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CORPORATE PARTICIPANTS

Ryan M. Nash

Analyst, Goldman Sachs & Co. LLC

John M. Turner, Jr.

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

David J. Turner, Jr.

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

Deron Smithy

Executive Vice President & Treasurer, Regions Bank

MANAGEMENT DISCUSSION SECTION

Ryan M. Nash

Analyst, Goldman Sachs & Co. LLC

Before we kick off day 2 of our Financial Services Conference as I am sure you are aware, today has been declared a national day of mourning to honor the life and contributions of the 41st President of the United States, George H.W. Bush in recognition of his services to our country. Please join me now in taking a moment of silence in his honor. Thank you.

All right. Up next, we're excited to have Regions Financial. Over the past year, Regions has continued to execute on its plan to improve efficiency by leveraging its asset sensitivity, benefited from stable credit quality and has returned [indiscernible] (00:00:52) amounts of capital. In addition, it's worked to simplify the organization through business and asset sales and now is working on improving its growth.

Here to tell us more about the strategy for the first time as President and CEO, John Turner. Also joining him on stage is Chief Financial Officer, David Turner and Treasurer, Deron Smithy.

QUESTION AND ANSWER SECTION

Ryan M. Nash

Analyst, Goldman Sachs & Co. LLC

Q

Maybe I'll kick it off, John. You've now been in the job for about six months. How are things going so far? Any big surprises and as you go around to meet people across the company, what are you most excited for at the bank?

John M. Turner, Jr.

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

A

Well, thank you. Thanks for having us here. First, a number of months have gone great. Grayson was a super leader and he really did a good job, I think, positioning the company well. He has been great to work with through the transition, had been a very good mentor so transition has gone as well as it might.

I'm excited about the quality of our teams, about our plans. I mentioned being well-positioned. We enjoy asset sensitivity, which we think we'll continue to benefit from. Credit quality is good. We have a super plan to continue to return capital to shareholders and our continuous improvement initiative we call Simplify and Grow, we think has already produced some significant results and we have a lot of opportunity in the future to continue to improve. So, our teams are excited about it. I feel the energy as I get around to visit with markets and our bankers and I think we have a very bright future so I'm excited about that opportunity.

Ryan M. Nash

Analyst, Goldman Sachs & Co. LLC

Q

John, you referenced Simplify and Grow, I want to maybe start with the Simplify part of the equation. We've seen a handful of actions, including selling the insurance business. You exited some higher risk loans and you've reduced head count by over 1,500 positions. You've accelerated brands cut. Can you talk about the key initiatives that you have underway to simplify the organization, help improve the efficiency over time?

John M. Turner, Jr.

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

A

Yeah. We've recently made some organizational changes that reduced through the spans and layers of exercise, reduced some layers of management. We realigned our businesses to create more clear lines of responsibility and accountability, improve communication and execution and we're already beginning to see the benefits of some of that.

Going forward, we've got to focus on how do we make banking easier for our customers? How do we use technology to improve efficiency and processes and we're doing things like digitizing the consumer loan process and converting our – or simplifying our mortgage loan application so that it's easier for customers to use it. They get a quicker response and so we have both the benefit of reducing time to complete an application and also giving a customer a faster response, which has both the revenue and expense impact. So, as we think about how do we improve our opportunities going forward, largely are how do we improve our processes to make it easier and to create efficiency.

Ryan M. Nash

Analyst, Goldman Sachs & Co. LLC

Q

[Technical Difficulty] (00:03:45-00:03:50) roughly 30% of your initiatives are revenue-driven and I guess part of that is just improving processes, but can you talk about what the key pieces are? Whether it's like you said, digitizing, optimizing delivery channels? What are going to be the biggest contributors to driving your growth [indiscernible] (00:04:09)?

John M. Turner, Jr.

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

A

So, in our branches as an example, we've recently reduced some of the functions that the branches had to do and as a result we've created about 500,000 man hours that had previously been dedicated to other job. We've eliminated paper, so we eliminated 5 million pieces of paper in the branches. Working with our commercial bankers, improving our loan approval process, we've reduced turnaround times from nine days to two. And what that does it allows us to get back to a customer much more quickly with an answer and so it has significant revenue impact.

Also looking to reduce the various responsibilities of our bankers so that we can centralize functions, allow them to spend more time with customers and be more effective in the execution of their particular role, which again has a revenue impact and we're seeing that through better pull-through in our pipelines and execution of our sales management activities, which has resulted in the loan growth.

Ryan M. Nash

Analyst, Goldman Sachs & Co. LLC

Q

The last comments, better pull-through in your pipelines. I think last quarter you had linked-quarter annualized growth of almost 7%. I think it's the highest level in any quarter in 10 years. I don't want to extrapolate any one quarter...

John M. Turner, Jr.

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

A

Yeah.

Ryan M. Nash

Analyst, Goldman Sachs & Co. LLC

Q

... but that's [indiscernible] (00:05:23) we've seen industry loan growth improve recently, can you just talk about what you guys are seeing on the lending side and do you think this can continue as we've got continued momentum to 2019?

John M. Turner, Jr.

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

A

So we're – I think we've guided towards low-single-digit kind of 2% to 4% loan growth for the year after adjustment for runoff in dealer indirect portfolio that we've previously identified as an exit and also our TDR sale. We're seeing good growth in C&I, and I think that is the result of a couple things: One is a better focus on client selectivity and the things that are in the pipeline, so better pipeline management, faster turnaround times. We are seeing more activity in our markets. I would say our economies are good. They're not great but they're good. Customer feedback is positive. Customers are making more investments in their business, so we're seeing more opportunities.

Similarly, on the real estate side, we've been making a transition from being largely a construction lender to one with greater balance between construction and term. We've finally gotten some traction there and so we are

growing the term portfolio and that contributed to loan growth. And importantly, we had created a lot of internal headwinds just through the derisking activities that we had undertaken over the previous two-and-a-half years or so. And as a result, that was a real – had a negative impact on growth. Since we have completed those derisking activities largely, we have begun to see the growth that we expected in the second, third and likely in the fourth quarter.

Ryan M. Nash

Analyst, Goldman Sachs & Co. LLC

Q

I guess just on the back of that comment regarding derisking. I think about the different potential drivers of growth. I believe you guys have the GreenSky point-of-sale partnership. You're getting, I think, close to the limit that you wanted to have on your balance sheet but on the flip side as you said investor real estate, I think, has reached – you said it's reached the bottom. So what would you expect would be the main drivers?

John M. Turner, Jr.

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

A

So, we'll continue to grow C&I, that's a core capability for us and we'll lean into many of our specialized groups – whether it be our specialized lending groups, tech and defense, healthcare, power utilities, energy, those types of things. We will grow our investor real estate book kind of with the economy, maybe plus a little. It has declined to the second lowest level amongst, I think, all of our peers and so we think it's appropriate to grow it prudently, carefully. That business is built around again real estate professional that we're – only our specialists are making investor real estate loans. We feel good about the business and there are lots of ancillary benefits associated with it.

On the consumer side, we'll continue to grow mortgage a bit. We like that business. We are investing in mortgage loan originators and continuing to invest in our platform. So those are some places where I think you'd see some growth.

Ryan M. Nash

Analyst, Goldman Sachs & Co. LLC

Q

One of the key parts to invest in Regions is in the quality of deposit base and I think cycle to-date, your beta has been around 14% or 15%. I think just over 20% for the most recent hike versus peers, cumulatively are in the 25 percentage point range. I think you recently commented that you didn't expect this gap to widen much further. Can you maybe just talk about what your expectations are for deposit betas, both retail and commercial as we look at it?

David J. Turner, Jr.

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

A

Sure. So if you look at our cumulative beta, most of that beta has been driven really by the commercial side, so about 46% of the consumer is in the low-single digit. What we're trying to convey is we've outperformed as we expected and maybe a little better early on. And so we were trying to guide to the next increase and having to pass through that 40% to 60% of that next increase which we think maybe a little better than what peers do, but it won't be at the magnitude that we've had thus far. We still believe, through the cycle, we'll outperform and that cycle we think is a Fed funds of 3% to 3.5%. If you apply those factors, then that cumulative beta at that time is in the 35% range. So I think the market misunderstood how the cumulative beta, through the cycle, being in the 60% range where, mathematically, it would be hard to get at, so it's more of a cumulative 35%.

Ryan M. Nash

Analyst, Goldman Sachs & Co. LLC

Q

So just to clarify, the 35% cumulative and the 40% to 60% potentially on incremental hikes and, I guess, related to that, where do you think – even with that outlook, where do you think the net interest margin could eventually get to as we get to more normalized levels of rates there?

David J. Turner, Jr.

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

A

Yes. So we've talked about that our long-term normalized range for the margin is in the 350 to 370 range. We laid that out probably 25 basis points ago on the margin. So now we have achieved the lower end of that range. I think getting to 370 over time is certainly a possibility. It does require that we continue to have a growing economy and the rate environment continues to modestly normalize. We don't need a lot from here to get that but we certainly need – we need a stable economy and stable rate.

Ryan M. Nash

Analyst, Goldman Sachs & Co. LLC

Q

You've been able to grow households at 1.5% clip year-to-date but yet we are seeing shrinkage in the deposit base. Let's talk about what's driving the deposit outflows? What decisions you had made strategically and how you think that could change as we go further into the cycle?

David J. Turner, Jr.

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

A

I'll start and let Deron talk a little bit about non-interest-bearing. But early on where our loan growth was, we looked at our loan deposit ratio, the low 80% range. We had some deposits in our trust area – Wealth Management area that were more expensive deposits. As a fiduciary, it's incumbent upon us to make sure we get the best rate given the risk profile of the customer. At one time, Regions was paying that rate. We made a strategic decision not to do that. Others were paying a higher rate though, so our fiduciary, our trust offshore removed those funds into another money market fund as an example. That was a few – a couple of billion dollars actually over time and we think that to the extent we ever needed to get that funding back, we call the trust, offer we pay up where the market is and get the deposits back but we didn't need that with the loan growth where it was and [indiscernible] (00:12:17) loan-deposit ratio. So we've also had some shifts in the mix, and Deron, I want you to talk a little bit about that.

Deron Smithy

Executive Vice President & Treasurer, Regions Bank

A

Yeah. Sure. And just to further point on David's last comment, many of those deposits that we've chosen to let seek a better alternative off the balance sheet required collateralization. And so when you think about our strategy for funding the balance sheet, we have seen opportunities to reach into the debt market. As you know, Ryan, we have one of the lowest debt levels of our peer group and so improvements in our ratings, improvements in our spreads have allowed us to raise debt at the margin – at levels that are as attractive as some of those more market-based funding sources through deposits and free up our collateral. So we've been able to meet the growth needs on the balance sheet and free up collateral which improves the liquidity position going forward.

David J. Turner, Jr.

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

A

The only thing I'd add to that is if you look at where the real value in the Regions franchise is in our core consumer deposit base, 67% of our deposits – number of deposits and if you look at year-over-year growth in the third quarter, consumer demand grew almost 6%, consumer savings grew about 8%. So, we look at that and say our core business, checking accounts growing 1.5% and core consumer operational deposits growing between 6% and 8% and we think that's an awfully strong message around our ability to raise the deposit.

Ryan M. Nash

Analyst, Goldman Sachs & Co. LLC

Q

I guess, last question for me regarding raising asset sensitivity. David, I think one of the more misunderstood things is just what's going on, on the asset side of the balance sheet given how much fixed rate assets you have repricing. Could you just talk about what that could mean for the margin over time?

And second, obviously we've seen the curve flatten a lot, maybe Deron, can you talk about the different sensitivities across the curve...

Deron Smithy

Executive Vice President & Treasurer, Regions Bank

A

Sure.

Ryan M. Nash

Analyst, Goldman Sachs & Co. LLC

Q

...and if we stay in a prolonged period of flat rates?

David J. Turner, Jr.

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

A

Yeah. So, we have – if you look at our loans, 50% of those, this is adjusted for derivatives, 50% of those are floating, so they'll move with the market. We have – when you look at fixed rate loans and securities that will be cash flow and prepay are paying off, rolling off this year. It's about \$14 billion that we'll be rolling off over the next 12 months, reinvested in whatever the rate environment is at that time. Before the last two days, it would have been somewhat higher. We'll see what it is when all that starts to happen. It's pretty linear as we go through the year. So, we have a tailwind of repricing up that we don't have to have rates. This is a whole lot from here. That would be an added benefit. And just so everybody realize our rate expectations are a December increase, one in the summer and one in the following December is kind of what our base case is right now.

Deron Smithy

Executive Vice President & Treasurer, Regions Bank

A

Yeah. So just following on that last comment. That level of reinvestment is really – even at current levels, it's positive. And so, obviously we're hoping for a little higher rates over the next year than where we are today. But over the last couple of quarters, we've seen that reinvestment rate be as high as 100 basis points higher than what's rolling off. Over time, that gap narrows but what that will do is allow us even in an environment where the Fed does take a pause and rates sort of hover in this area. We can still see net interest income growth from here, both as the balance sheet re-prices but also as we continue to grow the earning asset base.

Ryan M. Nash

Analyst, Goldman Sachs & Co. LLC

Q

John, you're going to be hosting your Investor Day in February where I'm sure we're going to get a lot more details on, not only 2019 but the three years ahead. And one of the things you and David have talked about is just a plan to get to a mid-50, can you just high-level talk through the moving pieces in terms of your expectations of how we would actually achieve that?

John M. Turner, Jr.

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

A

Yeah. I mean there's obviously a revenue and an expense component. We believe we can continue to grow revenue and we'll do that through the various initiatives that we have underway, the investments that we're making.

On the other side, we've got to continue to drive our business to be more efficient. I think 55 or mid-50s is very attainable and something beyond that may equally be attainable in the future as we think about how do we continue to improve. And so that's about, again, improving processes, it's about looking at everything we do, it's about using technology to help shift transactions from our more expensive channels to our lesser expensive channels and we see that occurring every day as customers are preferring mobile and online versus branches for various things. So we've got to look at every aspect of what we do. That's part of our continuous improvement initiative that we call Simplify and Grow. We think it's a key strategic component of how we achieve the financial results we expect to deliver for our shareholders.

Ryan M. Nash

Analyst, Goldman Sachs & Co. LLC

Q

Here's to credit, if you think about the past quarter, there were a handful of different hiccups across the industry – commercial real estate, some concerns around personal lending. I guess a two-part question. Can you first talk about what you're seeing within your portfolios? I think you had one or two credits that were idiosyncratic that you do have a charge-off this quarter.

And then second, the markets are clearly signaling to us that they're concerned about a downturn. Can you just talk about why you think Regions is very different today than it was 10 years ago particularly in areas like CRE?

John M. Turner, Jr.

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

A

Yeah. So starting with the current portfolio, we have had some concerns about a particular segment within the restaurant sector, fast casual primarily and we've seen a little deterioration in that portfolio and we have specialized bankers who've been in the industry a long time managing that closely. We continue to keep an eye on the healthcare space, ACA. There are clear winners and losers. And so how is that transitioning?

Our energy book continues to improve. We've got a couple of legacy credits and primarily in oilfield services that we're still working through but otherwise in good shape; criticized or classified non-performing loans continue to decline and we believe credit quality is really solid. I don't see anything on the consumer side within our portfolio that gives us any concern and so we feel good about where credit is.

Going back to the crisis, one of the greatest lessons we learned was the importance of balance and diversity. And we have been committed – are committed to strong concentration methodology and so what makes us different is we have a whole different team of people, we have a whole different approach to the business, we're focused on client selectivity; on sound underwriting, quality credit servicing.

We have specialists who are doing specialized business. I mentioned that about real estate, technology, defense and other things, we certainly understand, learned the need and the benefit to ensure that we have the right people in the right place. We've been very focused on risk-adjusted returns in the business. So, as an example, we haven't grown our Shared National Credit exposure effectively for three years because – and what we saw was that we were growing that business and it just wasn't very profitable. So, we forced our bankers to recycle capital within that portfolio and as a result, we improved risk-adjusted returns by over 250 basis points.

We just have a better quality business. The overall credit quality is better. The relationships that we have are better, so that relationship-focused, risk-adjusted returns, client selectivity – all those things, we're not interested in growth for growth sake. We want to build a business that's consistently performing and sustainable, and credit is a key element in all of that.

David J. Turner, Jr.

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

A

Ryan, I'll add to it and talk about investor real estate. When we put two banks together in 2006 right before the crisis, we had 30% of our loan book was in investor real estate, a lot of land, lot of real estate. Florida and Georgia are two of the hardest hit states of the country. Today, our investor real estate is some 7% of our loan book, very diversified both geographically and in the products. So, we learned a hard lesson and that concentration risk management is a critical component of how we manage risk portfolio.

Ryan M. Nash

Analyst, Goldman Sachs & Co. LLC

Q

Okay. You guys have been one of the most aggressive banks in terms of returning capital [Technical Difficulty] (00:21:19-00:21:21) I think you're well on your way in reaching that at some point in 2019. Let's talk about how you think about capital prioritization from here and how do you think about buybacks versus dividends just given what the markets are telling us and what will be a level you'd like to [indiscernible] (00:21:35) get to?

David J. Turner, Jr.

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

A

Yeah. So, we started out with a 4.5% in terms of common equity tier 1, we layer on 250 basis points for our buffer to get to a limit at 7%. It's kind of where we want never to breach so that we don't have to worry about having the dividend or other things. And so from that, we add in our individual risks as we see our portfolio changing.

So, today that math after we adjust a little bit, points to about 9.5%. We're at 10.1%, we're going to get to 9.5% we believe in 2019, and we've been working that down as we mentioned quite nicely. So we think it's important to optimize capital. We get a lot of questions on could we operate at a lower level of capital. We think 9.5% is a good spot for us and if we have a little extra there to take advantage of lending opportunities should they come and spreads widen out, then that's going to be good for us if we can maybe grow disproportionate if the economy changes. So we think 9.5% is exactly our [ph] hotspot (00:22:54).

Ryan M. Nash

Analyst, Goldman Sachs & Co. LLC

Q

We had a handful of banks that give, let's say maybe 9% or 10% and both of them had a pretty sanguine outlook on M&A. I'm curious on your updated thoughts. You think you need to do M&A to achieve scale? Are you happy to stay at the same size? What are your updated thought on traditional banks?

John M. Turner, Jr.

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

A

Yeah. Today, we have, let me back up – M&A is disruptive, M&A is challenging and we think we have enough near-term leverage today, with our asset sensitivity, with our plan to return capital to shareholders, and with all the improvements we think we can make through Simplify and Grow. We want to focus on those things. Today, the economics don't favor banks our size acquiring other banks given where banks we might acquire trade, ad so we're not interested in bank M&A. Our focus has got to be on how do we continue to improve our operation? How do we continue to improve Regions Bank? If we do that, then we believe the value of our currency comes up, then we're more better positioned to potentially make an acquisition if we had interest. But I think that's some time away and we've got to first earn the right to be an acquirer and to do that, I think we've got to continue to improve.

Ryan M. Nash

Analyst, Goldman Sachs & Co. LLC

Q

And I guess when you think about M&A, the success that you have had, had been doing some bolt-on fee deals, so I guess a two-part question: First, you guys have had good success growing the fee income to share, particularly capital markets. As you look ahead, what do you see some of the key drivers of your fee income growth?

And second, what capabilities on the fees side would you still like to enhance that you could potentially do so with a bolt-on acquisition?

John M. Turner, Jr.

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

A

Yeah. So those acquisitions have been successful. They have been a catalyst for growth in fee income and we want to continue to try to pursue them. And I should have made that distinction between bank and non-bank when I said we're not interested in acquisitions. Maybe that was implied and I think we'll continue to see growth in fee income on the consumer side as accounts grow. We see that correlation and we believe it will continue to exist.

On the wholesale side of the business, we want to make investments – continue to make investments in capital markets to improve our capabilities to allow us to meet unmet customer needs and we think that's important on things like fixed income sales and trading that we're building out. We could accelerate our ability to deliver that through an acquisition potentially. And so that's important; leasing potentially at some sort of equipment finance as those type of companies become available, we're always looking.

In Wealth Management, we think there are opportunities – whether it'd be through an institutional money management, through Institutional Services. We have some niche businesses in Wealth that we think we can add to, so we're consistently looking and then we like the mortgage business. And so, we've acquired mortgage servicing rights. We'll continue to do that. I think that will be important part of our future as well.

Ryan M. Nash

Analyst, Goldman Sachs & Co. LLC

Q

David, I want to shift to talk a little bit about regulation. There are some proposed regulatory changes that should benefit the industry, no longer being subject to the LCR and less frequent inclusion in CCAR. Can you talk about what these potential changes could mean for both the way you manage cash flow and liquidity going forward? Deron, any thoughts you may have to share?

Deron Smithy

Executive Vice President & Treasurer, Regions Bank

A

Sure.

David J. Turner, Jr.

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

A

So, we are encouraged by the NPR that came out. I think it's in the latter part of January, we'll have to submit responses and it will probably be in the spring before we hear back but we're encouraged by that.

One of the key questions we have is are we going to be able to manage capital more freely and be able to toggle when – because today we have to make assumptions about what 9 quarter or at least one year will look like and things change. And so we need to be able to adapt and overcome whatever change there is. So, we're encouraged by moving in that direction. We might have an off-cycle this year in terms of CCAR, but none of that changes the capital level we need to have. That is our calculation based on our risk profile and it gets back to the previous question that 9.5% that we talked about. There are some benefits that could come out of LCR. We do have some securities in our book to help us from the high-quality liquid asset calculation; Ginnie Mae securities, to be exact and perhaps we could get those to be deployed in a more meaningful manner or deleverage to come degree. So, there's some incremental benefit. I wouldn't say it's a tremendous benefit, but it's all positive, moving in the direction we want.

Ryan M. Nash

Analyst, Goldman Sachs & Co. LLC

Q

I guess my follow up would be Deron, do you think that to the point that David said regarding deleveraging would this give you an opportunity, if at all, change about the way the construct of the balance sheet potentially, your securities portfolio have gone from 13% or 14% of that that's all the way up to the mid-20s and you guys have obviously have to add debt.

Deron Smithy

Executive Vice President & Treasurer, Regions Bank

A

Sure.

Ryan M. Nash

Analyst, Goldman Sachs & Co. LLC

Q

Do you think the structure of the balance sheet could change at all?

Deron Smithy

Executive Vice President & Treasurer, Regions Bank

A

Definitely. I think it can over time. As David mentioned, initially just redeploying within the securities portfolio could give us a nice marginal benefit but I think, over time, it's important to step back and understand the LCR for us was a bigger requirement than our own internal stress test. So we've got a process that we built based on our own historical experiences and that would tell us that we need to manage to a slightly lower level of excess liquidity.

And so not being subject to the LCR would free up \$3 billion to \$5 billion over time that we can redeploy in one manner or another, and I think some of that could find its way certainly into better alternatives in the loan book as

well. So, I think you could see the size of the securities portfolio be modestly smaller over time as a percentage of total assets.

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

Q

Total assets.

Deron Smithy
Executive Vice President & Treasurer, Regions Bank

A

Yeah.

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

Q

David, you've been a spokesman for the industry on CECL and I know you're part of the letter that was sent to FASB. We had one of your competitors at a recent Investor Day show the potential impact in both normal and stress times which was I think, eye opening for a lot of us. So, I'm curious on your thoughts on where we are in terms of the FASB potentially commissioning a study and what impact do you think this could have if it goes through as is?

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

A

Well, we are encouraged with, as you mentioned, the white paper that about 21 of us sent in to the FASB and copied regulators and SEC and so forth trying to take a standard that enhance where we are today. So the CECL framework is better than where we are today, but it has some unintended consequences that we saw as a result of our modeling that we continue to do. And so we wanted to offer up an alternative which would provide what FASB and investors really wanted, which was more transparency over a life of loan losses. And so we're trying to get a component part of that through the P&L and then the rest of that through other comprehensive income.

So, we have full transparency on capital but that we don't take a charge all the way through the income statement for assets that have a lot of duration and for which you would make much money. And so the pro-cyclicality that we've been concerned about has been in times of trouble. Are you going to be encouraged to put a loan on the books – mortgage loan on the books in particular knowing that you're going to have to reserve some extended period of losses day one and the revenue comes later. So, if you – we're going to all be in capital preservation mode in times of trouble and that's the pro-cyclicality that we talk about. So we're encouraged by where they're going. We're in current dialogue with FASB on potential solution. So, it's too early to say we'll have a change but they are listening and we're encouraged by that.

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

Q

[indiscernible] (00:31:17) thing that was talked a lot about yesterday was just technology and technology investing. You have lots of technology initiatives going on across the bank to optimize distribution and costs. I guess can you talk about what are some of the biggest initiatives you're undertaking on right now, I think David when you presented at a conference recently, you talked about being a fast follower versus the big banks. Can you maybe give us examples of what parts of the organization you can actually be a fast follower and where do you actually need to be on equal footing?

David J. Turner, Jr.

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

A

Yeah. So we think about technology investments in four dimensions. The first is how do we make it easier for our customers. And so that's things like mobile banking, like online banking, the introduction of Zelle, which we just released last Thursday to our customers. How do we make it easier for our customers and that's where we will be a fast follower on product and innovation. We'll also participate with the industry; Zelle would be an example of that where we're riding the coattails of the industry investments.

The second dimension is around data and analytics and how do we use data and analytics to better market to our customers and we've developed a platform that we're using successfully that helps our call center bankers and our branch bankers with the next best solution as they talk to their customers and think about the various customer needs that they have when the customer is on the phone or the customers is in front of them, so it's an automated process, it's been very, very, helpful. The third would be artificial intelligence and we're deploying artificial intelligence in our BSA/AML area, in our call center.

In the call center, in particular, as a result of the way we're using the IBM Watson product, through the first six months of implementation, we'd intercepted over 700,000 calls, successfully executing around those and the equivalent man hours that were effectively reduced was about 55 FTE. So we see the benefits of that technology and think it's – that we can continue to use and expand it. And the fourth is our core systems, using cloud, API and other technologies to continue to enhance the way we operate the bank. So those four dimensions are where we'll be investing on a consistent go-forward basis.

Ryan M. Nash

Analyst, Goldman Sachs & Co. LLC

Q

And you guys haven't actually disclosed the number around technology spend but would you say you're generally in the ballpark [indiscernible] (00:33:35)?

David J. Turner, Jr.

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

A

Yeah. We think as we look at what others are saying, we're spending, as a percentage of revenue, what we think others are on a relative basis and given our size, we think that's an appropriate spend and we are comfortable that we can keep up and be very competitive.

Ryan M. Nash

Analyst, Goldman Sachs & Co. LLC

Q

One of the topic I wanted to hit on Deron, we talked about this last night at dinner, non-interest-bearing deposits you guys obviously over an extended period of time have seen a lot of growth as a percentage of the deposit base. The market has obviously been concerned about the fact that we could see significant outflows?

Deron Smithy

Executive Vice President & Treasurer, Regions Bank

A

Sure.

Ryan M. Nash

Analyst, Goldman Sachs & Co. LLC

Q

Can you talk about why you think that assumption maybe wrong and maybe just give us some of the puts-and-takes within your portfolio?

Deron Smithy

Executive Vice President & Treasurer, Regions Bank

A

Sure, Ryan. I think that's a – it's a good story for us and it's really a function of our strategy is our first goal is to grow households grow relationships and at the heart of that relationship is the checking account. And so we've had good success over the last 10 years at growing relationships continuously and getting operating accounts, both on the consumer side and on the commercial side. So the growth for us has been really across the board. Roughly 30% of that growth has come in the consumer side. And this similar amount in small business and then a smaller amount in commercial, maybe 20% in commercial. So it's not concentrated in any one spot, number one. And it's really a function of good account growth and improving on the consumer side, improving earnings for consumers as wages have gone up over – over the last several years. And so it's a combination of a lot of hard work focusing on getting the operating accounts and it's not overly concentrated in any one part of our business.

Ryan M. Nash

Analyst, Goldman Sachs & Co. LLC

Great. Well, please join me in thanking Regions.

John M. Turner, Jr.

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

Thank you. Thank you.

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