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# Regions Financial Corp. (RF)

## Deutsche Bank Global Financial Services Conference





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# CORPORATE PARTICIPANTS

**John M. Turner, Jr.**
*President, Chief Executive Officer & Director, Regions Financial Corp.*

**David Jackson Turner, Jr.**
*Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.*

# MANAGEMENT DISCUSSION SECTION

## Unidentified Participant

All right. Good morning, everyone. We're ready to get started here. Next up is Regions Financial. We've got CEO, John Turner; and CFO, David Turner. And this will be a fireside chat format. So, let's just jump right into it.

# QUESTION AND ANSWER SECTION

Q

In a span of a couple of months, the macro environment or outlook has changed pretty meaningfully. We had the Goldilocks scenario in January. Now it seems like the market is really playing, we're expecting a recession. Now, what are you seeing among your client base as you think about the corporates, the commercial customers, the consumer?

**John M. Turner, Jr.**
*President, Chief Executive Officer & Director, Regions Financial Corp.*

A

Customers still in very good shape. Consumers solid balances, deposit balances are still holding up. We're seeing a little runoff in consumer balances, but generally they're still 30% above pre-pandemic levels. Consumer credit is performing really well, and we don't anticipate that changing, at least in the near term. On the wholesale side of the business, customers are still optimistic but more cautious. Clearly, inflation, the conflict in Ukraine and just general issues related to labor and supply chain, which have persisted, are causing a little uncertainty with customers. But they remain optimistic. Many of them had the best years they ever had in 2020 and 2021. Their businesses were sound. They're maintaining good liquidity. We're beginning to see and saw at the end of the fourth quarter and in the first quarter some momentum building and pipelines, customers using lines of credit, again, to rebuild inventories. And so – and actually, we're seeing some activity with respect to fixed investment, customers borrowing to make investments in plant and equipment, which we think is a positive thing.

So, all-in-all, we and our customers remain cautiously optimistic, recognizing the market is clearly sending some signals. We're trying to be mindful what those are, as our customers looking for risks in the marketplace, but continuing to think more long term at this point.


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Q

So, it sounds like on the commercial customers optimistic, a little more worried, but not changing their behavior yet based on what you just said.

**John M. Turner, Jr.**
*President, Chief Executive Officer & Director, Regions Financial Corp.*

A

That's correct.

Q

And on the consumer side, just to follow up, you tend to have a customer base that's lower average balance, maybe a little bit more of kind of lower to middle income, and there's obviously all the inflationary pressures out there. And you read about kind of the excess savings being used up faster in that population. Are you seeing that? It sounds like...

**John M. Turner, Jr.**
*President, Chief Executive Officer & Director, Regions Financial Corp.*

A

We haven't seen it except for on a very sort of lowest balance customer. We're beginning to see some balance as a trade. But in general, balances have – customers have maintained balances in excess of pre-pandemic levels. And I do think that everyone is feeling the inflationary pressure. If you go to the grocery store, you go to gas station, you see that firsthand. But we haven't seen it had a real impact on customer behavior yet.

Q

Okay, great. Maybe switching topics to rates, David. So, your views on rates are well-regarded. You had nice timing last cycle, locking in higher rates before rates came down. And now, you've been trying to hedge a little bit about rates potentially peaking and trying to lock that in. What is your latest thinking on rates and how are you taking advantage of the opportunities out there?

**David Jackson Turner, Jr.**
*Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.*

A

Yeah. So, one of the things that's important is that we look out multiple years in advance, three years for us. As we look at last cycle, we really wanted to make sure we put in some derivatives, some hedges to protect us and case rates went the other way. And so we did a series of forward-starting swaps and we did some floors and we had them start in 2020. So, we didn't quite get the date right, if you remember, the Fed started easing in 2019, so we were off a little bit and the importance of that is none of us are going to get it perfect. We are going to do the best we can to try and anticipate what's going to happen in the economy. So, we're looking at all the data points and we're seeing clearly the Fed wanting to get off the bottom, they're moving rapidly. I think the next move is at least 50 basis points. They want to get to "neutral". We can call that 2.5% is our best guess as to what neutral might be. And as the forwards give us the opportunity to lock in a nice margin, that's what we started to do. So, we believe there's risk that the economy slows down. That's what the Fed's trying to do and we believe that starts happening in the backend of 2023 and 2024. And so, we have started already putting in some receive-fixed swaps. At that time, they're five-year duration to protect us in case we go past neutral and then we actually have to – the Fed has to reverse field to go the other way.


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Now, we might be wrong and neutral could push past 250 basis points, 3%, 3.5%, 4% in which case we still don't care because we will have locked in a nice net interest margin and we'll have upper-teen, 20% return on tangible common equity, all other things being equal. And so, giving up the more – the upside of another 2 points on return or whatever the case may be, is really not what we're about. We're about getting – generating consistent, sustainable performance over a long term. And so, we're trying to take the volatility out of our income statement and net interest income is two-thirds of our revenue. So, if we can protect that and we've started to leg in, we're about 40%, 50% of the way there, we have to have about $20 billion worth of notional to kind of "lock in", if you will our sensitivity. And the reason it takes that much for us is because we are deposit funded. Our deposit base is our competitive advantage. And as a result, we have a lower deposit cost than most peers through the cycle, which requires us to use derivatives to protect our margin when rates actually start going the other way. And that's why we did what we last time, and that's why we're looking ahead to try to make sure we do it again.

Q

So, you mentioned roughly 40% to 50% hedged. What are you looking for to go all the way hedge or would you ever be all the way hedge?

**David Jackson Turner, Jr.**
*Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.*

A

We would be and frankly, when we get to a certain point, we'll probably go to neutral or maybe even liability-sensitive at some point. We can lock in a margin. We have a, I don't know what page it is in our material, but we have a path that shows you the range of our net interest margin that gets up to 3.85%, I think it goes 2.50%, 3.65% to 3.85%. If we can kind of get in the middle of that and we can get the forwards to help deliver that and lock that in, so call it a 3.60%, 3.70% margin, that's a heck of a return profile for Regions, and that's what we're waiting for. We're not quite there. The market kind of started to go there and then it backed off a little bit. So, we're just going to be patient here and leg into it as appropriate. And we've started to use because spreads widened a bit and securities, we started using the securities portfolio and putting some of our idle excess cash to work there. Not too much, but we think we started to get paid for duration and that's why we did it in first quarter.

Q

And you mentioned the sticky deposit base and the lower betas. Remind us what you're assuming there and what you've seen so far with the rate hikes that you've seen?

**David Jackson Turner, Jr.**
*Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.*

A

So, you really have to break it down between the legacy deposit base and the surge deposits. So the legacy deposit base, our beta was about 29%, about 30% last time. The peer group was 38%, 39%. We think that'll be reasonably consistent for those legacy deposits. Now, the first 100 basis points of movement is probably only 10% beta and then it ramps up after that. The surge deposits, some $39 billion for us, we'll have a weighted beta. We calculate of about 70% and it's broken into three different buckets and there's a schedule in our materials that'll show you this, but I'll talk about the highest risk one, which is about $14 billion.

Those are generally corporate deposits that came onto our balance sheet, the money center banks basically had to seal that off because of their ratios. And so, we ended up getting those deposits. We earned a little bit of


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money at the Fed. It's sitting in cash and we think $5 billion to $10 billion of that will actually roll out of our bank this year. We were surprised in the first quarter when that did not happen. We think it's a matter of time, especially to get another 50 basis points. This next meeting, corporate treasury is going to be looking for us to either pay it – pay up for them, which we won't do because we don't need to with a 63% loan deposit ratio. It will help facilitate some off-balance sheet financing for them and earn a little bit of a fee for that. But we anticipate that rolling off. It still hasn't happened as yet, but we just think it's a matter of time.

Q

So, John, earlier you had mentioned still seeing loan demand among commercial and obviously the industry data that we track is looking pretty good. Maybe just elaborate in terms of what's driving the commercial loan growth. And I guess one person I talked to yesterday was worried that the growth we're seeing is just kind of temporary inventory build. And as that inventory gets used up in a couple quarters, they're basically going the other way. So, maybe help frame the commercial side of things.

**John M. Turner, Jr.**
*President, Chief Executive Officer & Director, Regions Financial Corp.*

A

I think it's a combination, both of new opportunities and customers rebuilding their inventory levels, seeing an increased need for working capital due to inflationary pressure as well. So, we've got a combination of things going on. Customers are making, as I mentioned earlier, some capital investment and to expand, build new facilities, automate processes, which is important. And so, we're seeing nice growth there and it really is across all our sectors. We were looking yesterday at our specialized industries groups, and each one of them is growing and growing nicely as we have opportunities present themselves. So, I don't see a lot of customers who are building excess inventories. In my judgment, it is more about just reestablishing inventory levels at more historic levels, which I think is likely sustainable.

Q

And then I would assume deal-related lending is down?

**John M. Turner, Jr.**
*President, Chief Executive Officer & Director, Regions Financial Corp.*

A

It's slowed. Yes. It's definitely slowed, but there's still a pipeline of activity. Some things have gotten pushed out a quarter or two and we'll see how that plays out. But we're still – feel good about the pipelines that we're enjoying, both in our wholesale banking business for lending opportunities, but also in the capital markets group related to potential M&A activity.

Q

And you've done two lending acquisitions in the last couple of years one, equipment finance, one point of sale for home improvement. Update us on how those are doing and maybe even just step back and like, what was the rationale of acquiring those two?

**John M. Turner, Jr.**
*President, Chief Executive Officer & Director, Regions Financial Corp.*

A


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Yeah. They're both doing well. The first was a company called Ascentium that was a – is a small business equipment lender. But what we liked about Ascentium was that they had some unique technology that allowed them to work with vendors, essentially point of sale transactions for businesses who were acquiring business-essential equipment, which they believe created a better credit profile and we agree with them. They're able to take an application and approve the loan within 72 minutes and with just in a couple hours, actually get the customer documentation and fund the loan. That's been a very nice business for us, so one that we're now attempting to integrate through our branches and we think has a lot of upside. In addition to that, Ascentium, the bulk of their business was being generated in our footprint, they have customers that now are our customers we have an opportunity to market to. So, we think a good opportunity.

EnerBank represented a chance for us to enter the consumer lending point of sale business on a direct basis. We had been acquiring loans from GreenSky and so far we participated in that space. What we learned was that we like the credit profile, but we couldn't establish a relationship with the customer. We were just merely buying paper. The acquisition of EnerBank allows us to establish direct relationships with customers that we can then market to. EnerBank is a point of sale lender that has relationships with some, I think, 10,000 vendors that are either providing swimming pools, heating and air conditioning, solar systems, things like that to the homeowner. Our strategy is to provide credit to the homeowner. So, we have invested in mortgage, hired over 50 mortgage lenders over the last three years to add to our mortgage origination capabilities and that really paid off in an improving market. We're investing in our equity line of credit product to ensure we can deliver much faster we think industry-leading turnaround. We're in relationship with a company called [indiscernible] (00:14:23) that's helping us do that.

And the third leg of the stool is this unsecured point of sale product to homeowners. What we know is that homeowners are a better credit profile, they're a better banking customer. They provide more opportunities to meet customer needs, provide services to customers than a non-homeowner. So, that's our consumer lending strategy and it's been – to-date EnerBank has been a great opportunity for us. It's a $175 billion market. EnerBank's a top five lender, and they only originate 1% of the $175 billion, so highly fragmented and an opportunity we think to continue to consolidate over time.

Q

As you think long term, is there a kind of maximum size you'd want these kind of portfolios to represent? So, kind of in the old days...

**John M. Turner, Jr.**
*President, Chief Executive Officer & Director, Regions Financial Corp.*

A

Yeah.

Q

...banks got in trouble in some of these...

**John M. Turner, Jr.**
*President, Chief Executive Officer & Director, Regions Financial Corp.*

A

Right.


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Q

...one-off portfolios. You did mention about integrating into the branch on Ascentium [indiscernible] (00:15:21)

**John M. Turner, Jr.**
*President, Chief Executive Officer & Director, Regions Financial Corp.*

A

Yeah. So – and we – go back 10, 12 years, we're trying to integrate everything we learned from the Great Recession into our ongoing development of our credit risk culture. And probably the most significant lesson we learned was the importance of balance and diversity. And so, we have concentration limits within our business for geographies, for portfolios, for businesses. We have established, I can't call it for you at the moment, exactly what our credit risk appetite is for consumer unsecured lending. Think about this, today, we have about $1.25 billion in outstandings to SoFi. And that's a relationship that's begun to attrite. We have another $700 million or $800 million in outstandings to – that are associated with GreenSky customers, which has come down from about $1.5 billion.

So, as those balances of trade will be increasing the EnerBank balances which are direct origination and customers of ours, we think that's a pretty good tradeoff. So, we've got a ways to go I think in terms of origination capabilities before we reach a point where we even are at an amount outstanding that's equal to where we are today with those other two providers.

Q

And obviously you have lots of excess deposits, so the funding is not a concern.

**John M. Turner, Jr.**
*President, Chief Executive Officer & Director, Regions Financial Corp.*

A

Yeah. Not a concern at all.

**David Jackson Turner, Jr.**
*Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.*

A

Well, I'd add that – the EnerBank side, so 55% of that was – that we acquired $3 billion was in our market, obviously 45% not and having that diversification and that granularity of those balances helps mitigate credit risk as well.

Q

And David, just remind us in the aggregate what the loan growth assumption is for this year and any comments you want to make on how 2Q is tracking?

**David Jackson Turner, Jr.**
*Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.*

A

Yeah. So, we upped our guidance to 6% – roughly 6% in terms of loan growth based on what we saw in the first quarter and increase in commitments, line utilization was up to 43.9%, I think the number was, and our average line commitment had historically been in that range of 45% to 47%. And just to remind everybody, every 1% is


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about $600 million in outstandings. So, our customers are healthy as John mentioned. We think there's opportunity to continue to grow, in particular in the C&I space, so that'll be an area of growth.

The EnerBank balances, as I mentioned just a minute ago, $3 billion we acquired October 1. So, the averaging of just that portfolio without any growth will pick up the average balances in the – for the whole year of 2022. And then, as John mentioned, they produced about $1.7 billion of the rest. We think we can do a little bit better than that and have double-digit loan growth in that space this year. So, that'll be an area of growth.

And then mortgage, mortgage is still – now, it's not 21, but mortgage is still healthy. We have about two-thirds of our production or purchase versus refinance. We have historically been a higher purchase shop than a refinance. And demands for loans, home loans are still pretty strong given the supply homes were down to two months in our area of the country, that number had historically been four months' supply. So, they're building as fast as they can. And notwithstanding, rates are up, building materials are up, there's still a lot of activity.

Those are the three portfolios. And I could add Ascentium in there as the fourth one, would be the areas of growth for us this year that should add up to that 6% that we have. So we're excited about that opportunity. But it's not as much about just growing loans. It's growing the right kinds of loans with the right return metrics, return on capital, because that's what our bank is really about. It's a return story, not just growth for growth's sake.

Q

And in terms of 2Q, should we expect the growth, as you say, 6% for the full year kind of linear, obviously the H.8 data shown pretty good growth. Are you – generally is that indicative of H.8 of Regions?

**David Jackson Turner, Jr.**
*Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.*

A

From time to time, we can get off H.8, but it's fairly consistent right now, and again the biggest single drivers of the C&I book and the averaging of EnerBank.

Q

So, switching to fees, John, maybe we'll start very long term. Obviously you're overweight in net interest income, the loan growth outlook is positive. David keeps getting the interest rate positioning right. You're going to have a logged interest income and you have invested in some of your fee categories, but maybe tell us what the long-term vision is for the collection of fee businesses.

**John M. Turner, Jr.**
*President, Chief Executive Officer & Director, Regions Financial Corp.*

A

Yeah. I think we're going to continue to invest in fee-generating businesses. Our intention is to grow and diversify our revenue base. And I think we've demonstrated a willingness and an ability to do that through some of the acquisitions we've made, investments we've made in capital markets and wealth management and mortgage banking generating fee income. We have a high reliance on NSF/OD fees, and some of our peers do. We've announced changes to that program. And I think we've been pretty clear about our expectations for service charge income for 2022 and 2023.


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If you go back to 2011 and come forward, we got a $175 million reduction in NSF/OD income from 2011 to 2020. I think Reg E and the Durbin amendment also resulted in about a $300 million reduction in fee income. So that's $475 million over roughly a 9- or 10-year period. At the same time, we grew net noninterest income by $400 million. So, it's almost $900 million delta that occurred over about a 9- to 10-year period. And I expect that we'll continue to see more and more competition around NSF and OD fees.

We've announced the elimination of NSF fees. We've announced another bunch of significant changes that relates to overdraft-related income. We're providing customers with more information, more alerts, more education. I think they're going to do a better and better job of managing their own finances, and we'd expect to see that income continue to decline. At the same time, we expect customer growth to – that trend to continue, and so the corresponding income that comes with it will expand. We're going to continue to see growth in capital markets, mortgage banking, wealth banking. So, I'm optimistic that the trend that we and the track record that we experienced over the last 9 or 10 years will continue over the next 9 or 10 years as we continue to make investment.

Q

And on the overdraft fees, are there some offsets in terms of whether it's monthly maintenance fees or maybe credit products or even charge-offs? I think there's a charge-off component to overdraft fees...

**John M. Turner, Jr.**
*President, Chief Executive Officer & Director, Regions Financial Corp.*

A

Yeah.

Q

...that a lot of us forget to model.

**John M. Turner, Jr.**
*President, Chief Executive Officer & Director, Regions Financial Corp.*

A

There is. I think, if you pay fewer overdrafts, you'll have likely less charge-offs related to overdrafts. You also, I think as we become more and more competitive, I think there's opportunity to continue to see account growth in an accelerated rate, which brings with it fee income associated with debit cards, credit cards, credit products that customers – because we're focused on building broad and deep relationships with customers and meeting their needs, I think there are offsets. And again, we're guiding to, I think, $600 million in service charge revenue in 2022 and $575 million. Did I get that number right, David...

**David Jackson Turner, Jr.**
*Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.*

A

That's correct.

**John M. Turner, Jr.**
*President, Chief Executive Officer & Director, Regions Financial Corp.*

A

...in 2023, which implies some reduction, but also the benefit of some offsets to your point.


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**David Jackson Turner, Jr.**
*Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.*

A

Yeah, I think the – don't underestimate the power of being in the parts of the country that are growing the fastest. So, we're seeing a lot of migration that are coming into states like Texas and Tennessee and Florida for tax purposes, Georgia is seeing some nice migration. So, account growth also helps offset or mitigate the changes in our NSF/OD. And embedded in service charges too are corporate analysis fees and things of that nature. So, if you continue to grow logos, continue to grow those corporate customer accounts, you have an offset there as well. I do think that the activity in terms of spend, on card spend, people are using their cards more. So, there's interchange there, whether it be credit or debit interchange, and clearly over time both of those will have some pressure on them. But if you grow accounts, then you grow more cards in their hands, and therefore you benefit from the incremental spend interchange associated with that.

Q

Maybe to follow up on capital markets, you mentioned it's been a growth area and the revenues have done very well maybe up until recently, given the macro backdrop here. But what are you trying to do in capital markets? What type of customer or what type of products are you trying to offer?

**John M. Turner, Jr.**
*President, Chief Executive Officer & Director, Regions Financial Corp.*

A

It's been a real tool for us to help grow and diversify our revenue and to meet – importantly meet customer needs. So, go back to 2014, we were generating about $70 million in capital markets revenue and a big portion of that was swap-related income. Come forward, we become much less reliant on swap-related income and built a very diverse portfolio of capabilities. Last year, we generated over $330 million in capital markets revenue, so over a seven-year period, we've gone from $70 million to $330 million.

We announced two acquisitions at the end of the year, both Sabal and Clearsight, which will be additive to capital markets revenue going forward. We communicated a range of $90 million to $100 million a quarter. We were a little short in first quarter. Everybody's aware of what happened to capital markets revenue. Second quarter, we'll get closer to that range we expect, but still anticipate the year to be pretty good. We have a real focus on real estate capital markets capabilities, because it's been – that's a need we saw amongst our existing customer base. It's been very, very good and helpful. Our capital raising activities for our broader commercial customer base have been, I think, well received M&A advisory, acquisition of Clearsight to go with BlackArch Partners, again, very helpful. So, we're really focused on how do we meet specific customer needs. We have no interest in equity capital markets capabilities, the debt capital markets platform. But it's one that we think has – continues to have tremendous upside and complements what we're doing with our specialized lending activities.

**David Jackson Turner, Jr.**
*Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.*

A

And we have diversified, as John mentioned, from the derivative side. But this year relative to last year should be better for derivatives given the expectation of rate increases, people will start locking in and hedge more than they did last year.

Q


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Switching to expenses. You guys updated guidance for the full year. Increased revenue outlook, increased expense outlook a little bit. What's driving the higher expenses?

**David Jackson Turner, Jr.**
*Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.*

A

Yeah. So, let me go back to level set. So, the beginning number is really driven by the three acquisitions that we closed in the fourth quarter last year. And I think I used the word vast majority of our increase for 2022 prior to the last change was because of that. We've done a really good job of leveraging our continuous improvement program.

We were super-focused on expense management while making appropriate investments in things like digital and other technology and people. We're always looking for good people, so we have to do that. But the last change was really a recognition of the fact that our revenue increased, our expectations have increased due to rates, our credit quality continues to be very strong and so our pre-tax income was – is higher than we originally thought, which means our incentives are going to be higher. So, it was largely attached to the incentive change for the year and that's really all it was. So if you do the math real quick, you can see our expectation is to have positive operating leverage in that 2% range, and we changed our words on operating leverage to have a little bit more of a commitment because of that.

Q

So, there has obviously been a lot of inflationary pressure, wage pressure on bank staff and – including the branches. Are you seeing any kind of leveling out of that?

**David Jackson Turner, Jr.**
*Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.*

A

Our – so, our original expectation we gave the guidance had a factor for wage increases that were higher than we have seen in the past. We had to pay up, as did everybody, for certain of the technical positions, so a lot of technology players. If you don't pay them, there're a lot of opportunities for them. So, we did pay up for that. We've had to offset inflation by doing all the other things, again, leveraging our continuous improvement program, which is a formal program that we have. That's almost a way of life. I probably ought not use the word program, it's just kind of what we do. But it's a formal process that we have senior leaders involved in to make sure we're looking at all areas of expense management and lot of process improvement that takes place so that as labor [ph] attrites (00:29:29), we don't have to replace it. That's really what that's all about.

We have historically consolidated a lot of branches, I think 500-plus branches over the last seven years or so. We still have more branches than everybody on a relative basis and that's probably always going to be the case because it's where we operate. We're in a lot of markets, and most of our markets, we're the money center bank, we're the big bank there. You have to have a branch presence if you're going to be all over the place like we are in the Southeast and Midwest and Texas.

And so, that being said, while we're making investments in digital, we need to also think about that channel – the branch channel and make sure that we're as tight as we can be. And there's still more room to go there in terms of branch consolidations. They're probably going to slow down a bit from what you have seen. And so, that fruit is not as close to the ground. And so, we're going to have to work hard to make sure we keep [ph] beating (00:30:34) on that to get as tight as we can because when you're in a commodity business like banking, you


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better be really efficient. And I think all of us, the whole industry has got to become more efficient than we are today, and we have a plan to make that happen over time.

Q

So, there's a lot of focus on technology spending at the banks, probably everywhere, but certainly at the banks. And I think you guys have taken a balanced approach where you've acknowledged you and a lot of peers need to upgrade things like our core system, but that you're only going do so much at once. And how do you balance that, how do you say, let's take X number of years to do this and manage the costs and also managing the upgrades? How do you manage that, balance that decision?

**David Jackson Turner, Jr.**
*Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.*

A

Yeah. So, John's asked us to really think through our core placement as the transformation. And as all of you are probably aware, we have a new position. Our leader of transformation, Scott Peters, who ran consumer because it was important to John and the board that we look at this as not a lift and shift, but truly an opportunity to start with the customer in terms of how we transform our entire business.

We are not in a hurry from a system end of life, our end of life I think is 2028 or 2029. And end of life, just so you know it's not truly your life comes to an end, it's – the system stops being supported by then. So we would own the operating system. We could run that system forever if we want to go hire a bunch of [ph] pinball (00:32:06) type people to do that and they don't exist anymore. So, we need to get on a modern core, as do virtually all of our peers with a couple have already moved there. But the core in and of itself doesn't do you any good other than it's an enabler of being able to latch on APIs that then help transform your business, helps you be more mobile, nimble about adding products and services that your customers will need and value.

And so today, if you want to make a product change, it's just very laborious and you got to have a third party help you do that. Going forward, we'll be able to do that far easier. So, that's what this is about. We wanted to be very planful, so we've learned from others that have gone before us that it's taking your time and planning. We've had an independent third-party consulting firm help us think through this. We have not made our vendor decision yet. We're close. We'll be doing that over the next 30, 60 days. And if we could just take our time and plan it out and get everybody on board with what we're trying to do, then we think our implementation will be very successful and we'll hit the transformation targets that John's laid out for us.

If we get in a hurry and try to push this through, we will make a mistake and it's going to cost us a lot more. These type programs historically have been extremely expensive and always overrun, and we are dead set in not let that happen to us. And some of us have performance measures in place that will require that not happen. And so, we're going to stay focused on making sure we manage the expense base. We spent 10% of our revenue on technology, and we're trying to keep it around that number so that we don't have any huge bumps along the way.

Q

Switching to credit. John, I'm going to lead in a little bit. So, I think credit is fine now, and there's really no signs of worry. But as CEO of a big regional bank, it can't feel too comfortable when the market's telling you a recession might be coming, and everything you look at looks fine. So, how do you manage your credit portfolio, manage your bank and kind of set the tone from the top in that type of environment?


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**John M. Turner, Jr.**
*President, Chief Executive Officer & Director, Regions Financial Corp.*

A

Well, we start with just fundamentally, we believe that all credit decisions begin with right customer. And so whether you're operating in a great economy or a challenging economy, still got to try to grow your business. And you do that by continually calling on getting out in front of right customers, right prospects. And I think that's ultimately the secret to success through the cycle. There're going to be opportunities when generating loans are easier than not. The other times when it's more challenging, if you stay focused on the right customer and doing the right things the right way, I think you can build a solid loan portfolio through any period of the cycle.

And so, at the same time, we are – we do acknowledge that the market is sending a message. And so, we talk about the best of times, which we're in right now from a credit perspective often is when you make your worst loans because you get complacent, you get whacks, and we challenge ourselves every day not to do that. We also a lot of time talking about what's the market telling us that we don't see because we look at our portfolios and frankly look across the industry. We don't see the asset bubbles. We don't see the concentrations that historically have led to or been a precursor to a recession. So, what're we missing potentially? And we continue to have those conversations. I think that's an important part of risk management.

Our teams are actively engaged with our customers. We were – that was always true, but when the pandemic hit, it was even more important. And I think that's something that we've carried through over the last now the 24-plus months, it's been hugely helpful to us. It gives a better sense of what's going on.

Q

And you've really made some call it portfolio management decisions. So, auto running off, the SoFi, the GreenSky as we talked about earlier. Maybe some of that was margin related, maybe some of that was credit, but as you think about the environment we're in now, are there any portfolios, other portfolios that you're looking to shrink or slow the growth?

**John M. Turner, Jr.**
*President, Chief Executive Officer & Director, Regions Financial Corp.*

A

Well, I think, again, go back to the Great Recession come forward, one of the things that I'm most proud of is that we were very disciplined in our approach to reshape our balance sheet. We exited certain portfolios and businesses. We exited the insurance business because it was not generating what we thought was an appropriate return on the capital we had invested. We exited medical office building portfolio.

To your point, we've exited indirect auto, GreenSky and SoFi for different reasons, but we've repositioned our balance sheet so that on the asset side, we don't have any significant concentrations. We have better diversity, both geographic and diversity across asset classes. On the liability side of the balance sheet, we're much less reliant on high cost funding. We've got a great deposit base and if you look at the mix of deposits today versus 2007 when the banks merged, it's I think remarkable, the changes that we've made in our balance sheet, and that was important to us. We had to have a strong balance sheet if we were going to deliver consistent, sustainable results. There are portfolios we're keeping an eye on. We've decreased our energy exposure and remixed that business some, we've exited – are in the process of exiting the restaurant specialized industry group and that portfolio is running off. We are keeping a close eye on senior housing, close eye on the office space, retail. But again, those things seem to be performing well and well enough, and we feel okay with them.


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Q

Switching to capital management, I guess just first at a high level, can you talk about the pecking order of how you think about deploying capital or using capital?

**David Jackson Turner, Jr.**
*Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.*

A

Yeah. Sure. So, our capital base exists primarily to help us grow organically. So, we have to support that 6% loan growth that we have. And those are the kinds of things that we start with, number one. Second is, we think our shareholders deserve an appropriate dividend on the shares that they hold. We target 35% to 45% of earnings to pay out in the form of a dividend. If you go back and look at what we've done of late, we're a little low where that is. Now, we just had our CCAR submission in April. We'll hear back from our regulatory supervisors at the end of June, and we'll see what – how that fares out. And of course, our revenue and our bottom line has improved from there, evidenced by what we've given you in the deck. So, again, trying to target that midpoint of that range, call it 40%, I think is important for us.

The second would then – I mean, the third thing would be nonbank acquisitions. We had three at the end of last year. We'll try not to do three in one quarter again, that was pretty tough, but that's just the way they fell. And we have a very active corporate development team working with our business leaders on finding opportunities that can help bolster their business. So, products and services and capabilities that we don't have or that we need some enhancement to, that's really what we're looking for. And then, we use share repurchases, nothing more than the mechanism to help us optimize capital. So, we use Common Equity Tier 1 as our gating factor in terms of how we think about it. We have a range that we've established of 9.25% to 9.75% Common Equity Tier 1, and then, we furthermore said we'd like to operate right in the middle of that.

And that's pit based on the risk profile that we have to withstand stresses that we might have to keep us from having to cut dividends and things of that nature like we had in the great financial crisis, or at least reduce that risk that's obviously still there. But we also have a lot of constituents. So, we have to think about rating agencies. We have to think about investors. We have to think about regulatory supervisors. We have to think about return on capital. So, all that are – those are balancing mechanisms to make sure that we have an appropriate amount of capital. We're at 9.4% today. We'd like to be close to that 9.5%. You can't peg it exactly, because what happened to us last quarter is we're buying stock back based on we think our use is that is what loan growth is going to be.

You have to be out of the market two weeks before quarter-end. And then if you have loan growth, which we did right at the end of the quarter, then you end up drifting down to 9.4%, that's what we did. So, we're generating a lot of capital, we're looking to put it to work. We don't like to buy our stock back. We'd rather invest it in businesses to grow, but we also acknowledge where we're trading right now relative to looking at multiples of earnings that is versus tangible book, which if we have enough time, and you want to start going down that path, we can, but in any event, we think that prudently managing our capital base is really, really important. I think we've done a pretty good job with that.

Q

So, I was hoping for just a 10-second answer on OCI or just to remind everybody most of the unrealized gains or losses on securities and swaps flow through capital, the treatment is different for different banks. As an investor


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and analyst, all of a sudden we're sitting here with capital that's not comparable, book value is not comparable. I'm not even going to bring up CECL. But just focusing specifically on OCI or things like TCE...

**David Jackson Turner, Jr.**
*Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.*

A

Yeah.

Q

...like does that matter at all for the rating agencies, for fixed income investors? Is there any thought process to that as a constraining factor for Regions?

**David Jackson Turner, Jr.**
*Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.*

A

Yeah. So, the answer is no. It does not matter. Rating agencies carve out the change in fair value of securities. We don't think about it, regulators don't think about it that way. What's frustrating about is we're marking in the investment portfolio, which is one element of the entire income balance sheet and we're not marking the change in fair value of our deposit base, which is where the cash came from to go into the securities book. In particular, the noninterest bearing component of deposits, we have a disproportionately high noninterest bearing deposit base, it's worth an awful lot of money when rates rise and we aren't marking that.

So the concept of tangible book is not tangible book at all by opinion because it's not marked. If you mark everything to fair value, we'd have a different story, but we're not. And so, you're looking at multiple tangible book being high for us because we have a large loss in our securities book and we are going to have that because we're so deposit funded, we're going to have a lot securities that get marked fair value. It's also giving us a 21% return on capital, which is not – that level is not sustainable over the cycle. And while it looks good, it's in my opinion a bit misleading because of the denominator effect there. So, we're just trying to get the noise out and really don't think about OCI as we manage the bank whatsoever. And we only have to answer to investor questions on earnings day and today.

Q

And John, lastly on capital allocation, you often get asked about bank deals, you've been very consistent that it's not a priority. I guess just quickly, why not and what would change that?

**John M. Turner, Jr.**
*President, Chief Executive Officer & Director, Regions Financial Corp.*

A

Yeah. It is not a priority. And why not is because we believe we have a plan. If we execute the plan, we'll deliver top quartile returns based on return on tangible common equity for our shareholders. We've demonstrated we can do that over the last three or four years, and our belief is just to continue to execute our – execution of our plan in the markets that we operate and the businesses that we're in will deliver those results.

M&A is very disruptive and we just don't see the benefit of combining with another bank acquiring a bank today versus, again, just a simple execution of our plan. What might change? Yeah, I don't really envision anything at the moment. I look across the universe, there're a lot of great banks that are in markets that we operate in. But


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again, we think just doing what we do is going to deliver top quartile results. I guess if our plans changed in some way, that might change our point of view, but.

Q

And I guess many of the deals we've seen are other banks trying to get into your markets...

**John M. Turner, Jr.**
*President, Chief Executive Officer & Director, Regions Financial Corp.*

A

That's right.

Q

...where you already are.

**John M. Turner, Jr.**
*President, Chief Executive Officer & Director, Regions Financial Corp.*

A

Right. That's right. Yeah.

Q

...so.

**John M. Turner, Jr.**
*President, Chief Executive Officer & Director, Regions Financial Corp.*

A

That's true.

**Unidentified Participant**

Well, we're out of time. John, David, thank you so much.

**John M. Turner, Jr.**
*President, Chief Executive Officer & Director, Regions Financial Corp.*

Thank you. Yeah.

**David Jackson Turner, Jr.**
*Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.*

Thank you.

**John M. Turner, Jr.**
*President, Chief Executive Officer & Director, Regions Financial Corp.*

Thank you. Appreciate it.


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**David Jackson Turner, Jr.**

*Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.*

Thank you. Appreciate it.

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