S&P Global
Market Intelligence

Regions Financial Corporation NYSE:RF

Company Conference Presentation

Wednesday, March 5, 2025 2:20 PM GMT

Table of Contents

Call Participants

EXECUTIVES

Brian R. Willman
Senior Executive VP & Head of Corporate Banking Group

David Jackson Turner
Senior EVP & CFO

John M. Turner
President, CEO & Chairman

ANALYSTS

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Presentation

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Thank you for joining us for our next fireside chat with Regions Financial Corporation. They really don't need much of an introduction. We've known the Regions company for a number of years as many of you as well. It has total assets of just over $157 billion, branches of 1,252. And the company in the most recent period had a return on tangible common equity of just over 20%, which was the highest amongst its peer group.

With us today, we have the President and CEO, John Turner; as well as David Turner, who is the Executive Vice President -- or sorry, Senior Executive Vice President and CFO. But new to this year's presentation is Brian Willman. He's the Senior Executive Vice President of Corporate Banking. What we're going to do first is John's got some opening comments. And then from there, we will have some dialogue with the fireside chat. John, take it away.

John M. Turner
President, CEO & Chairman

Thanks, Gerard. Thank you all for being here this morning. Just a few things. I'd say our performance has been highlighted by a focus over the last 10 years on generating consistent, sustainable long-term performance. We talk about soundness, profitability and growth in that order of priority. We have really been building, I think, a much stronger credit, interest rate and liquidity risk management practices. Our capital management framework is much stronger.

We've been building operational and compliance practices that we think really position us well as we look ahead. We've also been working hard to diversify our revenue streams. We've been focused on allocation of capital and returns on risk-adjusted capital, which have been, I think, at the center of all that we've done. And we've continued to make investments in talent, in products and services to better serve our customers.

All of that has resulted in really improving our return on tangible common equity. In 2015, we were a bottom quartile performer. Over the last 4 years, we've generated the top return on tangible common equity amongst our peer group. When you look beyond that at our earnings per share growth over both a 5- and 10-year period, our performance has positioned us in the top quartile of our peer group over that time.

We have been working on our credit risk management profile, and that's about client selectivity, that's about better underwriting and servicing, about concentration [risk] management. We've seen the benefits of that in our CCAR results as our capital degradation under stress is a good bit better than the peer median.

Because of our focus on risk-adjusted returns and capital allocation, we've exited businesses and portfolios and reallocated that capital into businesses and portfolios that will produce obviously better returns. We've developed a culture of continuous improvement that's helped us consistently manage our expenses well. And I think you see that in our history.

We were the first -- one of the first anyway amongst our peers to initiate a hedging strategy, which I think at the outset was viewed almost as a gimmick, but I think you've come to appreciate that it's a core competency of our team. And as a result of that, done a really nice job of maintaining our margins. We've invested in nonbank acquisitions, which has helped us grow and diversify our revenue base. And as a result, we are producing, as I said earlier, top quartile returns.

We're in some really attractive markets, which is important to us, and I think is a key element of the strength of our franchise. These markets are growing at about 1.5x faster than the average across the country is. 70% or so of our deposits are in markets where we have top 5 market share. And we're going to continue, we think, to see nice growth across all of these markets.

Importantly, we do maintain a real advantage in our very core loyal low-cost deposit base, which we have grown over the last 5 years by more than 30%. As you can see, we've done that competing not on rate, but just on relationships, on winning business from core customers. And again, this is really a hallmark of, I think, our franchise.

If you look at our cost of deposits, combined with our interest rate hedging strategy, you can see that we've been able to maintain a net interest margin that is well above the peer median, and we think we'll continue to do that.

We've been investing in high-priority markets, growth markets that we believe will continue to serve us well, Nashville, Tampa, Atlanta, Miami, Orlando, Huntsville. Houston and Dallas are markets where we've had a lot of success. These markets have contributed over $12.5 billion in deposit growth over the last 5 years, and we think that they present a good bit of opportunity in the future.

They're actually over $1.5 trillion in deposits to be won in the markets that we operate in. And specifically, these priority markets will grow at more than 2.5x faster than the national average. So we think we're really well positioned to take advantage of the opportunities that these markets provide.

Finally, we're continuing to invest in people, in particular, but also in technology and products and services. We'll add over 140 bankers over the next 3 years across our lines of business, and we'll do that primarily in our priority markets where we think we have real opportunity to grow.

Additionally, just as we are focused on allocating capital across businesses and portfolios, we think about that same exercise with respect to our branches and the people that work in our branches. So we will be reskilling around 300 branch bankers to focus specifically on the small business opportunities in our markets and additionally 300 bankers to focus on the mass affluent opportunities that are centered around our branch markets.

There are over 12 million small businesses in our footprint. We bank about 400,000 of those today. We've grown deposit balances in the small business sector by about $2.6 billion or over 30% over the last 5 years and specifically in our priority growth markets by about $1.1 billion. Again, lots of opportunity in those markets, and we are investing to take advantage of those opportunities and believe that they present a really good growth opportunity.

So I was asked earlier today, "Gosh, it feels like you're making a bit of a shift. You're talking a little bit more about growth than Regions has," and that is true. I appreciate someone recognizing and acknowledging that.

We spent the last 10 years building a business that we think is really solidly performing and can deliver consistent sustainable results. We now think we have the right controls and processes in place to begin to grow our business, and we're making investments to do that. We're going to grow when the opportunity presents itself. It must first be sound; second, profitable. And if it is, we think we'll take advantage of these really good markets that we're currently in.
So Gerard, with that, I'll maybe open the floor for your questions. How about that?

Question and Answer

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Great, John. Thank you very much for the opening comments. Maybe just following up on some of those comments regarding the deposit growth in your franchise, some of your peers have expanded into the Southeast franchise or Southeastern part of the United States.

Can you share with us how the competition has maybe evolved over the last 5 to 7 years as these players have opened up more branches? And obviously, you've got a very strong deposit base down there, but some color would be helpful.

John M. Turner
President, CEO & Chairman

Yes. We continue to experience a lot of competition from a variety of different forms. The larger banks are coming into some of our markets, smaller community banks are moving up into secondary and tertiary markets.

I was actually in a community this past weekend. About 200,000 people live in the community. I understand there are 27 different banks in that community. We happen to have 30% market share there. And so we're well positioned to continue to leverage our long history in that market.

And I would say that is true of most of our core markets, where we've been there for more than 100 years. We have a brand, we have a reputation, we have associates who are committed to that community. And that's what we lean into as we continue to compete with new entrants into the market, who may be attempting to use rate to try to win some business. You saw on our earlier slide, we grew deposits by more than 30% over the last 5 years, and we clearly didn't do it using rate because we differentiate ourselves there.

So I think we're aware that the market is more and more competitive. What we're leaning into is our style of doing business, our reputation, our brand. And so far, it's serving us well.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

And David, following up on John's comments about rate on deposits, Regions has been well regarded for the hedging program that you guys have put into place. Can you share with us the thoughts on the hedging program? And then second, what kind of interest rate environment is ideal for you as you put the hedging program in place?

David Jackson Turner
Senior EVP & CFO

Yes. So the purpose of the hedging program was nothing more than insurance. It wasn't a trade, it was to protect us in a low rate environment. We anticipated -- we had started that program in '18 with the expectation that rates would go down in '20, and they actually went down in '19. They caught the whole industry by surprise.

And so you didn't start seeing the benefit of the hedging program until '20. It went all the way through '23. And as John kind of opened up, a lot of people thought it was a gimmick and didn't really understand what we were doing. I think now it's been in our run rate for so long, people understand what we're doing.

So right now, we are neutral to short-term rates. So we really don't care where -- from a rate standpoint, where Fed funds goes. The best environment for us is to have a normal rate environment, so 2.5%, 3% Fed funds and then have a little shape to the curve. So the 10-year being 4-plus percent is really ideal for a bank.

Now if you have a 4% Fed funds, the reason I made the comment on we don't care from a rate standpoint, the question is, why is the Fed funds at 4% and not at 2.5% or 3%? And we're having this persistent inflation that's not helpful to anybody. So if we can just get back to normal, would be helpful. As those short-term rates come down, the benefits of the interest rate swaps will start to play. And we set it up to kind of be neutral when rates are neutral.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Maybe just a follow-up, David, you guys have done a very good job in managing your credit quality. What's your view? Obviously, there's a lot of uncertainty out there in the environment now with maybe some tariffs. Supposedly, they might be rolled back this afternoon, some of them. So it's a moving target. But can you just give us a flavor of what you're seeing on the ground with your customers and what credit looks like?

John M. Turner
President, CEO & Chairman

Yes. I'll talk and then maybe Brian can talk a bit.

Customers are still optimistic. They're still -- they still believe that the economy is going to expand over time. They still are -- believe that we're going to experience a little regulation, which is going to be good for business. But they're uncertain about the impact of tariffs and about just immigration policy, impact on the workforce and other things.

And so we're not seeing customers initiate a lot of investment right now. But they're thinking about it, they're talking about it, and they are optimistic about their businesses. So that really hasn't changed.

Brian R. Willman
Senior Executive VP & Head of Corporate Banking Group

Yes. The only thing I would add is our liquidity for our customers versus pre-pandemic is up about 40% in the Corporate Banking group. Their margins have expanded, they've realized how to do more with less. To John's earlier point, I think pipelines are up versus this point last year about 18%. So the commitments are in place. It's just a matter of to see them to affect that draw.

As far as tariffs go, it really depends on the industry. We see clients making plans depending on what the impact could be. If you're in the automotive supplier sector, clearly, you're concerned. But we've had some clients that are in the materials handling business domestically, and they've expanded product lines because they feel it's a benefit that we finance.

So I think it's more of a wait and see. But overall, I don't think the tone has changed. There's still general optimism.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

And maybe just to follow up on the liquidity part of your corporate customers, that's the real big game changer whenever we get into a credit cycle that the corporate customers should theoretically perform better.

Brian R. Willman
Senior Executive VP & Head of Corporate Banking Group

Yes, I agree. I think even on the small business piece, that's up about 24% as a comparison and also access to liquidity. So they're standing by, as I mentioned, the commitments have been growing. The one thing that we're waiting to see uptick slightly in the M&A pipeline, but the bid-ask spreads are still a little bit wide.

And so I think until you start to see that and to John's earlier point around fixed capital investment, they're being cautious. We do still think second half of this year could potentially show more loan growth than we've had previously. And then some of the stress that you referenced has really been primarily in those specific portfolios of interest that we've outlined.

David Jackson Turner
Senior EVP & CFO

I think that liquidity -- so there's a lot of liquidity that has to be burned through before we see loan growth. There's $8 billion of off-balance sheet liquidity sitting in Brian's world, his clients' world. So that's why we only baked in about 1% loan growth for the year.

So we don't need to have a lot to meet our numbers. But if we can get a little bit more pick up, more demand in the back half of the year, it would be a plus.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Yes. Brian, being new to the seat, and I presume you've been out seeing your clients, of course, as John and David always do. Can you share with us, are there any new products or services or capabilities that you'd like to bring to the table that -- to enhance the deepening of the relationships with your customers?

Brian R. Willman
Senior Executive VP & Head of Corporate Banking Group

Yes, Gerard. Our whole go-to-market strategy starts and stops with the quality of our bankers. Having said that, we want to equip them with data and technology products that help them have more confidence in terms of their advice to their clients.

So I'll give you kind of two examples of some investments. We've outlined certainly in our treasury management platform, continued use from cash flow IQ and adviser to give our clients real-time visibility and managing their cash flow.

On the syndicated side, we have been using natural language processing to scan all the public filings of our syndicated credits and then posturing to our bankers, "Hey, here's where we are in the bank group." Based on this information in their 10-Q, you should go talk to the CFO about, "Hey, this is what we can do on foreign exchange or commodities hedging." So I think we're seeing incremental growth from that.

At the end of the day, it's still a people business, but the confidence of our bankers were just using within our data lake, ring-fenced around AI and some of these tools, our bankers are more confident, and we feel that we can differentiate specifically in the kind of upper middle market down to small business. Most small businesses don't have the resources to have a finance team, they're relying on their bankers to fill that void. And so that's what we're investing in.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Got it. John, obviously, you're tied into the regulatory environment with being CEO and such. And it looks like that the new heads that are coming in to the regulatory agencies may have a more softer approach than the prior administration.

Can you guys give us your view on what you've seen maybe evolving with the new regulators and how they could be more constructive with the industry and Regions, of course, to help support the growth of the...

John M. Turner
President, CEO & Chairman

It's early to tell, but it does look like we'll still get Basel III proposal, but it may be modified from the last proposal. Some of the other proposed regulations may, in fact, get rolled back. But again, it's hard to know that just be an indication based upon the people and their history that are coming forward.

We've asked for more transparency around CCAR and stress testing because we think it benefits us to have greater insights into how the Fed views our business. We hope that they'll provide that transparency. We don't have a clear sight into that yet, but we've certainly made that request. I do think, generally, the regulatory environment will be more favorable for banks than, let's say, it has been over the last 4 years.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Yes. And tying into mergers and acquisitions inside the banking industry this week, they rolled back the FDIC's M&A guidelines from 2024. How do you see M&A evolving with the banks? It's been kind of quiet for the last couple of years, but we all know you guys are products of mergers, of course, that consolidation is a critical part of the industry.

John M. Turner
President, CEO & Chairman

So it's been a consolidating industry forever, I guess. But certainly, over the last 20 or 30 years. M&A is still not part of our -- bank M&A is still not part of our strategy. We've said, I think, consistently that M&A is disruptive, it's distracting. We have a really good plan. And we believe if we execute our plan, we can continue to deliver top quartile results consistently.

M&A is hard to do. And we have a big technology product underway, which is going really well. We think we'll complete on time, which will be about 2 years from now and early 2027, on time and on budget if things go as planned. It's really going well. We're excited about that. That's another reason why we're probably not a candidate to be active in the M&A space.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Got it. David, obviously, in your fourth quarter earnings call, you gave us guidance for 2025. Any update you'd like to share with us how the quarter is going and how it looks?

David Jackson Turner
Senior EVP & CFO

Yes. I think, obviously, there's been a lot of uncertainty out there with regards to rates. I think the front book, back book benefit that we had was about 170 basis points. It's about 140-ish now, so down a little bit, puts a little incremental pressure on our range of NII for the year of 2% to 5%, but we're still in that range.

The first quarter has some anomalies in it. We had some things happening in the fourth quarter that won't repeat, will be down in the first relative to the fourth day counts, a big piece of that, too. And so -- and we had some interest recoveries in the fourth quarter. We don't know if we'll have those in the first or not.

So -- but the year is intact. And so I think our deposits are coming in a little bit better than we had anticipated this time of year, and they're always up a little bit for tax refunds. But not seeing a lot of loan growth, as Brian mentioned, but everything else kind of intact, controlling our expenses well, even though we're making an investment.

So I want to be clear, our expense guide of 1% to 3% for the year includes all the investments that you just heard John and Brian talk about. So we feel good about that for 2025.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Got it. And circling back to branches and the optimal mix of branch versus digital banking, for a generalist PM, it seems counterintuitive that you would open branches when everything is digital banking. Can you share with us the need for [both] channels and why it's so important?

John M. Turner
President, CEO & Chairman

Yes. Customers increasingly want self-service options, right? They're giving us all their financial information. They want us to give them ideas, they want us to give them suggestions, they want us to personalize the feedback that we provide. So we're investing in those capabilities as we think about the evolution of our technology platform and our digital capabilities.

The customers also, from time to time, want to see a banker, and they want to go into a branch or come into a wealth management office and talk to a banker about their specific needs.

And so we think branches are still very relevant. They look different than they looked 10, 15, 20 years ago. They're smaller in configuration, they're more open. The people in the branches are doing multiple jobs, multitasking, so to speak, so they have broader capabilities. But they're still very relevant. We're continuing to see the decline in the transaction volumes in branches. That's to be expected. But we're seeing a good level of activity as customers engage with us and again, want advice and got it.

So we're using branches to continue to expand our footprint, to reinforce our footprint in markets where we have good density. We're making investments, as population shift or as we have opportunities to combine two branches into one. We're continuing to do that. And I think you'll see us do much of the same.

We don't expect a significant increase in our branch count, but you shouldn't expect a significant decrease either. We're going to just continue to optimize our footprint in the way that we have been over the last few years.

David Jackson Turner
Senior EVP & CFO

And Gerard, we put in a slide in our deck on deposit opening, and the branch is still by far the favorite channel.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Yes. And when you do open a new branch, how long does it take you guys typically to get to breakeven in the deposit level that generally is needed for that to be achieved?

David Jackson Turner

Senior EVP & CFO

Yes. So it's changed over time. It's -- depending on where you put the branch, it's a 3- to 5-year play, has historically been 5 years which is a long time. And trying to tighten that up, using a little more marketing to try and get that closer to 3 just to breakeven, and then have some growth takes you a couple more years.

So it's not quick and -- which is why you have to be careful how many you're going to put down because they are expensive. And in order to afford to do that, then you have to tighten up costs somewhere else.

And that's through two for one branch consolidation, as John mentioned, helps you justify adding that new branch where people moved and you should expect to actually get the growth. If you're going to spend $5 million on a branch, which is about what the cost, you got to get after it to have the growth you need.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

You guys have shown that you've got a very robust digital offering, particularly for the consumer. We get questions all the time about how do the regional banks compete with the really trillionaire banks on the tech spending. Can you share with us just the digital channel and why you've had the success you've had in keeping those customers?

John M. Turner
President, CEO & Chairman

Our technology offering is fairly simple. We have a single deposit system, that is the deposit system that we're -- has reached into life and we're replacing. But I think the fact that our technology platform is less complicated is a real advantage for us as we think about the investments we make and the opportunities we have.

We're about to introduce a new mobile platform in the next 60 days in recognition of the fact that we were falling a little behind in terms of the quality of our mobile platform, and we're excited about it. We think it's going to give us -- it will be actually a hosted platform, so we have more capabilities to make changes to it as customers have desires and needs.

But we are totally committed to and believe we can invest in technology to serve our consumer and small business customers, in particular, have a really good offering for our commercial customers.

To keep up with the investments that the larger banks are making, we are absolutely committed to continue to grow the consumer business and think we can.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Got it. And John, you had talked about in your prepared remarks the strength and return on tangible common equity, the earnings growth as well. When you guys focus on creating long-term shareholder wealth, what do you focus on it and how do you guys try to measure that?

John M. Turner
President, CEO & Chairman

Well, we want to ensure that we're using the capital that we generate to grow our business. We want to pay a nice dividend to our shareholders, we want to continue to make investments over time. And so we do think about total shareholder return in the context of how we're performing for our shareholders.

And I think if you go back and look again, much like return on tangible common equity and EPS growth, you look at total shareholder return over the last 1, 3, 5, 10 years, we would be in the top quartile amongst our peers.

David Jackson Turner
Senior EVP & CFO

And even a lot of people look at tangible book value growth plus dividends, and that's a pretty good measure, too. As long as you exclude OCI, that can have some anomalous effect. So if you carve that out, having that consistent growth, all these work together, there's no one measure, all of them work together.

But we had focused on return on common equity because we didn't want just nominal growth, we want it to be the right growth. Capital allocation is critically important to us. And making sure we get an appropriate return on that capital, I think, rewards the shareholders as well.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

David, just a follow-up what you said about OCI. Assuming that in the new Basel III endgame whenever it comes, that they will keep for Category 4 banks, the OCI component in regulatory capital; how will you approach managing your securities portfolio, assuming that's going to become permanent over the next 5 years?

David Jackson Turner
Senior EVP & CFO

Yes. So there will be several things that we have already started to do in anticipation of that coming into capital. So we had probably the lowest percentage of held-to-maturity securities.

One, we didn't really care where OCI went. We've been pretty explicit with that until March '23. And now we have to start paying attention to it for other reasons, disappointingly so, but it is what it is. So we're going to have instead of 3% HTM, that number is going to be 20%, 30% probably over time. That will help mitigate that some.

We will shorten duration a little bit. We'll use derivatives because the fair value change of the derivatives is not included surprisingly in the calculation of capital under that regime.

So we'll be able to deal with it. It's disappointing that we're having to do it right now because of where OCI happens to be. And so we're all -- literally, all of us are carrying more capital than we historically had been. And -- but it will -- the volatility of capital will come down as a result of the measures I just mentioned.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

And speaking of capital, can you just update us on your thinking on CET1, where you are today and where you think you may get to once the rules are finally laid out?

David Jackson Turner
Senior EVP & CFO

So we've, for a while now, had a range of CET1 9.25 to 9.75. That's the range we think we need to have for the risk profile that we run. And we -- that's been proven through a lot of the CCAR work, our own stress testing. And so call it, 9.5% right in the middle is where we wanted to be. We're substantially higher than that today because we know OCI is going to come in to play.

If you were to apply OCI today, we're probably in that 9.1pushing on 9.2because of the [tenure] coming down the way it has. We'll see where it finishes in the quarter. But we're within striking distance of that regime, even though there will be a phase in, we thought getting to that [9.25] at the low end.

It was important to get there sooner rather than later. Then it gives us a lot of flexibility to use our capital in the manner that we want, which is support loan growth, make sure we have an appropriate dividend, 40% to 50% of our earnings paid out the dividend; nonbank acquisitions. We're not looking at bank acquisitions today.

And then we use -- the last is to repurchase our shares, which we really don't like to do, but we will to keep our capital from being bloated. So that's kind of how our order is from capital allocation.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Yes. Brian, when you talk to your commercial customers or your corporate customers, do they focus on the strength of your balance sheet? Obviously, Regions has come far away from '08, '09 and today much, much different. How does that play into your relationships with your larger customers?

Brian R. Willman
Senior Executive VP & Head of Corporate Banking Group

Sure. Well, I think spring of '23 was a litmus test for that. We had bankers going out proactively selling them on, "Hey, you know us. We've delivered sustainable returns, the strength of our balance sheet over time." That resonated with them. We did see them look at more off-balance sheet from a yield perspective, not necessarily safety and soundness.

And so I think our bankers are confident as our ability to message to our customers that Regions has been here, as John alluded to, over 100 years, and we expect that to that to be the case going forward. We're pretty transparent in terms of our ability to grow profitably. And our clients, I think, are resonating with that. So we feel good.

Gerard Sean Cassidy
RBC Capital Markets, Research Division
Very good. I see we got the red zone, which means we're done with time. So please join me in a round of applause thanking the gentlemen from Regions.