 30, 2020 and 2019.

At September 30, 2020, cash flow hedges not terminated had a net fair value of \$(3) million and a weighted average life of 2.4 years. Net gains of \$173.1 million are expected to be reclassified to income over the next 12 months as net settlements occur. The maximum length of time over which the entity is hedging its exposure to the variability in future cash flows for forecasted transactions is 4.2 years.

The following table presents the effect of hedging derivative instruments on the Company's Unaudited Condensed Consolidated Statements of Income.

	Interest Income	Interest Expense
	Interest and fees on loans	Interest on FHLB and other borrowings
(In Thousands)		
Three Months Ended September 30, 2020		
Total amounts presented in the unaudited condensed consolidated statements of income	\$ 644,643	\$ 14,644
Gains (losses) on fair value hedging relationships:		
Interest rate contracts:		
Amounts related to interest settlements and amortization on derivatives	\$ —	\$ 12,247
Recognized on derivatives	—	(12,407)
Recognized on hedged items	—	12,058
Net income (expense) recognized on fair value hedges	<u>\$ —</u>	<u>\$ 11,898</u>
Gain (losses) on cash flow hedging relationships: (1)		
Interest rate contracts:		
Realized gains (losses) reclassified from AOCI into net income (2)	\$ 43,671	\$ (832)
Net income (expense) recognized on cash flow hedges	<u>\$ 43,671</u>	<u>\$ (832)</u>
Three Months Ended September 30, 2019		
Total amounts presented in the unaudited condensed consolidated statements of income	\$ 771,245	\$ 32,975
Gains (losses) on fair value hedging relationships:		
Interest rate contracts:		
Amounts related to interest settlements and amortization on derivatives	\$ —	\$ (136)
Recognized on derivatives	—	9,369
Recognized on hedged items	—	(8,999)
Net income (expense) recognized on fair value hedges	<u>\$ —</u>	<u>\$ 234</u>
Gain (losses) on cash flow hedging relationships: (1)		
Interest rate contracts:		
Realized losses reclassified from AOCI into net income (2)	\$ (295)	\$ (254)
Net income (expense) recognized on cash flow hedges	<u>\$ (295)</u>	<u>\$ (254)</u>

(1) See Note 10, Comprehensive Income, for gain or loss recognized for cash flow hedges in accumulated other comprehensive income.

(2) Pre-tax

	<u>Interest Income</u>	<u>Interest Expense</u>
	<u>Interest and fees on loans</u>	<u>Interest on FHLB and other borrowings</u>
(In Thousands)		
Nine Months Ended September 30, 2020		
Total amounts presented in the unaudited condensed consolidated statements of income	\$ 2,029,886	\$ 57,756
Gains (losses) on fair value hedging relationships:		
Interest rate contracts:		
Amounts related to interest settlements and amortization on derivatives	\$ —	\$ 21,906
Recognized on derivatives	—	100,598
Recognized on hedged items	—	(95,575)
Net income (expense) recognized on fair value hedges	<u>\$ —</u>	<u>\$ 26,929</u>
Gain (losses) on cash flow hedging relationships: (1)		
Interest rate contracts:		
Realized gains (losses) reclassified from AOCI into net income (2)	\$ 82,963	\$ (1,841)
Net income (expense) recognized on cash flow hedges	<u>\$ 82,963</u>	<u>\$ (1,841)</u>
Nine Months Ended September 30, 2019		
Total amounts presented in the unaudited condensed consolidated statements of income	\$ 2,359,500	\$ 104,901
Gains (losses) on fair value hedging relationships:		
Interest rate contracts:		
Amounts related to interest settlements and amortization on derivatives	\$ —	\$ (4,192)
Recognized on derivatives	—	76,315
Recognized on hedged items	—	(72,510)
Net income (expense) recognized on fair value hedges	<u>\$ —</u>	<u>\$ (387)</u>
Gain (losses) on cash flow hedging relationships: (1)		
Interest rate contracts:		
Realized losses reclassified from AOCI into net income (2)	\$ (2,765)	\$ (584)
Net income (expense) recognized on cash flow hedges	<u>\$ (2,765)</u>	<u>\$ (584)</u>

(1) See Note 10, Comprehensive Income, for gain or loss recognized for cash flow hedges in accumulated other comprehensive income.

(2) Pre-tax

The following table presents 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 on the Company's Unaudited Condensed Consolidated Balance Sheets in fair value hedging relationships.

	<u>Carrying Amount of Hedged Liabilities</u>	<u>Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of Hedged Liabilities</u>	
		<u>Hedged Items Currently Designated</u>	<u>Hedged Items No Longer Designated</u>
(In Thousands)			
September 30, 2020			
FHLB and other borrowings	\$ 3,259,422	\$ 120,610	\$ 1,224
December 31, 2019			
FHLB and other borrowings	\$ 3,483,177	\$ 25,092	\$ 1,883

Derivatives Not Designated As Hedges

Derivatives not designated as hedges include those that are entered into as either economic hedges to facilitate client needs or as part of the Company's overall risk management strategy. Economic hedges are those that do not qualify to be treated as a fair value hedge, cash flow hedge or foreign currency hedge for accounting purposes, but are necessary to economically manage the risk exposure associated with the assets and liabilities of the Company. The Company holds a portfolio of futures, forwards and interest rate lock commitments as well as options related to its equity-linked CDs to mitigate its economic risk exposure. The Company also enters into a variety of interest rate contracts and foreign exchange contracts in its trading activities. See Note 13, Derivatives and Hedging, in the Notes to the December 31, 2019, Consolidated Financial Statements for a description of the Company's derivatives not designated as hedges.

The net gains and losses recorded in the Company's Unaudited Condensed Consolidated Statements of Income from free-standing derivative instruments not designated as hedging instruments are summarized in the following table.

Condensed Consolidated Statements of Income Caption		Gain (Loss) for the			
		Three Months Ended September 30,		Nine Months Ended September 30,	
		2020	2019	2020	2019
(In Thousands)					
Futures contracts	Mortgage banking income and corporate and correspondent investment sales	\$ (12)	\$ 14	\$ (764)	\$ (1,365)
Interest rate contracts:					
Interest rate lock commitments	Mortgage banking income	(4,438)	191	13,217	2,026
Option contracts related to mortgage servicing rights	Mortgage banking income	—	285	1,528	1,313
Forward contracts related to residential mortgage loans held for sale	Mortgage banking income	2,115	530	(989)	481
Interest rate contracts for customers	Corporate and correspondent investment sales	(62)	7,398	18,762	13,490
Equity contracts:					
Purchased equity option related to equity-linked CDs	Other expense	(1,094)	(2,187)	(3,686)	(7,196)
Written equity option related to equity-linked CDs	Other expense	930	1,942	3,140	6,469
Foreign currency contracts:					
Forward and swap contracts related to commercial loans	Other income	(15,885)	13,787	(4,694)	15,484
Spot contracts related to commercial loans	Other income	2,076	(1,263)	4,900	(1,065)
Foreign currency exchange contracts for customers	Corporate and correspondent investment sales	3,400	4,085	12,024	11,547

Derivatives Credit and Market Risks

By using derivative instruments, the Company is exposed to credit and market risk. If the counterparty fails to perform, credit risk is equal to the extent of the Company's fair value gain in a derivative. When the fair value of a derivative instrument contract is positive, this generally indicates that the counterparty owes the Company and, therefore, creates a credit risk for the Company. When the fair value of a derivative instrument contract is negative, the Company owes the counterparty and, therefore, it has no credit risk. The Company minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically. Credit losses are also mitigated through collateral agreements and other contract provisions with derivative counterparties.

Market risk is the adverse effect that a change in interest rates or implied volatility rates has on the value of a financial instrument. The Company manages the market risk associated with interest rate contracts by establishing and monitoring limits as to the types and degree of risk that may be undertaken.

The Company's derivatives activities are monitored by its Asset/Liability Committee as part of its risk-management oversight. The Company's Asset/Liability Committee is responsible for mandating various hedging strategies that are developed through its analysis of data from financial simulation models and other internal and industry sources. The

resulting hedging strategies are then incorporated into the Company's overall interest rate risk management and trading strategies.

Entering into interest rate swap agreements and options involves not only the risk of dealing with counterparties and their ability to meet the terms of the contracts but also interest rate risk associated with unmatched positions. At September 30, 2020, interest rate swap agreements and options classified as trading were substantially matched. The Company had credit risk of \$749 million related to derivative instruments in the trading account portfolio, which does not take into consideration master netting arrangements or the value of the collateral. There were no credit losses associated with derivative instruments classified as trading for the three and nine months ended September 30, 2020 and 2019. At September 30, 2020 and December 31, 2019, there were no material nonperforming derivative positions classified as trading.

The Company's derivative positions designated as hedging instruments are primarily executed in the over-the-counter market. These positions at September 30, 2020, have credit risk of \$12 million, which does not take into consideration master netting arrangements or the value of the collateral.

There were no credit losses associated with derivative instruments classified as nontrading for the three and nine months ended September 30, 2020 and 2019. At September 30, 2020 and December 31, 2019, there were no nonperforming derivative positions classified as nontrading.

As of September 30, 2020 and December 31, 2019, the Company had recorded the right to reclaim cash collateral of \$221 million and \$150 million, respectively, within other assets on the Company's Unaudited Condensed Consolidated Balance Sheets. At both September 30, 2020 and December 31, 2019, the Company had recorded the obligation to return cash collateral of \$12 million within deposits on the Company's Unaudited Condensed Consolidated Balance Sheets.

Contingent Features

Certain of the Company's derivative instruments contain provisions that require the Company's debt maintain a certain credit rating from each of the major credit rating agencies. If the Company's debt were to fall below this rating, it would be in violation of these provisions, and the counterparties to the derivative instruments could demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a liability position on September 30, 2020, was \$76 million for which the Company has collateral requirements of \$74 million in the normal course of business. If the credit risk-related contingent features underlying these agreements had been triggered on September 30, 2020, the Company's collateral requirements to its counterparties would increase by \$2 million. The aggregate fair value of all derivative instruments with credit risk-related contingent features that were in a liability position on December 31, 2019, was \$47 million for which the Company had collateral requirements of \$45 million in the normal course of business. If the credit risk-related contingent features underlying these agreements had been triggered on December 31, 2019, the Company's collateral requirements to its counterparties would have increased by \$2 million.

Netting of Derivative Instruments

The Company is party to master netting arrangements with its financial institution counterparties for some of its derivative and hedging activities. The Company does not offset assets and liabilities under these master netting arrangements for financial statement presentation purposes. The master netting arrangements provide for single net settlement of all derivative instrument arrangements, as well as collateral, in the event of default with respect to, or termination of, any one contract with the respective counterparties. Cash collateral is usually posted by the counterparty with a net liability position in accordance with contract thresholds.

The following table represents the Company's total gross derivative instrument assets and liabilities subject to an enforceable master netting arrangement. The derivative instruments the Company has with its customers are not subject to an enforceable master netting arrangement.

	Gross Amounts Recognized	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amount Presented in the Consolidated Balance Sheets	Financial Instruments Collateral Received/Pledged (1)	Cash Collateral Received/ Pledged (1)	Net Amount
(In Thousands)						
September 30, 2020						
Derivative financial assets:						
Subject to a master netting arrangement	\$ 46,217	\$ —	\$ 46,217	\$ —	\$ 3,502	\$ 42,715
Not subject to a master netting arrangement	735,903	—	735,903	—	—	735,903
Total derivative financial assets	<u>\$ 782,120</u>	<u>\$ —</u>	<u>\$ 782,120</u>	<u>\$ —</u>	<u>\$ 3,502</u>	<u>\$ 778,618</u>
Derivative financial liabilities:						
Subject to a master netting arrangement	\$ 174,188	\$ —	\$ 174,188	\$ —	\$ 174,188	\$ —
Not subject to a master netting arrangement	31,855	—	31,855	—	—	31,855
Total derivative financial liabilities	<u>\$ 206,043</u>	<u>\$ —</u>	<u>\$ 206,043</u>	<u>\$ —</u>	<u>\$ 174,188</u>	<u>\$ 31,855</u>
December 31, 2019						
Derivative financial assets:						
Subject to a master netting arrangement	\$ 41,390	\$ —	\$ 41,390	\$ —	\$ 5,860	\$ 35,530
Not subject to a master netting arrangement	313,592	—	313,592	—	—	313,592
Total derivative financial assets	<u>\$ 354,982</u>	<u>\$ —</u>	<u>\$ 354,982</u>	<u>\$ —</u>	<u>\$ 5,860</u>	<u>\$ 349,122</u>
Derivative financial liabilities:						
Subject to a master netting arrangement	\$ 94,979	\$ —	\$ 94,979	\$ —	\$ 94,979	\$ —
Not subject to a master netting arrangement	40,921	—	40,921	—	—	40,921
Total derivative financial liabilities	<u>\$ 135,900</u>	<u>\$ —</u>	<u>\$ 135,900</u>	<u>\$ —</u>	<u>\$ 94,979</u>	<u>\$ 40,921</u>

(1) The actual amount of collateral received/pledged is limited to the asset/liability balance and does not include excess collateral received/pledged. When excess collateral exists, the collateral shown in the table above has been allocated based on the percentage of the actual amount of collateral posted.

(7) Securities Financing Activities

Netting of Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase

The Company has various financial assets and liabilities that are subject to enforceable master netting agreements or similar agreements. The Company's derivatives that are subject to enforceable master netting agreements or similar transactions are discussed in Note 6, Derivatives and Hedging. The Company enters into agreements under which it purchases or sells securities subject to an obligation to resell or repurchase the same or similar securities. Securities purchased under agreements to resell and securities sold under agreements to repurchase are generally accounted for as collateralized financing transactions and recorded at the amounts at which the securities were purchased or sold plus accrued interest. The securities pledged as collateral are generally U.S. Treasury securities and other U.S. government agency securities and mortgage-backed securities.

Securities purchased under agreements to resell and securities sold under agreements to repurchase are governed by a MRA. Under the terms of the MRA, all transactions between the Company and the counterparty constitute a single business relationship such that in the event of default, the nondefaulting party is entitled to set off claims and apply property held by that party in respect of any transaction against obligations owed. Any payments, deliveries, or other transfers may be applied against each other and netted. These amounts are limited to the contract asset/liability balance, and accordingly, do not include excess collateral received or pledged. The Company offsets the assets and liabilities

under netting arrangements for the balance sheet presentation of securities purchased under agreements to resell and securities sold under agreements to repurchase provided certain criteria are met that permit balance sheet netting.

	Gross Amounts Recognized	Gross Amounts Offset in the Condensed Consolidated Balance Sheets	Net Amount Presented in the Condensed Consolidated Balance Sheets	Financial Instruments Collateral Received/Pledged (1)	Cash Collateral Received/ Pledged (1)	Net Amount
(In Thousands)						
September 30, 2020						
Securities purchased under agreements to resell:						
Subject to a master netting arrangement	\$ 3,616,312	\$ 3,472,218	\$ 144,094	\$ 144,094	\$ —	\$ —
Securities sold under agreements to repurchase:						
Subject to a master netting arrangement	\$ 3,661,692	\$ 3,472,218	\$ 189,474	\$ 189,474	\$ —	\$ —
December 31, 2019						
Securities purchased under agreements to resell:						
Subject to a master netting arrangement	\$ 656,504	\$ 477,590	\$ 178,914	\$ 178,914	\$ —	\$ —
Securities sold under agreements to repurchase:						
Subject to a master netting arrangement	\$ 650,618	\$ 477,590	\$ 173,028	\$ 173,028	\$ —	\$ —

(1) The actual amount of collateral received/pledged is limited to the asset/liability balance and does not include excess collateral received/pledged. When excess collateral exists, the collateral shown in the table above has been allocated based on the percentage of the actual amount of collateral posted.

Collateral Associated with Securities Financing Activities

Securities sold under agreements to repurchase are accounted for as secured borrowings. The following table presents the Company's related activity, by collateral type and remaining contractual maturity.

	Remaining Contractual Maturity of the Agreements				Total
	Overnight and Continuous	Up to 30 days	30 - 90 days	Greater Than 90 days	
(In Thousands)					
September 30, 2020					
Securities sold under agreements to repurchase:					
U.S. Treasury and other U.S. government agencies	\$ 2,668,963	\$ 249,229	\$ 106,750	\$ 636,750	\$ 3,661,692
Mortgage-backed securities	—	—	—	—	—
Total	\$ 2,668,963	\$ 249,229	\$ 106,750	\$ 636,750	\$ 3,661,692
December 31, 2019					
Securities sold under agreements to repurchase:					
U.S. Treasury and other U.S. government agencies	\$ 321,310	\$ —	\$ —	\$ 305,750	\$ 627,060
Mortgage-backed securities	—	—	23,558	—	23,558
Total	\$ 321,310	\$ —	\$ 23,558	\$ 305,750	\$ 650,618

In the event of a significant decline in fair value of the collateral pledged for the securities sold under agreements to repurchase, the Company would be required to provide additional collateral. The Company minimizes the risk by monitoring the liquidity and credit quality of the collateral, as well as the maturity profile of the transactions.

At September 30, 2020, the fair value of collateral received related to securities purchased under agreements to resell was \$4.3 billion and the fair value of collateral pledged for securities sold under agreements to repurchase was \$4.3 billion. At December 31, 2019, the fair value of collateral received related to securities purchased under agreements

to resell was \$648 million and the fair value of collateral pledged for securities sold under agreements to repurchase was \$644 million.

(8) Commitments, Contingencies and Guarantees

Commitments to Extend Credit & Standby and Commercial Letters of Credit

The following represents the Company's commitments to extend credit, standby letters of credit and commercial letters of credit:

	September 30, 2020	December 31, 2019
	(In Thousands)	
Commitments to extend credit	\$ 27,668,274	\$ 27,725,965
Standby and commercial letters of credit	922,873	996,830

Commitments to extend credit are agreements to lend to customers as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Standby and commercial letters of credit are commitments issued by the Company to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions, and expire in decreasing amounts with terms ranging from one to four years.

The credit risk involved in issuing letters of credit and commitments is essentially the same as that involved in extending loan facilities to customers. The fair value of the letters of credit and commitments typically approximates the fee received from the customer for issuing such commitments. These fees are deferred and are recognized over the commitment period. At both September 30, 2020 and December 31, 2019, the recorded amount of these deferred fees was \$7 million, respectively. The Company holds various assets as collateral supporting those commitments for which collateral is deemed necessary. At September 30, 2020, the maximum potential amount of future undiscounted payments the Company could be required to make under outstanding standby letters of credit was \$923 million. At September 30, 2020 and December 31, 2019, the Company had allowance for credit losses related to letters of credit and unfunded commitments recorded in accrued expenses and other liabilities on the Company's Unaudited Condensed Consolidated Balance Sheet of \$144 million and \$67 million, respectively. See Note 1, Basis of Presentation, for discussion of the impact of the adoption of ASC 326 on the allowance for credit losses related to letters of credit and unfunded commitments.

Loan Sale Recourse

The Company has potential recourse related to specific FNMA securitizations. At both September 30, 2020 and December 31, 2019, the amount of potential recourse was \$18 million of which the Company had reserved \$693 thousand which is recorded in accrued expenses and other liabilities on the Company's Unaudited Condensed Consolidated Balance Sheets for the respective periods.

The Company also issues standard representations and warranties related to mortgage loan sales to government-sponsored agencies. Although these agreements often do not specify limitations, the Company does not believe that any payments related to these representations and warranties would materially change the financial condition or results of operations of the Company. At September 30, 2020 and December 31, 2019, the Company had \$3.0 million and \$1.2 million, respectively, of reserves in accrued expenses and other liabilities on the Company's Unaudited Condensed Consolidated Balance Sheets related to potential losses from loans sold.

Legal and Regulatory Proceedings

In the ordinary course of business, the Company is subject to legal proceedings, including claims, litigation, investigations and administrative proceedings, all of which are considered incidental to the normal conduct of business. The Company believes it has substantial defenses to the claims asserted against it in its currently outstanding legal

proceedings and, with respect to such legal proceedings, intends to defend itself vigorously. Set forth below are descriptions of certain of the Company's legal proceedings.

In January 2014, the Bank was named as a defendant in a lawsuit filed in the District Court of Dallas County, Texas, *David Bagwell, individually and as Trustee of the David S. Bagwell Trust, et al. v. BBVA USA, et al.*, wherein the plaintiffs (who are the borrowers and guarantors of the underlying loans) allege that BBVA USA wrongfully sold their loans to a third party after representing that it would not do so. The plaintiffs seek unspecified monetary relief. Following trial in December 2017, the jury rendered a verdict in favor of the plaintiffs totaling \$98 million. On June 27, 2018, the court entered a judgment in favor of the plaintiffs in the amount of \$96 million, which includes prejudgment interest. The Bank has appealed and will vigorously contest the judgment on appeal. The Company believes there are substantial defenses to these claims and intends to defend them vigorously.

In October 2016, BSI was named as a defendant in a putative class action lawsuit filed in the District Court of Harris County, Texas, *St. Lucie County Fire District Firefighters' Pension Trust, individually and on behalf of all others similarly situated v. Southwestern Energy Company, et al.*, wherein the plaintiffs allege that Southwestern Energy Company, its officers and directors, and the underwriting defendants (including BSI) made inaccurate and misleading statements in the registration statement and prospectus related to a securities offering. The plaintiffs seek unspecified monetary relief. The Company believes there are substantial defenses to these claims and intends to defend them vigorously.

The Company and the Bank have been named in two proceedings involving David L. Powell: one that was filed in January 2017 with the Federal Conciliation and Arbitration Labor Board of Mexico City, Mexico, *David Lannon Powell Finneran v. BBVA USA Bancshares, Inc., et al.*, and one that was filed in April 2018 in the United States District Court for the Northern District of Texas, *David L. Powell, et al. v. BBVA USA*. Powell alleges discrimination and wrongful termination in both proceedings, and seeks unspecified monetary relief. The Company believes there are substantial defenses to these claims and intends to defend them vigorously.

In March 2019, the Company and its subsidiary, Simple Finance Technology Corp., were named as defendants in a putative class action lawsuit filed in the United States District Court for the Northern District of California, *Amitahbo Chattopadhyay v. BBVA USA Bancshares, Inc., et al.* Plaintiff claims that Simple and the Company only permit United States citizens to open Simple accounts (which are exclusively originated through online channels). Plaintiff has recently amended the complaint and now also takes issue with BBVA USA's practice of directing non-citizen applicants to complete the online account origination processes in a physical branch location. Plaintiff alleges that these practices constitute alienage discrimination and violations of California's Unruh Act. The Company believes that there are substantial defenses to these claims and intends to defend them vigorously.

In July 2019, the Company was named as a defendant in a putative class action lawsuit filed in the United States District Court for the Northern District of Alabama, *Ferguson v. BBVA USA Bancshares, Inc.*, wherein the plaintiffs allege certain investment options within the Company's employee retirement plan violate provisions of ERISA. The plaintiffs seek unspecified monetary relief. The Company believes there are substantial defenses to these claims and intends to defend them vigorously.

In April 2020, the Bank was named in a putative class action lawsuit filed in the District Court of Bexar County, Texas styled *Zamora-Orduna Realty Group LLC v. BBVA USA*, wherein plaintiffs allege the Bank tortiously failed to process certain loan requests submitted in connection with the federal Paycheck Protection Program. The plaintiffs seek an amount not less than \$10 million along with other demands for unspecified monetary relief. The Company believes there are substantial defenses to these claims and intends to defend them vigorously.

In April 2020, BBVA USA was named as a defendant in a lawsuit filed in the United States District Court for the Eastern District of Texas, Marshall Division originally styled *Estech Systems, Inc. v. BBVA USA Bancshares, Inc.*, alleging that BBVA USA has violated intellectual property rights owned by the plaintiff in connection with various patents regarding voice-over-internet protocols (VoIP). The plaintiff alleges that BBVA USA's use of certain phone systems and technologies violate its claimed patent rights. The plaintiff seeks unspecified monetary relief. The Company believes there are substantial defenses to these claims and intends to defend them vigorously.

In June 2020, BBVA USA was named as a defendant in a putative class action lawsuit filed in the United States District Court for the Southern District of California styled *Sarah Hill v. BBVA USA*, challenging BBVA USA's assessment of certain overdraft fees. The plaintiffs seek unspecified monetary relief. The Company believes there are substantial defenses to these claims and intends to defend them vigorously.

In July 2020, BSI was named as a defendant in a putative class action lawsuit filed in the Supreme Court of the State of New York, County of New York, City of Miami Fire Fighters' and Police Officers' Retirement Trust, *individually and on behalf of all others similarly situated v. Occidental Petroleum Corporation, et al.*, wherein the plaintiffs allege that Occidental Petroleum Corporation, its officers and directors, and the underwriting defendants (including BSI) made inaccurate and misleading statements in the registration statement and prospectus related to a securities offering. The plaintiffs seek unspecified monetary relief. The Company believes there are substantial defenses to these claims and intends to defend them vigorously.

The Company is or may become involved from time to time in information-gathering requests, reviews, investigations and proceedings (both formal and informal) by various governmental regulatory agencies, law enforcement authorities and self-regulatory bodies regarding the Company's business. Such matters may result in material adverse consequences, including without limitation adverse judgments, settlements, fines, penalties, orders, injunctions, alterations in the Company's business practices or other actions, and could result in additional expenses and collateral costs, including reputational damage, which could have a material adverse impact on the Company's business, consolidated financial position, results of operations or cash flows.

The Company assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. Where it is probable that the Company will incur a loss and the amount of the loss can be reasonably estimated, the Company records a liability in its consolidated financial statements. These legal reserves may be increased or decreased to reflect any relevant developments. Where a loss is not probable or the amount of a probable loss is not reasonably estimable, the Company does not accrue legal reserves. At September 30, 2020, the Company had accrued legal reserves in the amount of \$25 million. Additionally, for those matters where a loss is reasonably possible and the amount of loss is reasonably estimable, the Company estimates the amount of losses that it could incur beyond the accrued legal reserves. Under U.S. GAAP, an event is "reasonably possible" if "the chance of the future event or events occurring is more than remote but less than likely" and an event is "remote" if "the chance of the future event or events occurring is slight." For a limited number of legal matters in which the Company is involved, the Company is able to estimate a range of reasonably possible losses in excess of related reserves, if any. Management currently estimates these losses to range from \$0 to approximately \$76 million. This estimated range of reasonably possible losses is based on information available at September 30, 2020. The matters underlying the estimated range will change from time to time, and the actual results may vary significantly from this estimate. Those matters for which an estimate is not possible are not included within this estimated range; therefore, this estimated range does not represent the Company's maximum loss exposure.

While the outcome of legal proceedings and the timing of the ultimate resolution are inherently difficult to predict, based on information currently available, advice of counsel and available insurance coverage, the Company believes that it has established adequate legal reserves. Further, based upon available information, the Company is of the opinion that these legal proceedings, individually or in the aggregate, will not have a material adverse effect on the Company's financial condition or results of operations. However, in the event of unexpected future developments, it is possible that the ultimate resolution of those matters, if unfavorable, may be material to the Company's results of operations for any particular period, depending, in part, upon the size of the loss or liability imposed and the operating results for the applicable period.

Income Tax Review

The Company is subject to review and examination from various tax authorities. The Company is currently under examination by a number of states, and has received notices of proposed adjustments related to state income taxes due for prior years. Management believes that adequate provisions for income taxes have been recorded.

(9) Fair Value Measurements

See Note 19, Fair Value Measurements, in the Notes to the December 31, 2019, Consolidated Financial Statements for a description of valuation methodologies for assets and liabilities measured at fair value on a recurring and non-recurring basis.

The following tables summarize the financial assets and liabilities measured at fair value on a recurring basis.

	Fair Value Measurements at the End of the Reporting Period Using			
	Fair Value September 30, 2020	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
		(Level 1)	(Level 2)	(Level 3)
(In Thousands)				
Recurring fair value measurements				
Assets:				
Trading account assets:				
U.S. Treasury and other U.S. government agencies	\$ 177,180	\$ 177,180	\$ —	\$ —
Interest rate contracts	711,389	—	711,389	—
Foreign exchange contracts	37,928	—	37,928	—
Total trading account assets	926,497	177,180	749,317	—
Debt securities available for sale:				
U.S. Treasury and other U.S. government agencies	2,191,009	1,725,371	465,638	—
Mortgage-backed securities	969,922	—	969,922	—
Collateralized mortgage obligations	2,866,505	—	2,866,505	—
States and political subdivisions	636	—	636	—
Total debt securities available for sale	6,028,072	1,725,371	4,302,701	—
Loans held for sale	253,454	—	253,454	—
Derivative assets:				
Interest rate contracts	29,351	—	13,046	16,305
Equity contracts	774	—	774	—
Foreign exchange contracts	2,678	—	2,678	—
Total derivative assets	32,803	—	16,498	16,305
Other assets:				
Equity securities	28,035	28,035	—	—
MSR	28,731	—	—	28,731
SBIC	164,362	—	—	164,362
Liabilities:				
Trading account liabilities:				
Interest rate contracts	\$ 155,542	\$ —	\$ 155,542	\$ —
Foreign exchange contracts	35,640	—	35,640	—
Total trading account liabilities	191,182	—	191,182	—
Derivative liabilities:				
Interest rate contracts	5,830	—	5,830	—
Equity contracts	625	—	625	—
Foreign exchange contracts	1,971	—	1,971	—
Total derivative liabilities	8,426	—	8,426	—

Fair Value Measurements at the End of the Reporting Period Using

Fair Value December 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In Thousands)			
Recurring fair value measurements			
Assets:			
Trading account assets:			
U.S. Treasury and other U.S. government agencies	\$ 137,637	\$ 137,637	\$ —
Interest rate contracts	313,573	—	313,573
Foreign exchange contracts	22,766	—	22,766
Total trading account assets	473,976	137,637	336,339
Debt securities available for sale:			
U.S. Treasury and other U.S. government agencies	3,127,525	2,598,471	529,054
Mortgage-backed securities	1,325,857	—	1,325,857
Collateralized mortgage obligations	2,781,125	—	2,781,125
States and political subdivisions	798	—	798
Total debt securities available for sale	7,235,305	2,598,471	4,636,834
Loans held for sale	112,058	—	112,058
Derivative assets:			
Interest rate contracts	13,907	38	10,781
Equity contracts	4,460	—	4,460
Foreign exchange contracts	276	—	276
Total derivative assets	18,643	38	15,517
Other assets:			
Equity securities	19,038	19,038	—
MSR	42,022	—	42,022
SBIC	119,475	—	119,475
Liabilities:			
Trading account liabilities:			
Interest rate contracts	\$ 97,881	\$ —	\$ 97,881
Foreign exchange contracts	20,678	—	20,678
Total trading account liabilities	118,559	—	118,559
Derivative liabilities:			
Interest rate contracts	3,732	—	3,732
Equity contracts	3,765	—	3,765
Foreign exchange contracts	3,940	—	3,940
Total derivative liabilities	11,437	—	11,437

The following tables reconcile the assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3).

Three Months Ended September 30,	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Interest Rate Contracts, net	Other Assets - MSR	Other Assets - SBIC
	(In Thousands)		
Balance, June 30, 2019	\$ 3,847	\$ 41,966	\$ 102,065
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Total gains or losses (realized/unrealized):			
Included in earnings (1)	191	(6,301)	10,239
Included in other comprehensive income	—	—	—
Purchases, issuances, sales and settlements:			
Purchases	—	—	7,944
Issuances	—	1,600	—
Sales	—	—	—
Settlements	—	—	—
Balance, September 30, 2019	\$ 4,038	\$ 37,265	\$ 120,248
Change in unrealized gains (losses) included in earnings for the period, attributable to assets and liabilities still held at September 30, 2019	\$ 191	\$ (6,301)	\$ 10,239
Balance, June 30, 2020	\$ 20,743	\$ 29,035	\$ 152,784
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Total gains or losses (realized/unrealized):			
Included in earnings (1)	(4,438)	(3,548)	7,846
Included in other comprehensive income	—	—	—
Purchases, issuances, sales and settlements:			
Purchases	—	—	3,732
Issuances	—	3,244	—
Sales	—	—	—
Settlements	—	—	—
Balance, September 30, 2020	\$ 16,305	\$ 28,731	\$ 164,362
Change in unrealized gains (losses) included in earnings for the period, attributable to assets and liabilities still held at September 30, 2020	\$ (4,438)	\$ (3,548)	\$ 7,846

(1) Included in noninterest income in the Unaudited Condensed Consolidated Statements of Income.

Nine Months Ended September 30,	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Interest Rate Contracts, net	Other Assets - MSR	Other Assets - SBIC
	(In Thousands)		
Balance, December 31, 2018	\$ 2,012	\$ 51,539	\$ 80,074
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Total gains or losses (realized/unrealized):			
Included in earnings (1)	2,026	(18,579)	24,310
Included in other comprehensive income	—	—	—
Purchases, issuances, sales and settlements:			
Purchases	—	—	15,864
Issuances	—	4,305	—
Sales	—	—	—
Settlements	—	—	—
Balance, September 30, 2019	\$ 4,038	\$ 37,265	\$ 120,248
Change in unrealized gains (losses) included in earnings for the period, attributable to assets and liabilities still held at September 30, 2019	\$ 2,026	\$ (18,579)	\$ 24,310
Balance, December 31, 2019	\$ 3,088	\$ 42,022	\$ 119,475
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Total gains or losses (realized/unrealized):			
Included in earnings (1)	13,217	(20,945)	30,388
Included in other comprehensive income	—	—	—
Purchases, issuances, sales and settlements:			
Purchases	—	—	14,499
Issuances	—	7,654	—
Sales	—	—	—
Settlements	—	—	—
Balance, September 30, 2020	\$ 16,305	\$ 28,731	\$ 164,362
Change in unrealized gains (losses) included in earnings for the period, attributable to assets and liabilities still held at September 30, 2020	\$ 13,217	\$ (20,945)	\$ 30,388

(1) Included in noninterest income in the Unaudited Condensed Consolidated Statements of Income.

Assets Measured at Fair Value on a Nonrecurring Basis

Periodically, certain assets may be recorded at fair value on a non-recurring basis. These adjustments to fair value usually result from the application of lower of cost or fair value accounting or write-downs of individual assets due to impairment. The following tables represent those assets that were subject to fair value adjustments during the three and nine months ended September 30, 2020 and 2019, and still held as of the end of the period, and the related gains and losses from fair value adjustments on assets sold during the period as well as assets still held as of the end of the period.

Fair Value September 30, 2020	Fair Value Measurements at the End of the Reporting Period Using			Total Gains (Losses)	
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2020
	(Level 1)	(Level 2)	(Level 3)		

(In Thousands)

Nonrecurring fair value measurements

Assets:

OREO	\$ 15,051	\$ —	\$ —	\$ 15,051	\$ (5)	\$ (913)
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Fair Value September 30, 2019	Fair Value Measurements at the End of the Reporting Period Using			Total Gains (Losses)	
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
	(Level 1)	(Level 2)	(Level 3)		

(In Thousands)

Nonrecurring fair value measurements

Assets:

Debt securities held to maturity	\$ 1,036	\$ —	\$ —	\$ 1,036	\$ —	\$ (113)
Impaired loans (1)	6,270	—	—	6,270	(69,615)	(113,140)
OREO	18,931	\$ —	\$ —	18,931	(1,169)	(3,928)

(1) Total gains (losses) represent charge-offs on impaired loans for which adjustments are based on the appraised value of the collateral.

The following is a description of the methodologies applied for valuing these assets:

OREO – OREO is recorded at the lower of recorded balance or fair value, which is based on appraisals and third-party price opinions, less estimated costs to sell. The fair value is classified as Level 3.

The tables below present information about the significant unobservable inputs for material assets and liabilities measured at fair value using significant unobservable inputs (Level 3) on a recurring and nonrecurring basis.

	Fair Value at September 30, 2020 (In Thousands)	Quantitative Information about Level 3 Fair Value Measurements		
		Valuation Technique	Unobservable Input(s)	Range of Unobservable Inputs
				(Weighted Average)
Recurring fair value measurements:				
Interest rate contracts, net	\$ 16,305	Discounted cash flow	Closing ratios (pull-through)	1.6% - 100.0% (51.7%)
			Cap grids	0.1% - 2.7% (0.9%)
Other assets - MSRs	28,731	Discounted cash flow	Option adjusted spread	6.0% - 8.3% (6.2%)
			Constant prepayment rate or life speed	3.5% - 90.3% (19.9%)
			Cost to service	\$65 - \$4,000 (\$94)
Other assets - SBIC investments	164,362	Transaction price	Transaction price	N/A
Nonrecurring fair value measurements:				
OREO	15,051	Appraised value	Appraised value	8.0% (1)

(1) Represents discount to appraised value for estimated costs to sell.

	Fair Value at December 31, 2019 (In Thousands)	Quantitative Information about Level 3 Fair Value Measurements		
		Valuation Technique	Unobservable Input(s)	Range of Unobservable Inputs
				(Weighted Average)
Recurring fair value measurements:				
Interest rate contracts, net	\$ 3,088	Discounted cash flow	Closing ratios (pull-through)	16.8% - 100.0% (60.1%)
			Cap grids	0.5% - 2.5% (0.9%)
Other assets - MSRs	42,022	Discounted cash flow	Option adjusted spread	6.0% - 9.0% (6.4%)
			Constant prepayment rate or life speed	0.0% - 80.0% (14.6%)
			Cost to service	\$65 - \$4,000 (\$90)
Other assets - SBIC investments	119,475	Transaction price	Transaction price	N/A
Nonrecurring fair value measurements:				
Debt securities held to maturity	\$ 2,177	Discounted cash flow	Prepayment rate	13.7% - 14.7% (14.2%)
			Default rate	3.1% - 4.9% (4.0%)
			Loss severity	50.3% - 61.9% (56.1%)
Impaired loans	484	Appraised value	Appraised value	0.0% - 70.0% (9.7%)
OREO	21,583	Appraised value	Appraised value	8.0% (1)

(1) Represents discount to appraised value for estimated costs to sell.

The following provides a description of the sensitivity of the valuation technique to changes in unobservable inputs for recurring fair value measurements.

Recurring Fair Value Measurements Using Significant Unobservable Inputs

Interest Rate Contracts - Interest Rate Lock Commitments

Significant unobservable inputs used in the valuation of interest rate contracts are pull-through and cap grids. Increases or decreases in the pull-through or cap grids will have a corresponding impact in the value of interest rate contracts.

Other Assets - MSRs

The significant unobservable inputs used in the fair value measurement of MSRs are option-adjusted spreads, constant prepayment rate or life speed, and cost to service assumptions. The impact of prepayments and changes in the option-adjusted spread are based on a variety of underlying inputs. Increases or decreases to the underlying cash flow inputs will have a corresponding impact on the value of the MSR asset. The impact of the costs to service assumption will have a directionally opposite change in the fair value of the MSR asset.

Other Assets - SBIC Investments

The significant unobservable inputs used in the fair value measurement of SBIC Investments are initially based upon transaction price. Increases or decreases in valuation factors such as recent or proposed purchase or sale of debt or equity of the issuer, pricing by other dealers in similar securities, size of position held, liquidity of the market will have a corresponding impact in the value of SBIC investments.

Fair Value of Financial Instruments

The carrying amounts and estimated fair values, as well as the level within the fair value hierarchy, of the Company's financial instruments, excluding financial instruments measured at fair value on a recurring basis, are as follows:

	September 30, 2020				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
(In Thousands)					
Financial Instruments:					
Assets:					
Cash and cash equivalents	\$ 15,076,845	\$ 15,076,845	\$ 15,076,845	\$ —	\$ —
Debt securities held to maturity	9,444,036	9,779,195	1,412,275	7,838,912	528,008
Loans	66,180,612	65,384,443	—	—	65,384,443
Liabilities:					
Deposits	\$ 86,371,032	\$ 86,400,715	\$ —	\$ 86,400,715	\$ —
FHLB and other borrowings	3,560,973	3,444,859	—	3,444,859	—
Federal funds purchased and securities sold under agreements to repurchase	189,474	189,474	—	189,474	—

December 31, 2019

	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
(In Thousands)					
Financial Instruments:					
Assets:					
Cash and cash equivalents	\$ 6,938,698	\$ 6,938,698	\$ 6,938,698	\$ —	\$ —
Debt securities held to maturity	6,797,046	6,921,158	1,340,448	4,912,399	668,311
Loans	63,946,857	60,869,662	—	—	60,869,662
Liabilities:					
Deposits	\$ 74,985,283	\$ 75,024,350	\$ —	\$ 75,024,350	\$ —
FHLB and other borrowings	3,690,044	3,721,949	—	3,721,949	—
Federal funds purchased and securities sold under agreements to repurchase	173,028	173,028	—	173,028	—

Fair Value Option

The Company has elected to apply the fair value option for single family real estate mortgage loans originated for resale in the secondary market. The election allows 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. The Company has not elected the fair value option for other loans held for sale primarily because they are not economically hedged using derivative instruments.

At both September 30, 2020 and December 31, 2019, no loans held for sale for which the fair value option was elected were 90 days or more past due or were in nonaccrual. Interest income on mortgage loans held for sale is recognized based on contractual rates and is reflected in interest and fees on loans in the Company's Unaudited Condensed Consolidated Statements of Income. Net gains of \$425 thousand and \$887 thousand resulting from changes in fair value of these loans were recorded in noninterest income during the three months ended September 30, 2020 and 2019, respectively. Net gains of \$9.2 million and \$1.6 million resulting from changes in fair value of these loans were recorded in noninterest income during the nine months ended September 30, 2020 and 2019, respectively.

The Company also had fair value changes on forward contracts related to residential mortgage loans held for sale of approximately \$2.1 million and \$530 thousand for the three months ended September 30, 2020 and 2019, respectively, and \$(1.0) million and \$481 thousand for the nine months ended September 30, 2020 and 2019, respectively. An immaterial portion of these amounts was attributable to changes in instrument-specific credit risk.

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

	Aggregate Fair Value	Aggregate Unpaid Principal Balance	Difference
(In Thousands)			
September 30, 2020			
Residential mortgage loans held for sale	\$ 253,454	\$ 240,518	\$ 12,936
December 31, 2019			
Residential mortgage loans held for sale	\$ 112,058	\$ 108,345	\$ 3,713

(10) Comprehensive Income

Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances arising from nonowner sources. The following summarizes the change in the components of other comprehensive income.

	Three Months Ended September 30,					
	2020			2019		
	Pretax	Tax Expense/ (Benefit)	After-tax	Pretax	Tax Expense/ (Benefit)	After-tax
	(In Thousands)					
Other comprehensive income:						
Unrealized holding (losses) gains arising during period from debt securities available for sale	\$ (8,290)	\$ (1,979)	\$ (6,311)	\$ 42,553	\$ 10,089	\$ 32,464
Less: reclassification adjustment for net gains on sale of debt securities in net income	—	—	—	21,003	4,980	16,023
Net change in unrealized (losses) gains on debt securities available for sale	(8,290)	(1,979)	(6,311)	21,550	5,109	16,441
Change in unamortized net holding gains on debt securities held to maturity	2,160	516	1,644	2,915	692	2,223
Less: non-credit related impairment on debt securities held to maturity	—	—	—	—	—	—
Change in unamortized non-credit related impairment on debt securities held to maturity	134	32	102	229	54	175
Net change in unamortized holding gains on debt securities held to maturity	2,294	548	1,746	3,144	746	2,398
Unrealized holding (losses) gains arising during period from cash flow hedge instruments	(44,951)	(10,725)	(34,226)	44,121	10,459	33,662
Change in defined benefit plans	—	—	—	—	—	—
Other comprehensive (loss) income	\$ (50,947)	\$ (12,156)	\$ (38,791)	\$ 68,815	\$ 16,314	\$ 52,501

	Nine Months Ended September 30,					
	2020			2019		
	Pretax	Tax Expense/ (Benefit)	After-tax	Pretax	Tax Expense/ (Benefit)	After-tax
	(In Thousands)					
Other comprehensive income:						
Unrealized holding gains arising during period from debt securities available for sale	\$ 164,304	\$ 39,201	\$ 125,103	\$ 222,660	\$ 52,792	\$ 169,868
Less: reclassification adjustment for net gains on sale of debt securities in net income	22,616	5,396	17,220	29,961	7,104	22,857
Net change in unrealized gains on debt securities available for sale	141,688	33,805	107,883	192,699	45,688	147,011
Change in unamortized net holding gains on debt securities held to maturity	6,469	1,545	4,924	7,741	1,836	5,905
Less: non-credit related impairment on debt securities held to maturity	—	—	—	108	26	82
Change in unamortized non-credit related impairment on debt securities held to maturity	449	108	341	885	210	675
Net change in unamortized holding gains on debt securities held to maturity	6,918	1,653	5,265	8,518	2,020	6,498
Unrealized holding gains arising during period from cash flow hedge instruments	330,370	78,826	251,544	172,571	40,906	131,665
Change in defined benefit plans	2,301	547	1,754	4,089	970	3,119
Other comprehensive income	\$ 481,277	\$ 114,831	\$ 366,446	\$ 377,877	\$ 89,584	\$ 288,293

Activity in accumulated other comprehensive income (loss), net of tax was as follows:

	Unrealized Gains (Losses) on Debt Securities Available for Sale and Transferred to Held to Maturity	Accumulated Gains (Losses) on Cash Flow Hedging Instruments	Defined Benefit Plan Adjustment	Unamortized Impairment Losses on Debt Securities Held to Maturity	Total
(In Thousands)					
Balance, December 31, 2018	\$ (158,433)	\$ 6,175	\$ (29,495)	\$ (5,095)	\$ (186,848)
Cumulative effect of adoption of ASUs (1)	(25,844)	(1,040)	(7,351)	(1,201)	(35,436)
	<u>\$ (184,277)</u>	<u>\$ 5,135</u>	<u>\$ (36,846)</u>	<u>\$ (6,296)</u>	<u>\$ (222,284)</u>
Other comprehensive income (loss) before reclassifications	169,868	129,110	—	(82)	298,896
Amounts reclassified from accumulated other comprehensive (loss) income	(16,952)	2,555	3,119	675	(10,603)
Net current period other comprehensive income	152,916	131,665	3,119	593	288,293
Balance, September 30, 2019	<u>\$ (31,361)</u>	<u>\$ 136,800</u>	<u>\$ (33,727)</u>	<u>\$ (5,703)</u>	<u>\$ 66,009</u>
Balance, December 31, 2019	\$ (40,080)	\$ 91,445	\$ (46,666)	\$ (5,771)	\$ (1,072)
Other comprehensive income before reclassifications	125,103	313,311	—	—	438,414
Amounts reclassified from accumulated other comprehensive (loss) income	(12,296)	(61,767)	1,754	341	(71,968)
Net current period other comprehensive income	112,807	251,544	1,754	341	366,446
Balance, September 30, 2020	<u>\$ 72,727</u>	<u>\$ 342,989</u>	<u>\$ (44,912)</u>	<u>\$ (5,430)</u>	<u>\$ 365,374</u>

(1) Related to the Company's adoption of ASU 2017-12 and ASU 2018-02 on January 1, 2019.

The following table presents information on reclassifications out of accumulated other comprehensive income (loss).

Details About Accumulated Other Comprehensive Income (Loss) Components	Amounts Reclassified From Accumulated Other Comprehensive Income (Loss) (1)				Condensed Consolidated Statements of Income Caption
	Three Months Ended September 30,		Nine Months Ended September 30,		
	2020	2019	2020	2019	
(In Thousands)					
Unrealized Gains (Losses) on Debt Securities Available for Sale and Transferred to Held to Maturity	\$ —	\$ 21,003	\$ 22,616	\$ 29,961	Investment securities gains, net
	(2,160)	(2,915)	(6,469)	(7,741)	Interest on debt securities held to maturity
	(2,160)	18,088	16,147	22,220	
	516	(4,288)	(3,851)	(5,268)	Income tax (expense) benefit
	\$ (1,644)	\$ 13,800	\$ 12,296	\$ 16,952	Net of tax
Accumulated Gains (Losses) on Cash Flow Hedging Instruments	\$ 43,671	\$ (295)	\$ 82,963	\$ (2,765)	Interest and fees on loans
	(832)	(254)	(1,841)	(584)	Interest on FHLB and other borrowings
	42,839	(549)	81,122	(3,349)	
	(10,221)	130	(19,355)	794	Income tax (expense) benefit
	\$ 32,618	\$ (419)	\$ 61,767	\$ (2,555)	Net of tax
Defined Benefit Plan Adjustment	\$ —	\$ —	\$ (2,301)	\$ (4,089)	(2)
	—	—	547	970	Income tax benefit
	\$ —	\$ —	\$ (1,754)	\$ (3,119)	Net of tax
Unamortized Impairment Losses on Debt Securities Held to Maturity	\$ (134)	\$ (229)	\$ (449)	\$ (885)	Interest on debt securities held to maturity
	32	54	108	210	Income tax benefit
	\$ (102)	\$ (175)	\$ (341)	\$ (675)	Net of tax

(1) Amounts in parentheses indicate debits to the Unaudited Condensed Consolidated Statements of Income.

(2) These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see Note 17, Benefit Plans, in the Notes to the December 31, 2019, Consolidated Financial Statements for additional details).

(11) Supplemental Disclosure for Statement of Cash Flows

The following table presents the Company's supplemental disclosures for statement of cash flows.

	Nine Months Ended September 30,	
	2020	2019
(In Thousands)		
Supplemental disclosures of cash flow information:		
Interest paid	\$ 468,723	\$ 686,126
Net income taxes paid	52,221	94,033
Operating cash flows from operating leases	38,039	40,751
Operating cash flows from finance leases	404	463
Financing cash flows from finance leases	1,266	1,181
Supplemental schedule of noncash activities:		
Transfer of loans and loans held for sale to OREO	\$ 6,877	\$ 25,067
Transfer of loans to loans held for sale	—	1,196,883
Right-of-use assets obtained in exchange for lease obligations- operating leases	29,726	29,901

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the Company's Unaudited Condensed Consolidated Balance Sheets that sum to the total of the same such amounts shown in the Company's Unaudited Condensed Consolidated Statements of Cash Flows.

	Nine Months Ended September 30,	
	2020	2019
(In Thousands)		
Cash and cash equivalents	\$ 15,076,845	\$ 6,473,599
Restricted cash in other assets	284,176	165,584
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	<u>\$ 15,361,021</u>	<u>\$ 6,639,183</u>

Restricted cash primarily represents cash collateral related to the Company's derivatives as well as amounts restricted for regulatory purposes related to BSI and BBVA Transfer Holdings, Inc. Restricted cash is included in other assets on the Company's Unaudited Condensed Consolidated Balance Sheets.

(12) Segment Information

The Company's operating segments are based on the Company's organizational structure. Each segment reflects the manner in which financial information is evaluated by management. The operating segment results include certain overhead allocations and intercompany transactions. All intercompany transactions have been eliminated to determine the consolidated balances. The Company operates primarily in the United States, and, accordingly, revenue and assets outside the United States are not material. There are no individual customers whose attributable revenues exceed 10% of consolidated revenue.

The following tables present the segment information for the Company's existing segments.

	Three Months Ended September 30, 2020					
	Commercial Banking and Wealth	Retail Banking	Corporate and Investment Banking	Treasury	Corporate Support and Other	Consolidated
(In Thousands)						
Net interest income	\$ 243,434	\$ 247,457	\$ 29,515	\$ 64,107	\$ 57,337	\$ 641,850
Allocated provision (credit) for credit losses	53,546	12,515	7,157	(1,468)	79,227	150,977
Noninterest income	59,271	118,358	52,060	3,620	51,351	284,660
Noninterest expense	159,822	309,173	38,342	4,594	83,697	595,628
Net income (loss) before income tax expense (benefit)	89,337	44,127	36,076	64,601	(54,236)	179,905
Income tax (benefit) expense	18,761	9,267	7,576	13,566	(35,506)	13,664
Net income (loss)	70,576	34,860	28,500	51,035	(18,730)	166,241
Less: net income (loss) attributable to noncontrolling interests	40	—	—	391	(30)	401
Net income (loss) attributable to BBVA USA Bancshares, Inc.	<u>\$ 70,536</u>	<u>\$ 34,860</u>	<u>\$ 28,500</u>	<u>\$ 50,644</u>	<u>\$ (18,700)</u>	<u>\$ 165,840</u>
Average assets	\$ 44,218,296	\$ 18,338,000	\$ 8,102,696	\$ 28,065,244	\$ 5,558,662	\$ 104,282,898

Three Months Ended September 30, 2019

	Commercial Banking and Wealth	Retail Banking	Corporate and Investment Banking	Treasury	Corporate Support and Other	Consolidated
(In Thousands)						
Net interest income (expense)	\$ 267,905	\$ 299,535	\$ 24,800	\$ (40,478)	\$ 89,279	\$ 641,041
Allocated provision for loan losses	33,653	69,888	13,955	491	22,642	140,629
Noninterest income	62,620	126,270	47,356	24,882	60,191	321,319
Noninterest expense	160,024	308,468	39,311	5,009	86,075	598,887
Net income (loss) before income tax expense (benefit)	136,848	47,449	18,890	(21,096)	40,753	222,844
Income tax expense (benefit)	28,738	9,964	3,967	(4,430)	1,660	39,899
Net income (loss)	108,110	37,485	14,923	(16,666)	39,093	182,945
Less: net income attributable to noncontrolling interests	87	—	—	400	27	514
Net income (loss) attributable to BBVA USA Bancshares, Inc.	\$ 108,023	\$ 37,485	\$ 14,923	\$ (17,066)	\$ 39,066	\$ 182,431
Average assets	\$ 39,960,074	\$ 18,829,121	\$ 7,855,727	\$ 19,898,446	\$ 8,399,088	\$ 94,942,456

Nine Months Ended September 30, 2020

	Commercial Banking and Wealth	Retail Banking	Corporate and Investment Banking	Treasury	Corporate Support and Other	Consolidated
(In Thousands)						
Net interest income	\$ 734,156	\$ 773,017	\$ 85,706	\$ 68,091	\$ 182,352	\$ 1,843,322
Allocated provision for credit losses	266,479	257,599	114,585	253	408,511	1,047,427
Noninterest income	186,942	363,309	162,372	36,012	142,621	891,256
Noninterest expense	509,251	910,861	140,173	14,294	2,409,559	3,984,138
Net income (loss) before income tax expense (benefit)	145,368	(32,134)	(6,680)	89,556	(2,493,097)	(2,296,987)
Income tax expense (benefit)	30,527	(6,748)	(1,403)	18,807	(142,689)	(101,506)
Net income (loss)	114,841	(25,386)	(5,277)	70,749	(2,350,408)	(2,195,481)
Less: net income attributable to noncontrolling interests	101	—	—	1,181	92	1,374
Net income (loss) attributable to BBVA USA Bancshares, Inc.	\$ 114,740	\$ (25,386)	\$ (5,277)	\$ 69,568	\$ (2,350,500)	\$ (2,196,855)
Average assets	\$ 43,462,414	\$ 18,540,427	\$ 8,366,581	\$ 24,299,743	\$ 6,389,605	\$ 101,058,770

Nine Months Ended September 30, 2019

	Commercial Banking and Wealth	Retail Banking	Corporate and Investment Banking	Treasury	Corporate Support and Other	Consolidated
(In Thousands)						
Net interest income (expense)	\$ 875,894	\$ 975,209	\$ 91,048	\$ (79,284)	\$ 121,012	\$ 1,983,879
Allocated provision (credit) for loan losses	169,770	229,564	39,210	(147)	39,542	477,939
Noninterest income	183,142	360,094	123,584	40,027	156,513	863,360
Noninterest expense	486,138	912,804	118,373	15,013	246,846	1,779,174
Net income (loss) before income tax expense (benefit)	403,128	192,935	57,049	(54,123)	(8,863)	590,126
Income tax expense (benefit)	84,657	40,516	11,980	(11,366)	(19,773)	106,014
Net income (loss)	318,471	152,419	45,069	(42,757)	10,910	484,112
Less: net income attributable to noncontrolling interests	349	—	—	1,207	113	1,669
Net income (loss) attributable to BBVA USA Bancshares, Inc.	\$ 318,122	\$ 152,419	\$ 45,069	\$ (43,964)	\$ 10,797	\$ 482,443
Average assets	\$ 40,099,702	\$ 18,875,648	\$ 7,770,444	\$ 18,713,337	\$ 8,341,760	\$ 93,800,891

The financial information presented was derived from the internal profitability reporting system used by management to monitor and manage the financial performance of the Company. This information is based on internal management accounting policies that have been developed to reflect the underlying economics of the businesses. These policies address the methodologies applied and include policies related to funds transfer pricing, cost allocations and capital allocations.

Funds transfer pricing was used in the determination of net interest income earned primarily on loans and deposits. The method employed for funds transfer pricing is a matched funding concept whereby lines of business which are fund providers are credited and those that are fund users are charged based on maturity, prepayment and/or repricing characteristics applied on an instrument level. Provision for loan losses is allocated to each segment based on internal management accounting policies for the allowance for loan losses and the related provision which differs from the policies for consolidated purposes. The difference between the consolidated provision for credit losses and the segments' provision for credit losses is reflected in Corporate Support and Other and reflects a current year revision in policy. Costs for centrally managed operations are generally allocated to the lines of business based on the utilization of services provided or other appropriate indicators. Revenue is recorded in the business segment responsible for the related product or service. Fee sharing is recorded to allocate portions of such revenue to other business segments involved in selling to, or providing services to, customers. Results of operations for the business segments reflect these fee sharing allocations. Capital is allocated to the lines of business based upon the underlying risks in each business considering economic and regulatory capital standards.

The development and application of these methodologies is a dynamic process. Accordingly, prior period financial results have been revised to reflect management accounting enhancements and changes in the Company's organizational structure. The 2019 segment information has been revised to conform to the 2020 presentation. In addition, unlike financial accounting, there is no authoritative literature for management accounting similar to U.S. GAAP. Consequently, reported results are not necessarily comparable with those presented by other financial institutions.

(13) Related Party Transactions

The Company enters into various transactions with BBVA that affect the Company's business and operations. The following discloses the significant transactions between the Company and BBVA during 2020 and 2019.

The Company believes all of the transactions entered into between the Company and BBVA were transacted on terms that were no more or less beneficial to the Company than similar transactions entered into with unrelated market participants, including interest rates and transaction costs. The Company foresees executing similar transactions with BBVA in the future.

Derivatives

The Company has entered into various derivative contracts as noted below with BBVA as the upstream counterparty. The total notional amount of outstanding derivative contracts between the Company and BBVA are \$3.2 billion and \$3.4 billion as of September 30, 2020 and December 31, 2019, respectively. The net fair value of outstanding derivative contracts between the Company and BBVA are detailed below.

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
	(In Thousands)	
Derivative contracts:		
Fair value hedges	\$ (837)	\$ (354)
Cash flow hedges	(87)	102
Free-standing derivatives not designated as hedging instruments	(52,206)	(9,688)

Securities Purchased Under Agreements to Resell/ Securities Sold Under Agreements to Repurchase

The Company enters into agreements with BBVA as the counterparty under which it purchases/sells securities subject to an obligation to resell/repurchase the same or similar securities. The following represents the amount of securities purchased under agreement to resell and securities sold under agreement to repurchase where BBVA is the counterparty.

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
	(In Thousands)	
Securities purchased under agreements to resell	\$ 142,344	\$ 178,914
Securities sold under agreements to repurchase	155,678	16,596

Borrowings

BSI, a wholly owned subsidiary of the Company, had a \$420 million revolving note and cash subordination agreement with BBVA that was executed on March 16, 2012, with an original maturity date of March 16, 2018. On March 16, 2017, the agreement was amended to increase the available amount to \$450 million and the maturity date was extended to March 16, 2023. On March 16, 2017, BSI entered into an uncommitted demand facility agreement with BBVA for a revolving loan facility up to \$1 billion to be used for trade settlement purposes. BSI has not drawn against this facility in 2020. At both September 30, 2020 and December 31, 2019 there was no amount outstanding under the revolving note and cash subordination agreement. There was \$8 thousand in interest expense related to these agreements for the three months ended September 30, 2020 and \$24 thousand interest expense for the three months ended September 30, 2019 and are included in interest on other short-term borrowings within the Company's Unaudited Condensed Consolidated Statements of Income. Interest expense related to these agreements was \$67 thousand and \$50 thousand for the nine months ended September 30, 2020 and 2019, respectively, and are included in interest on other short-term borrowings within the Company's Unaudited Condensed Consolidated Statements of Income.

Service and Referral Agreements

The Company and its affiliates entered into or were subject to various service and referral agreements with BBVA and its affiliates. Each of the agreements was done in the ordinary course of business and on market terms. Income associated with these agreements was \$4.4 million and \$10.2 million for the three months ended September 30, 2020 and 2019, respectively, and is recorded as a component of noninterest income within the Company's Unaudited Condensed Consolidated Statements of Income. Expenses associated with these agreements was \$13.8 million and \$9.4 million for the three months ended September 30, 2020 and 2019, respectively, and is recorded as a component of noninterest expense within the Company's Unaudited Condensed Consolidated Statements of Income. Income associated with these agreements was \$12.9 million and \$21.8 million for the nine months ended September 30, 2020 and 2019, respectively, and is recorded as a component of noninterest income within the Company's Unaudited Condensed Consolidated Statements of Income. Expenses associated with these agreements was \$39.1 million and \$26.0 million for the nine months ended September 30, 2020 and 2019, respectively, and is recorded as a component of noninterest expense within the Company's Unaudited Condensed Consolidated Statements of Income.

Series A Preferred Stock

BBVA is the sole holder of the Series A Preferred Stock that the Company issued in December 2015. At both September 30, 2020 and December 31, 2019, the carrying amount of the Series A Preferred Stock was approximately \$229 million. During the nine months ended September 30, 2020 and 2019, the Company paid \$11.4 million and \$13.8 million, respectively, of preferred stock dividends to BBVA.

Loan Sales to Related Parties

During the nine months ended September 30, 2019, the Company transferred to loans held for sale and subsequently sold \$1.2 billion of commercial loans to BBVA, S.A. New York Branch. The Company recognized a gain on the sale of these loans of \$778 thousand.

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

Critical Accounting Policies

The accounting principles followed by the Company and the methods of applying these principles conform with accounting principles generally accepted in the United States of America and with general practices within the banking industry. The Company's critical accounting policies relate to the allowance for loan losses and goodwill impairment. These critical accounting policies require the use of estimates, assumptions and judgments which are based on information available as of the date of the financial statements. Accordingly, as this information changes, future financial statements could reflect the use of different estimates, assumptions and judgments. Certain determinations inherently have a greater reliance on the use of estimates, assumptions and judgments and, as such, have a greater possibility of producing results that could be materially different than originally reported. The Company's significant accounting policies and changes in accounting principles and effects of new accounting pronouncements are discussed in detail in Note 1 in the Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2019. Additional disclosures regarding the effects of new accounting pronouncements are included in Note 1, Basis of Presentation, in the Notes to the Unaudited Condensed Consolidated Financial Statements, included herein.

Executive Overview

Financial Performance

Consolidated net income attributable to the Company for the three months ended September 30, 2020 was \$165.8 million compared to \$182.4 million earned during the three months ended September 30, 2019. The Company's results of operations for the three months ended September 30, 2020, reflected higher provision for credit losses, lower noninterest income offset by lower income tax expense.

Net interest income totaled \$641.9 million for the three months ended September 30, 2020 compared to \$641.0 million for the three months ended September 30, 2019. Net interest income for the three months ended September 30, 2020 was impacted by the decrease in the Federal Reserve Board benchmark interest rates during the second half of 2019 and in March of 2020. The net interest margin for the three months ended September 30, 2020 was 2.68%, compared to 3.07% for the three months ended September 30, 2019.

For the three months ended September 30, 2020, the Company recorded \$151.0 million of provision for credit losses compared to \$140.6 million for the three months ended September 30, 2019. For the three months ended September 30, 2020, provision for credit losses was comprised of \$150.9 million of provision for loan losses and \$88 thousand of provision for HTM security losses.

For the three months ended September 30, 2020, the Company recorded \$150.9 million of provision for loan losses compared to \$140.6 million for the three months ended September 30, 2019. Provision for loan losses for the three months ended September 30, 2020 reflected continued economic risk in certain portfolios and negative credit quality indicators, as well as the impact of net charge-offs recorded during the three months ended September 30, 2020.

Net charge-offs for the three months ended September 30, 2020 totaled \$100.8 million compared to \$176.1 million for the three months ended September 30, 2019. The decrease in net charge-offs for the three months ended September 30, 2020, as compared to the corresponding period in 2019, was primarily driven by a \$19.2 million decrease in commercial, financial and agricultural net charge-offs, a \$39.4 million decrease in consumer direct net charge-offs, and a \$15.2 million decrease in consumer indirect net charge-offs.

Noninterest income decreased to \$284.7 million for the three months ended September 30, 2020 compared to \$321.3 million for the three months ended September 30, 2019. The primary drivers of the decrease was a \$10.4 million decrease in service charges on deposit accounts, an \$8.3 million decrease in corporate and correspondent investment sales, a \$21.0 million decrease in investment securities gains and a \$12.5 million decrease in other noninterest income due to a decrease in gains on sales of fixed assets, a decrease in service and referral income with BBVA and its affiliates, and a decrease in fair value adjustments on the SBIC investments offset by a \$11.7 million increase in investment banking and advisory fees and a \$5.5 million increase in mortgage banking income.

Noninterest expense decreased \$3.3 million to \$595.6 million for the three months ended September 30, 2020 compared to \$598.9 million for the three months ended September 30, 2019. The decrease was driven by a \$14.7 million decrease in other noninterest expense primarily attributable to decreases in marketing expenses, item processing fees, in travel expenses and in business development offset by a \$5.1 million increase in professional services and a \$4.9 million increase in equipment.

Income tax expense was \$13.7 million for the three months ended September 30, 2020 compared to \$39.9 million for the three months ended September 30, 2019. This resulted in an effective tax rate of 7.6% for the three months ended September 30, 2020 and 17.9% for three months ended September 30, 2019. The tax rate was primarily impacted by lower net income before income taxes relative to permanent income tax difference for the three months ended September 30, 2020.

The Company's total assets at September 30, 2020 were \$103.7 billion, an increase of \$10.0 billion from December 31, 2019 levels. Total loans, excluding loans held for sale, were \$66.2 billion at September 30, 2020, an increase of \$2.2 billion or 3.5% from year-end December 31, 2019 levels. The increase was primarily driven by \$3.2 billion of SBA PPP loans that the Company has facilitated to assist its commercial customers during the COVID-19 pandemic. Deposits increased \$11.4 billion or 15.2% compared to December 31, 2019.

Total shareholder's equity at September 30, 2020 was \$11.4 billion, a decrease of \$2.0 billion compared to December 31, 2019.

The COVID-19 pandemic has caused and continues to cause significant, unprecedented disruption around the world that has affected daily living and negatively impacted the global economy. The pandemic has resulted in temporary closures of many businesses and the institution of social distancing and shelter in place requirements in many states and communities, which has increased unemployment levels and caused extreme volatility in the financial markets. As further discussed in "Analysis of Results of Operations," during the current year, the Company observed the impact of the pandemic on its business. The reduction in interest rates and economic forecast uncertainty that negatively impacted the provision for credit losses had the most immediate, negative impacts on the Company's performance. Though the Company is unable to estimate the extent of the impact, the continuing pandemic and related global economic crisis will adversely impact the Company's future operating results.

COVID-19 Pandemic Government Responses and Regulatory Developments

Government Response to COVID-19

Congress, the Federal Reserve Board and the other U.S. state and federal financial regulatory agencies have taken actions to mitigate disruptions to economic activity and financial stability resulting from COVID-19. The descriptions below summarize certain significant government actions taken in response to the COVID-19 pandemic. The descriptions are qualified in their entirety by reference to the particular statutory or regulatory provisions or government programs summarized.

The CARES Act

The CARES Act was signed into law on March 27, 2020, and has subsequently been amended several times. Among other provisions, the CARES Act includes funding for the Small Business Administration to expand lending, relief from certain U.S. GAAP requirements to allow COVID-19-related loan modifications to not be categorized as troubled debt restructurings and a range of incentives to encourage deferment, forbearance or modification of consumer credit and mortgage contracts. One of the key CARES Act programs is the Paycheck Protection Program, which temporarily expanded the Small Business Administration's business loan guarantee program through August 8, 2020. Paycheck Protection Program loans were available to a broader range of entities than ordinary Small Business Administration loans, require deferral of principal and interest repayment, and the loan may be forgiven in an amount equal to payroll costs and certain other expenses during either an eight-week or twenty-four-week covered period.

The CARES Act contains additional protections for homeowners and renters of properties with federally backed mortgages, including a 60-day moratorium on the initiation of foreclosure proceedings beginning on March 18, 2020 and a 120-day moratorium on initiating eviction proceedings effective March 27, 2020. Borrowers of federally backed mortgages have the right under the CARES Act to request up to 360 days of forbearance on their mortgage payments if they experience financial hardship directly or indirectly due to the coronavirus-related public health emergency.

Fannie Mae and Freddie Mac had independently extended their moratorium on foreclosures and evictions for single family federally backed mortgages until at least December 31, 2020.

Also pursuant to the CARES Act, the U.S. Treasury has the authority to provide loans, guarantees and other investments in support of eligible businesses, states and municipalities affected by the economic effects of COVID-19 pandemic. Some of these funds have been used to support the several Federal Reserve Board programs and facilities described below or additional programs or facilities that are established by the Federal Reserve Board under its Section 13(3) authority and meeting certain criteria.

Federal Reserve Board Actions

The Federal Reserve Board has taken a range of actions to support the flow of credit to households and businesses. For example, on March 15, 2020, the Federal Reserve Board reduced the target range for the federal funds rate to 0 to 0.25% and announced that it would increase its holdings of U.S. Treasury securities and agency mortgage-backed securities and begin purchasing agency commercial mortgage-backed securities. The Federal Reserve Board has stated that it expects to hold interest rates near zero for several years. The Federal Reserve Board has also encouraged depository institutions to borrow from the discount window and has lowered the primary credit rate for such borrowing by 150 basis points while extending the term of such loans up to 90 days. Reserve requirements have been reduced to zero as of March 26, 2020.

In addition, the Federal Reserve Board has established, or has taken steps to establish, a range of facilities and programs to support the U.S. economy and U.S. marketplace participants in response to economic disruptions associated with COVID-19 pandemic. Through these facilities and programs, the Federal Reserve Board, relying on its authority under Section 13(3) of the Federal Reserve Act, has taken steps to directly or indirectly purchase assets from, or make loans to, U.S. companies, financial institutions, municipalities and other market participants.

Federal Reserve Board facilities and programs established, include:

- a Paycheck Protection Program Liquidity Facility to provide financing to related to Paycheck Protection Program loans made by banks;
- three Main Street Loan Facilities to purchase loan participations, under specified conditions, from banks lending to small and medium U.S. businesses;
- a Primary Dealer Credit Facility to provide liquidity to primary dealers through a secured lending facility;
- a Commercial Paper Funding Facility to purchase the commercial paper of certain U.S. issuers;
- a Primary Market Corporate Credit Facility to purchase corporate bonds directly from, or make loans directly, to eligible participants;
- a Secondary Market Corporate Credit Facility to purchase corporate bonds trading in secondary markets, including from exchange-traded funds, that were issued by eligible participants;
- a Term Asset-Backed Securities Loan Facility to make loans secured by asset-backed securities;
- a Municipal Liquidity Facility to purchased bonds directly from U.S. state, city and county issuers; and
- a Money Market Mutual Fund Liquidity Facility to purchase certain assets from, or make loans to, financial institutions providing financing to eligible money market mutual funds.

These facilities and programs are in various stages of development, and the Company and the Bank are participating in some of these facilities and programs and may participate in others, including as an agent or intermediary on behalf of clients or customers or in an advisory capacity.

Regulatory Considerations

Revisions to Definition of Eligible Retained Income

The U.S. banking agencies have adopted a final rule altering the definition of eligible retained income in their respective capital rules. Under the new rule, eligible retained income is the greater of a firm's (i) net income for the four preceding calendar quarters, net of any distributions and associated tax effects not already reflected in net income, and (ii) average net income over the preceding four quarters. This definition applies with respect to all of the Company's capital requirements.

Regulatory Effects of the CARES Act

In addition to authorizing several programs to provide loans, guarantees and other investments in support of eligible organizations, states and municipalities affected by the economic effects of the COVID-19 pandemic, the CARES Act also includes several measures that temporarily adjust existing laws or regulations. These include providing the FDIC with additional authority to guarantee the deposits of solvent insured depository institutions held in noninterest-bearing business transaction accounts to a maximum amount specified by the FDIC, reinstating the FDIC's Temporary Liquidity Guarantee Authority to guarantee debt obligations of solvent insured depository institutions or depository institution holding companies and temporarily allowing the Treasury to fully guarantee money market mutual funds. The CARES Act also provides financial institutions with the option to suspend GAAP requirements for coronavirus-related loan modifications that would otherwise constitute troubled debt restructurings and further requires the federal banking agencies to defer to financial institutions' determinations in making such suspensions.

Volcker Rule

In June 2020, the five regulatory agencies charged with implementing the Volcker Rule finalized amendments to the Volcker Rule's restrictions on ownership interests in and relationships with covered funds. Among other things, these amendments permit banking entities to have relationships with and offer additional financial services to additional types of funds and investment vehicles. These requirements are not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Capital

Under the Basel III final rule, the Company's Tier 1 and CET1 ratios were 13.13% and 12.79%, respectively, at September 30, 2020 compared to 12.83% and 12.49%, respectively, at December 31, 2019.

The Company has elected the 'five-year transition' for the ASC 326 accounting standard from the banking agencies' final rule announced allows banking organizations to defer certain effects of the ASC 326 accounting standard on their regulatory capital. Specifically, this interim final rule allows for 25% of the cumulative increase in the allowance for credit losses since the adoption of ASC 326 and 100% of the day-one impact of ASC 326 adoption to be deferred for a two-year period. This two-year period will be followed by a three-year transition period to phase-in the impact of the deferred amounts on regulatory capital.

Liquidity

The Company's sources of liquidity include customers' interest-bearing and noninterest-bearing deposit accounts, loan principal and interest payments, investment securities, short-term investments and borrowings. As a holding company, the Parent's primary source of liquidity is dividends from the Bank. Due to the net earnings restrictions on dividend distributions under Alabama law, the Bank must obtain regulatory approval prior to paying any dividends.

Any dividends paid by the Parent must be set forth as capital actions in the Company's capital plan and must be made in accordance with the relevant banking law and Federal Reserve Board regulations and policy. The Company has paid no common dividends to BBVA during 2020.

At September 30, 2020, the Company's LCR was 144%, which would have been fully compliant with the LCR requirements if the LCR requirements applied to the Company.

Management believes that the current sources of liquidity are adequate to meet the Company's requirements and plans for continued growth.

Recently Issued Accounting Standards Not Yet Adopted

Income Taxes

In December 2019, the FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes*. The amendments in this ASU simplify the accounting for income taxes. This ASU is effective for fiscal years beginning after December 15, 2020, and for interim periods within those fiscal years. Early adoption is permitted. The Company is currently assessing the impact that the adoption of this standard will have on the financial condition and results of operations of the Company.

Reference Rate Reform

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform - Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The amendments in this ASU provide optional guidance for a limited period of time to ease the potential burden in accounting for or recognizing the effects of reference rate reform on financial reporting. The amendments in this ASU provide optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments in this ASU apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The expedients and exceptions provided by the amendments do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for hedging relationships existing as of December 31, 2022, that an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship.

This ASU is effective as of March 12, 2020 through December 31, 2022. The Company is currently assessing the impact of applying the elections in this ASU on the financial condition and results of operations of the Company.

Analysis of Results of Operations

Consolidated net income attributable to the Company totaled \$165.8 million and \$182.4 million for the three months ended September 30, 2020 and 2019, respectively. The Company's results of operations for the three months ended September 30, 2020, reflected higher provision for credit losses, lower noninterest income offset by lower income tax expense.

Consolidated net (loss) income attributable to the Company totaled \$(2.2) billion and \$482.4 million for the nine months ended September 30, 2020 and 2019, respectively. The Company's results of operations for the nine months ended September 30, 2020, reflected lower net interest income, higher provision for loan losses, higher noninterest expense, which includes \$2.2 billion of goodwill impairment, offset by higher noninterest income.

Net Interest Income and Net Interest Margin

Net interest income is the principal component of the Company's income stream and represents the difference, or spread, between interest and fee income generated from earning assets and the interest expense paid on deposits and borrowed funds. Fluctuations in interest rates as well as changes in the volume and mix of earning assets and interest bearing liabilities can impact net interest income. The following discussion of net interest income is presented on a fully taxable equivalent basis, unless otherwise noted, to facilitate performance comparisons among various taxable and tax-exempt assets.

Three Months Ended September 30, 2020 and 2019

Net interest income totaled \$641.9 million for the three months ended September 30, 2020 compared to \$641.0 million for the three months ended September 30, 2019.

Net interest income on a fully taxable equivalent basis totaled \$652.7 million for the three months ended September 30, 2020, a decrease of \$1.3 million compared with \$653.9 million for the three months ended September 30, 2019. The decrease in net interest income was primarily the result of a decrease in interest income on loans and AFS debt securities offset by decreases in interest expense on interest bearing deposits and FHLB and other borrowings.

Net interest margin was 2.68% for the three months ended September 30, 2020 compared to 3.07% for the three months ended September 30, 2019. The 39 basis point decrease in net interest margin was primarily driven by the impact of the decrease in the Federal Reserve Board benchmark interest rates in October of 2019 and in March of 2020.

The fully taxable equivalent yield for the three months ended September 30, 2020, on the loan portfolio was 3.84% compared to 4.88% for the same period in 2019. The 104 basis point decrease was primarily driven by the timing of the Federal Reserve Board's decrease of benchmark rates in October of 2019 and in March of 2020.

The fully taxable equivalent yield on the investment securities portfolio was 1.95% for the three months ended September 30, 2020 compared to 2.20% for the three months ended September 30, 2019. The decrease was a result of lower interest rates during the three months ended September 30, 2020 as compared to rates during the three months ended September 30, 2019.

The average rate paid on interest bearing deposits was 0.41% for the three months ended September 30, 2020 compared to 1.55% for the three months ended September 30, 2019 and reflects the impact of lower funding costs on interest bearing deposit offerings including savings, money market and CD products.

The average rate paid on FHLB and other borrowings for the three months ended September 30, 2020 was 1.63% compared to 3.39% for the corresponding period in 2019.

Nine Months Ended September 30, 2020 and 2019

Net interest income totaled \$1.8 billion for the nine months ended September 30, 2020 compared to \$2.0 billion for the nine months ended September 30, 2019.

Net interest income on a fully taxable equivalent basis totaled \$1.9 billion for the nine months ended September 30, 2020 compared to \$2.0 billion for the nine months ended September 30, 2019.

Net interest margin was 2.71% for the nine months ended September 30, 2020 compared to 3.24% for the nine months ended September 30, 2019. The 53 basis point decrease in net interest margin was primarily driven by the timing of the Federal Reserve Board's decrease of benchmark rates in October of 2019 and in March of 2020.

The fully taxable equivalent yield for the nine months ended September 30, 2020, for the loan portfolio was 4.09% compared to 4.97% for the same period in 2019. The 88 basis point decrease was primarily driven by the impact of higher interest rates during the first half of 2019 as the Federal Reserve Board did not lower benchmark rates until the second half of 2019 and in March 2020.

The fully taxable equivalent yield on the investment securities portfolio was 1.62% for the nine months ended September 30, 2020 compared to 2.32% for the nine months ended September 30, 2019. The 70 basis point decrease was a result of lower interest rates for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019 as well as higher levels of premium amortization as actual and expected prepayments increased.

The average rate paid on interest bearing deposits was 0.75% for the nine months ended September 30, 2020 compared to 1.51% for the nine months ended September 30, 2019 and reflects the impact of lower funding costs on interest bearing deposit offerings including savings, money market and CD products.

The average rate paid on FHLB and other borrowings for the nine months ended September 30, 2020 was 2.13% compared to 3.46% for the corresponding period in 2019. The 133 basis point decrease was primarily driven by the impact of lower rate FHLB advances as well as the impact of fair value hedges on other borrowings.

The following table sets forth the major components of net interest income and the related annualized yields and rates.

Table 1
Consolidated Average Balance and Yield/ Rate Analysis

	Three Months Ended September 30, 2020			Three Months Ended September 30, 2019		
	Average Balance	Income/Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/Rate
(Dollars in Thousands)						
Assets:						
Interest earning assets:						
Loans (1) (2) (3)	\$ 67,837,185	\$ 654,687	3.84%	\$ 63,629,992	\$ 782,948	4.88%
Debt securities – AFS	5,325,937	19,474	1.45	7,987,642	36,051	1.79
Debt securities – HTM (tax exempt) (3)	469,850	3,659	3.10	620,542	5,674	3.63
Debt securities – HTM (taxable)	8,497,820	47,088	2.20	5,117,184	34,401	2.67
Total debt securities - HTM	8,967,670	50,747	2.25	5,737,726	40,075	2.77
Trading account securities (3)	219,514	892	1.62	125,468	487	1.54
Other (4) (5)	14,417,595	6,436	0.18	7,057,288	46,528	2.62
Total earning assets	96,767,901	732,236	3.01	84,538,116	906,089	4.25
Noninterest earning assets:						
Cash and due from banks	887,593			822,866		
Allowance for credit losses	(1,768,829)			(971,396)		
Net unrealized gain (loss) on investment securities available for sale	128,713			(9,389)		
Other noninterest earning assets	8,267,520			10,562,259		
Total assets	\$ 104,282,898			\$ 94,942,456		
Liabilities:						
Interest bearing liabilities:						
Interest bearing demand deposits	\$ 14,188,763	9,777	0.27	\$ 8,870,753	25,179	1.13
Savings and money market accounts	37,992,549	26,476	0.28	28,840,389	96,060	1.32
Certificates and other time deposits	7,085,441	24,894	1.40	14,529,036	82,740	2.26
Total interest bearing deposits	59,266,753	61,147	0.41	52,240,178	203,979	1.55
FHLB and other borrowings	3,567,285	14,644	1.63	3,860,727	32,975	3.39
Federal funds purchased and securities sold under agreements to repurchase (5)	1,492,378	3,736	1.00	1,401,320	15,137	4.29
Other short-term borrowings	5,984	49	3.26	13,348	72	2.14
Total interest bearing liabilities	64,332,400	79,576	0.49	57,515,573	252,163	1.74
Noninterest bearing deposits	26,034,478			20,754,143		
Other noninterest bearing liabilities	2,521,092			2,615,801		
Total liabilities	92,887,970			80,885,517		
Shareholder's equity	11,394,928			14,056,939		
Total liabilities and shareholder's equity	\$ 104,282,898			\$ 94,942,456		
Net interest income/net interest spread		\$ 652,660	2.52%		\$ 653,926	2.51%
Net interest margin			2.68%			3.07%
Taxable equivalent adjustment		10,810			12,885	
Net interest income		\$ 641,850			\$ 641,041	

(1) Loans include loans held for sale and nonaccrual loans.

(2) Interest income includes loan fees for rate calculation purposes.

(3) Yields are stated on a fully taxable equivalent basis assuming the tax rate in effect for each period presented.

(4) Includes federal funds sold, securities purchased under agreements to resell, interest bearing deposits, and other earning assets.

(5) Yield/rate reflects impact of balance sheet offsetting. See Note 7, Securities Financing Activities, in the notes to the financial statements.

Table 1
Consolidated Average Balance and Yield/ Rate Analysis

	Nine Months Ended September 30, 2020			Nine Months Ended September 30, 2019		
	Average Balance	Income/Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/Rate
(Dollars in Thousands)						
Assets:						
Interest earning assets:						
Loans (1) (2) (3)	\$ 67,324,774	\$ 2,061,376	4.09%	\$ 64,382,982	\$ 2,395,043	4.97%
Debt securities – AFS	5,923,281	36,787	0.83	8,957,354	134,698	2.01
Debt securities – HTM (tax exempt) (3)	513,511	12,339	3.21	636,007	17,268	3.63
Debt securities – HTM (taxable)	7,611,952	121,123	2.13	4,209,100	88,030	2.80
Total debt securities - HTM	8,125,463	133,462	2.19	4,845,107	105,298	2.91
Trading account securities (3)	210,319	3,171	2.01	96,936	1,627	2.24
Other (4) (5)	10,887,267	62,627	0.77	5,219,171	105,319	2.70
Total earning assets	92,471,104	2,297,423	3.32	83,501,550	2,741,985	4.39
Noninterest earning assets:						
Cash and due from banks	888,628			979,764		
Allowance for credit losses	(1,404,498)			(952,170)		
Net unrealized gain (loss) on investment securities available for sale	94,178			(99,388)		
Other noninterest earning assets	9,009,358			10,371,135		
Total assets	\$ 101,058,770			\$ 93,800,891		
Liabilities:						
Interest bearing liabilities:						
Interest bearing demand deposits	\$ 13,350,036	47,758	0.48	\$ 8,954,456	72,061	1.08
Savings and money market accounts	35,247,830	155,211	0.59	27,906,692	261,172	1.25
Certificates and other time deposits	9,133,442	120,199	1.76	15,360,243	255,578	2.22
Total interest bearing deposits	57,731,308	323,168	0.75	52,221,391	588,811	1.51
FHLB and other borrowings	3,623,293	57,756	2.13	4,057,769	104,901	3.46
Federal funds purchased and securities sold under agreements to repurchase (5)	1,379,052	38,668	3.75	763,681	24,886	4.36
Other short-term borrowings	12,844	440	4.58	16,235	368	3.03
Total interest bearing liabilities	62,746,497	420,032	0.89	57,059,076	718,966	1.68
Noninterest bearing deposits	23,527,092			20,409,910		
Other noninterest bearing liabilities	2,645,061			2,503,845		
Total liabilities	88,918,650			79,972,831		
Shareholder's equity	12,140,120			13,828,060		
Total liabilities and shareholder's equity	\$ 101,058,770			\$ 93,800,891		
Net interest income/net interest spread		\$ 1,877,391	2.43%		\$ 2,023,019	2.71%
Net interest margin			2.71%			3.24%
Taxable equivalent adjustment		34,069			39,140	
Net interest income		\$ 1,843,322			\$ 1,983,879	

- (1) Loans include loans held for sale and nonaccrual loans.
- (2) Interest income includes loan fees for rate calculation purposes.
- (3) Yields are stated on a fully taxable equivalent basis assuming the tax rate in effect for each period presented.
- (4) Includes federal funds sold, securities purchased under agreements to resell, interest bearing deposits, and other earning assets.
- (5) Yield/rate reflects impact of balance sheet offsetting. See Note 7, Securities Financing Activities, in the notes to the financial statements.

Provision for Credit Losses

The provision for credit losses is the charge to earnings that management determines to be necessary to maintain the allowance for credit losses at a sufficient level reflecting management's estimate of expected losses over the life of the portfolio. The Company adopted ASC 326 effective January 1, 2020, and recorded a net of tax increase to accumulated deficit of \$150.2 million as of January 1, 2020 for the cumulative effect of adopting ASC 326.

Three Months Ended September 30, 2020 and 2019

For the three months ended September 30, 2020, the Company recorded \$151.0 million of provision for credit losses compared to \$140.6 million for the three months ended September 30, 2019. For the three months ended September 30, 2020, provision for credit losses was comprised of \$150.9 million of provision for loan losses and \$88 thousand of provision for HTM security losses.

For the three months ended September 30, 2020, the Company recorded \$150.9 million of provision for loan losses compared to \$140.6 million for the three months ended September 30, 2019. Provision for loan losses for the three months ended September 30, 2020 reflected continued economic risk in certain portfolios and negative credit quality indicators, as well as the impact of net charge-offs recorded during the three months ended September 30, 2020.

The Company recorded net charge-offs of \$100.8 million during the three months ended September 30, 2020 compared to \$176.1 million during the corresponding period in 2019. The decrease in net charge-offs for the three months ended September 30, 2020, as compared to the corresponding period in 2019, was primarily driven by a \$19.2 million decrease in commercial, financial and agricultural net charge-offs, a \$39.4 million decrease in consumer direct net charge-offs, and a \$15.2 million decrease in consumer indirect net charge-offs.

Net charge-offs were 0.59% of average loans for the three months ended September 30, 2020 compared to 1.10% of average loans for the three months ended September 30, 2019.

Nine Months Ended September 30, 2020 and 2019

For the nine months ended September 30, 2020, the Company recorded \$1.0 billion of provision for credit losses compared to \$477.9 million for the nine months ended September 30, 2019. For the nine months ended September 30, 2020, provision for credit losses was comprised of \$1.0 billion of provision for loan losses and \$13.3 million of provision for HTM security losses.

For the nine months ended September 30, 2020, the Company recorded \$1.0 billion of provision for loan losses compared to \$477.9 million for the nine months ended September 30, 2019. The increase in provision for loan losses reflected an increase in expected losses over the life of the portfolio. The primary drivers of this increase was the impact of the COVID-19 pandemic on economic conditions which impacted the Company's economic forecast. During the nine months ended September 30, 2020, economic conditions continued to deteriorate due to the impact of the COVID-19 health crisis. As a result, economic projections for gross domestic product declined dramatically and unemployment levels increased significantly with information related to the evolving impacts of the COVID-19 health crisis. Additionally, provision for loan losses was impacted by the higher reserves in the energy portfolio due to the decrease in oil prices.

The Company recorded net charge-offs of \$335.7 million during the nine months ended September 30, 2020 compared to \$421.0 million during the corresponding period in 2019. The decrease in net charge-offs for the nine months ended September 30, 2020 as compared to the corresponding period in 2019 was driven in part by a \$56.5 million decrease in consumer direct net charge-offs, a \$21.8 million decrease in commercial, financial and agricultural net charge-offs, and a \$20.6 million decrease in consumer indirect net charge-offs offset by a \$6.4 million increase in commercial real estate - mortgage net charge-offs and a \$10.1 million increase in credit card net charge-offs.

Net charge-offs were 0.67% of average loans for the nine months ended September 30, 2020 compared to 0.88% of average loans for the nine months ended September 30, 2019.

For further discussion and analysis of the allowance for loan losses, refer to the discussion of lending activities found later in this section. Also, refer to Note 3, Loans and Allowance for Loan Losses, in the Notes to the Unaudited Condensed Consolidated Financial Statements for additional disclosures.

Noninterest Income

The following table presents the components of noninterest income.

Table 2
Noninterest Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In Thousands)			
Service charges on deposit accounts	\$ 54,710	\$ 65,143	\$ 160,474	\$ 185,782
Card and merchant processing fees	48,628	50,385	142,135	146,742
Investment banking and advisory fees	40,013	28,324	111,805	67,939
Investment services sales fees	26,218	29,287	85,596	87,316
Money transfer income	27,109	26,020	77,118	73,273
Mortgage banking	13,741	8,204	55,060	19,011
Asset management fees	12,024	11,405	35,488	34,039
Corporate and correspondent investment sales	3,478	11,799	33,050	24,298
Bank owned life insurance	4,972	3,508	14,691	12,895
Investment securities gains, net	—	21,003	22,616	29,961
Other	53,767	66,241	153,223	182,104
Total noninterest income	\$ 284,660	\$ 321,319	\$ 891,256	\$ 863,360

Three Months Ended September 30, 2020 and 2019

Noninterest income was \$284.7 million for the three months ended September 30, 2020, compared to \$321.3 million for the three months ended September 30, 2019. The decrease in noninterest income was primarily driven by decreases in service charges on deposit accounts, corporate and correspondent investment sales, investment securities gains and other noninterest income offset by increases in investment banking and advisory fees and mortgage banking income.

Service charges on deposit accounts represent the Company's largest category of noninterest revenue. Service charges on deposit accounts decreased to \$54.7 million for the three months ended September 30, 2020, compared to \$65.1 million for the three months ended September 30, 2019 driven by a general decline in consumer spending activity associated with the COVID-19 pandemic as well as the bank implementing fee waivers to offer relief for those customers impacted by the COVID-19 pandemic.

Investment banking and advisory fees primarily represent income from BSI. Income from investment banking and advisory fees increased to \$40.0 million for the three months ended September 30, 2020, compared to \$28.3 million for the three months ended September 30, 2019. The primary driver of this increase was an increase in debt capital markets activity during the three months ended September 30, 2020 compared to the same period in 2019.

Mortgage banking is comprised of servicing income, guarantee fees and gains on sales of mortgage loans as well as fair value adjustments on mortgage loans held for sale, mortgage related derivatives and MSRs. Mortgage banking income increased \$5.5 million for three months ended September 30, 2020 compared to the three months ended September 30, 2019. The increase in mortgage banking income was primarily due to a \$10.4 million increase in gains on sale of mortgage loans driven by increased production and sales income as lower market interest rates drove increased applications offset by a decrease of \$5.7 million in fair value adjustments on mortgage loans held for sale, mortgage related derivatives and MSRs.

Corporate and correspondent investment sales represent income generated through the sales of interest rate protection contracts to corporate customers and the sale of bonds and other services to the Company's correspondent banking clients. Income from corporate and correspondent investment sales decreased to \$3.5 million for the three months ended September 30, 2020 from \$11.8 million for the three months ended September 30, 2019. The primary driver of the decrease was a decrease in sales of interest rate contracts as well as a decrease in valuation adjustments on interest rate contracts.

Investment securities gains, net were \$21.0 million for the three months ended September 30, 2019 and there were no gains for the three months ended September 30, 2020. See, “—Debt Securities” for more information related to the debt securities sales.

Other income is comprised of income recognized that does not typically fit into one of the other noninterest income categories and includes various fees associated with letters of credit, syndications, ATMS and foreign exchange. Other noninterest income decreased to \$53.8 million for the three months ended September 30, 2020, compared to \$66.2 million for the three months ended September 30, 2019, was primarily due to a \$6.2 million decrease in gains on sales of fixed assets, \$4.7 million decrease in service and referral income with BBVA and its affiliates, and a \$2.4 million decrease in fair value adjustments on the SBIC investments.

Nine Months Ended September 30, 2020 and 2019

Noninterest income was \$891.3 million for the nine months ended September 30, 2020, compared to \$863.4 million for the nine months ended September 30, 2019. The increase in noninterest income was primarily driven by increases in investment banking and advisory fees, mortgage banking, and corporate and correspondent investment sales partially offset by decreases in service charges on deposit accounts and other noninterest income.

Service charges on deposit accounts decreased to \$160.5 million for the nine months ended September 30, 2020, compared to \$185.8 million for the nine months ended September 30, 2019 driven by a general decline in consumer spending activity associated with the COVID-19 pandemic as well the bank implementing fee waivers to offer relief for those customers impacted by the COVID-19 pandemic.

Income from investment banking and advisory fees increased to \$111.8 million for the nine months ended September 30, 2020, compared to \$67.9 million for the nine months ended September 30, 2019. The increase was driven primarily by an increase in debt capital markets activity during the nine months ended September 30, 2020 compared to the same period in 2019.

Mortgage banking for the nine months ended September 30, 2020 was \$55.1 million, an increase of \$36.0 million compared to the nine months ended September 30, 2019. The increase in mortgage banking income was driven by an increase of \$17.4 million in fair value adjustments on mortgage loans held for sale, mortgage related derivatives and MSRAs as well as \$17.3 million increase in gains on sale of mortgage loans driven by increased production and sales income as lower market interest rates drove increased applications.

Income from corporate and correspondent investment sales increased to \$33.1 million for the nine months ended September 30, 2020, compared to \$24.3 million for the nine months ended September 30, 2019, primarily driven by an increase in customer interest rate income due to an increase in interest rate contract sales as well as valuation adjustments on interest rate contracts for the nine months ended September 30, 2020 compared to the same period in 2019.

Other noninterest income decreased to \$153.2 million for the nine months ended September 30, 2020, compared to \$182.1 million for the nine months ended September 30, 2019, due in part to a \$10.6 million decrease in syndication fees, a \$7.8 million decrease in service and referral income with BBVA and its affiliates, and a \$7.3 million decrease in gains on sale of fixed assets offset by an \$6.4 million increase in the value of the SBIC investments.

Noninterest Expense

The following table presents the components of noninterest expense.

Table 3
Noninterest Expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In Thousands)			
Salaries, benefits and commissions	\$ 296,708	\$ 295,092	\$ 858,541	\$ 884,111
Professional services	78,018	72,903	226,338	210,583
Equipment	68,793	63,908	198,226	191,940
Net occupancy	41,145	42,241	122,573	123,298
Money transfer expense	18,897	18,005	53,991	50,273
Goodwill impairment	—	—	2,185,000	—
Other	92,067	106,738	339,469	318,969
Total noninterest expense	<u>\$ 595,628</u>	<u>\$ 598,887</u>	<u>\$ 3,984,138</u>	<u>\$ 1,779,174</u>

Three Months Ended September 30, 2020 and 2019

Noninterest expense was \$595.6 million for the three months ended September 30, 2020, a slight decrease of \$3.3 million compared to \$598.9 million for the three months ended September 30, 2019. The decrease in noninterest expense was primarily driven by a decrease in other noninterest expense, partially offset by increases in professional services and equipment expense.

Professional services expense represents fees incurred for the various support functions, which includes legal, consulting, outsourcing and other professional related fees. Professional services increased during the three months ended September 30, 2020, to \$78.0 million compared to \$72.9 million for the corresponding period in 2019 primarily due to a \$2.4 million increase in outsourcing and professional services paid to BBVA and a \$3.0 million increase in contractor and other professional services.

Equipment expense increased by \$4.9 million during the three months ended September 30, 2020, to \$68.8 million compared to \$63.9 million for the corresponding period in 2019 primarily due to an increase in software related expenses.

Other noninterest expense includes FDIC insurance, marketing, communications, postage, supplies, subscriptions, provision for unfunded commitments and gains and losses on the sales and write-downs of OREO. Other noninterest expense decreased \$14.7 million during the three months ended September 30, 2020, to \$92.1 million compared to \$106.7 million for the three months ended September 30, 2019, primarily attributable to decreases of \$6.2 million in marketing expenses, \$4.4 million in item processing fees, \$4.5 million in travel expenses and \$4.6 million in business development which was partially offset by an \$8.5 million increase in provision for unfunded commitments.

Nine Months Ended September 30, 2020 and 2019

Noninterest expense increased \$2.2 billion to \$4.0 billion for the nine months ended September 30, 2020, compared to the nine months ended September 30, 2019. Noninterest expense increased primarily due to goodwill impairment along with increases in professional services and other noninterest expense offset in part by decreases in salaries, benefits and commissions.

Salaries, benefits and commissions decreased \$25.6 million during the nine months ended September 30, 2020 compared to the corresponding period in 2019 primarily due to a decrease in incentive expenses.

Professional services increased during the nine months ended September 30, 2020, to \$226.3 million compared to \$210.6 million for the corresponding period in 2019 primarily due to an \$8.1 million increase in outsourcing and professional services paid to BBVA and a \$5.0 million increase in contractor and other professional services.

Goodwill impairment was \$2.2 billion for the nine months ended September 30, 2020, compared to no goodwill impairment during the nine months ended September 30, 2019. Refer to "—Goodwill" and Note 5, Goodwill, in the Notes to the Unaudited Condensed Consolidated Financial Statements.

Other noninterest expense increased \$20.5 million during the nine months ended September 30, 2020, to \$339.5 million compared to \$319.0 million for the nine months ended September 30, 2019 primarily attributable to a \$68.6 million increase in provision for unfunded commitments which was partially offset by decreases of \$12.3 million in marketing expenses, \$11.7 million in item processing fees, \$9.5 million in travel expenses and \$10.4 million in business development.

Income Tax Expense

Three Months Ended September 30, 2020 and 2019

The Company's income tax expense totaled \$13.7 million and \$39.9 million for the three months ended September 30, 2020 and 2019, respectively. The effective tax rate was 7.6% for the three months ended September 30, 2020 and 17.9% for the three months ended September 30, 2019. The tax rate was primarily impacted by the Company's lower net income before income tax relative to permanent income tax differences for the three months ended September 30, 2020.

Nine Months Ended September 30, 2020 and 2019

The Company's income tax (benefit) expense totaled \$(101.5) million and \$106.0 million for the nine months ended September 30, 2020 and 2019, respectively. The effective tax rate was 4.4% for the nine months ended September 30, 2020 and 18.0% for the nine months ended September 30, 2019. The tax rate for the nine months ended September 30, 2020 was primarily impacted by an unfavorable permanent difference related to goodwill impairment for the nine months ended September 30, 2020.

Analysis of Financial Condition

A review of the Company's major balance sheet categories is presented below.

Federal Funds Sold, Securities Purchased Under Agreements to Resell and Interest Bearing Deposits

Federal funds sold, securities purchased under agreements to resell and interest bearing deposits totaled \$14.0 billion at September 30, 2020, compared to \$5.8 billion December 31, 2019. The increase was primarily driven by an \$8.2 billion increase in interest bearing deposits with the Federal Reserve.

Trading Account Assets

Trading account assets totaled \$926 million at September 30, 2020, compared to \$474 million at December 31, 2019. The increase in trading account assets primarily related to increases in the fair value of interest rate derivative contracts for customers.

Debt Securities

At September 30, 2020, the securities portfolio included \$6.0 billion in available for sale debt securities and \$9.4 billion in held to maturity debt securities for a total debt securities portfolio of \$15.5 billion, an increase of \$1.4 billion compared with December 31, 2019.

During the nine months ended September 30, 2020, the Company received proceeds of \$863.7 million related to the sale of U.S. Treasury securities and agency collateralized mortgage obligations securities classified as available for sale which resulted in a net gain of \$22.6 million. The Company also purchased approximately \$3.5 billion of agency collateralized mortgage obligations that were classified as held to maturity.

Lending Activities

The Company groups its loans into portfolio segments based on internal classifications reflecting the manner in which the allowance for loan losses is established and how credit risk is measured, monitored and reported. Commercial loans are comprised of commercial, financial and agricultural, real estate — construction, and commercial real estate—

mortgage loans. Consumer loans are comprised of residential real estate — mortgage, equity lines of credit, equity loans, credit cards, consumer direct and consumer indirect loans.

The following table presents the composition of the loan portfolio.

Table 4
Loan Portfolio

	September 30, 2020	December 31, 2019
	(In Thousands)	
Commercial loans:		
Commercial, financial and agricultural	\$ 26,940,173	\$ 24,432,238
Real estate – construction	2,403,674	2,028,682
Commercial real estate – mortgage	13,695,800	13,861,478
Total commercial loans	\$ 43,039,647	\$ 40,322,398
Consumer loans:		
Residential real estate – mortgage	\$ 13,463,757	\$ 13,533,954
Equity lines of credit	2,441,723	2,592,680
Equity loans	194,367	244,968
Credit card	907,793	1,002,365
Consumer direct	2,023,696	2,338,142
Consumer indirect	4,109,629	3,912,350
Total consumer loans	\$ 23,140,965	\$ 23,624,459
Total loans	\$ 66,180,612	\$ 63,946,857
Loans held for sale	253,454	112,058
Total loans and loans held for sale	\$ 66,434,066	\$ 64,058,915

Loans and loans held for sale, net of unearned income, totaled \$66.4 billion at September 30, 2020, an increase of \$2.4 billion from December 31, 2019. The increase was primarily due to the impact of \$3.2 billion of SBA Paycheck Protection Program loans, which are primarily categorized in the commercial, financial and agricultural category in the table above, that the Company has facilitated to assist its commercial customers during the COVID-19 pandemic as well as reflecting an increase in line of credit draws as companies responded to liquidity needs during the COVID-19 pandemic.

See Note 3, Loans and Allowance for Loan Losses, and Note 4, Loan Sales and Servicing, in the Notes to the Unaudited Condensed Consolidated Financial Statements for additional discussion.

Asset Quality

Nonperforming assets, which includes nonaccrual loans, nonaccrual loans held for sale, accruing loans 90 days past due, accruing TDRs 90 days past due, foreclosed real estate and other repossessed assets, totaled \$1.4 billion at September 30, 2020, an increase of \$641 million, compared to \$710 million at December 31, 2019. The increase in nonperforming assets was primarily driven by a \$392 million increase in commercial, financial and agricultural nonaccrual loans, primarily in the energy, financial services, and leisure and consumer services sectors as well as a \$178 million increase in commercial real estate - mortgage and a \$57 million increase in residential real estate - mortgage. As a percentage of total loans and loans held for sale, foreclosed real estate and other repossessed assets, nonperforming assets were 2.03% at September 30, 2020 compared with 1.11% at December 31, 2019.

The Company defines potential problem loans as commercial loans rated substandard or doubtful that do not meet the definition of nonaccrual, TDR or 90 days past due and still accruing. See Note 3, Loans and Allowance for Loan Losses, in the Notes to the Unaudited Condensed Consolidated Financial Statements for further information on the Company's credit grade categories, which are derived from standard regulatory rating definitions. The following table provides a summary of potential problem loans.

Table 5
Potential Problem Loans

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
	(In Thousands)	
Commercial, financial and agricultural	\$ 482,453	\$ 312,125
Real estate – construction	3,635	13,099
Commercial real estate – mortgage	231,882	78,428
	<u>\$ 717,970</u>	<u>\$ 403,652</u>

The following table summarizes asset quality information and includes loans held for sale.

Table 6
Asset Quality

	September 30, 2020	December 31, 2019
	(In Thousands)	
Nonaccrual loans:		
Commercial, financial and agricultural	\$ 660,254	\$ 268,288
Real estate – construction	12,614	8,041
Commercial real estate – mortgage	275,668	98,077
Residential real estate – mortgage	204,442	147,337
Equity lines of credit	37,216	38,113
Equity loans	8,758	8,651
Credit card	—	—
Consumer direct	9,134	6,555
Consumer indirect	24,954	31,781
Total nonaccrual loans	1,233,040	606,843
Nonaccrual loans held for sale	—	—
Total nonaccrual loans and loans held for sale	\$ 1,233,040	\$ 606,843
Accruing TDRs: (1)		
Commercial, financial and agricultural	\$ 19,713	\$ 1,456
Real estate – construction	61	72
Commercial real estate – mortgage	1,831	3,414
Residential real estate – mortgage	55,132	57,165
Equity lines of credit	—	—
Equity loans	20,750	23,770
Credit card	—	—
Consumer direct	17,926	12,438
Consumer indirect	—	—
Total Accruing TDRs	115,413	98,315
Accruing TDRs classified as loans held for sale	—	—
Total Accruing TDRs (loans and loans held for sale)	\$ 115,413	\$ 98,315
Loans 90 days past due and accruing:		
Commercial, financial and agricultural	\$ 21,261	\$ 6,692
Real estate – construction	532	571
Commercial real estate – mortgage	1,816	6,576
Residential real estate – mortgage	39,728	4,641
Equity lines of credit	3,445	1,567
Equity loans	271	195
Credit card	16,542	22,796
Consumer direct	6,643	18,358
Consumer indirect	3,834	9,730
Total loans 90 days past due and accruing	94,072	71,126
Loans held for sale 90 days past due and accruing	—	—
Total loans and loans held for sale 90 days past due and accruing	\$ 94,072	\$ 71,126
Foreclosed real estate	\$ 15,051	\$ 20,833
Other repossessed assets	\$ 8,527	\$ 10,930

(1) TDR totals include accruing loans 90 days past due classified as TDR.

Nonperforming assets, which include loans held for sale, are detailed in the following tables.

Table 7
Nonperforming Assets

	September 30, 2020	December 31, 2019
	(In Thousands)	
Nonaccrual loans	\$ 1,233,040	\$ 606,843
Loans 90 days or more past due and accruing (1)	94,072	71,126
TDRs 90 days or more past due and accruing	830	414
Nonperforming loans	1,327,942	678,383
Foreclosed real estate	15,051	20,833
Other repossessed assets	8,527	10,930
Total nonperforming assets	\$ 1,351,520	\$ 710,146

(1) Excludes loans classified as TDR.

Table 8
Asset Quality Ratios

	September 30, 2020	December 31, 2019
Asset Quality Ratios:		
Nonperforming loans and loans held for sale as a percentage of loans and loans held for sale (1)	2.00%	1.06%
Nonperforming assets as a percentage of total loans and loans held for sale, foreclosed real estate, and other repossessed assets (2)	2.03	1.11
Allowance for loan losses as a percentage of loans	2.73	1.44
Allowance for loan losses as a percentage of nonperforming loans (3)	135.88	135.76

(1) Nonperforming loans include nonaccrual loans and loans held for sale (including nonaccrual loans classified as TDR), accruing loans 90 days past due and accruing TDRs 90 days past due.

(2) Nonperforming assets include nonperforming loans, foreclosed real estate and other repossessed assets.

(3) Nonperforming loans include nonaccrual loans (including nonaccrual loans classified as TDR), accruing loans 90 days past due and accruing TDRs 90 days past due.

The following table provides a rollforward of nonaccrual loans and loans held for sale.

Table 9
Rollforward of Nonaccrual Loans

	Nine Months Ended September 30,	
	2020	2019
	(In Thousands)	
Balance at beginning of period,	\$ 606,843	\$ 751,486
Additions	1,123,537	584,569
Returns to accrual	(82,014)	(102,455)
Loan sales	—	—
Payments and paydowns	(292,496)	(120,898)
Transfers to foreclosed real estate	(6,966)	(21,171)
Charge-offs	(115,864)	(438,289)
Balance at end of period	\$ 1,233,040	\$ 653,242

When borrowers are experiencing financial difficulties, the Company, in order to assist the borrowers in repaying the principal and interest owed to the Company, may make certain modifications to the loan agreement. To facilitate this process, a concessionary modification that would not otherwise be considered may be granted resulting in a classification of the loan as a TDR. Within each of the Company's loan classes, TDRs typically involve modification of the loan interest rate to a below market rate or an extension or deferment of the loan term. The financial effects of TDRs are reflected in the components that comprise the allowance for loan losses in either the amount of charge-offs or loan loss provision and period-end allowance levels. All TDRs are considered to be impaired loans. Refer to Note

3, Loans and Allowance for Loan Losses, in the Notes to the Unaudited Condensed Consolidated Financial Statements for additional information.

The following table provides a rollforward of TDR activity, excluding loans held for sale.

Table 10
Rollforward of TDR Activity

	Nine Months Ended September 30,	
	2020	2019
	(In Thousands)	
Balance at beginning period	\$ 215,481	\$ 311,442
New TDRs	199,712	75,069
Payments/Payoffs	(71,133)	(129,332)
Charge-offs	(4,557)	(41,749)
Transfers to foreclosed real estate	—	(2,153)
Balance at end of period	<u>\$ 339,503</u>	<u>\$ 213,277</u>

The Company's aggregate recorded investment in loans modified through TDRs was \$340 million at September 30, 2020 compared to \$215 million at December 31, 2019. Included in these amounts are \$115 million at September 30, 2020 and \$98 million at December 31, 2019 of accruing TDRs. Accruing TDRs are not considered nonperforming because they are performing in accordance with the restructured terms.

In response to the COVID-19 pandemic, beginning in March 2020 the Company began providing financial hardship relief in the form of payment deferrals and forbearances to consumer and commercial customers across a wide array of lending products, as well as the suspension of vehicle reposessions and home foreclosures. The payment deferrals and forbearances are currently expected to cover periods of three to six months. In most cases, if the loans have been restructured for COVID-19 related hardships and meet certain criteria under the CARES Act they are not classified as TDRs and do not result in loans being placed on nonaccrual status. At September 30, 2020, the Company had outstanding deferrals on approximately 13 thousand loans with an amortized cost of \$1.1 billion compared to approximately 63 thousand loans with an amortized cost basis of \$7.2 billion at June 30, 2020.

Allowance for Loan Losses

Management's policy is to maintain the allowance for loan losses at a level sufficient to absorb expected losses over the life of the loan portfolio. The Company adopted ASC 326 effective January 1, 2020. See Note 3, Loans and Allowance for Loan Losses, in the Notes to the Unaudited Condensed Consolidated Financial Statements for additional disclosures regarding the allowance for loan losses.

The total allowance for loan losses increased to \$1.8 billion at September 30, 2020, from \$921 million at December 31, 2019. The Company adopted ASC 326 effective January 1, 2020, and recorded a \$184.9 million increase to its allowance for loan losses that was reflected as an adjustment to shareholder's equity, net of taxes. The increase was largely attributable to the residential real estate and consumer loan portfolios, given the longer asset duration associated with these portfolios.

The increase in the allowance for loan losses during the nine months ended September 30, 2020, reflected an increase in expected losses over the life of the loan portfolio. The most significant driver of this increase is attributable to the recognition of the COVID-19 pandemic through an update to the reasonable and supportable macroeconomic forecast included in the baseline calculation, which most significantly impacted the commercial loan portfolios, but also drove increases in the consumer loan portfolio. The macroeconomic forecast utilized as of September 30, 2020, represented the best information available at the end of the reporting period, and included the following considerations:

- Steep economic contraction in the second quarter of 2020, with a recovery starting in the third quarter of 2020.
- Substantial increase in unemployment with a peak during the second quarter of 2020 and along with a substantially slower employment recovery.

- Stability in BBB spread is improved.
- Positive inflation projections.
- Stable GDP outlook.

Further, due to the level of uncertainty related to the economic outlook, a qualitative framework adjustment as of September 30, 2020 was utilized to address model performance in response to the unprecedented economic conditions and forecasts.

An additional driver of the increase in the allowance for loan losses is the recognition of the decline in oil prices on the energy portfolio. Management recognized a qualitative factor adjustment at March 31, 2020, separately from the baseline scenario considerations as oil prices are not a significant driver of the econometric models used in the baseline allowance calculation. This qualitative factor adjustment remained in place as of September 30, 2020, due to concerns around continued volatility in oil prices.

The ratio of the allowance for loan losses to total loans was 2.73% at September 30, 2020 compared to 1.44% at December 31, 2019. Nonperforming loans were \$1.3 billion at September 30, 2020 compared to \$678 million at December 31, 2019.

Net charge-offs were 0.59% of average loans for the three months ended September 30, 2020 compared to 1.10% of average loans for the three months ended September 30, 2019. The decrease in net charge-offs for the three months ended September 30, 2020, as compared to the corresponding period in 2019, was primarily driven by a \$19.2 million decrease in commercial, financial and agricultural net charge-offs, a \$39.4 million decrease in consumer direct net charge-offs, and a \$15.2 million decrease in consumer indirect net charge-offs.

Net charge-offs were 0.67% of average loans for the nine months ended September 30, 2020 compared to 0.88% of average loans for the nine months ended September 30, 2019. The decrease in net charge-offs for the nine months ended September 30, 2020 as compared to the corresponding period in 2019 was driven in part by a \$56.5 million decrease in consumer direct net charge-offs, a \$21.8 million decrease in commercial, financial and agricultural net charge-offs, and a \$20.6 million decrease in consumer indirect net charge-offs offset by a \$6.4 million increase in commercial real estate - mortgage net charge-offs and a \$10.1 million increase in credit card net charge-offs.

The following table sets forth information with respect to the Company's loans, excluding loans held for sale, and the allowance for loan losses.

Table 11
Summary of Loan Loss Experience

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Dollars in Thousands)			
Average loans outstanding during the period	\$ 67,606,052	\$ 63,525,661	\$ 67,181,618	\$ 64,157,886
Allowance for loan losses, beginning of period, prior to adoption of ASC 326	1,754,352	977,660	920,993	885,242
Impact of adopting ASC 326	—	—	184,931	—
Allowance for loan losses, beginning of period, after adoption of ASC 326	1,754,352	977,660	1,105,924	885,242
Charge-offs:				
Commercial, financial and agricultural	54,187	73,178	109,364	132,006
Real estate – construction	216	—	243	19
Commercial real estate – mortgage	156	2,270	9,269	2,388
Residential real estate – mortgage	331	2,692	1,446	6,337
Equity lines of credit	578	1,687	2,152	6,506
Equity loans	53	456	458	1,683
Credit card	20,626	18,317	64,114	53,425
Consumer direct	28,162	71,213	134,078	193,060
Consumer indirect	17,412	31,870	81,767	98,543
Total charge-offs	121,721	201,683	402,891	493,967
Recoveries:				
Commercial, financial and agricultural	3,398	3,236	10,523	11,405
Real estate – construction	63	59	139	1,965
Commercial real estate – mortgage	58	20	574	104
Residential real estate – mortgage	448	1,412	1,553	2,605
Equity lines of credit	345	1,256	1,859	5,129
Equity loans	248	515	561	1,629
Credit card	2,099	1,919	5,963	5,348
Consumer direct	3,603	7,221	15,522	18,052
Consumer indirect	10,641	9,947	30,527	26,740
Total recoveries	20,903	25,585	67,221	72,977
Net charge-offs	100,818	176,098	335,670	420,990
Total provision for loan losses	150,889	140,629	1,034,169	477,939
Allowance for loan losses, end of period	\$ 1,804,423	\$ 942,191	\$ 1,804,423	\$ 942,191
Net charge-offs to average loans	0.59%	1.10%	0.67%	0.88%

Concentrations

The following tables provide further details regarding the Company's commercial, financial and agricultural, commercial real estate, residential real estate and consumer portfolio segments as of September 30, 2020 and December 31, 2019.

Commercial, Financial and Agricultural

In accordance with the Company's lending policy, each commercial loan undergoes a detailed underwriting process, which incorporates the Company's risk tolerance, credit policy and procedures. In addition, the Company has a graduated approval process which accounts for the quality, loan type and total exposure of the borrower. The Company has also adopted an internal exposure-based limit which is based on a variety of risk factors, including but not limited to the borrower industry.

The commercial, financial and agricultural portfolio segment totaled \$26.9 billion at September 30, 2020 compared to \$24.4 billion at December 31, 2019. This segment consists primarily of large national and international companies and small to mid-sized companies. This portfolio segment also contains owner occupied commercial real estate loans. Loans in this portfolio are generally underwritten individually and are secured with the assets of the company, and/or the personal guarantees of the business owners. The Company minimizes the risk associated with this portfolio segment by various means, including maintaining prudent advance rates, financial covenants, and obtaining personal guarantees from the principals of the borrower.

The following table provides details related to the commercial, financial, and agricultural portfolio segment.

Table 12
Commercial, Financial and Agricultural

Industry	September 30, 2020				December 31, 2019			
	Recorded Investment	Nonaccrual	Accruing TDRs	Accruing Greater Than 90 Days Past Due	Recorded Investment	Nonaccrual	Accruing TDRs	Accruing Greater Than 90 Days Past Due
(In Thousands)								
Autos, Components and Durable Goods	\$ 1,863,377	\$ 78,204	\$ 17,905	\$ 10	\$ 2,139,178	\$ 47,261	\$ —	\$ 8
Basic Materials	457,664	10,533	—	4	526,485	1,342	—	—
Capital Goods & Industrial Services	2,533,380	50,841	1,002	226	1,987,046	23,736	96	4
Construction & Construction Materials	795,254	44,229	—	—	653,157	45,243	—	—
Consumer	634,621	3,146	—	—	641,289	1,540	—	—
Healthcare	3,125,195	7,273	302	—	2,747,248	24,989	314	—
Energy	2,528,588	244,377	—	—	2,905,791	69,042	—	—
Financial Services	1,037,623	90,767	—	2,337	1,009,533	23,427	—	1,615
General Corporates	2,164,734	16,936	—	9,325	1,726,318	16,883	475	5,065
Institutions	3,348,340	12,809	—	—	3,166,048	400	—	—
Leisure and Consumer Services	3,701,996	94,454	301	9,359	2,777,440	6,957	335	—
Real Estate	1,537,883	—	—	—	1,490,985	—	—	—
Retail	462,493	1,938	203	—	483,988	1,869	236	—
Telecoms, Technology & Media	1,166,176	2,260	—	—	909,476	2,558	—	—
Transportation	1,110,065	2,487	—	—	903,034	3,041	—	—
Utilities	472,784	—	—	—	365,222	—	—	—
Total Commercial, Financial and Agricultural	\$ 26,940,173	\$ 660,254	\$ 19,713	\$ 21,261	\$ 24,432,238	\$ 268,288	\$ 1,456	\$ 6,692

Commercial Real Estate

The commercial real estate portfolio segment includes the commercial real estate and real estate - construction loan portfolios. Commercial real estate loans totaled \$13.7 billion and \$13.9 billion at September 30, 2020 and December 31, 2019, respectively, and real estate — construction loans totaled \$2.4 billion and \$2.0 billion at September 30, 2020 and December 31, 2019, respectively.

This portfolio segment consists primarily of extensions of credits to real estate developers and investors for the financing of land and buildings, whereby the repayment is generated from the sale of the real estate or the income generated by the real estate property. The Company attempts to minimize risk on commercial real estate properties by various means, including requiring collateral with values that exceed the loan amount, adequate cash flow to service the debt, and the personal guarantees of principals of the borrowers. In order to minimize risk on the construction portfolio, the Company has established an operations group outside of the lending staff which is responsible for loan disbursements during the construction process.

The following tables present the geographic distribution for the commercial real estate and real estate — construction portfolios.

Table 13
Commercial Real Estate

State	September 30, 2020				December 31, 2019			
	Recorded Investment	Nonaccrual	Accruing TDRs	Accruing Greater Than 90 Days Past Due	Recorded Investment	Nonaccrual	Accruing TDRs	Accruing Greater Than 90 Days Past Due
(In Thousands)								
Alabama	\$ 420,492	\$ 4,241	\$ 20	\$ —	\$ 419,063	\$ 4,377	\$ 2,048	\$ —
Arizona	1,018,389	8,655	—	—	1,074,395	22,549	—	—
California	1,901,233	53,178	—	28	1,992,085	—	—	28
Colorado	808,951	10,238	—	—	694,691	6,463	—	—
Florida	1,170,022	5,186	—	1,478	1,299,336	11,047	27	—
New Mexico	101,457	3,573	—	—	100,845	3,952	—	—
Texas	3,896,231	55,664	997	310	3,802,306	36,278	495	4,168
Other	4,379,025	134,933	814	—	4,478,757	13,411	844	2,380
	<u>\$ 13,695,800</u>	<u>\$ 275,668</u>	<u>\$ 1,831</u>	<u>\$ 1,816</u>	<u>\$ 13,861,478</u>	<u>\$ 98,077</u>	<u>\$ 3,414</u>	<u>\$ 6,576</u>

Table 14
Real Estate – Construction

State	September 30, 2020				December 31, 2019			
	Recorded Investment	Nonaccrual	Accruing TDRs	Accruing Greater Than 90 Days Past Due	Recorded Investment	Nonaccrual	Accruing TDRs	Accruing Greater Than 90 Days Past Due
(In Thousands)								
Alabama	\$ 77,219	\$ —	\$ —	\$ 115	\$ 70,800	\$ 90	\$ —	\$ 115
Arizona	226,644	5,650	—	—	158,027	—	—	—
California	442,766	6,535	—	—	281,690	—	—	—
Colorado	101,164	—	—	—	94,260	473	—	—
Florida	156,274	6	—	—	167,346	905	—	—
New Mexico	25,394	—	12	—	18,000	242	15	—
Texas	783,578	17	49	417	747,651	5,926	57	456
Other	590,635	406	—	—	490,908	405	—	—
	<u>\$ 2,403,674</u>	<u>\$ 12,614</u>	<u>\$ 61</u>	<u>\$ 532</u>	<u>\$ 2,028,682</u>	<u>\$ 8,041</u>	<u>\$ 72</u>	<u>\$ 571</u>

Residential Real Estate

The residential real estate portfolio includes residential real estate — mortgage loans, equity lines of credit and equity loans. The residential real estate portfolio primarily contains loans to individuals, which are secured by single-family residences. Loans of this type are generally smaller in size than commercial real estate loans and are geographically dispersed throughout the Company's market areas, with some guaranteed by government agencies or private mortgage insurers. Losses on residential real estate loans depend, to a large degree, on the level of interest rates, the unemployment rate, economic conditions and collateral values.

Residential real estate — mortgage loans totaled \$13.5 billion at both September 30, 2020 and December 31, 2019. Risks associated with residential real estate — mortgage loans are mitigated through rigorous underwriting procedures, collateral values established by independent appraisers and mortgage insurance. In addition, the collateral for this portfolio segment is concentrated in the Company's footprint as indicated in the table below.

Table 15
Residential Real Estate — Mortgage

State	September 30, 2020				December 31, 2019			
	Recorded Investment	Nonaccrual	Accruing TDRs	Accruing Greater Than 90 Days Past Due	Recorded Investment	Nonaccrual	Accruing TDRs	Accruing Greater Than 90 Days Past Due
(In Thousands)								
Alabama	\$ 841,815	\$ 23,827	\$ 8,616	\$ 6,151	\$ 913,683	\$ 21,891	\$ 11,208	\$ 1,557
Arizona	1,403,048	14,574	7,273	1,802	1,380,589	12,111	7,645	609
California	3,666,288	35,362	5,947	3,712	3,441,689	17,941	3,383	—
Colorado	1,064,684	5,734	2,199	669	1,144,260	4,141	2,327	144
Florida	1,486,545	47,672	9,831	3,102	1,511,146	32,740	10,051	247
New Mexico	195,838	3,280	1,226	640	215,835	3,802	1,249	424
Texas	4,435,857	58,508	18,285	21,462	4,534,481	43,048	19,394	1,660
Other	369,682	15,485	1,755	2,190	392,271	11,663	1,908	—
	<u>\$ 13,463,757</u>	<u>\$ 204,442</u>	<u>\$ 55,132</u>	<u>\$ 39,728</u>	<u>\$ 13,533,954</u>	<u>\$ 147,337</u>	<u>\$ 57,165</u>	<u>\$ 4,641</u>

The following table provides information related to refreshed FICO scores for the Company's residential real estate portfolio.

Table 16
Residential Real Estate - Mortgage

FICO Score	September 30, 2020				December 31, 2019			
	Recorded Investment	Nonaccrual	Accruing TDRs	Accruing Greater Than 90 Days Past Due	Recorded Investment	Nonaccrual	Accruing TDRs	Accruing Greater Than 90 Days Past Due
(In Thousands)								
Below 621	\$ 696,406	\$ 121,820	\$ 20,888	\$ 21,803	\$ 707,778	\$ 96,107	\$ 22,804	\$ 3,736
621 – 680	1,004,125	28,878	10,186	9,554	1,074,497	23,950	10,570	114
681 – 720	1,597,539	18,191	6,747	3,245	1,704,801	9,197	7,305	144
Above 720	9,658,124	21,691	17,012	2,104	9,490,067	11,000	15,922	290
Unknown	507,563	13,862	299	3,022	556,811	7,083	564	357
	<u>\$ 13,463,757</u>	<u>\$ 204,442</u>	<u>\$ 55,132</u>	<u>\$ 39,728</u>	<u>\$ 13,533,954</u>	<u>\$ 147,337</u>	<u>\$ 57,165</u>	<u>\$ 4,641</u>

Equity lines of credit and equity loans totaled \$2.6 billion and \$2.8 billion at September 30, 2020 and December 31, 2019, respectively. Losses in these portfolios generally track overall economic conditions. These loans are underwritten in accordance with the underwriting standards set forth in the Company's policy and procedures. The collateral for this portfolio segment is concentrated within the Company's footprint as indicated in the table below.

Table 17
Equity Loans and Lines

State	September 30, 2020				December 31, 2019			
	Recorded Investment	Nonaccrual	Accruing TDRs	Accruing Greater Than 90 Days Past Due	Recorded Investment	Nonaccrual	Accruing TDRs	Accruing Greater Than 90 Days Past Due
(In Thousands)								
Alabama	\$ 414,233	\$ 10,907	\$ 6,455	\$ 748	\$ 452,102	\$ 10,096	\$ 7,437	\$ 341
Arizona	269,508	6,023	3,054	106	311,875	5,475	3,674	22
California	374,715	1,743	88	617	399,494	2,528	187	165
Colorado	149,594	2,341	425	—	167,594	2,729	738	176
Florida	271,483	6,335	4,287	363	295,552	7,298	4,827	121
New Mexico	39,332	1,999	496	—	45,440	1,704	505	11
Texas	1,095,055	15,404	5,601	1,882	1,138,289	15,104	6,050	914
Other	22,170	1,222	344	—	27,302	1,830	352	12
	<u>\$ 2,636,090</u>	<u>\$ 45,974</u>	<u>\$ 20,750</u>	<u>\$ 3,716</u>	<u>\$ 2,837,648</u>	<u>\$ 46,764</u>	<u>\$ 23,770</u>	<u>\$ 1,762</u>

The following table provides information related to refreshed FICO scores for the Company's equity loans and lines.

Table 18
Equity Loans and Lines

FICO Score	September 30, 2020				December 31, 2019			
	Recorded Investment	Nonaccrual	Accruing TDRs	Accruing Greater Than 90 Days Past Due	Recorded Investment	Nonaccrual	Accruing TDRs	Accruing Greater Than 90 Days Past Due
(In Thousands)								
Below 621	\$ 171,033	\$ 24,947	\$ 6,277	\$ 3,046	\$ 200,509	\$ 27,098	\$ 6,262	\$ 1,232
621 – 680	338,873	10,012	5,176	386	355,324	9,207	7,314	290
681 – 720	437,442	6,871	3,018	60	484,077	6,324	3,683	139
Above 720	1,683,312	4,105	5,882	224	1,790,879	4,095	6,511	101
Unknown	5,430	39	397	—	6,859	40	—	—
	<u>\$ 2,636,090</u>	<u>\$ 45,974</u>	<u>\$ 20,750</u>	<u>\$ 3,716</u>	<u>\$ 2,837,648</u>	<u>\$ 46,764</u>	<u>\$ 23,770</u>	<u>\$ 1,762</u>

Other Consumer

The Company centrally underwrites and sources from the Company's branches or online, credit card loans and other consumer direct loans. Total consumer direct loans were \$2.0 billion and \$2.3 billion at September 30, 2020 and December 31, 2019, respectively. Total credit cards were \$908 million at September 30, 2020 and \$1.0 billion at December 31, 2019.

The Company also operates a consumer finance unit which purchases loan contracts for indirect automobile and other consumer financing. These loans are centrally underwritten using underwriting guidelines and industry accepted tools. Total consumer indirect loans were \$4.1 billion and \$3.9 billion at September 30, 2020 and December 31, 2019, respectively.

The following tables provide information related to refreshed FICO scores for the Company's consumer direct and consumer indirect loans.

Table 19
Consumer Direct

FICO Score	September 30, 2020				December 31, 2019			
	Recorded Investment	Nonaccrual	Accruing TDRs	Accruing Greater Than 90 Days Past Due	Recorded Investment	Nonaccrual	Accruing TDRs	Accruing Greater Than 90 Days Past Due
(In Thousands)								
Below 621	\$ 174,867	\$ 5,709	\$ 649	\$ 5,792	\$ 225,736	\$ 4,258	\$ 1,433	\$ 17,228
621 – 680	364,597	1,813	2,022	219	450,532	1,259	2,858	359
681 – 720	437,666	814	4,554	82	516,706	693	5,150	123
Above 720	985,718	255	10,701	97	1,076,436	345	2,997	84
Unknown	60,848	543	—	453	68,732	—	—	564
	<u>\$ 2,023,696</u>	<u>\$ 9,134</u>	<u>\$ 17,926</u>	<u>\$ 6,643</u>	<u>\$ 2,338,142</u>	<u>\$ 6,555</u>	<u>\$ 12,438</u>	<u>\$ 18,358</u>

Table 20
Consumer Indirect

FICO Score	September 30, 2020				December 31, 2019			
	Recorded Investment	Nonaccrual	Accruing TDRs	Accruing Greater Than 90 Days Past Due	Recorded Investment	Nonaccrual	Accruing TDRs	Accruing Greater Than 90 Days Past Due
(In Thousands)								
Below 621	\$ 647,789	\$ 21,032	\$ —	\$ 3,242	\$ 817,071	\$ 27,600	\$ —	\$ 9,100
621 – 680	989,198	2,587	—	271	1,006,409	2,969	—	408
681 – 720	780,537	771	—	130	728,580	621	—	157
Above 720	1,688,941	564	—	174	1,358,098	591	—	65
Unknown	3,164	—	—	17	2,192	—	—	—
	<u>\$ 4,109,629</u>	<u>\$ 24,954</u>	<u>\$ —</u>	<u>\$ 3,834</u>	<u>\$ 3,912,350</u>	<u>\$ 31,781</u>	<u>\$ —</u>	<u>\$ 9,730</u>

Foreign Exposure

As of September 30, 2020, foreign exposure risk did not represent a significant concentration of the Company's total portfolio of loans and was substantially represented by borrowers domiciled in Mexico and foreign borrowers currently residing in the United States.

Goodwill

Goodwill totaled \$2.3 billion and \$4.5 billion at September 30, 2020 and December 31, 2019, respectively, and is allocated to each of the Company's reporting units, the level at which goodwill is tested for impairment on an annual basis or more often if events and circumstances indicate impairment may exist. At September 30, 2020 the goodwill, net of accumulated impairment losses, attributable to each of the Company's three identified reporting units is as follows: Commercial Banking and Wealth - \$1.9 billion, Retail Banking - \$136 million, and Corporate and Investment Banking - \$262 million.

A test of goodwill for impairment consists of comparing the fair value of each reporting unit with its carrying amount, including goodwill. The carrying value of equity for each reporting unit is determined from an allocation based upon risk weighted assets. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

The Company evaluates each reporting unit's goodwill for impairment on an annual basis as of October 31, or more often if events or circumstances indicate that there may be impairment. Adverse changes in the economic environment, declining operations, or other factors could result in a decline in the implied fair value of goodwill. At March 31, 2020, the Company assessed the indicators of goodwill impairment as it related to the impact of COVID-19 on the Company including: recent operating performance, market conditions, regulatory actions and assessment, change in the business climate, company-specific factors, and trends in the banking industry. Based on the assessment of these indicators, interim quantitative testing of goodwill was required for all of the Company's reporting units as of March 31, 2020. The results of this test indicated \$2.2 billion of goodwill impairment related to the following reporting units: Corporate and Investment Banking - \$164 million, Commercial Banking and Wealth - \$729 million, and Retail Banking - \$1.3 billion. The primary causes of the goodwill impairment were the volatility in the market capitalization of U.S. banks along with revised management projections based on the current economic and industry conditions. These factors resulted in the fair value of the reporting units being less than the reporting unit's carrying value.

At September 30, 2020, the Company assessed events and circumstances as it related to the continued impact of COVID-19 on the Company during the three months ended September 30, 2020, including: recent operating performance, market conditions, regulatory actions and assessment, change in the business climate, company-specific factors, and trends in the banking industry. After assessing the indicators noted above, the Company determined that it was not more likely than not that the fair value of each reporting unit had declined below their carrying value as of September 30, 2020. Therefore, the Company determined that a test of goodwill impairment was not required for each of the reporting units for the September 30, 2020 interim period. The Company will continue to monitor for indicators of impairment throughout 2020 as the impact of the COVID-19 pandemic is highly uncertain and cannot be predicted.

Funding Activities

Deposits are the primary source of funds for lending and investing activities and their cost is the largest category of interest expense. The Company also utilizes brokered deposits as a funding source in addition to customer deposits. Scheduled payments, as well as prepayments, and maturities from portfolios of loans and investment securities also provide a stable source of funds. FHLB advances, other secured borrowings, federal funds purchased, securities sold under agreements to repurchase and other short-term borrowed funds, as well as longer-term debt issued through the capital markets, all provide supplemental liquidity sources. The Company's funding activities are monitored and governed through the Company's asset/liability management process.

The Company's and the Bank's credit ratings at September 30, 2020 were as follows:

Table 21
Credit Ratings

	As of September 30, 2020		
	Standard & Poor's	Moody's	Fitch
BBVA USA Bancshares, Inc.			
Long-term debt rating	BBB+	Baa2	BBB
Short-term debt rating	A-2	—	F2
BBVA USA			
Long-term debt rating	BBB+	Baa2	BBB
Long-term bank deposits (1)	N/A	A2	BBB+
Subordinated debt	BBB	Baa2	BBB-
Short-term debt rating	A-2	P-2	F2
Short-term deposit rating (1)	N/A	P-1	F2
Outlook	Stable	Stable	Stable

(1) S&P does not provide a rating; therefore, the rating is N/A.

The cost and availability of financing to the Company and the Bank are impacted by its credit ratings. A downgrade to the Company's or Bank's credit ratings could affect its ability to access the credit markets and increase its borrowing costs, thereby adversely impacting the Company's financial condition and liquidity. Key factors in maintaining high credit ratings include a stable and diverse earnings stream, strong credit quality, strong capital ratios and diverse funding

sources, in addition to disciplined liquidity monitoring procedures. See the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2019, for additional information.

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

Deposits

Total deposits increased by \$11.4 billion from December 31, 2019 to September 30, 2020. At September 30, 2020 and December 31, 2019, total deposits included \$3.7 billion and \$4.7 billion, respectively, of brokered deposits. The following table presents the Company's deposits segregated by major category:

Table 22
Composition of Deposits

	September 30, 2020		December 31, 2019	
	Balance	% of Total	Balance	% of Total
(Dollars in Thousands)				
Noninterest-bearing demand deposits	\$ 26,803,670	31.0%	\$ 21,850,216	29.1%
Interest-bearing demand deposits	14,382,063	16.7	10,031,622	13.4
Savings and money market	38,964,325	45.1	31,050,016	41.4
Time deposits	6,220,974	7.2	12,053,429	16.1
Total deposits	<u>\$ 86,371,032</u>	<u>100.0%</u>	<u>\$ 74,985,283</u>	<u>100.0%</u>

Borrowed Funds

In addition to internal deposit generation, the Company also relies on borrowed funds as a supplemental source of funding. Borrowed funds consist of short-term borrowings, FHLB advances, subordinated debentures and other long-term borrowings.

Short-term borrowings are primarily in the form of federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings.

The short-term borrowings table presents the distribution of the Company's short-term borrowed funds and the corresponding weighted average interest rates. Also provided are the maximum outstanding amounts of borrowings, the average amounts of borrowings and the average interest rates at period-end.

Table 23
Short-Term Borrowings

	Maximum	Average Balance	Average	Ending Balance	Average Interest
	Outstanding at		Interest Rate		Rate at Period
	Any Month End				End
(Dollars in Thousands)					
Balance at September 30, 2020					
Securities sold under agreements to repurchase (1)	\$ 1,050,182	\$ 1,379,052	0.11%	\$ 189,474	0.22%
Other short-term borrowings	14,951	12,844	4.58	—	—
	<u>\$ 1,065,133</u>	<u>\$ 1,391,896</u>		<u>\$ 189,474</u>	
Balance at December 31, 2019					
Federal funds purchased	\$ 5,060	\$ 746	1.50%	\$ —	—%
Securities sold under agreements to repurchase (1)	1,198,822	857,176	0.22	173,028	1.70
Other short-term borrowings	69,446	14,963	3.79	—	—
	<u>\$ 1,273,328</u>	<u>\$ 872,885</u>		<u>\$ 173,028</u>	

(1) Average interest rate does not reflect impact of balance sheet offsetting. See Note 7, Securities Financing Activities, in the Notes to the Unaudited Condensed Consolidated Financial Statements.

At September 30, 2020 and December 31, 2019, FHLB and other borrowings were \$3.6 billion and \$3.7 billion, respectively.

For the nine months ended September 30, 2020, the Company had \$1.0 million of proceeds received from FHLB and other borrowings and repayments were approximately \$228.9 million.

Shareholder's Equity

Total shareholder's equity was \$11.4 billion at September 30, 2020, compared to \$13.4 billion at December 31, 2019, a decrease of \$2.0 billion. Shareholder's equity decreased \$2.2 billion due to losses attributable to the Company during the period offset, in part, by increases of \$366 million in accumulated other comprehensive income largely attributable to a decrease in unrealized losses on available for sale securities and cash flow hedging instruments. Additionally, the impact of the adoption of ASC 326 decreased shareholder's equity by \$150 million.

Risk Management

In the normal course of business, the Company encounters inherent risk in its business activities. The Company's risk management approach includes processes for identifying, assessing, managing, monitoring and reporting risks. Management has grouped the risks facing its operations into the following categories: credit risk, interest rate risk, liquidity risk, operational risk, market risk, model risk, reputational risk, fiduciary risk, suitability risk, compliance risk, legal risk, and strategic and business risk. Each of these risks is managed through the Company's ERM program. The ERM program provides the structure and framework necessary to identify, measure, control and manage risk across the organization. ERM is the cornerstone for defining risk tolerance, identifying and monitoring key risk indicators, managing capital and integrating the Company's capital planning process with on-going risk assessments and related stress testing for major risks.

Market Risk Management

The effective management of market risk is essential to achieving the Company's strategic financial objectives. As a financial institution, the Company's most significant market risk exposure is interest rate risk in its balance sheet; however, market risk also includes product liquidity risk, price risk and volatility risk in the Company's lines of business. The primary objectives of market risk management are to minimize any adverse effect that changes in market risk factors may have on net interest income, and to offset the risk of price changes for certain assets recorded at fair value.

Interest Rate Market Risk

The Company's net interest income and the fair value of its financial instruments are influenced by changes in the level of interest rates. The Company manages its exposure to fluctuations in interest rates through policies established by its Asset/Liability Committee. The Asset/Liability Committee meets regularly and has responsibility for approving asset/liability management policies, formulating strategies to improve balance sheet positioning and/or earnings and reviewing the interest rate sensitivity of the Company.

Management utilizes an interest rate simulation model to estimate the sensitivity of the Company's net interest income to changes in interest rates. Such estimates are based upon a number of assumptions for each scenario, including the level of balance sheet growth, deposit repricing characteristics and the rate of prepayments.

The estimated impact on the Company's net interest income sensitivity over a one-year time horizon at September 30, 2020, is shown in the table below. Such analysis assumes a gradual and sustained parallel shift in interest rates, expectations of balance sheet growth and composition and the Company's estimate of how interest-bearing transaction accounts would reprice in each scenario using current yield curves at September 30, 2020.

Table 24
Net Interest Income Sensitivity

	Estimated % Change in Net Interest Income
	September 30, 2020
Rate Change	
+ 200 basis points	2.46 %
+ 100 basis points	1.27
- 25 basis points	(0.85)

Management modeled only a 25 basis point decline because larger declines would have resulted in a federal funds rate of less than zero.

The following table shows the effect that the indicated changes in interest rates would have on EVE. Inherent in this calculation are many assumptions used to project lifetime cash flows for every item on the balance sheet that may or may not be realized, such as deposit decay rates, prepayment speeds and spread assumptions. This measurement only values existing business without consideration of new business or potential management actions.

Table 25
Economic Value of Equity

	Estimated % Change in Economic Value of Equity
	September 30, 2020
Rate Change	
+ 300 basis points	(8.15) %
+ 200 basis points	(3.69)
+ 100 basis points	(0.58)
- 25 basis points	(0.38)

The Company is also subject to trading risk. The Company utilizes various tools to measure and manage price risk in its trading portfolios. In addition, the Board of Directors of the Company has established certain limits relative to positions and activities. The level of price risk exposure at any given point in time depends on the market environment and expectation of future price and market movements, and will vary from period to period.

Derivatives

The Company uses derivatives primarily to manage economic risks related to commercial loans, mortgage banking operations, long-term debt and other funding sources. The Company also uses derivatives to facilitate transactions on behalf of its clients. As of September 30, 2020, the Company had derivative financial instruments outstanding with notional amounts of \$59.5 billion. The estimated net fair value of open contracts was in an asset position of \$576 million at September 30, 2020. For additional information about derivatives, refer to Note 6, Derivatives and Hedging, in the Notes to the Unaudited Condensed Consolidated Financial Statements.

Liquidity Management

Liquidity is the ability of the Company to convert assets into cash or cash equivalents without significant loss and to raise additional funds by increasing liabilities. Liquidity management involves maintaining the Company's ability to meet the day-to-day cash flow requirements of its customers, whether they are depositors wishing to withdraw funds or borrowers requiring funds to meet their credit needs. Without proper liquidity management, the Company would not be able to perform the primary function of a financial intermediary and would, therefore, not be able to meet the needs of the communities it serves.

The Company regularly assesses liquidity needs under various scenarios of market conditions, asset growth and changes in credit ratings. The assessment includes liquidity stress testing which measures various sources and uses of funds under the different scenarios. The assessment provides regular monitoring of unused borrowing capacity and available sources of contingent liquidity to prepare for unexpected liquidity needs and to cover unanticipated events that could affect liquidity.

The asset portion of the balance sheet provides liquidity primarily through unencumbered securities available for sale, loan principal and interest payments, maturities and prepayments of investment securities held to maturity and, to a lesser extent, sales of investment securities available for sale and trading account assets. Other short-term investments such as federal funds sold, and securities purchased under agreements to resell, are additional sources of liquidity.

The liability portion of the balance sheet provides liquidity through various customers' interest-bearing and noninterest-bearing deposit accounts and through FHLB and other borrowings. Brokered deposits, federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings as well as excess borrowing capacity with the FHLB and access to the debt capital markets are additional sources of liquidity and, basically, represent the Company's incremental borrowing capacity. These sources of liquidity are used as necessary to fund asset growth and meet short-term liquidity needs.

The Company's financing arrangement with the FHLB adds additional flexibility in managing the Company's liquidity position. At September 30, 2020, the Company had unused FHLB borrowing capacity of \$8.4 billion. Additionally, the Company had Federal Reserve discount window availability of \$13.7 billion at September 30, 2020.

In addition to the Company's financial performance and condition, liquidity may be impacted by the Parent's structure as a holding company that is a separate legal entity from the Bank. The Parent requires cash for various operating needs including payment of dividends to its shareholder, the servicing of debt, and the payment of general corporate expenses. The primary source of liquidity for the Parent is dividends paid by the Bank. Applicable federal and state statutes and regulations impose restrictions on the amount of dividends that may be paid by the Bank. In addition to the formal statutes and regulations, regulatory authorities also consider the adequacy of the Bank's total capital in relation to its assets, deposits and other such items. Due to the net earnings restrictions on dividend distributions under Alabama law, the Bank was not permitted to pay dividends at September 30, 2020 or December 31, 2019 without regulatory approval. Appropriate limits and guidelines are in place to ensure the Parent has sufficient cash to meet operating expenses and other commitments without relying on subsidiaries or capital markets for funding. Any future dividends paid from the Parent must be set forth as capital actions in the Company's capital plans and not objected to by the Federal Reserve Board. The Company has paid no common dividends to BBVA during 2020.

The Company's ability to raise funding at competitive prices is affected by the rating agencies' views of the Company's credit quality, liquidity, capital and earnings. Management meets with the rating agencies on a routine basis to discuss the current outlook for the Company.

At September 30, 2020, the Company's LCR was 144% and was fully compliant with the LCR requirements. However, the Company is no longer subject to the LCR going forward as a result of the Tailoring Rules. It may become subject to the LCR again in the future if the Company becomes a Category IV U.S. IHC under the Tailoring Rules.

Management believes that the current sources of liquidity are adequate to meet the Company's requirements and plans for continued growth.

Capital

The Company and the Bank are subject to various regulatory capital requirements administered by federal and state banking regulators. Failure to meet minimum risk-based and leverage capital requirements can subject the Company and the Bank to a series of increasingly restrictive regulatory actions.

The following table sets forth the Company's U.S. Basel III regulatory capital ratios at September 30, 2020 and December 31, 2019.

Table 26
Capital Ratios

	September 30, 2020	December 31, 2019
	(Dollars in Thousands)	
Capital:		
CET1 Capital	\$ 8,784,855	\$ 8,615,357
Tier 1 Capital	9,014,855	8,849,557
Total Capital	10,506,667	10,332,023
Ratios:		
CET1 Risk-based Capital Ratio	12.79%	12.49%
Tier 1 Risk-based Capital Ratio	13.13	12.83
Total Risk-based Capital Ratio	15.30	14.98
Leverage Ratio	8.82	9.70

At September 30, 2020, the regulatory capital ratios of the Bank exceeded the “well-capitalized” standard for banks based on applicable U.S. regulatory capital requirements. The Company continually monitors these ratios to ensure that the Bank exceeds this standard.

The Company has elected the ‘five-year transition’ for the ASC 326 accounting standard from the banking agencies’ final rule that allows banking organizations to defer certain effects of the ASC 326 accounting standard on their regulatory capital. Specifically, this final rule allows for 25% of the cumulative increase in the allowance for credit losses since the adoption of ASC 326 and 100% of the day-one impact of ASC 326 adoption to be deferred for a two-year period. This two-year period will be followed by a three-year transition period to phase-in the impact of the deferred amounts on regulatory capital.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Refer to “Market Risk Management” in Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations, herein.

Item 4. Controls and Procedures

Disclosure Controls and Procedures.

Management of the Company, with the participation of its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company’s disclosure controls and procedures. Based on their evaluation, as of the end of the period covered by this Quarterly Report on Form 10-Q, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective.

Changes In Internal Control Over Financial Reporting.

There have been no changes in the Company’s internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

See under “Legal and Regulatory Proceedings” in Note 8, Commitments, Contingencies and Guarantees, of the Notes to the Unaudited Condensed Consolidated Financial Statements.

Item 1A. Risk Factors

Various risk and uncertainties could affect the Company's business. These risks are described elsewhere in this report and the Company's other filings with the SEC, including the Company's Annual Report on Form 10-K for the year-ended December 31, 2019.

The following discussion updates the risk factors disclosed in the Company's Annual Report on Form 10-K for the year-ended December 31, 2019.

The COVID-19 pandemic has adversely impacted the Company's business and financial results, and the ultimate impact will depend on future developments, which are highly uncertain and cannot be predicted or modelled precisely, including the scope and duration of the pandemic and actions taken by governmental authorities in response to the pandemic.

The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains, lowered equity market valuations, created significant volatility and disruption in financial markets, and increased unemployment levels. In addition, the pandemic has resulted in temporary closures of many businesses and the institution of social distancing and sheltering in place requirements in many states and communities. Despite the partial lifting of some of these measures in some of the states in our geographic footprint, the recent increase in cases in the United States means that it remains unknown if any of these measures will be reinstated when there will be a return to normal economic activity.

As a result, the demand for the Company's products and services has been and may continue to be significantly impacted, which impact has adversely affected, and may continue to adversely affect, our revenue. Furthermore, the pandemic has resulted and could continue to result in the recognition of credit losses in our loan portfolios and increases in our allowance for credit losses, particularly if businesses remain closed or re-close, the impact on the global economy worsens, or more customers draw on their lines of credit or seek additional loans to help finance their businesses. Similarly, because of changing economic and market conditions affecting issuers, we have recognized and may be required to recognize additional impairments of our goodwill. Our business operations may also be disrupted if significant portions of our workforce are unable to work effectively, including because of illness, quarantines, government actions, or other restrictions in connection with the pandemic, and we have already temporarily closed certain of our branches and offices. In response to the pandemic, we have also suspended residential property foreclosure sales, evictions, and involuntary automobile repossessions, and are offering fee waivers, payment deferrals, and other expanded assistance for credit card, automobile, mortgage, and other consumer and commercial customers, and future governmental actions may require the continuance or the expansion of these and other types of customer-related responses.

Among other relief programs, we are participating in the SBA's Paycheck Protection Program. Paycheck Protection Program loans are fixed, low interest rate loans that are guaranteed by the SBA and subject to numerous other regulatory requirements, and a borrower may apply to have all or a portion of the loan forgiven. If Paycheck Protection Program borrowers fail to qualify for loan forgiveness, we face a heightened risk of holding these loans at unfavorable interest rates for an extended period of time. While the Paycheck Protection Program loans are guaranteed by the SBA, various regulatory requirements apply to our ability to seek recourse under the guarantees, and related procedures are currently subject to uncertainty. If a borrower defaults on a Paycheck Protection Program loan, these requirements and uncertainties may limit our ability to fully recover against the loan guarantee or to seek full recourse against the borrower.

The extent to which the COVID-19 pandemic impacts our business, results of operations, and financial condition, as well as our regulatory capital and liquidity ratios, will depend on future developments, which are highly uncertain and cannot be predicted or modelled precisely, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic.

To the extent the COVID-19 pandemic continues to adversely affect the global economy, and/or adversely affects our business, results of operations or financial condition, it may also have the effect of increasing the likelihood and/or magnitude of other risks described in the section captioned “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2019, including those risks related to market, credit, geopolitical and business operations.

Volatile or declining oil prices could adversely affect the Company's performance.

As of September 30, 2020, energy-related loan balances represented approximately 3.8 percent of the Bank's total loan portfolio. This amount is comprised of loans directly related to energy, such as exploration and production, pipeline transportation of natural gas, crude oil and other refined petroleum products, oil field services, and refining and support. In late 2014, oil prices began to decline and continued to decline through the first half of 2016, which at the time had and continues to have an adverse effect on some of the Bank's borrowers in this portfolio and on the value of the collateral securing some of these loans. The recent steep decline in oil prices, including, at times, dropping below zero dollars per barrel, in March and April 2020 has again adversely impacted and may continue to adversely impact some of the Bank's customers in this industry, including with respect to the cash flows of such customers which could impair their ability to service any loans outstanding to them and/or reduce demand for loans. These factors could result in higher delinquencies and greater charge-offs in future periods, which could adversely affect the Company's business, financial condition or results of operations. Furthermore, energy production and related industries represent a significant part of the economies in some of the Bank's primary markets. A prolonged period of low or volatile oil prices could have a negative impact on the economies and real estate markets of states such as Texas, which could adversely affect the Company's business, financial condition or results of operations.

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

Omitted pursuant to General Instruction H of Form 10-Q.

Item 3. Defaults Upon Senior Securities

Omitted pursuant to General Instruction H of Form 10-Q.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

Disclosure Pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act

The Company discloses the following information pursuant to Section 13(r) of the Exchange Act, which requires an issuer to disclose whether it or any of its affiliates knowingly engaged in certain activities, transactions or dealings relating to Iran or with natural persons or entities designated by the U.S. government under specified executive orders, including activities not prohibited by U.S. law and conducted outside the United States by non-U.S. affiliates in compliance with local law. In order to comply with this requirement, the Company has requested relevant information from its affiliates globally.

The Company has not knowingly engaged in activities, transactions or dealings relating to Iran or with natural persons or entities designated by the U.S. government under the specified executive orders.

Because the Company is controlled by BBVA, a Spanish corporation, the Company's disclosure includes activities, transactions or dealings conducted outside the United States by non-U.S. affiliates of BBVA and its consolidated subsidiaries that are not controlled by the Company. The BBVA Group has the following activities, transactions and dealings with Iran requiring disclosure.

Iranian embassy-related activity. The BBVA Group maintains bank accounts in Spain for one employee of the Iranian embassy in Spain. This employee is a Spanish citizen. Estimated gross revenues for the nine months ended September 30, 2020, from embassy-related activity, which include fees and/or commissions, did not exceed \$51. The BBVA Group does not allocate direct costs to fees and commissions and therefore has not disclosed a separate profit measure.

Item 6. Exhibits

Exhibit Number	Description of Documents
3.1	Second Amended and Restated Certificate of Formation of the Company, reflecting name change to BBVA USA Bancshares, Inc., (incorporated herein by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K (file no. 000-55106), filed on June 10, 2019).
3.2	Bylaws of BBVA USA Bancshares, Inc. (incorporated herein by reference to Exhibit 3.2 of the Company's Registration Statement on Form 10 filed with the Commission on November 22, 2013, File No. 0-55106).
31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.1	Interactive Data File.

Certain instruments defining rights of holders of long-term debt of the Company and its subsidiaries constituting less than 10% of the Company's total assets are not filed herewith pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K. At the SEC's request, the Company agrees to furnish the SEC a copy of any such agreement.

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 3, 2020

BBVA USA Bancshares, Inc.

By: /s/ Kirk P. Pressley

Name: Kirk P. Pressley

Title: Senior Executive Vice President, Chief Financial Officer
and Duly Authorized Officer

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER

I, Javier Rodriguez Soler, certify that:

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

Date: November 3, 2020

/s/ Javier Rodriguez Soler

Javier Rodriguez Soler

Chief Executive Officer

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER

I, Kirk P. Pressley, certify that:

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

Date: November 3, 2020

/s/ Kirk P. Pressley

Kirk P. Pressley
Chief Financial Officer

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

In connection with the Quarterly Report on Form 10-Q of BBVA USA Bancshares, Inc. (the "Company") for the period ended September 30, 2020 (the "Report"), I, Javier Rodriguez Soler, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, that to the best of my knowledge:

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

Date: November 3, 2020

/s/ Javier Rodriguez Soler

Javier Rodriguez Soler

Chief Executive Officer

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

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

In connection with the Quarterly Report on Form 10-Q of BBVA USA Bancshares, Inc. (the "Company") for the period ended September 30, 2020 (the "Report"), I, Kirk P. Pressley, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, that to the best of my knowledge:

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

Date: November 3, 2020

/s/ Kirk P. Pressley

Kirk P. Pressley
Chief Financial Officer

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.