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# Regions Financial Corp. (RF)

## Q1 2022 Earnings Call





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# MANAGEMENT DISCUSSION SECTION

**Operator**: Good morning, and welcome to the Regions Financial Corporation's Quarterly Earnings Call. My name is Jamaria and I will be your operator for today's call. I would like to remind everyone that all participant phone lines have been placed on listen-only. At the end of the call, there will be a question-and-answer session. [Operator Instructions] I will now turn the call over to Dana Nolan to begin.

## Dana W. Nolan

*Executive Vice President & Head of Investor Relations, Regions Financial Corp.*

Thank you, Jamaria. Welcome to Regions' first quarter 2022 Earnings Call. John and David will provide high level commentary regarding the quarter. Earnings documents which include our forward-looking statement disclaimer and non-GAAP information are available in the Investor Relations section of our website. These disclosures cover our presentation materials, prepared comments and Q&A. I'll now turn the call over to John.

## John M. Turner, Jr.

*President, Chief Executive Officer & Director, Regions Financial Corp.*

Thank you, Dana, and good morning, everyone. We appreciate you joining our call today. We're very pleased with our first quarter results. Early this morning, we reported earnings of $524 million, resulting in earnings per share of $0.55.

Despite the challenging geopolitical backdrop and elevated inflation, we remain optimistic about 2022. We have a strong balance sheet positioned to withstand an array of economic conditions. Business customers, for the most part, have adapted and are prospering in the new operating environment.

New loan commitments and pipelines remain strong, and utilization rates continue to increase. The consumer remains healthy. Net population migration inflows in our markets remain robust, and the majority of our footprint has returned to equal or better than pre-pandemic employment levels.

Asset quality remains strong with virtually all credit related metrics improving in the quarter and net charge-offs remain below historical levels. The integration of Sabal, EnerBank and Clearsight are progressing as planned and we're excited about their growing contributions. Additionally, we continue to make investments in talent and technology to support strategic growth initiatives.

We kicked off 2022 with a strong start and expect to continue building on that momentum. We have a solid strategic plan, an outstanding team, and a proven track record of successful execution. Now, Dave will provide you with some select highlights regarding the quarter.

## David Jackson Turner, Jr.

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

Thank you, John. Let's start with the balance sheet. Average loans grew 1.5% while ending loans grew 2% during the quarter. Average business loans increased 3% reflecting broad-based growth in corporate, middle market and real estate lending across our diversified and specialized portfolios.


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While still below pre-pandemic levels, commercial loan line utilization levels ended the quarter at approximately 43.9% increasing 160 basis points over the prior quarter. Loan production also remained strong. Late quarter commitments up approximately $1.6 billion.

Average consumer loans declined 1% as increases in mortgage and other consumer were offset by declines in other categories. Within other consumer, EnerBank loans grew approximately 2% compared to the fourth quarter. Looking forward, we expect full-year 2022 average loan balances to grow 4% to 5% compared to 2021 and excluding PPP loans and consumer exit portfolios, we expect full-year average loan balances to grow 9% to 10%.

So, let's turn to deposits. Although the pace of deposit growth has slowed, balances continue to increase seasonally this quarter to new record levels. Average consumer and wealth management deposits increased compared to the fourth quarter, but corporate deposits remain relatively stable.

We are continuing to analyze our deposit base and pandemic-related deposit increases. Approximately, 35% of the increase or $15 billion is expected to be more stable with behavior similar to our core consumer deposit book. This segment is historically quite granular and generally rate insensitive and therefore can be relied upon to support longer term asset growth through the rate cycle.

The remaining 65% of the deposit increases is a mixture of commercial and other customer types that are expected to be more rate sensitive or that we are less certain about their long-term behavior. We assume this segment may have all-in beta of roughly 70%.

This elevated beta assumption includes relationship repricing and some balances shifting from non-interest to interest-bearing categories. It also reflects a range of $5 billion to $10 billion of balance reduction attributable to tightening monetary policy. The combination of these segments and our legacy deposit base represents significant upside for us as rates increase.

So, let's shift to net interest income and margin. Net interest income was stable quarter-over-quarter. Excluding reduced contributions from PPP. Net interest income grew 2% benefiting from solid loan growth and rising interest rates.

Net interest income from PPP loans decreased $27 million from the prior quarter and will be less of a contributor going forward. Approximately 93% of estimated PPP fees have been recognized.

Cash averaged $27 billion during the quarter and when combined with PPP, reduced first quarter's reported margin by 58 basis points. Our adjusted margin was 3.43%, higher by 9 basis points versus the fourth quarter.

The path where net interest income enters the second quarter was strong momentum from both balance sheet growth and higher interest rates. Excluding PPP, average loan balances grew 2% in the first quarter, and a similar amount of growth is expected next quarter.

Roughly $1.5 billion of securities were also added late in the quarter, further benefiting future periods. The recent runup in rates has certainly validated our decision to wait to deploy into securities. And while not included in our current outlook, additional securities would provide incremental benefit.

Higher short and long term interest rates provided additional lift to net interest income in the first quarter, and these benefits are expected to expand in the coming quarters. Total net interest income is projected to increase


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5% to 7% in the second quarter and is expected to accelerate throughout the year such that the fourth quarter net interest income is expected to be approximately 15% higher than our first quarter.

Regions' balance sheet is positioned to benefit meaningfully from higher interest rates. Over the first 100 basis points of rate tightening, each 25 basis point increase in the federal funds rate is projected to add between $60 million and $80 million over a full 12 month period. This benefit is supported by a large proportion of stable deposit funding and a significant amount of earning assets held in cash, which compares favorably to the industry overall.

Over a longer horizon, a more normal interest rate environment or roughly a 2.5% Fed funds rate will support our net interest margin goal of approximately 3.75%. While we have purposefully retained leverage to higher interest rates during a period of lower rates, we will attempt to manage a more normal interest rate risk profile as interest rate environment normalizes. The Fed's aggressive path for interest rates gives us the opportunity to protect NII at attractive levels.

We have begun this process by adding $4.7 billion year-to-date of forward starting receive fixed swaps and a $1.5 billion of spot starting securities. This represents approximately 30% of the total hedging amount needed this cycle.

Now let's take a look at fee revenue and expense. Adjusted non-interest income decreased 5% from the prior quarter, primarily due to reduced HR asset valuations, as well as lower capital markets and card and ATM fees. Within capital markets, M&A advisory activity was muted by seasonality, as well as the timing of transactions.

Pipelines remain robust, but some deals have been pushed to later in the year. Additionally, debt and the real estate capital markets were impacted by uncertainty surrounding rates, geopolitical tensions and volatility in credit spreads. However, we are seeing some stabilization in the loan and fixed income markets and anticipate conditions will improve in coming quarters.

Further, the reduction in real estate capital markets activity was offset by the addition of Sabal Capital Partners for the full quarter. Similar to the corporate fixed income market, refinance demand has been softer than expected in our agency multifamily finance business as investors assess a significant move in interest rates.

We continue to expect capital markets to generate quarterly revenue of $90 million to $110 million, excluding the impact of CVA and DVA. While we expect to be near the lower end of the range next quarter, we expect the activity to pick up in the second half of the year.

Card and ATM fees reflect seasonally lower interchange on both debit and credit cards. In addition, debit card fees were further impacted by fewer days in the quarter. Mortgage income remained relatively stable and included approximately $12 million in gains associated with previously repurchased Ginnie Mae loans sold during the quarter. While mortgage is anticipated to decline relative to 2021, it is still expected to remain a key contributor to fee revenue.

Wealth management income also remained stable this quarter despite elevated market volatility. Service charges were also stable during the quarter despite seasonal declines in NSF and overdraft related fees. The first phase of previously announced NSF and overdraft policy changes were effective at the end of the first quarter, and the remaining changes will be implemented over the second and third quarters. These changes, when combined with the previously implemented changes, are expected to result in full year 2022 service charges of approximately $600 million and full year 2023 service charges of approximately $575 million.


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We expect 2022 adjusted total revenue to be up 4.5% to 5.5% compared to the prior year driven primarily by growth in net interest income. This growth includes the impact of lower PPP-related revenue and the anticipated impact of NSF and overdraft changes.

So, let's move on to non-interest expense. Adjusted non-interest expenses decreased 4% in the quarter driven by lower salaries and benefits expense and professional and legal fees. Salaries and benefits decreased 5% primarily due to lower incentive compensation despite higher payroll taxes and 401-K expense. Salaries and benefits also include the favorable impact of lower HR asset valuations.

Professional and legal fees decreased significantly as elevated fees associated with our bolt-on M&A activity in the fourth quarter did not repeat. We will continue to prudently manage expenses while investing in technology, products and people to grow our business. As a result, our core expense base will grow.

We expect 2022 adjusted non-interest expenses to be up 3% to 4% compared to 2021. Importantly, this includes the full-year impact of recent acquisitions as well as anticipated inflationary impacts. We remain committed to generating positive operating leverage in 2022.

Overall, credit performance remains strong. Annualized net charge-offs increased 1 basis point to 21 basis points. Non-performing loans continued to improve during the quarter and remain below pre-pandemic levels at just 37 basis points of total loans.

Our allowance for credit losses decreased 12 basis points to 1.67% of total loans, while the allowance as a percentage of non-performing loans increased 97 percentage points to 446%. The decline in the allowance reflects ongoing improvement in asset quality and continued resolution of pandemic issues, partially offset by loan growth and general economic volatility associated primarily with inflation and geopolitical unrest. The allowance reduction resulted in a net $36 million benefit to the provision. We expect credit losses to slowly begin to normalize in the back half of 2022 and currently expect full year net charge-offs to be in the 20 basis points to 30 basis point range.

With respect to capital, we ended the quarter with a common equity Tier I ratio modestly lower at an estimated 9.4%. And we expect to maintain it near the midpoint of our 9.25% to 9.75% operating range.

So, wrapping up on the next slide, our updated 2022 expectations which we've already addressed. I do want to point out that these expectations do not include any additional security purchases, so that certainly provides the opportunity for incremental benefit.

In closing, as John mentioned, we began 2022 with great momentum, and despite geopolitical tensions and market uncertainty, we remain well positioned for growth as the economic recovery continues.

Pre-tax pre-provision income remains strong. Expenses are well-controlled. Credit risk is relatively benign. Capital and liquidity are solid. And we are optimistic about the pace of the economic recovery in our markets.

With that, we're happy to take your questions.


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# QUESTION AND ANSWER SECTION

**Operator**: Thank you. [Operator Instructions] Your first question comes from the line of Ryan Nash with Goldman Sachs. Please proceed with your question.

**Ryan M. Nash**
*Analyst, Goldman Sachs & Co. LLC*

Q

Hey, good morning, John. Good morning, David.

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

A

Good morning, Ryan.

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

A

Good morning.

**Ryan M. Nash**
*Analyst, Goldman Sachs & Co. LLC*

Q

I was hoping maybe you could talk about expectations for deposit growth which came in better than expected. And particularly as it pertains to the surge deposit. So, maybe just how you're thinking about the trade-off between keeping some of these deposits and the potential for a higher beta. And I think David you highlighted a potential for a $5 billion to $10 billion reduction. Can you maybe just clarify how much you expect for these to stick around and what it means for deposit growth?

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

A

Sure. So, we had expected the $5 billion to $10 billion of deposits to start flowing out in the first quarter. We have maintained pretty conservative deposit assumptions. But if you look at the growth and where it came from, it was in our consumer book.

We continue to grow accounts and continue to have a high level of primacy with our retail customers. And so, our deposit base is our competitive advantage and it has been that way for a long time. And we're looking to leverage that as we get into this higher rate environment.

As you think about the surge deposits, we have a third of those that we think are going to be fairly similar to our legacy deposits in terms of beta, price insensitive. Then we have the other third on the other end, we think are much higher beta, 80% to 100% beta.

Those are corporate deposits that are – you could characterize those as non-operational deposits that are probably going to look for a better home or a higher rate. As time goes by, we'll see what happens after this next rate increase. But we've expected that to either reprice or really flow out of the bank.


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And then, you have in the middle, which is another third, deposits that are stimulus receiving deposits, small business type deposits. That one's a little harder to predict. We do have a higher beta on it, not as high as the as the second group.

But any event, if we're wrong on the $5 billion to $10 billion, it's likely that we've maintained our deposits at a higher level. And over time, if we see that, then that gives us a little more comfort to be able to take some of our excess cash that we have, some $26 billion sitting on the balance sheet to deploy that into the securities book. But our guidance that we're giving you does not have that deployed intentionally.

**Ryan M. Nash**
*Analyst, Goldman Sachs & Co. LLC*

Q

Got it. And if we could dig a little bit into the new hedging program. So, David, I don't know if Deron's in the room. I guess you guys were the masters of adding swaps in a timely manner last cycle and now you've begun this new program.

So, I think the market is having a little bit of trouble understanding why banks are adding swaps at this part of the cycle. And I think all of us understand. So, can you maybe just talk about thoughts regarding locking in here, particularly using forward starters? And I think you talked about another 10 to 12 of additions. Can you maybe just talk about pacing and why this is the right decision at this point in the cycle for Regions? Thanks.

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

A

I'll go ahead and start. And if Deron is here, I think he can add to it. But you hit on a key word and that is forward starting. And so, what we're trying to do is get our margin to the optimum level and then layer in protection for that margin over time.

So, if you look at where we put the first call it $4.7 billion in, that's at a receive fixed rate of 2.32%. Those are largely going to be effective for 2024. So, we intentionally had them forward starting because we believe there is risk at that point in the cycle that actually rates could go the other way and we want to be able to protect that. If wrong and it happens to not reverse and go lower then we haven't lost anything, we haven't given up any of our net interest income or margin at that point. These are all five-year duration just like they were last cycle.

And so, when you do it forward starting, you can take advantage of pricing. They're not all that expensive to get into. And we're not giving up our asset sensitivity today. That's important. We are becoming and maintain our sensitivity and if you – on the comments just a minute ago, the way we're structured in the balance sheet is to benefit, in particular at the back end such that our NII in the fourth quarter should be up 15% from the first quarter. And it's just the nature of how our sensitivity is structured at this point in time. Deron, anything you want to add to that?

**M. Deron Smithy**
*Executive Vice President & Treasurer, Regions Financial Corp.*

A

The only thing I would add is – David said it well – page 8 of the deck just really shows the path of the net interest margin which really underscores what David is saying. We're going to enjoy nice margin expansion as the Fed is tightening policy, but we have a very disciplined approach to manage that exposure as rates push higher.


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As David said, the probability of a downturn at some point if the Fed has to push higher increases over time. And so, we want to be cognizant of that. And as we get delivered those higher rates, put in that protection and really manage the downside risk in those out years.

**Ryan M. Nash**
*Analyst, Goldman Sachs & Co. LLC*

Q

Thank you both for all the color.

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

A

Thank you.

**Operator**: Your next question will come from the line of Christopher Spahr with Wells Fargo. Please proceed with your question.

**Christopher Spahr**
*Analyst, Wells Fargo Securities LLC*

Q

Good morning.

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

A

Good morning.

**Christopher Spahr**
*Analyst, Wells Fargo Securities LLC*

Q

So, other banks seem to be spending their rate driven incremental net interest income, or at least some of it, whereas you kept your 2022 cost guidance unchanged. So, why do you think that is? And with this higher NII outlook, how confident are you that you can expand on your positive operating leverage this year, next year?

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

A

Well, I'm kind of leveraging the comments just before, the way we structured the balance sheet, our NII, it'll be growing nicely and throughout the year, but are really strong in the fourth quarter, which sets up a really strong 2023. We're still asset sensitive through that time period. And so, we should have a nice tailwind in terms of revenue growth.

We pride ourselves on being able to control our cost. We did a good job this quarter. There is that HR valuation asset that benefited us by $14 million. So, you need to add that back to kind of get us level set. But in any event, we continue to leverage our continuous improvement program to stay focused on how we get better every day and how we can leverage technology and process improvement so that we can keep our costs down because we are taking our savings and reinvesting those savings in things like digital, talent, continuing to hire people so that we can grow.

We had mentioned that the vast majority of our growth and expenses this year are related to the three acquisitions that we closed in the fourth quarter of 2021. So, we've had a little bit of inflation we've had to deal with. And so, we're continuing to work at all levels to try and keep our costs under control and generate positive


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operating leverage, which we believe we will have in 2022. We didn't have it this quarter, but we will when you get to when you look at the whole year and expect to have that going forward in 2023.

**Christopher Spahr**
*Analyst, Wells Fargo Securities LLC*

Q

Thank you.

**Operator**: Your next question will come from the line of Gerard Cassidy with RBC. Please proceed with your question.

**Gerard Cassidy**
*Analyst, RBC Capital Markets LLC*

Q

Good morning, John. Good morning, David.

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

A

Hey, good morning, Gerard.

**Gerard Cassidy**
*Analyst, RBC Capital Markets LLC*

Q

David, in the slide deck, slide 6, you give us the difference in the net interest margins based upon what's weighing down your margin today with the PPP loans and the excess cash. Can you share with us on the excess cash portion? Where do – where does the Fed funds rate need to go? Where you're not going to need to have that bullet point anymore because it will match your reported margin?

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

A

Well, it really gets back to the deposit expectations. So, we've maintained this excess cash to be prepared to the extent the surge deposits do seek other alternatives and we have to pay that out. Obviously, we're getting 100% beta on the cash while we wait, but being patient has benefited us.

Putting that into the securities book earlier would really cost us and we did put a little bit of that to work this quarter, $1.5 billion of that at about a 2.80% carry. If we were to do it today, it be even higher. And so, in the 3.5% range.

So, I think it's important for us to understand what the surge deposit flows are going to do relative to what the Fed rate movements are going to be. And I think over a fairly short period of time, our cash will get down to our normalized level, which is $1 billion to $2 billion. And then we won't have to have this disclosure and, of course, PPP will runoff for the most part, after this year, we won't have to talk about that one either.

**Gerard Cassidy**
*Analyst, RBC Capital Markets LLC*

Q

Very good. And then as a follow-up, especially talking to you with your background as an accountant. Can you share with us your thoughts about AOCI? We all understand it's an accounting issue and it's only for the securities portfolio. Obviously, similar to your peers had a big negative number this quarter, which took down tangible book value per share and book value per share, again, similar to your peers. So, you're not standing out.


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But at what point does it become an issue for banks? And again, I know it doesn't go through your CET1 ratio like it does for the advanced approach banks. But do we have to ever get concerned about it if it keeps on – the AOIC keeps on getting larger on the negative side?

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

So, I'll try to answer this without getting upset. I think the account...

**Gerard Cassidy**
*Analyst, RBC Capital Markets LLC*
Q

Wait, David, I didn't ask it on CECL. I thought that...

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

Well, that one's – so you hit on two of their four core accounting standards relative to what we're doing. But in any event, we have to follow GAAP.

So, OCI does not – the change in OCI relative to securities gains doesn't affect our thinking whatsoever. We manage the company based on regulatory cap, or capital based on the regulatory rules and for Category IV banks like Regions and most of our peers. That's excluded from the regulatory calculation.

Importantly, it's also excluded from the rating agencies. So, they carve out the change in OCI relative to securities, not Importantly, it's also excluded from the rating agency. So they carve out the change in OCI relative to securities, not pension or other things, but securities they carve out. And what's frustrating about it is that nobody talks about measuring the fair value of our deposit base, which is where the cash came from to go buy the securities. And so, we're marking one element of a balance sheet through capital and that's just not how we manage the company.

And so, it's really irrelevant. It's done because it's easy to do. We can go get a quote, but the fair value of the deposits in particular for Regions, because of the primacy, because of the granularity, the fair value of our deposits are shooting through the roof. You just don't see that manifest itself on the balance sheet. You will see it manifests itself in growing NII and net interest margin. This is the time period we've been waiting for, for rates to rise. So, the fact that OCI is working against tangible book value, we could care less.

**Gerard Cassidy**
*Analyst, RBC Capital Markets LLC*
Q

Very good. Appreciate the insights.

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

Could not care less, I should...

**Operator**: Your next question will come from the line of Erika Najarian with UBS. Please proceed with your question.


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**Erika Najarian**
*Analyst, UBS Securities LLC*

Q

Hi. Good morning.

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

A

Good morning, Erika.

**Erika Najarian**
*Analyst, UBS Securities LLC*

Q

My first question is a follow-up to Ryan's questioning. The way you wrote out slide 14, it seems like your – that your NII guide includes both a $5 billion to $10 billion potential [indiscernible] (00:29:08) of deposits and 70% beta. I guess, I'm asking if I'm reading that correctly. Should it be one or the other? In other words, if they stick around, it might have a 70% beta.

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

A

Yeah.

**Erika Najarian**
*Analyst, UBS Securities LLC*

Q

Does that make sense?

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

A

Yeah. Yeah. Don't duplicate that. The $5 billion to $10 billion is baked into the $70 billion. So, if we're wrong, our beta will be lower. Thus far, as I mentioned on Ryan's question, we thought deposits these particular $5 billion to $10 billion of the deposit would start flowing out in the first quarter. They did not.

We still think that's going to happen. Perhaps it's just delayed a little bit, waiting for the next move, which we believe is going to be 50 basis points by the way, in May. And we think those, with our largely corporate nonoperational deposits, are going to seek a higher return than we're willing to pay and they're probably going to move off the balance sheet in that case. So, this really doesn't – this is not going to be a big deal to us. We've been planning for it all along.

**Erika Najarian**
*Analyst, UBS Securities LLC*

Q

Got it. And as we think about your NII guide, David, what type of earning assets growth would we assume? Again, it goes back to the deposit question right because your outlook has felt very conservative since you first put it out. But what [ph] interest (00:30:39) asset growth range should we assume lies underneath this NII guide?

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

A

Yeah. So, you have to take the pieces and look at it. So, there's not an appreciable change there. We've got two things working. One, we ought to have pretty good loan growth as we've mentioned ex-PPP and run-off portfolio,


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that's 9% to 10% growth in the loan balances. But then we've got the $5 billion to $10 billion of deposits going the other way and so the cash will come down.

So, it's not as much as an earning asset changes. It is mix and what the carry, what the yield is on the net assets that we – earning assets that we do have. And so, we should see our margin continuing to increase.

We're trying to give you the guide by telling you that by the time we get to the fourth quarter, our NII is 15% higher than where we are today kind of cutting to the chase because there's a lot of moving parts there.

**Erika Najarian**
*Analyst, UBS Securities LLC*

Q

No. Understood. Thanks, David.

**Operator**: Your next question will come from the line of Peter Winter with Wedbush Securities. Please proceed with your question.

**Peter J. Winter**
*Analyst, Wedbush Securities, Inc.*

Q

Good morning. I wanted to ask about EnerBank. The economic environment has changed quite a bit since you guys acquired them. And I was wondering, have your views changed at all with regards to the loan outlook from EnerBank or any consideration, maybe further tightening the underwriting standards given a much higher rate environment?

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

A

No, we're very bullish on EnerBank. We're excited about the fact that we closed that in the fourth quarter. If you look at our growth of EnerBank, this quarter, it was 2%. Obviously, if you annualize that, it's 8%, which is below the guide that we gave you. And the big driver there is seasonality.

So this first quarter is the low watermark for them. You'll see that pick up. This is a prime book. We're really excited about the carry that we can get there and the margin. We are ahead of schedule on where we thought we would be.

And so, Peter, absolutely not. We are looking to that to be a good component of our growth. And again, we feel good about the credit quality in particular being paid for the risk that we're taking and a nice return for our shareholders on the capital deployed in that book.

**Peter J. Winter**
*Analyst, Wedbush Securities, Inc.*

Q

Got it. And then if I could just ask about the capital management strategies going forward, just between bolt-on acquisitions and which have really increased profitability versus buybacks. I saw yesterday, you've got a $2.5 billion buyback. Now, the question is, how aggressive will you be or is it just being opportunistic and just want to have that authorization in place?

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

A


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Sure. So, let's go back through how we think about capital deployment. First and foremost, our capital is there for organic growth. It's to support our business. As I mentioned, ex-PPP and runoff, we got loans growing 9% to 10%. That's where we want our capital to go first and foremost.

The second is we want to make sure we pay an appropriate dividend to our shareholders. Our guide is 35% to 45% of earnings in the form of a dividend. So, as earnings grow, so will the dividend. We then think about non-bank acquisitions and the three we closed in the fourth quarter are great examples. We have a whole team continuing to look and work with our three business segment leaders on how we can provide products and services that we don't have to our customers. So, we'll continue to do that.

And then we use share repurchases as the mechanism to maintain capital at the optimum level. And that optimum level is informed by things like CCAR and how we think about risk in our book. And of course, we just filed our CCAR submission in April. We'll hear back in the end of June on that.

And yes, we did ask the board and received approval for $2.5 billion share repurchase program over the next couple of years. The control factor there, Peter, is CET1 that needs to be in the range of 9.25% to 9.75%. That's what our risk profile tells us. We need to have CET1 in that range. We're targeting the middle of it at 9.5%.

And so, we won't buy shares back if it takes us outside of our operating range. Even if the price were right, which is where you're going opportunistically, I think that's just to help us manage our capital at the optimum level because that informs the denominator of our return on capital calculation, which we think is critically important to our shareholders.

**Peter J. Winter**
*Analyst, Wedbush Securities, Inc.*
Q

Great. Very helpful. And just one housekeeping. Just how much was the credit interest recovery this quarter and net interest income?

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

I didn't commit that to memory. Hold on just a minute, I'll tell you, it's at the bottom of the page. Peter, we'll get that to you.

**Peter J. Winter**
*Analyst, Wedbush Securities, Inc.*
Q

Okay.

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

You're talking about the impact to NII, right?

**Peter J. Winter**
*Analyst, Wedbush Securities, Inc.*
Q

Yeah.


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

Interest recovery and NII.

**Peter J. Winter**
*Analyst, Wedbush Securities, Inc.*
Q

Yeah.

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

Yeah, that – we'll look – somebody look that up. We'll get to you in a minute.

**Peter J. Winter**
*Analyst, Wedbush Securities, Inc.*
Q

Thanks, David. Thanks for taking the questions.

**Operator**: Your next question will come from the line of Matt O'Connor with Deutsche Bank. Please proceed with your questions.

**Matt O'Connor**
*Analyst, Deutsche Bank Securities, Inc.*
Q

Good morning. You did mention earlier about some consideration in your reserves for inflation. And I do want to ask, you always talk about your average account size being a bit smaller than some of your peers. And I guess logic would have it that that customer base might be a little more impacted by inflation, by rising energy, gas prices, and just wondering what you're seeing on some of those call it leading indicators. That would be helpful. Thanks.

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

Yeah, Matt. Hey. This is John. I would just say so far, not a lot of change. Generally speaking, our customer base, we look at deposit balances, the impact of COVID and relief dollars on customer deposit balances. We saw on average, even in the lowest balance segment about a 30% increase in – 30% to 40% increase in pre-pandemic deposit balances. And we are still seeing customers maintaining that level of excess liquidity, as evidenced by the fact that our deposit balances actually grew quarter-over-quarter.

We do are aware of the impact of inflation or the likely impact of inflation on our customer base. It is a more mass markets customer base as we've talked about before, about a 60% of our consumer deposit customers are in the mass market. So, there will be some impact and we're certainly watching for that, but we haven't seen it yet.

**Matt O'Connor**
*Analyst, Deutsche Bank Securities, Inc.*
Q

Okay. That's helpful. And then I guess on the other side of the loan book in the commercial side, you had a big drop in non-performing loans, big drop in the criticized assets. Was that anything specific like a couple of borrowers or sectors or it has been improving for some time, but it has gotten quite low.


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

Yeah. No. I think it's broad based and we continue to see improvement in credit quality across the book, a reduction in criticized loans, classified loans and non-performing assets. I think it reflects the work that our teams have continued to do, working with our customers closely to evaluate the risk in our portfolios, to exit certain relationships, portfolios and businesses where we feel like that we are seeing increased amounts of risk or we're not getting an appropriate return.

If I had to point to any business where, or businesses, portfolios where we saw improvement, it would be restaurant, as we continue to work out of that portfolio and hotel as the economy recovers through the pandemic.

**Matt O'Connor**
*Analyst, Deutsche Bank Securities, Inc.*
Q

Thank you.

**Operator**: Your next question will come from the line of Ken Usdin with Jefferies. Please proceed with your question.

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

Good morning, Ken.

**Ken Usdin**
*Analyst, Jefferies & Company*
Q

Hey. Hey. Good morning. Hi, everybody. So, just a follow-up on the fee side. Now that you're getting close to the implementation of your changes to the deposit products and you're continuing to reiterate your service charges, expectations for 2022 and 2023, service charges are actually probably better than people expected in the first quarter. So, just wanted to kind of get your updated views on your confidence that you've got the right outlook and as you start to put the products in place like what are your early takeaways from the continuation of that view?

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

Yeah. So, our service charge were a little better than anticipated. I will say that we've put in some changes at the end of the first quarter. You'll see more change coming in the second and third where – so, it's too early to change our guidance that we gave you last quarter. We reiterated it this quarter, which was $600 million for service charges in 2022 and $575 million in the next year.

As we go through and see what the impact is for these changes, we'll update that whichever way it might go and we'll probably have a better feel for the year 2022, next earnings call. But right now, it's prior to early change it.

**Ken Usdin**
*Analyst, Jefferies & Company*
Q

Yeah, understood. Okay. And then one just follow-up on credit, just following up on Matt's question about your provisioning cost. But can you just talk about, as you talked about normalization of losses starting to happen towards the back half of the year, what parts of the portfolio are you expecting to see charge-offs increase in first


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and what areas are you just noticing that potential change in terms of delinquencies and loss rates? Thanks, David.

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

Well, I think that we lowered our range 20 basis points to 30 basis points. As we think about risk going forward there's certainly the consumer, on the consumer side of the house, there has been a lot of stimulus money. I think we feel pretty good about the consumer, but that's an area we need to watch closely to see where that starts to move first.

The second piece of that would be small business. I think small business is an area that probably has on a relative basis, incremental risk. The issue is we're just not seeing any of that right now. John had mentioned all of our asset quality indicators are getting better.

We believe our normalized loss rate is as likely to be lower than our history because of our de-risking that we just mentioned in our whole credit book. So, we feel pretty good about that. I think the leverage book we want to watch closely as well as we see rates increasing and what kind of pressure might that put on the leveraged portfolios. So, those would be two or three that we watch.

**Ken Usdin**
*Analyst, Jefferies & Company*
Q

All right. Thank you.

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

I do want to get back, Peter, you asked about the recovery that was in NII. It's $4 million this quarter. I want to close that out.

**Operator**: Your next question will come from the line of John Pancari with Evercore ISI. Please proceed with your question.

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

Good morning, John.

**John Pancari**
*Analyst, Evercore ISI*
Q

Good morning. On the expense side, I want to see if I can kind of ask the opposite of Chris Spahr's question earlier. Wondering what type of expense flexibility you may have if the revenue backdrop comes in weaker than expected this year? And do you still think that that – you're implying about 150 basis points of positive operating leverage in your guidance. Is that sustainable if the revenue backdrop gets tougher?

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


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Well, so, you saw a pretty good quarter this quarter. Again, make sure you add back the $14 million on the HR to get level set there. The reason we were down is because our revenue was down in certain areas like capital markets.

That has a tendency to be more variable in terms of the cost relative to the revenue. Things like M&A, if you don't have M&A transactions then you don't have the compensation that goes with the deal.

So, it depends where the revenue challenges come from, John. If we're seeing it in places like that, then we should have lower compensation mortgage. If we don't have the mortgage production that we think, then you're going to see lower compensation for that as well. So, we do have some mechanism to take care of revenue if it's lower than we thought.

And a big driver of our change in – we've changed, I guess two times now, our revenue outlook has been because of the rate environment and just more carry there. So, if we have – if we don't get the rate increases that the forwards imply – implied at March 31, which is what's baked into our guidance, then we're probably going to have a lower incentive compensation.

So, there are puts and takes there. We still feel confident with the operating leverage number that you just mentioned. That's exactly what's baked into our guidance and we will – we are committed to having operating leverage over time.

**John Pancari**
*Analyst, Evercore ISI*

Q

Okay. Thanks, David. That's helpful. And then on the loans side, as you look at the remainder of the year, in terms of overall growth drivers, where do you see the strongest loan generation coming out of, both on the commercial side and the consumer side? What are the biggest drivers of growth over the remainder of this year, as you look at the economic backdrop?

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

A

John, this is John Turner. Our growth in the last quarter and, frankly, over the last, I guess two or three quarters, has been broad based across all three segments. So, we're experiencing growth in our corporate banking business, our middle market commercial business and our real estate business.

We're seeing customers access lines of credit at increasing rates to both rebuild inventories and to adjust to increasing cost associated with inventories. So, obviously increases in line utilization are both inventory and cost driven.

We're also seeing some CapEx, which I'm excited about across a number of different industries. Customers are investing in expansion activities. Some of it is for modernization and recognition of a much tighter labor market. In Alabama, unemployment's 2.9%; in Georgia it's 3.1%; Florida and Tennessee at 3.2%. So, we're at full employment across some very good markets. And as a result, customers are looking for ways to modernize and to continue to borrow.

Growth in the portfolio has come in health care, it has come in transportation, it has come in our technology and defense sectors and asset-based lending. In the real estate business, we've seen some growth in homebuilder as markets are again continuing to expand as a result of consistent in-migration of people, also seeing some growth in our real estate investment trust business, which has been an important portfolio for us and a really highly


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performing portfolio. So, we are optimistic about our ability to continue to grow through the balance of the year and we expect that growth to be fairly broad based.

**John Pancari**
*Analyst, Evercore ISI*

Q

Got it. All right, John, thank you.

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

A

Thank you.

**Operator**: Your next question will come from the line of Betsy Graseck with Morgan Stanley. Please proceed with your question.

**Betsy L. Graseck**
*Analyst, Morgan Stanley & Co. LLC*

Q

Hi. Good morning.

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

A

Good morning, Betsy. Hey.

**Betsy L. Graseck**
*Analyst, Morgan Stanley & Co. LLC*

Q

Hey. I had a couple of questions. One is, I just want to make sure I understand how you are positioning yourself for this surged deposit activity that you outlined on slide 5. I know you put the expected beta of 40% to 60% for the mid stable, mid beta and 80% to 100% for the least stable, higher beta. Is that your indication to us of what you think it would take to retain these deposits and would you go after them? Or are you saying, look, we think it would retain this and we're not going to go after them or it depends on how it progresses? Could you just give us some color on that?

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

A

I think if you look at the – if you're on that page 5, let's start with the right hand side. Those are the higher beta, 80% to 100%. I'd characterize those as non-operational corporate deposits. These are deposits that are parked here that probably are going to seek a better avenue, a better yield than we're willing to pay for. So, you could expect those to most likely move off the balance sheet first.

When you get to the middle, which is at 40% to 60% beta, those are accounts that has stimulus or small business accounts with a disproportionate amount of cash in their accounts that we think will normalize over time.

I think you'll see a little bit of both. You'll see some of that move off the balance sheet. You'll see some of that where we'll pay a higher price. But at the end of the day, we're going to have to monitor that. We have a deposit rate committee. This is what they do every month, they meet to try to figure out what we should pay.


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As you know, our deposit beta was among the lowest of the peer group. We expect that to be true going forward because of our granular high primacy deposit base. So, that one has – that middle $13 billion is something we're going to have to watch closely to see whether it stays on and if it does, what will it cost us?

There is going to be an avenue for both of these that is in the middle column in the right for off-balance sheet opportunities where we'll move those out of the bank but we'll be able to have a fee associated with that that will help compensate us a little bit. Won't cover what we're earning today or likely earning as rates move up but nonetheless it'll be a bit of a carry for us going forward.

**Betsy L. Graseck**
*Analyst, Morgan Stanley & Co. LLC*

Q

Okay. And then since we're looking for 100 bps up in 2Q, right, in May and June 50 basis points each, we should start to see some of this surge deposit exit in 2Q shouldn't we or I read that wrong?

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

A

Yeah, no, I think you're exactly right. I think again when it's 25 basis points that may have been different. 50 basis points, if you're a large corporation, has non-operational deposits, you're going to be moving pretty quickly. So, again we expected to $5 billion to $10 billion that we talked about to move off in the first quarter. It did not. Now our corporate deposits were about flat on an average basis.

We do expect that after this 50 basis points for that to start happening. So, yes, you would expect deposits to be down in the second quarter as a result of that.

**Betsy L. Graseck**
*Analyst, Morgan Stanley & Co. LLC*

Q

Okay. And then just two other things. One is what factors will drive you to shift your excess cash to securities? Are you going to be waiting to get through like 80% of the Fed funds rate hikes to assess and then redeploy, or are you going to be redeploying along the way?

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

A

Well, I think we've redeployed some. So, we've put $1.5 billion to work this last quarter. As spreads continue to actually gap out a bit, things like CMBS, Agency CMBS was a good place for us. I guess we put at what 2.80%, was $1.5 billion. If we were to do that today, it'd be closer to $3.5 billion.

So, it's kind of a little bit of – again, we need to just watch and see what the rate environment will give us. We do have some cash we can put to work. If our beta assumptions are better, then we'll have that much more cash to deploy over time.

Now, our guidance we're giving you doesn't have that – does not have that baked into the guidance, but using the spot securities and the forward starting swaps, all that's baked into our hedging strategy that we're trying to put in place so that we can protect a really nice margin that we think we can get to over time. And we've given you that guidance on one of our slides, slide 8. And I think in our prerecorded message, we think we can push up to 3.75% with a 2.50% Fed fund. So, that'd be quite nice for us.


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**Betsy L. Graseck**
*Analyst, Morgan Stanley & Co. LLC*

Q

Okay. And last question is just on, you had the AOCI hit. I know it's Gerard spoke about that with you earlier on the call. The long end of the curve, obviously, is up since March 31. So, should we expect, like, for the dv01 hit in this quarter would be similar to last quarter for a like dv01 move or are some of these hedging strategies that you indicated early are changing that and really I'm asking what we need to take into consideration as we think through to 2Q with this rate back up, what the AOCI hit could be?

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

A

Yeah. So, my first point would be to ignore it and you don't have to do the math [indiscernible] (00:53:54) something else. But if you want to track it for whatever reason that you have, I would expect it to probably negatively impact us, but not to the tune of what it did this past quarter, partially because of what we're legging into right now. And frankly, the change in the long end isn't going to be as we don't think be as severe as it was this quarter. So, good luck with your math, happy for...

**Betsy L. Graseck**
*Analyst, Morgan Stanley & Co. LLC*

Q

But those hedging strategies you talked about earlier help you on that front? Is that an accurate statement or not?

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

A

Yeah, that's right.

**Betsy L. Graseck**
*Analyst, Morgan Stanley & Co. LLC*

Q

Okay. All right. Thanks.

**Operator**: Your final question will come from the line of Bill Carcache with Wolfe Research. Please proceed with your question.

**Bill Carcache**
*Analyst, Wolfe Research LLC*

Q

Thank you.

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

A

Good morning, Bill.

**Bill Carcache**
*Analyst, Wolfe Research LLC*

Q

Hey, good morning. Thank you for taking my questions. Following up on your response to both Gerard and Betsy, I appreciate your comments around how it doesn't make any fundamental economic sense to mark securities to fair value on the left hand side of your balance sheet without also marking the deposits to fair value on the right side. And so, fundamentally, available for sale OCI hits are nothing more than accounting noise.


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But how would you respond to the idea that in the recession bank stocks are going to trade down the tangible book value. And so, while it may not matter fundamentally from a practical perspective it's something that investors tend to care about.

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

Yeah. This whole concept of tangible book value came about in the recession. To the extent, we have a recession the rate environment is actually going to go the other way and securities are going to be worth that much more.

And so, again, I think if you want to mark the entire balance sheet to fair value, that would be reasonable, especially in trying times where you're trying to figure out what the true fair value of net assets are for a given company.

But that whole concept to tangible book value, my opinion is really not a going concern issue. It's a failure notion. It's I'm going out of business, what might I get as a shareholder if we liquidate everything? And the biggest issue I have with OCI is you're marking one element of the entire balance sheet. Securities, you're not marking loans, you're not marking deposits or anything else.

So, you're not getting a very good understanding of what true tangible book value is in any rate scenario. And I realize I'm in the minority and people just do – are going to do what they want. But in a recession, it actually goes the other way because the rates will be down.

**Bill Carcache**
*Analyst, Wolfe Research LLC*
Q

Understood. Yeah, that makes sense. You guys have exhibited prowess in protecting your margins through the hedging program. I guess is there anything that could lead you to ever consider wanting to protect that tangible book? Or maybe since it is a focus of investors, maybe introducing the tangible book value ex the available for sale might be something that people focus on because I guess with the passage of time goes [indiscernible] (00:57:09) would not be realized if you hold the securities to maturity.

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

Yeah, I – I don't again – we don't use this to manage our bank at all. We don't use it for capital. We don't use for rating agencies. So, to put it in held to maturity where we don't have to have a mark, all that does is restrict our ability to manage the portfolio, the way we want. And so, we don't see any need for that.

We do realize there are some people, for whatever reason, that this is important and all I'm saying is go calculate the fair value of our deposits, which will be in our 10-Q coming up. And just add that in as you're thinking about tangible book value and then we at least have a better idea of what it is.

**Bill Carcache**
*Analyst, Wolfe Research LLC*
Q

Understood. Thank you for taking my questions.


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### John M. Turner, Jr.

*President, Chief Executive Officer & Director, Regions Financial Corp.*

Thank you very much. I think that's all the questions we had. So thank you all for your time today. Thanks for your interest in Regions. Have a great weekend.

**Operator**: This concludes today's conference call. You may now disconnect.

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