Regions Financial Corporation NYSE:RF

Company Conference Presentation

Wednesday, February 21, 2024 4:20 PM GMT

COPYRIGHT © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved
spglobal.com/marketintelligence

Table of Contents

Call Participants 3

Presentation 4

Question and Answer 5

COPYRIGHT © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved
spglobal.com/marketintelligence

Call Participants

EXECUTIVES

David Jackson Turner
Senior EVP & CFO

M. Deron Smithy
Executive VP & Treasurer

Ronald G. Smith
Senior EVP & Head of Corporate Banking Group

ANALYSTS

Ebrahim Huseini Poonawala
BofA Securities, Research Division

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Presentation

Ebrahim Huseini Poonawala
BofA Securities, Research Division
We go ahead and get started. So next up, we have Regions Financial. And from Regions, we have the full crew. So thank you for being here. First and foremost, David Turner, CFO; Ronnie Smith, Head of Corporate Banking; and Deron Smithy, Treasurer. So thank you all today for being here, and thanks, Dana. But maybe just to kick it off, it feels like you just reported earnings not too long ago, but at the same time, the macro outlook looks very -- feels very different today than it did a few weeks -- a month ago.

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Question and Answer

Ebrahim Huseini Poonawala
BofA Securities, Research Division

So maybe just start out with what's your view of the world today? Where across your customer base, are you seeing stress or any signs of stress?

David Jackson Turner
Senior EVP & CFO

Well, I think that there hasn't been a ton of change in terms of our customer base and our expectations for what this year was going to look like even from a rate standpoint. Our markets are still quite robust. We have a lot of migration into the Southeast from other parts of the country. So we're the beneficiaries of that. We said credit is going to normalize, which means losses will be higher this year than last. We have an outlook of 40 to 50 basis points for the year. You should -- could see that's not necessarily in any given quarter, we could be lower than that or higher than that in any given quarter, but 40 to 50 is kind of the right mark for us. Now we do see some stress in certain loan areas. We've talked about office commercial real estate, in particular, transportation, senior housing. But Ronnie, do you want to talk a little bit about -- this is Ronnie's world. Would you talk a little bit about what your team is seeing?

Ronald G. Smith
Senior EVP & Head of Corporate Banking Group

Yes, sure. Most of our clients are facing this year with a lot of caution. I see them building liquidity using excess liquidity if there is such a thing to pay down debt and waiting on the next event, which would be really the trigger would be around interest rate and interest rate reductions. So we see that cautionary approach by our operating companies, but we also see strength in our client base coming out of those entities that are close to infrastructure improvements, and that would be roads, bridges, even colleges, water sewer type construction companies and those that are in the line of supplying those kind of materials. So we do see some bright spots that are in the economy at this point as well.

David hit several of the industries that we have closed on. Transportation is one of those areas that we saw some weakness developing in '23 on the lower end of transportation. But as the year went on, we continue to see a little bit more stress move into some of the medium- to larger-sized companies. And so we've got our eye on that. It's generally a leading indicator that not as many goods are being produced and not as many goods are being demanded. So it gives us a little bit of pause as we face the rest of this year and what does that mean overall from the consumer standpoint, but also to the company's that we do business with as well.

David Jackson Turner
Senior EVP & CFO

So we haven't had a lot of loan growth expectations that was baked into our guidance, and it was slower in the first half of the year picking up in the back half. That has not changed for us. So again, we just didn't have large expectations for that this year.

Ebrahim Huseini Poonawala
BofA Securities, Research Division

And do you have enough of -- also you mentioned customers using liquidity paying down, are you still seeing an outsized level of paydowns on loans or is that kind of leveled off?

Ronald G. Smith
Senior EVP & Head of Corporate Banking Group

We've seen a bit of a tick down in our line utilization rates. And so -- but I wouldn't call it material, but just a slow trend that has moved just a bit more. I would also say that with clients and liquidity, they're working it harder at this point. We supply solutions, both on and off-balance sheet and we'd call it liquidity management. But if I go back and compare our total liquidity management from a business, corporate banking perspective, we're near the peaks that we saw during the pandemic, even with some of the stimulus that's there.

So it shows you that clients are really -- they're really focused on the lifeblood of their businesses, which is cash and cash flow. And that's what gets you to the other side of the stress that's out there. And so I think it's a healthy, responsible result of what they're faced with at this point, and we're pleased with what we're seeing out of our clients at this point.

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Ebrahim Huseini Poonawala
BofA Securities, Research Division

And do you have a sense of like what changes that behavior, what gets them to invest? Is it rates getting cut, elections, like what would be the markers that would get them...

Ronald G. Smith
Senior EVP & Head of Corporate Banking Group

Yes. Great question. So the -- there are a lot of moving parts with our clients and a lot of things to be concerned about. But I would say that the biggest catalyst would be the Fed making a rate cut. I think that there's a lot of idle dollars, liquidity sitting on the sideline. Some things are being deferred, maintenance is being deferred, some capital acquisition equipment type acquisition is being deferred. But I think if you saw at least the first sign of an interest rate movement, I think that would be the initial catalyst. The only thing I would -- I have to caution us and I would say in this room as well, is that with the initial interest rate there's going to be a lagging impact of that. It won't happen immediately. And so depending on when that first action is taken, if it is taken sometime this year, there will be a lagging response to that over the next several quarters.

Ebrahim Huseini Poonawala
BofA Securities, Research Division

Got it. And I guess talking about interest rate cuts, David, remind us when we look at your NII guidance for the year, the assumption of rate cuts and what's the best case -- best rate backdrop for region in terms of NII?

David Jackson Turner
Senior EVP & CFO

Yes, I'll start, and then Deron can weigh in. So we didn't believe the market, six cuts at the beginning of the year. We didn't factor that in, we had four cuts baked into our guidance and that, we think, starts in May, June time frame. So maybe you can get the benefit of a couple of those. The rest of them happen so late in the year, not much benefit.

We're relatively neutral on short rates. And we think with the expectation of rates coming down, that has slowed deposit cost increases and so our beta, we think caps out at about 45%. And we're prepared for rates to go the other way. We're starting to do that right now. So our -- the real challenge for us this year relative to NII is going to be how well we manage our deposit costs. So we need to be competitive, but we don't have to lead with the rate. We're shortening tenors in terms of the CDs that we have. And our rates haven't been going up. It's been the shift from noninterest-bearing to interest-bearing. And we have -- there's a chart, I forget what page it's on that shows you just looking at pre-pandemic the amount of cash that people keep in their accounts is about where it was pre-pandemic. So we think it shift from NIB to interest-bearing is going to be very slow, maybe another point. So we're at 33%, 34% of our deposits are noninterest-bearing. We think that goes down another point. And if we manage those costs, manage promotional rates and we're starting to see competitors and ours starting to come down, and shortening the tenure of a CD to 5 months so that we have a couple of bites at the apple will be how we really manage this. But Deron do you want to add to that?

M. Deron Smithy
Executive VP & Treasurer

Yes. So David covered it well. The only thing I would add is we do have a nice tailwind from repricing of the balance sheet that has been going on for some time. It has been overwhelmed by some of the deposit cost pressures. But as we're seeing marginal deposit costs begin to flatten out and even in an environment where the Fed is cutting rates, taking rates back closer to more normalized rates. We get some shape to the curve, back to your question about what's more ideal for us. Obviously, an inverted curve is a tough environment. Get a little shape to the curve, normalized rates, and that will help us with continued repricing of the balance sheet.

Today, we're enjoying 200-plus basis points on about $12 billion to $14 billion of both loan originations and renewals well as securities reinvestment. So that's a nice tailwind. It continues throughout this year and to next year, but a little more shape to the curve is ideal.

David Jackson Turner
Senior EVP & CFO

That benefit from the repricing really starts to overwhelm the deposit cost changes. And that's why we've said we should bottom out in terms of net interest come in margin in the second quarter and then be able to grow from there.

Ebrahim Huseini Poonawala

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

BofA Securities, Research Division

And I can't recall, have you talked about just the magnitude of that repricing like how many billions in loans or securities or repricing every quarter?

Ronald G. Smith
Senior EVP & Head of Corporate Banking Group

Yes. So it is $12 billion to $14 billion annually. So roughly $4 billion of that is securities and the rest is loans, and it's pretty well dispersed throughout the year.

Ebrahim Huseini Poonawala
BofA Securities, Research Division

And that probably has legs going even into next year, I would imagine in terms of the back book.

Ronald G. Smith
Senior EVP & Head of Corporate Banking Group

Yes, absolutely. Yes, well into '25 and beyond.

Ebrahim Huseini Poonawala
BofA Securities, Research Division

Understood. And David, you mentioned deposits. Hearing like -- I'm hearing mixed messages. It feels like some of the promotional activities come down a little bit post fourth quarter of last year, but how competitive is the environment. There are still banks who want to hold on to as much liquidity as possible?

David Jackson Turner
Senior EVP & CFO

Well, I think there's all kinds of stories. One, competition has always been pretty intense. 5,000 of us do the same thing. So -- being a relationship bank is what we think is a competitive advantage, versus using rate to try and keep your deposits. We have a loan deposit ratio that's about 77%, one of the lower ones, and we don't have wholesale borrowings from the FHLB, we paid all that off. And we don't have a lot of loan growth expectations. So we have the ability to not have to chase deposits. And 70% of our markets, we don't have a significant money center presence. We are the money center bank in those markets. We have the density. And so we have the relationships, and our deposit book is very granular with 5 million accounts, and we just don't see that moving a whole lot. And that's why our deposit beta has been over the past 2 cycles, lower than everybody's, is lower than everybody's today. And so we don't have to go out there and compete to keep the balances.

We do have to provide top-notch service and we focus intently on service because in service includes having the technology customers want to have. And so if we can continue to make it easy for people to bank with us, we'll keep the deposit balances. We won't have to go chase those and therefore, have our deposit costs get away from us.

Ebrahim Huseini Poonawala
BofA Securities, Research Division

And then just on that, I think the other sort of legacy of last March was intense focus on liquidity stress testing duration deposits. So you mentioned the 77% loan-to-deposit ratio. Like do you think about that in terms of a ceiling where you don't want to go above like 80% or 85%?

David Jackson Turner
Senior EVP & CFO

No, we don't use a loan-to-deposit ratio as a control. Kind of it just is what it is. Used to be I mean, pre-crisis, we were over 100%. And we're not going back there, not on my watch at least or Deron's. But if you -- that 77% were to go up a little bit, it's not a problem at all. I think continuing to do the fundamentals of banking, which is growing consumer checking accounts and growing operating accounts of a business. If you can do that, you're going to be okay.

And that's #1 for us. And we -- all the other products and services really center around getting those two things.

Ebrahim Huseini Poonawala

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

BofA Securities, Research Division

All right. So it might sound like a simplistic question, how do you do those two things? Is it more people? Is it more technology? Is it more branches?

David Jackson Turner
Senior EVP & CFO

So we have plenty of branches. We have more than most on a relative basis. We're in a lot of towns throughout the Southeast. We have to have branches there. We also have to have good technology. We've made a lot of investments in our online and digital offerings. But the #1 sales channel is still the branch. You may not have been in a branch and a lot of people in the room probably don't go to branches, but people still go there to open up their checking account, even though you can do it online. We're fine with that. And now over time, that's going to shift. And there's going to be digitally open than there will be in the branch, but not today.

And so we have to invest in both of these channels. We think that's really important. Again, if you were to go into a lot of the cities where we have the density, you can't help go down the street seeing a Regions green sign and you open up your -- you come in and open up your checking account. We do a lot in the Ronnie's world in terms of operating accounts of businesses. We stress that. We don't just want to make you a loan. We'd rather have your operating account help you manage cash flow because you may not have a loan need, but everybody -- every business has to have an operating account. So if you can get that, that's the lifeblood of a business or a consumer.

And so it's through people, it's through branches, it's through digital. You got to have all those lines in the water, and that will help grow checking account.

Ronald G. Smith
Senior EVP & Head of Corporate Banking Group

Yes. Just an additional comment. Our strategy is built around approaching each of our clients and prospects with a cash-centric conversation. We've really pressed connectivity back to both clients and prospects. We're a little bit over 3,000 contacts per week, leading with the conversation, digging in deep to understanding the cash flow of the company you'll find a loan need, if you get into the details of the balance sheet. And so we're back to banking 101, understand the balance sheet of a client, understand how they're creating cash, what will that mean to them? How can that help bridge them from one side of stress to another side of stress. And it's really showing up in a lot of our treasury management results as well. We've, this past year, we grew just about 9% in relationship basis. So clients who now have treasury management solutions.

And so when we think about strategy, it's not just about we would like to have your operating account. It's how can we help you create more cash on hand, better cash flow, reduce receivable? How can we provide solutions for you and digging in, not being lenders, but really focused back into relationship management? And over the past two years that we've really pushed this particular philosophy. It's helped us, and we've seen our treasury management world expand and provide us with fee income that's an annuity rather than just a one time event.

Ebrahim Huseini Poonawala
BofA Securities, Research Division

Got it. And just one last question on just deposits. not to date you, but David, you've done this for a long time. There's a healthy debate that if we are in a structurally higher rate backdrop. Could the deposit mix of a bank look like it was pre-GFC about 30%, 35% CDs. Just how do you think about that when you're thinking about ALCO with the medium term, what the deposit mix looks like for Regions?

David Jackson Turner
Senior EVP & CFO

Well, I think that obviously all of our CD balances are up right now. We had about 35% -- maybe even 40% in the great financial crisis, where liquidity was at a premium after some failures in ['08]. And then we came down, I think we're at about 7% on the low watermark. I think you'll see, as rates come down, you'll see that starting to change a bit because people will value more of having access to their cash versus locking it up over 5, 6, 7 months, whatever the case may be. I don't know exactly where that percentage will be, but I suspect it to be south of where it is right now when things get settled. I would say in that 10% range.

Ebrahim Huseini Poonawala
BofA Securities, Research Division

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Okay. Got it. Maybe shifting gears. I think at the start, you talked about CRE. Just give us a sense of, one, I think commercial real estate office, I think most people appreciate the risk there. One, talk to your kind of how you see the impact to your portfolio? And then a lot of focus on multifamily Sunbelt states, I just would love your perspective there.

David Jackson Turner
Senior EVP & CFO

Ronnie, why don't you take...

Ronald G. Smith
Senior EVP & Head of Corporate Banking Group

Yes. So I'll start with office because it gets a lot of attention at this point, but our office exposure is low relative to any comparison that you would want to make. We're at about $1.5 billion of outstanding balances against our office portfolio today. We didn't have a charge against that office portfolio during '23. We do think as we move through the cycle that we will have charges associated with that business. It's such a sea change in how we think about office today and the demand that sits in the marketplace. We've provided, hopefully, all of you have seen the slides that we've given you with some pretty good detail about the portfolio.

So I won't repeat that other than just to say the Sunbelt does give us an advantage. We have both in migration of population and businesses that are moving in as well. The majority of our book is suburban not urban and so that helps us additionally.

And so we're -- we only have 100 -- roughly 100 names that are associated with that book today. So it gets a lot of scrutiny. We have a lot of eyes, first, second and third lines of defense are taking a very deep dive, not just at a portfolio level, but at a very detailed level. And so where we've set reserves and where we have tried to to make sure that we are accounting for what we think the stresses will be, again, have a lot of attention associated with it.

I'll mention multifamily real quick since you did as well, and we can talk about any piece of real estate that you'd like to talk about, but our multifamily book has performed extremely well throughout the process. We are encouraged by the credit quality that we continue to see there. We participated in a national conference, just a couple of weeks ago. And most of the developers there were optimistic about what they're seeing in multifamily.

There's pressure on single-family housing. And so that's moving, that demand is moving more toward multifamily solutions at this point. The other thing that we heard that is also encouraging is just the aggressive nature that [Lifecos] are providing from a term takeout position in the multifamily space. We continue to see that. When you have multifamily that's stuck on your books and you're in the short position and they're looking for long-term solutions. That's where issues come from. But there appears to be really good in growing demand on the term side and the takeout for the longer-term solution with multifamily today. Again, Sunbelt helps us being in the right markets and the right submarkets is critically important.

David Jackson Turner
Senior EVP & CFO

So Ronnie mentioned, we will have some losses in office. We have a 4% reserve there. It's $60-something million on $1.5 billion and you got to look at the underlying to see how confident you are in that coverage. And so we start with a kind of right around 50%, low 50s in terms of loan to values we updated those use of the Green Street. That would give us about a 75% loan-to-value. And then we shock that 30% -- 35% to get to a loan to value of 101.

So we feel good about that, but there will be some losses and which is why we have the reserve of 60. Commercial -- I mean, the multifamily, we don't feel like we're going have losses there. We feel really good about where that is. And like I said, all real estate is not the same. You just got to spend the time to look at the underlying properties.

Ebrahim Huseini Poonawala
BofA Securities, Research Division

It doesn't sound like you're too worried about this whole notion of this bunch of supply that's going to come in multifamily in '24, '25, and that is going to squeeze but -- and it could be very builder-specific.

Ronald G. Smith
Senior EVP & Head of Corporate Banking Group

We do feel like that within migration of the markets that we're in, that is one mitigant to the supply that's coming on being in the right submarkets and seeing the growth trends that occur there gives us some comfort associated with that as well. We do reserve against

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

that book, as David mentioned, always things that happen along the way. But overall, we feel really solid about what we're seeing there today.

And if we do get rate reductions in the second half of the year, that will open up the agency business, which we're very active in, made a recent acquisition of Sabal Capital that some of you are aware of that also provides us with additional term takeout sources. And so we're optimistic about where we stand with multifamily today.

Ebrahim Huseini Poonawala
BofA Securities, Research Division

Right. That's good to hear. I guess maybe switching gears just around expenses. So guidance for lower expenses year-over-year. One, I think just give us a sense of where the savings are coming from, where the banks obviously investing today? And how should we think about the construct for normalized level of expense growth for Regions?

David Jackson Turner
Senior EVP & CFO

Yes. So we've done -- we have a chart in there, a pretty good job over the last several controlling our expenses, we will be down just on an absolute basis, but in all fairness, 3% of that is related to excess of fraud that we had. It's $135 billion that we don't think will repeat. And so if you carve that out, you really are flat. So flat, but we still have to give people [buried] increases, which kick in, by the way, March 1. So you'll see that pick up our expense base in the first quarter. The first quarter also has payroll taxes, is going to have Capital Markets had some delays from the fourth quarter that went into the first from a revenue standpoint. So we have incentives there [for 1k] resets and stuff like that.

So our expenses for the year flat is $4.1 billion. You cannot divide it by four and think that that's what the first quarter is going to be the high water mark and then -- but we think we'll be in $4.1 billion for year.

So how have we gotten there? We've had to make investments in things like cyber and consumer compliance and other areas of risk management. And we had to find ways to pay for that. So we've really watched our headcount. That's our highest cost. You saw some severance in the fourth quarter. You're going to see some severance in the first quarter. And it's all about how we control our headcount. I still think there's a lot of opportunity to leverage technology better than we do today. So we have human capital doing a lot of things that maybe we could have technology do. We just -- we've got to get better at that. And -- because technology costs are not going down like they used to. They're going to keep going up because it's Software-as-a-Service. It's a different regime that we're all going to be transitioning to. We're making investments in our own transformation in particular, our deposit system that will be another 3 years in the making. And so we've done a good job of saving in headcount. We're looking at our own office needs. We're looking at vendor charges. Every cost we are looking at because we have to make the investments I just mentioned and we can't let our expense base get away from us. So we're pretty efficient, but we can be better, and we just got to keep on it.

Ebrahim Huseini Poonawala
BofA Securities, Research Division

And just based on -- you hired a lot of people, the tech spend you mentioned. When we think about just broader inflation in the economy, do you feel good about that it is headed closer to the 2% Fed target or...

David Jackson Turner
Senior EVP & CFO

We do. We started seeing head count reductions in technology industry first. There cannot possibly be a bank that has gone through this conference and hasn't talked about expense management this year. Obviously, we are all having pressure given that the first half of last year was rising rates and we all made a lot of money and that can't repeat. So '24 to '23 comparison is going to be pretty tough. We've already said we can't generate positive operating leverage this year. We have a good year, and we can make a lot of money. But I think that we just have to stay on managing this as best we can.

Ebrahim Huseini Poonawala
BofA Securities, Research Division

So I guess maybe switching to the fee revenue outlook. You mentioned capital markets. Give us a sense of what was baked in as you thought about capital markets for the year and are things trending better, worse?

David Jackson Turner
Senior EVP & CFO

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Yes. I think Capital Market -- do you want to talk about Capital market?

Ronald G. Smith
Senior EVP & Head of Corporate Banking Group

You start up, I'll wrap up.

David Jackson Turner
Senior EVP & CFO

I'll do and he'll clean it up. Capital Markets is a little more of a episodic business in terms of revenue. The good news about it is if they don't generate revenue, they don't get paid. So they had a tough year in 2023. The rate environment was not helpful. We hope if we get -- we start seeing rate reductions, we're going to see a lot more growth in NIR. We're in that 70% to 80% range. I think 60% -- when we say 60% to 80% range each quarter. And again, it's not necessarily smooth. We should have a pretty good first quarter because of the delays we saw before.

The rest of NIR mortgage ought to have a bit of a rebound. We're still looking for mortgage servicing right acquisitions to use our capital for that. We think interchange is going to be fine. We do have risk with Durbin. And we've talked about that. If that goes in as presented, that's about a $50 million reduction because it will kick in, in July. Wealth Management will do fine. It's pretty predictable. And what am I missing? I think that's it.

Ronald G. Smith
Senior EVP & Head of Corporate Banking Group

Yes. Just a couple of comments on our capital markets business. We did add in M&A capabilities with Clearsight that's focused on the technology space, and there's some good activity going on there. Some of that David mentioned was scheduled to close in the fourth quarter that moved over into January. We did see several M&A opportunities that moved in, which is what gave us the good start to this first quarter.

But our real estate capital markets business is core of what we do. And given the multifamily that we talked about and the sizable book that we have there. We are seeing some of that activity occur as well. So again, we see some positive traction. The headwind can come if rates stay higher, longer. And so if we don't see the cuts that we are anticipating in the second half of this year, I do think that, that could be a challenge for us as we try to finish the year out. But again, based on where our forecasts are today. The 60% to 80% is something that we feel positive about.

Ebrahim Huseini Poonawala
BofA Securities, Research Division

And is that business where you want it to be in terms of the people, the verticals that you support? Or is there more to go in filling out some of these gaps?

Ronald G. Smith
Senior EVP & Head of Corporate Banking Group

Yes. So we are always looking for solutions for our clients. So our capital markets business is really built around the existing client base that we have. And as we think about the additional solutions that clients are taking advantage of when we made nonbank acquisitions that are in the capital markets group, that's what we're trying to do, is to continue to give solutions to our clients that maybe they're receiving elsewhere that we have the capability of bringing on board. And so whether -- and we've been very active in the space over the last 5 or 6 years with bringing on what we consider bolt-on acquisitions there Sabal sits within capital markets. I mentioned Clearsight that came right after Sabal. BlackArch was right before that with the M&A firm. And then affordable housing initially set within our capital market space. We've moved that to real estate. But there's a very close tie at this point with those kind of acquisitions that really align strongly with the client base we have. And philosophically, that's what we will look for on a go-forward basis as well.

David Jackson Turner
Senior EVP & CFO

Add to the extent. So we have our capital numbers kind of where we want them to be. We're generating pretty good capital, paying a fair dividend, not a lot of loan growth, which gives us a product capital to use. And we would much rather use it to do these non-bank acquisitions. They're out there if we could get the right thing for the right price. And then we use share buyback to kind of be the toggle that manages the capital where we are. We're 10.3 3% -- 10.3% common equity tier 1.

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

We are looking at the securities book. I think we had mentioned that a couple of quarters ago to see if we can reposition that. Take some loss and use the capital that way, reposition and take a little bit more duration because we can get compensated for based on the shape of curve. So you'll see us do a little bit of that and kind of if we can find these acquisitions would be wonderful. It is hard to come by.

Ebrahim Huseini Poonawala
BofA Securities, Research Division

And what's the appetite on buybacks? You mentioned it's a toggle after all of these -- like should we expect you to be a bit more active on buybacks?

David Jackson Turner
Senior EVP & CFO

Well, we have been active. We said we're kind of at our number. We saw the Basel III, well, let me kind of go back. So we said we need to have 9.25%, 9.75% in terms of common and for Tier 1 for the risk profile that we have. We operated at 9.5% for a long time. Because of all the uncertainty that was coming in the market, Fed, Basel III, we said we're going to take that closer to 10%, and then we changed that to be slightly over. We're there. And we now have seen Basel III, they still have some work to do on it. And -- but we're close enough for striking this and so we don't need to let our capital continue to accrete.

So we use our capital first to support our business, to grow the loan book. We pay a fair dividend. We use it to do nonbank acquisitions. And then thus far, we've just been buying our stock back. So we did that in the fourth quarter. Now we're looking at that maybe using that to do the securities reposition and do a little bit of buyback. But yes, we're in the market because we don't want our capital to get any higher than it is right now.

Ebrahim Huseini Poonawala
BofA Securities, Research Division

And the securities repositioning, like do you think about that as doing it piece meal, so you're not making a big bet at any given time or...

David Jackson Turner
Senior EVP & CFO

Yes, it's not. You shouldn't expect a big splash, but you shouldn't also expect it every quarter, that's not the game we're planning. We'll pick and choose what makes sense for us based on the facts and circumstances that exist in any particular quarter.

So it would -- again, it's -- if you're committed already to buy your stock back, then you'd look at the math on securities repositioning or buying stock back and to have the -- a security repositioning gets you paid back pretty quickly. And as far as superior to than a buyback, but you can't [rack] your quarter income, you got to be reasonable about it. So that's right.

Ebrahim Huseini Poonawala
BofA Securities, Research Division

And then does -- if the Fed were to cut sooner rather than later, does that influence how you think about that? Like does that add to the urgency of doing some of that or no?

David Jackson Turner
Senior EVP & CFO

Well, I think that cutting sooner a little bit more money, but it's really in the shape of the curve and the reinvestment opportunities. And so we're starting to get a little more shape to the curve, and being able to get compensated appropriately for the duration risk that we would be taking. So we would extend duration from where we are right now, just a hair. But you want to add to that.

M. Deron Smithy
Executive VP & Treasurer

No, I think that's well said. I mean our balance sheet is positioned where we want it today, but we're always making reinvestment decisions, and we're always making portfolio management shifts, if you will, in just managing the balance sheet. And so if we think about securities repositioning, it's really giving ourselves an opportunity to do some of that reshaping of portfolio to meet our longer-term needs and not being restricted by the fact that those assets are at a loss. And as David said, when you look at the financial metrics in that use of capital that are superior -- far superior to buying back your shares. They're accretive immediately if you think about your

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

capital position as being fully loaded for AOCI, all of those losses are already reflected in capital. Now you can improve the forward run rate of earnings.

And so it's accretive to tangible book value. It's accretive to EPS. It's accretive to returns. And so we think it's a good use of capital with -- in a measured way.

Ebrahim Huseini Poonawala
BofA Securities, Research Division

Got it. And maybe just, Deron, sticking with you in terms of one of the reasons for the securities book is adding liquidity. And when we think -- I think the OCC started about the 5-day LCR rule. How are you thinking about just liquidity management differently today versus maybe a year ago? .

M. Deron Smithy
Executive VP & Treasurer

Yes. Well, I think we all learned a lot during the last spring for post SVB and the other failures, first and foremost, is that money can move really fast. And certainly, with the use of digital technology and whether there's noise out there in the system right or wrong, it can also feed on itself because of the use of social media and those things. And so those are -- we're not waiting on the Fed to tell us where we need to manage liquidity. We're evaluating that in the context of our own experiences and taking those learnings and incorporating that into our internal stress testing. And so we've already made some enhancements to that.

Also, one of the things we learned is the insured portfolios are really stable even through a stressful period. So FDIC insurance or the level of insured really does matter. And so -- but it also means that the uninsured portion, either the nonoperational piece in Ronnie's world or the retail dollars that are over the insured level, have a greater risk of runoff. And so we've set some new metrics to have more than 100% coverage of uninsured things like that. So those are new elements to our internal liquidity stress testing framework that we think is bolstered that and is consistent with anything that's coming down the pipe from a regulatory standpoint.

Ebrahim Huseini Poonawala
BofA Securities, Research Division

Make sense. And I think the other thing on the funding side, not that I think you mentioned you have no outstandings at Federal Home Loan Bank, but there have been a lot of noise around reforms at the FHLB and how banks can use them. At the same time, when I talk to folks in the treasury and policymakers, I think they want banks to tap into the Fed window without the stigma, like is that doable like...

David Jackson Turner
Senior EVP & CFO

I think a couple of things. FHL, Federal Home Loan Banks have done a good job of providing liquidity, just kind of operating -- normal operations. What we learned, though, is if you have the kind of cash needs that we saw in March, they're not going to be able to do that. So the only entity that can give you that kind of cash is the federal government. And so that tells you also to post collateral early. And so we have done so. We test the discount window every year, always have, just to make sure the pipes are working. But there was a stigma that was put on it. And of course, you have to report that now to the public. And it was just a lot of discussion about you being weak if you had to use a discount window and now we're trying to undo all that, and we need everybody, including policymakers, Congress, whoever, to also help us there because that's the best place to go.

And I think that using as kind of your core funding is probably not the right answer, use what we have but in times of stress when you need that, they need to be there, and we need to have post the collateral and get it worked out so we can get the cash that we need.

Ronald G. Smith
Senior EVP & Head of Corporate Banking Group

Yes. I don't have anything to add.

Ebrahim Huseini Poonawala
BofA Securities, Research Division

And now we have 1 minute. Just wanted to see if anyone in the audience had a question. If you do, raise your hand. But if not, one last question for you David. So if you look at the Regions franchise, again, going back all the way to GFC, like John and you have kind of repositioned the balance sheet, the business of fair bits since then. As we look forward and when we think about just the investment

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

proposition, the competitiveness of the bank. Are there any areas that you think are underappreciated among investors or what's in store over the next 5 years that we look out?

David Jackson Turner
Senior EVP & CFO

Well, so we're -- we have a fixation on return on tangible common equity. It's one of our key performance measures. That's how we're compensated in a pretty large way. We've worked on capital allocation for a number of years. So the risk weight diets that some are going on now. We've done that. And we had to because if you go back to 2015, '16, we were not very good. And so we've done a lot to reshape that. I don't think people appreciate -- they hear us talk about our deposit base. I don't think people really appreciate what that means and the granularity. When you have 5 million accounts and you look at the average consumer checking account balance of $5,000 or $6,000. That money direct deposit comes in, they spend the money. It just keeps repeating.

And so that is -- you got to have diversification of your balance sheet. And we always talk about that in the case of loans, but it's true with the deposits. And we saw that in March. So we have 5 million accounts, Silicon Valley had -- call it 33,000. Average balance there was $1.2 million. Our average total account balance average 18,000 in the checking account 5 or 6.

So that matters, and that's why our deposit costs are so low. But that's also why we have branches all over the place. Actually, you got to look at all this in concert. And I think -- our return on capital has been among the highest leveraging the deposit base, and that's been a huge positive for us. We're in great markets. We're a lot of migration. So we to do well, '24 to ['23] is going to be tough. But wait until '25, it's going to be fabulous. And so we'll do no harm in '24 and get through it.

Ebrahim Huseini Poonawala
BofA Securities, Research Division

Right. On that fabulous note. Thank you so much.

David Jackson Turner
Senior EVP & CFO

Yes. Alright. Thank you.

Ronald G. Smith
Senior EVP & Head of Corporate Banking Group
Thank you.

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Copyright © 2024 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.
© 2024 S&P Global Market Intelligence.