Company Name: Regions Financial Corporation (RF)
Event: BancAnalysts Association of Bostons Annual Bank Conference
Date: November 3, 2022

<<Gerard S. Cassidy, President, BancAnalysts Association of Boston>>

Good morning, everyone. I'm Gerard Cassidy, the President of BancAnalysts Association of Boston. On behalf of the Board of Directors, I want to welcome you to the 41st Annual BAAB Conference here in Boston. So thank you. It's one of the longer-lasting conferences that you're probably familiar with here with the banking group.

Just a couple of announcements for you. Tonight, the Bank of America dinner, all you need to do is just walk out the hotel, turn left. And that street on the left, there will be buses. If you prefer to walk, it's a 15, 20-minute walk, it's over 100 Federal Street in Bank of America's corporate headquarters. I should say they're Boston headquarters, the old Bank of Boston corporate headquarters, the pregnant building, as we refer to it.

And second, we also have a cocktail hour from 4:30 to 5:30. And for many of you who know Don McLeod, he's retired, so its celebration of his retirement, and management of M&T will be there along with Don. But again, thank you for coming. If you have any questions, please send me an e-mail or text, and I'll have Terry McEvoy introduced management of regions. Dave and team, thank you again. You've been big supporters of BAAB over the years. We really appreciate it. And then we'll open it up to a presentation followed by some fireside chat questions.

And as always, if you have questions from the audience, please feel free to ask them. Terry?

<<Terry McEvoy, Analyst, Stephens>>

Good morning, everyone. Kicking things off for us today is Regions Financial serves customers across the Midwest, South, and Texas through about 1,300 branches, assets today, about 1.5 – I'm sorry, $158 billion. With us today from management, we've got David Turner, who serves as Regions Chief Financial Officer. He's also a member of Region's executive leadership team. Mr. Turner joined Regions in 2005 and led the internal audit division for Regions before being named as CFO in 2010.

To my right is Joel Stephens. He joined Regions in October of 2008 as Managing Director and Head of Regions Bank Real Estate Capital Markets Group in Atlanta. Mr. Stephens previously led the Southeast CRE Loan Origination Effort at Countrywide Commercial real estate finance.

And then we've got Deron Smithy, who is the – who is Regions' Treasurer. In his role, he leads liquidity and capital planning, investment management, asset liability and the CCAR process. He is also a member of the executive leadership team. And before joining Regions in 2008, Darren spent about 15 years at Wachovia. So the format today is for Joel to get up here and present for 10, 15 minutes, and then we'll move into a Q&A. Okay.

Internal Use

<<Joel Stephens, Managing Director and Head of Regions Bank Real Estate Capital Markets Group>>

Thank you, everyone. Good morning. Thanks for taking a couple of minutes to hear about our wholesale bank at Regions. Before I start, I'm supposed to remind you that there are some forward-looking statements here. There's some risk that things could change. We're providing you information based on what we know today, and please refer to materials filed with the SEC. I think our 10-Q, David gets posted today. So you can definitely refer to that.

So again, what we thought we would do today briefly is talk about the wholesale bank generally performance and our strategy. Then we'll spend a minute talking about NIR drivers. I mean today, our bank were asset sensitive. We're very well-positioned from an NII perspective. Deron's done a great job with our hedging program so that our NIM likely going to be protected at a very attractive level.

But when rates move the other way, another way for us to continue to benefit is to continue to diversify revenue growing NIR. So we'll talk about treasury management and capital markets, which are the two largest drivers of NIR inside of our wholesale bank. So 2022 has been a great year for our corporate bank.

We've grown revenue 8.2%, driven primarily by NII, as you would expect as well as a 10% increase in our core treasury management revenue. We've grown pre-tax income by 12.1%, which highlights our continued focus on prudent expense management and our solid credit performance.

Speaking of our credit performance, we've had outstanding credit quality. Year-to-date, net charge-offs only 4 basis points. We do start to see a little bit of headwinds from a credit perspective, but not anything that is overly conservative. We had a slight increase in our NPLs, really highlighted by one or two any idiosyncratic issues inside our corporate bank.

We don't see major loss content there. We do think that losses over time will moderate. We can't stay at 4 basis points forever. David and team have posted guidance at the enterprise level for next year losses of somewhere between 25 basis points and 35 basis points and a more normalized loss rate for the overall enterprise, perhaps 35 to 45 versus 25 to 35 next year.

We have seen broad-based loan growth inside the wholesale bank. Rate environment, capital markets being challenged, certainly part of that, but it's not just been in our larger area. The economies remain. We operate in a very attractive footprint. Southeast-focused a lot of in-migration, lower unemployment than many other parts of the country, and across the country, unemployment, as you know, is very, very low.

So that that loan growth is not just with our larger clients. It's with some of our smaller and footprint clients as well. And we saw commitment growth really outpaced even our loan growth this year as companies have been cleaning up their balance sheet and getting in position for some uncertainty that could be ahead next year. While we've done all that, we've introduced 17 new

Internal Use

capabilities to help serve client needs inside the corporate bank this year, two of them are down at the bottom, which were acquisitions of examples of the bolt-on acquisition strategy that we continue to try to execute.

So all capital partners and Clearside advisers, fee-generating bolt-on acquisitions for us that we closed in the fourth quarter last year as well as some other more, call it, organic where we've done lift-outs from other teams, our new market tax credit initiative as an example – is an example of those types of initiatives.

Our bank is – our corporate bank is organized in three businesses. Our commercial bank, those bankers are focused calling on clients in our footprint, generally speaking, 250 in sales and down our corporate bankers, little C corporate. We have diversified and specialized industries bankers that are focused on companies that have sales to 50 and up. And then we have our real estate banking business that has a REIT platform, affordable housing platform, a traditional project finance platform, and a homebuilder finance platform.

So how did we – well, before I go there, we've got 2,700 associates in our wholesale bank serving 21,000 clients. Our deposit base represents roughly 30% of the deposit base of the enterprise. Our loan balance – excuse me, our revenue represents 63% of the overall revenue for the bank, and our pre-tax profit represents 48% of the overall pre-tax profit for the bank.

So how do we get there? How will we achieve these results? So strategically, this is how we do it. We approach clients with a cash flow mindset out of the gate, every client that we talk to, they may not have a capital raising need either on balance sheet or off-balance sheet, but they're all – they all have a cash flow need from an operating account from treasury management products, et cetera. So we're trying to really understand a client's cash flow first and then bring them capital-raising solutions when necessary, either on or off-balance sheet.

And that cash flow mindset should and does over time as we look forward, it will give us insight into what our clients are really experiencing before it shows up in quarterly financials. Down at the bottom right, you'll see a logo there. RCLIQ is a tool that we've invested in and rolled out to our commercial banking clients.

That is a tool that we invested in that uses some AI and some digitization. So we're using data and analytics there to what we bought it thinking that we were going to have insight into our commercial clients' activities and be able to sell them additional products. But what we have found is it's been a very good predictor of future stress. So we might see stress earlier than we would have otherwise. So everything that we do, we're doing with the risk management mindset.

And then the other thing that I would highlight here for sure, is that we've got a unique go-to-market strategy. We absolutely believe in having local bankers on the ground that know our clients extremely well. Client selectivity is core to what we do. And then we surround them with industry and product experts so that we're able to – that might not be local, they might be in Atlanta or they might be in Charlotte or they might be somewhere else in Birmingham but we bring those industry and product experts out in front of clients with our local bankers. So we

Internal Use

have a very collaborative culture. But we have a saying that when we team the best, we win the most, and that's definitely been the case this calendar year.

The last thing that I'll highlight about our strategy is we do intend to continue to invest in additional products. And in our markets, there have been a number of bank mergers, some have closed already. A couple of others supposed to close perhaps before the end of the year or early next year. It's given us a unique opportunity to attract talent. And as we attract talent, we're thinking about additional product capabilities that we can add that will meet clients' needs as we move forward.

I mentioned earlier the outstanding performance of our treasury management platform, our treasury management platform, but given our cash flow first mindset, you're really starting to see that flow through in the results. We've increased our core treasury management revenue 10% this year. We've increased our number of clients by 11% this year – year-to-date this year versus last year, highlighted by teaming with our branch associates. We've seen a lot of growth in branch small business in terms of the number of clients that we picked up this year.

<<David Turner, Senior Executive Vice President, Chief Financial Officer>>

Can you open the Slide 11?

<<Joel Stephens, Managing Director and Head of Regions Bank Real Estate Capital Markets Group>>

Sorry about that, here we go. Here we go. Thank you, Dave. We've increased our digital payment and integrated services revenue 12% this year, and it's now 33% of our core treasury management revenue, highlighting our focus on creating digital solutions for our clients. When you invest in your clients APIs and the like, it makes that business stickier and we're – that's something that we will absolutely continue to grow.

And we've increased our global trade business 12%, highlighted by being the number one SBA export lender as well as an outstanding EX-IM working capital lender. So for the remaining time that we've got here, I thought we would talk about our capital markets business. That's the business here that I know the best. It's the largest source of NIR for our corporate bank.

We've invested over time – the next slide, you'll see that over time, we've invested pretty heavily both organically and inorganically to try to build our capital markets line item. And again, for a bank like ours, it's important for us to do that because it's a revenue diversifier for us, which in a different rate environment will help, we hope, mute volatility in our overall earnings stream.

Our business capital markets means different things to different regional banks. So I thought I would spend just a second talking about our product mix so that that's clear. What you won't see on here is fixed income loan sales and trading or equity capital markets, sales and trading. That's not part of what we do.

Internal Use

What we – our business, you can really think about in three broad categories. The first category is capital raising. So we've got buckets of capital-raising products for real estate clients as well as for corporate clients. So for corporate clients, think about the underwriting activity for fixed income, institutional term loans as well as ECM capabilities in the public and private markets.

On the real estate side, I would encourage you to think about project finance products, Fannie, Freddie, HUD. We've got a pretty heavy multi-family focus on the balance sheet side. And therefore, we've invested to create those capabilities to move some of that off-balance sheet when clients want fixed-rate capital.

The real estate side of our capital markets business represents – last year represented on the order of 26% of our overall revenue. The corporate side, which would include all the structured products and debt and capital product lines here last year represented around 35% of our total revenue.

Financial risk management is the second broad bucket of products that we have. So that's our hedging business, rates, commodities, foreign exchange. That overall business last year represented 15% of our revenue. We're doing much better than that this year in this particular product line, given that capital markets are closed, things are leaving our balance sheet a little less frequently, so clients are hedging more frequently while it's there.

And then the third broad bucket is advisory services, both from an M&A advisory perspective as well as from a capital raising perspective. And last year, it was right around 26% of revenue – excuse me, 24% of revenue last year, and it will be a similar percentage of our overall revenue this year.

The last slide here just overtime to pick what I've described about our Capital Markets business. We own Morgan Keegan, which was a fairly sizable fixed-income-focused broker-dealer. We sold that in the 2012 time frame as we were repaying TARP.

And so we've invested heavily to rebuild our Capital Markets business. You'll note that we launched Regions Securities in the 2013, 2014 time frame add to de novo. So we built it from the ground up, focused built really around our corporate bankers and our corporate clients. We bought the Fannie Mae capability in 2014. You'll note in 2016, we acquired BlackArch Partners, which was our first M&A advisory offering. They are focused more on sponsor-to-sponsor high-velocity type M&A activity.

And we bought First Sterling, which is a low-income housing tax credit syndicator, which really helped us create a more robust origination effort around our low – our affordable housing business. We organically added sponsor coverage and DCM loan sales and trading staff in 2017. We added dedicated high-yield underwriting capabilities in 2018. You'll note in 2019, there was a dip in our revenue. So the trajectory went the wrong way. The explanation for that is that's when I was assigned the job of Head of Capital Markets.

So I clearly screwed it all up. That was – if you'll recall, the rate environment in 2019 was more challenged. There was a lot of uncertainty around it, and there was a little less capital markets

Internal Use

activity that year. And then with all the stimulus that's been in the system, there's been a lot of capital-raising activities in the last two years. We added ECM in 2019. That worked out pretty well for us. We've done well with that product line as we move forward.

And then last year, David and Deron let us go out and acquire a couple of new capabilities. Sabal Capital Partners is really a small balance agency lender, I think multifamily off-balance sheet. We make fees, gain on sale and there are some MSRs associated with that as well as Clearsight Advisors. Clearsight is a tech-enabled business services-focused M&A advisory firm. And unlike BlackArch, they complement each other very well. There's no sector overlap. Clearsight's clients match up very well with one of our industry verticals on our balance sheet. So it's highly strategic. And they're working with it. If you think about that sector, those are going to be many, many more entrepreneurs versus sponsors that they are representing on the sell side. So again, the capital markets and treasury management side, very important for us for different points in the cycle, and we're excited about where we're going as a wholesale bank.

And I think at this point, we'll just turn it over for questions.

Q&A

<Q – Terry McEvoy>: I'll kick it off with a few questions and open it up to the audience. First off, Joel, thanks for the overview and discussion of the rebuilding of the Capital Markets business at Regions since 2014, and glad to see that kept you around after 2019. I guess big picture, how do you feel about your position in the business? Are there any products or services or capabilities that you think Regions is missing today?

<A – Joel Stephens>: So from a wholesale bank perspective, we've got some slides in the investor deck that highlights how we're transitioning our loan portfolio to a higher credit-quality client mix. As we move forward on the fixed-income side, I mentioned that we don't have fixed-income sales and trading, getting better assignments in the underwriting syndicate from a fixed-income issuance perspective in the investment-grade side of the business that's pretty important. And so as our bank grows at some point, that will be something that we will want to address given our focus and shift towards a higher credit quality type client.

<Q – Terry McEvoy>: I think it's in footnote three in that slide right there, but could you just talk about near-term expectations and what you're seeing today within your – within capital markets.

<A – Joel Stephens>: Yes. So from a capital markets perspective, this quarter, I think we've lowered our guidance to $80 million to $90 million this quarter. And we'll provide better guidance for next year. At some point, there is some pent-up demand in high yield as an example. There's some pent-up demand in the loan market. There have been a lot of term loans that have been refinanced on bank balance sheets that will eventually go out in the institutional loan market. I can't say when that's really going to happen. But we are hopeful that next year will be better than this year from a capital raising perspective. And our M&A pipelines are holding up reasonably well. So we're hopeful that next year is a better year.

Internal Use

<Q – Terry McEvoy>: Maybe moving on here. Let's talk about service charges, all the 2022 announced overdraft policies have been implemented. The grace period approaches is next. Could you just talk about customer feedback from the changes that have occurred and more importantly, are you anticipating future changes going forward?

<A – David Turner>: Yes. So we've had a number of changes. As you mentioned, we have one more, which will be grace period that will roll out in the middle of next year. We've taken that into account in terms of our guidance. So this year, we're at $630 million-ish in terms of total service charges going to $550 million next year. We think that's our best estimate. As we learn more, we'll update that guidance. All along, we have tried to find products and services and provide better clarity into customers' accounts to allow them to manage their finances better. We changed our posting order to be as close to real-time. We have alerts.

We're doing everything we can to really help the customer avoid overdrafts. But to the extent that they need access to the liquidity, we want to be able to provide that four fee to them. And so these latest changes that we've made, I think, are helpful. We don't see any other changes at this point that would cause us to believe that estimate of $550 million that we're giving you for next year will change. To the extent we continue to grow our customer checking accounts, that actually goes and there's also some corporate bank fees in that line item as well. And so as we continue to grow our customer base, you have offsets naturally for that line item.

<Q – Terry McEvoy>: And I'll stop there and see if there's any questions from the audience. One sec. Sorry to interrupt you. There's a microphone coming right behind you. Thanks.

<Q>: David, just wanted to get some clarification on your guidance on the NPL increase. What gives you – can you give some color on what gives you confidence on a low loss content seen from that?

<A – David Turner>: Yes. So our NPLs were up different than our peers. We had some idiosyncratic issues with a few of our customers that were large enough to move that meter. I would like to point out that our NPL ratio is still below pre-pandemic levels. So that's going to creep up. We don't think at the pace you just saw this past quarter. There were – there was a credit in the office, there's a credit in healthcare nothing that causes us to think there's a systemic shift. We think it was just with those particular customers.

As we look at outputting a non-performer, you think there's going to be some loss. We have that what we think would be there in the reserve. We gave guidance next year for charge-offs because we wanted to assuage the fears that is embedded in your question, that is what's about to happen in losses. So we think losses next year will be 25 to 35 basis points. That's still below normal. We think for our business mix that we have normalized losses are 35% to 45%.

So it's just through an analysis of those specific credits, Vivek, that we believe that losses are going to be still in the fourth quarter around 20 basis points, and that's going to be that 20 basis point loss for this entire year. So we're going to get to normalization over time, but we don't think there's a runaway train here. We didn't – we saw – we noticed that increase in NPLs we

Internal Use

would cause people who could be concerned about that. We want to get the head of the sneak off and so that's just not the case.

<Q>: I think you said that real estate is about a quarter of Capital Markets revenue. I'm interested, firstly, in demand specifically from real estate businesses. And then secondly, if I was wanting an office loan or a multifamily loan, what would I be paying for that now? How much has that gone up in the last couple of years? How has my loan to value that you would offer? Has that changed over the last couple of years?

<A – Joel Stephens>: So to your question about the revenue mix and real estate capital markets, it is about 25% of our business, but it's a pretty heavy concentration in multifamily and the agency product specifically. And so from a demand perspective, overall demand next year may be lower for multifamily capital as there is this embedded in your question is there's a revaluation and repricing that's going on between buyers and sellers. And we definitely do see that. But the agencies are there private – the private sector banks, insurance companies and the like perhaps pulling back – the agencies are there to provide liquidity when the private sector is not there to provide it.

And so in periods like this, the agency's market share have a tendency to expand. So we think despite the repricing activity that is embedded in what's going on in that specific market, we do think that our overall volumes will hold up pretty nicely as a result of that dynamic. Rates are up considerably. We came into the year with a 10-year around 2%. Now it's around 4%. We came into the year doing transactions in the 3.5% kind of 10-year fixed, 3.5%, 3.25%, and that number is close to 6% today.

<Q>: So you said 25 to 35 basis points of loan losses in 2023, what if there's a worse than expected recession, what sort of sensitivity analysis do you have around that? And then separately, you said your commitment growth has been faster than your loan growth. What are you doing to protect yourselves for those new commitments given a more uncertain environment? Thanks.

<A – David Turner>: Yes. So I think overall, in terms of losses, clearly, if we have a deeper recession than we planned today, we lost content is going to go up. We don't see anything given the power and the strength of the balance sheets with businesses and consumers that you could see a very large change in the charge-off guidance that we gave you, $423 million. Now could that then manifest itself in higher charge-offs than normal, the 35 to 45 in 2024 or 2025 I could if that recession is deeper? We obviously do a CCAR analysis and we have plenty of capital even in the severest challenges.

And so that gives us some – a lot of comfort that we have the capital there. Clearly, there would be some impacts to earnings, but not from a capital standpoint. Our degradation in our last CCAR run, by the way, was one of the lowest of the peer group, and it wasn't necessarily driven by losses was driven by the power of our engine. So a rising rate environment or higher rate environment is beneficial to us at Regions because our competitive advantage is driven by our deposit base. So we think the – any incremental piece that you see with regards to credit risk gets way overwhelmed by the increase in NII and we've given you some guidance as to what that NII

Internal Use

is going to look like in the fourth quarter versus the first quarter, gives us a nice tailwind going into 2023.

From a commitment standpoint, we have had growth in commitments. So that drove our line utilization down. It was a denominator effect versus a numerator effect. About 75% of that commitment growth was driven by existing customers, people that we know and so they're getting to the ready, they didn't draw on the lines at the pace that we thought they might, but they're there available for them. So client selectivity, Joel mentioned it critically important to us to make sure we're banking to people that we understand. We understand how they think. We understand their business.

And there is – there are opportunities for commitment growth outside of customers that we know because certain other banks, larger banks are having more pressure on capital because they do have to include things in their capital base that we don't, AOCI being the biggest single one. And so you want to make sure if you're not waving in a bunch of loan growth from people you don't know. And so we challenge our, in particular, the corporate bank, to be very careful about using our capital to grow loans disproportionately fast. And that's why we've given you the guidance that our loan growth is probably not going to be as strong in the fourth quarter as you just saw in the third.

<Q>: Hi. A couple of questions, just to follow-up on that. You indicated that you are looking to have your corporate loan book increasing quality. Could you just give us a sense as to how we should think about the average today? Is it BB, B? Just trying to understand what percentage is that. And then give us a sense of the tails on SNCs and maybe levered loans. And then my other question just has to do with the treasury management side of the business and how you're thinking about the ECR rates and how you flex that in this rate environment. Should we be expecting that you're skewing towards deposit retention or fee generation? Just help us understand that dynamic. Thanks.

<A – David Turner>: Do you want to take the first part of that?

<A – Joel Stephens>: Yeah, I'll definitely take the first part of that. So as we're thinking about tail risk around leveraged loans and other parts of the portfolio, we're – meet throughout the pandemic and we continue to do it. We meet with clients very, very frequently. So we're staying very close to them in front of them. In a period like now we're starting to do that again, where perhaps they don't have. Capital markets are volatile and more difficult, more constrained, but we're in front of the clients talking to them to make sure that we understand what's going on with their underlying business. So there's just a higher monitoring and higher touch around some of those larger riskier portfolios if you will. And Betsy, I apologize, your first part, the very first part of the question.

<A – David Turner>: Yeah, investment grade.

<Q>: Average?

Internal Use

<A – Joel Stephens>: On the average mix, so that one is going to be more difficult to pinpoint. So we've got a slide in the deck that's got our investment grade percentage increasing to…

<A – David Turner>: Yeah, 53% investment grade. And so you have to really break this down. And the corporate bank is where the investment grade opportunities are going to be. If you're looking in the commercial bank, those are going to be more BB type just below investment grade. That's really what a regional bank is all about. And we were debating that the other day. People said if we keep lending to a BB, you'll be a BB. And I said, if you charge them a AAA price, you'll be a BB. You got to get paid for the risk that's taped. And that's what regional bank is all about on the business services side.

<A – Joel Stephens>: And the way to think about that is perhaps we were, I'm thinking about that now, doing the crossover. Maybe we were BB minus on average, and with the increase in investment grade we are migrating, but we're not ever going to have an average of investment grade being a regional bank. But something closer to BB to maybe BB plus is where we're migrating towards.

<A – David Turner>: Did you have another part of the…

<Q>: [Question Inaudible]

<A – David Turner>: Yeah, so, shared national credit book represents about 50% of our total in terms of our corporate banking group, half of that shared national credit book are investment grade credits. And we feel very good about that. We've given you in the deck the breakdown of the ratings from the SNC book. And again, it's not just lending money, it's being relevant in the syndication, relevant being defined by, we want to be able to get our fair share of fees. You can't – it's very hard to make money lending money only. You got to get whatever ancillary fees you can. And if we can't, we ask our team to exit that. We don't just want that and use our capital for that. It's a poor use of capital.

The leverage book, there's also a page in there. Our leverage loan book is about 3.3 billion in outstandings. We – I know on the call, we talked about leverage of being a different number. That's how we defined it internally. And we have determined, we've confused everybody. So what we have done is we're using the definition that Moody's uses, which is four times leverage. Our number had been three times senior, four times total. And so when you use the Moody's calculation, it's 3.3 billion of outstandings, I think the commitment's 4.6 billion.

And again, we've also shown you a diversification of that leverage book in the slide deck, well diversified banking people we know extremely well and we feel good about that leverage book. There was an analysis done, I think Moody's did it in 2018. I don't know if they're going to update it, probably be a good time to do that, where they actually survey all of us, because you can't get this information from the call report. It's private information. So they did a survey and if you go back in that 2018 kind of frames up where the size of the leverage book with the same definition used by everybody. I think that's a better comparison.

Internal Use

<A – Joel Stephens>: Yeah. On the ECR front, we haven't seen meaningful increases there yet. We would expect they will move higher over time. But I would say our strategy is more balanced. We're not – we don't currently have strategies to be more aggressive there to favor balances in one direction or another. I would just say it's just a balanced component of overall treasury management strategy.

<A – David Turner>: We have for creative product though that helps some of these corporate banking deposits that will be seeking higher rates just overall rates have been in noninterest-bearing deposits that want to get paid as the rate environment goes up. We used to move those off balance sheet and we'd get paid a little sweep fee. We created an on balance sheet product where we have a pricing mechanism that they know about. So as rates move up through fed funds, they know what their rate's going to be on deposits. That's been a part of why the runoff of deposits 5 billion to 10 billion has not been as fast as we thought. Well, I think we're down 4 billion year-to-date. We're going to be at the lower end of that range by the time we get to the end of the year. But tremendous amount of liquidity and opportunity for us. And we still have $13 billion of cash on the books and we got a pay raise yesterday of 75 basis points on that by the way. John?

<Q>: Yeah, if you could just David talk about your net interest income outlook. I believe you increased your CAGR projection there and then talk about the driver on that front. And then if – maybe if you can give us a couple comments just on how you're thinking about hedging now that we've had tails update yesterday and likely looking at a higher terminal rate. Thanks.

<A – Joel Stephens>: Yeah, I'll take that. So we have increased modestly the expectation on our compound annual growth rate, really just reflecting the higher rate outlook. But we've also added some sensitivity guidance. One of the things we spoke to in earnings, obviously, we're outperforming data expectations so far. But we do expect them to increase as we push higher in rates. And we've added some information as to how we think about that as well. But I think the sensitivity on that chart is helping give you a perspective of that. Today, we think that growth rate more likely 18% if we see out performance versus what is in our assumption set that we perhaps get to the mid-30s on overall beta's full cycle. We think that's – that along with maybe getting to 5% on fed funds or modestly hiring, staying there for an extended period could push that growth rate up to closer to 20%.

And so really that's just to help you sensitize the outcomes there. We do continue to expect net interest income growth over the next couple three quarters at least. Obviously, there is a point at which when the fed stops moving, that you're going to see the pace of growth slow and be driven more by balance sheet increases. But certainly the pace of deposit cost increases thus far for the industry and for ourselves is much slower than anticipated. And so you're seeing more rapid increases in net interest income. Now that will clearly plateau at some point you'll see deposit costs to the extent we get to 5% and stay there for an extended period. You'll see deposit costs grind higher over time. But our positioning with respect to the balance sheet does allow us to continue to see net interest income growth and margin expansion as the fed has to push higher and stay there for longer.

Internal Use

We're not fully hedged in this next call it 12-month to 18-month period. We've started to add more hedges out on the horizon. We've been active putting incremental hedging into protect potential downturns out in the future to the extent we have a recessionary environment. And the market has recently given us opportunities to extend that protection and to add protection out in 2026, 2027 at some really attractive levels. And so that's what you'll see us continue to add to. I think we'll stay at our current position for the near-term quarters.

<Q>: David, where are you on the corporate deposit betas? What level are they running at and where are you in terms of outflows and mix shift because that's still happening? Do you think you're getting to a point where everybody who wanted to get out has gotten out any color?

<A – Joel Stephens>: Yes, I think we're sort of midstream there. David talked about we came into the year expecting normalization of perhaps $5 billion to $10 billion of excess liquidity primarily on corporate balance sheets. And we're at the extreme lower end of that thus far. We've done some things with new products that have helped assuage some of that potential outflow. But to your point, given the movement we've seen in rates already, we think a lot of that movement has already occurred. We think that you could continue to see some modest remixing out of non-interest bearing into some of those interest bearing alternatives, but it's still within the range that we've given.

The betas are outperforming thus far. Obviously, our aggregate beta is quite low, obviously driven mostly by the consumer side. We do have some deposits in the corporate bank that are indexed in nature that are moving in lockstep with changes in rates and we're earning a spread to those, two fed funds on that. So those are already moving at more aggressive rates. And so again, we do expect that mix shift over time to push betas modestly higher, but still within the range that we've given.

<Q – Terry McEvoy>: Question for David about deposit fees. So you talked about 550 million of deposit fees next year, so it's high single digit percentage of revenue, which is at the upper end of peers. So very big picture. Where does it leave you after all the changes on what an overdraft costs, what NSF fees are still remaining and how does that position you competitively against peers that are in your footprint?

<A – David Turner>: Yeah, so we've done a number of changes as half our peers. We are monitoring what everybody else does. We have to be competitive. We can't be out there doing our own thing. We think our changes that we've made have been in reaction to what the market wants and obviously what regulators want as well. So I don't think there's anything where we're doing something that different. We don't have – we eliminated NSF fees by the way, so we just have overdrafts and you have to opt in for the protection for that liquidity and you're going to pay a fee for that. We have not changed our overdraft fee. It's $36 right now and we think that customers value the ability to have that. As you look at, we have screened higher than peers to your point, Julianne that and the reason for that is if you look at our customer base, our customer base have a tendency relative to the peers have lower average balances.

We are in tertiary markets. We're all over the place with and that's why we have more branches by the way. But that's also the power of our low cost deposit franchise. And we have higher

Internal Use

primacy than most of our peers. And so when you have high primacy and lower balances, so you have a lot of transaction activity, you have a tendency to use that liquidity via an overdraft. And so we are – although our fees are coming down, fees are coming down for everybody. I suspect when we're through next summer, we'll see, but we'll probably still screen high. But the point is providing products and services that your customers value and willing to pay for. And as long as we're competitive on that front, I think we're in good shape. We'll continue to monitor it and see if the – if changes are come about that we aren't anticipating right now, we'll update our guidance of the 550 million for total service charges.

<Q – Terry McEvoy>: Maybe one last question, David. Should investors worried – worry about the tangible common equity ratio at 5.01%, regulators going to care? Will that impact abilities, bank's ability to raise capital? We'd love to hear your thoughts in the remaining time.

<A – David Turner>: That's why Gerard leave the room when you ask that question to eat a chicken. Listen up. We don't really care what that ratio goes to. We don't have challenges from our regulatory supervisors on that at all. We don't have a challenge by our rating agencies on that at all. We do realize, and a couple people brought it up, but it mattered in the financial crisis and the financial crisis we didn't have this thing called CCAR either. So we didn't have the tools that we put in place to manage our capital. We have our range of common equity tier one 9.25% to 9.75%. And we do that based on the risk profile that we have to be able to sustain ourselves without having to raise capital and dilute shareholders. And that's really what the question ultimately gets to. From a – I think everybody should realize if we would've put all of our securities and held to maturity, we wouldn't have the OCI drag.

And if that makes you feel better I would be shocked because the fair value is the fair value whether you were reflected in the financials or not. So this is coming from the deposit side of the balance sheet. When you're heavy deposit funded like we are, you're going to have OCI challenges. But we've put in our program of hedging and we've taken those deposits and put them to work in the securities book. And if you let me mark the fair value of the deposits through OCI, then we're not having this conversation. So it only gets to be an issue if you're in liquidation mode and/or from a liquidity standpoint, we have tremendous liquidity, including $13 billion of cash, ability to go to the FHLB. So it's just not an issue that we have to have and that we care about from a TCE/TA ratio.

<<Terry McEvoy, Analyst, Stephens>>

I'm getting the sign we got to cut it off from back there. Sorry. And with that, thanks to Regions Financial. Thank you guys.

<<David Turner, Senior Executive Vice President, Chief Financial Officer>>

Thank you.

Internal Use