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MANAGEMENT DISCUSSION SECTION

Unverified Participant

Thank you. It is my pleasure to introduce Regions Financial, very few years that Regions has not presented at the BancAnalysts Association of Boston, so for that we thank them. This morning we have CFO, Dave Turner, who will be giving most of the presentation, but then we also have John Turner, Head of the Corporate Commercial Banking side of the business to talk about that.

So, without further ado, Regions Financial.

David J. Turner, Jr.

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

Thank you and good morning to everyone. I do want to introduce John Turner, head of our Business Services Segment and there's no relation. And when he stands up and he's next to me, you'll know why. He's a tad taller than I am. And Dana Nolan here with me from Investor Relations. I do want to make sure that you look at forward-looking information that we have referenced to the back of the presentation. So, if you take some time for that, I'd appreciate it.

So, 2016 year-to-date, we are excited about the performance year-to-date. It is evidence that our strategy that we laid out at Investor Day is working. We're growing net interest income, we're growing non-interest revenue, we're controlling our expenses and year-to-date, generating positive operating leverage in that 3% range.

So if we think about non-interest revenue, we said we would grow 4% to 6%. We changed that to a little over 6%, and year-to-date, we've grown that about 9%. You couple that with about roughly 3% growth in NII which is in the middle of the range we gave you, it shows that we're committed to growing revenue even in a challenged environment that we have. If you look at the performance in particular of NIR, you'll see where we compare to the peers, at the top of the stack. And it's because of the investments that we decided to make in 2015 and 2016 that are so important to us as we grow and diversify revenue and this is proof that it's working.

From an efficiency standpoint, we do realize we have to control our cost. Year-to-date, our efficiency ratio improvement is near the top of the peer group, which has helped us generate that positive operating leverage that I mentioned of about 3%. From a tangible book value standpoint, that growth has been strong, considerable improvement. Year-to-date growth of 12% puts us third in the peer group. At the same time, our stock trades is about [ph] 11%, 12% (02:57) of tangible book when our peers are [ph] 14%, 15% (03:00).

So, we continue to make progress. We said that discount relative to peers that we're working through as we continue to execute on the strategy that we laid out. That being said, we continue to look for ways to improve our performance. And as I've mentioned to some of you earlier, if you listened to the earnings call, we'll continue to lay out more specific expectations for 2017 and early December at the Goldman Conference.

From an expense standpoint, we've realize, in a challenged rate environment, challenged GDP, growth of revenues is hard to come by. That's why we're so excited about the investments that we've made to help us grow there. But we've needed to ensure that we generate positive operating leverage in this environment. So we put out another $100 million of expense savings initiatives. We did that without providing a lot of specifics because we want to roll that out to our senior leader group, literally the next week. And we couldn't roll it out to them without going public with it. Our senior leader group is about 100 people. We wanted to get their [ph] buy end (4:17), to show what we're doing as a company and it was well-received and really have a commitment from the company to continue to improve on expense management and efficiency.

Right now, we have a $400-million cost elimination program. It's a little less than 12% of our adjusted expense base, that's 2015. And that number is $3.454 billion if you want to a peg in the ground there. We are looking at ways that we can bring our expense elimination sooner rather than later. We have been working on things and operational efficiencies, where we think we'll get 60% to 65% of the savings. Branch and real estate 10% to 15% and then, third-party is the remaining 25% or 30%.

So our $300 million is well underway. We haven't changed timing with regard to that. I gave you 35%, the 45% for 2016, and then splitting the delta in 2017 and 2018, 50% of the remainder in each year. We are going to look at this $100 million to see where we – even though we added 2019, we're going to see how much of that we can pull forward and we will do that and give you more guidance again, like I said, in December.

As you think about where our savings have come from, a lot of it has been head count-driven. As you would expect, it's our largest single-cost. We're down about 1,200 positions this year which is 5% of our head count. We've done that also through branch consolidations. We said we'd consolidate somewhere between 100 and 150 branches and we have about 90 done. And I think we'll be at the higher end of that 150. As we think about the [ph] $100 million (06:12) of cost saves, we'll be looking at our branch infrastructure as well.

Third-party spend is important for us. We have renegotiated contracts with certain vendors but we hadn't finished that process and we expect that to be an area where we look at for this additional $100 million of savings.

And I think the final piece of expenses would be leveraging technology better, process improvement. You hear the new word is robotics and how we might leverage that. Decision engines that have been created to help us control and optimize our cost structure through process improvement and automation.

From a deposit standpoint, average deposits increased 1% year-over-year. And if you look at the composition of our deposit book, it really gives us a tremendous advantage. Low-cost deposits represent 92% of our total. Our deposit costs are at historically low level, 12 basis points and total funding for us at 29 basis points.

Furthermore, if you look at the breakout, you'll see that 56% of our deposits are consumer deposits reflecting the strength of our retail franchise and the overall health of the consumer. And I think it also demonstrates our ability to really grow low-cost deposits. It's a competitive advantage for us. We realize deposits are free for everybody but having that low-cost deposit with a low beta is really important to us.

If you think about why our deposit data is lower than our peers, is because of where that deposit base is. Half of our deposits are in cities with less than a million people and half of our deposits are from customers [ph] who accounts (8:10) for less than $250,000. So a very price and sensitive customer base, they've been customers for a long time and we don't see that changing. As a matter of fact, when we had our rate increase last December, our deposit data was close to zero, we think that would be the case for the next increase as well, whenever it might come.

We do have our historical beta at 54%, we modeled in 60%, that's the terminal number. We started about 40%, so we have, if you look at our sensitivity that came out this morning in the 10-Q, I'm sure all of you read that by now, or not, but you will. So we start with about 40% in that beta, so it's a little bit conservative as we talk about up 100 in about $173 million is [ph] what (9:03) that main source, on a parallel shift.

So, we think, as rates continue to rise, that we're really going [inaudible] (09:12) as we did from last December.

Let me talk a little bit about loans. We are prudently managing balance sheet, average loans and leased houses were up 1% year-over-year. Business lending decreased 1% and consumer was up about 4%. Consumer represents about 38% of the loans and improved about 125 basis points year-over-year. Consumers continue to be strong and healthy. Balance is being led by mortgage, mortgage was up about 5%. Indirect – other consumer balances increased about 77%, that's our GreenSky relationship point-of-sale initiative that we believe in. And while that portfolio is not that all that large, we believe that's a good model that we also get to learn point-of-sale lending.

Indirect – vehicle [ph] balances (10:11) increased year-over-year, but decreased linked quarter. And in that particular business, we're seeing risk adjusted returns really get to pretty low levels. The profit [ph] zones (10:23) open and close in certain product categories and this one, there's an awful lot of competition, very price sensitive. And what we've also found as we look at certain dealer groups or smaller dealers, are having higher loss rates. And so we have started to exit certain of those smaller dealers that aren't giving us the volume that we need to have and we believe that losses will come down as a results of that.

Credit card, consumer credit card balances increased 11%. We have penetrated about 18% of our deposit base with credit card. We'd like that number to be higher in the mid-20s and it continues to get better, every quarter just a little bit better. So we'll eventually, we believe get up to that 25% penetration on customer deposits.

Other consumer increased 9%. It does include our new online platform, but it just started in August. So the amount related to Avant, really, really small. Again, we get into these things to learn a little bit. And we're not – we're sticking our toe in the water to see how we might learn.

If you take GreenSky and Avant and you think about FICO scores, those are somewhere between 700 and 750 to kind of put it on the scale. Our loan yield is between 7% and 11% and the expected return on capitals in the mid-teens, 13%,15%. And so as you think about why people would be willing to have a coupon like that, it's ease of use. They want to walk in and do their business, point-of-sale, have financing and move on, and they're not as sensitive to rate. We think it's a good [indiscernible] (12:10) customer to make it easy for them, and that's what we're all about. It's how can we make life better for our customers and this is an example on the consumer side where we make it easy for them to do business.

But with that, I'm going to turn it over to John, let him talk about business services loans.

John Turner

Senior Executive Vice President-Head of Corporate Banking Group, Regions Financial Corp.

Thank you, David. David, mentioned that 1% year-over-year decline in our business services balances, attributable to a couple of factors. So one, we had an addition to energy, some smaller exit portfolios that we're continuing to manage now. We saw about $300 million in reductions in energy during the quarter on average. In addition to that, there's a fair amount of softness we believe that's generally in with respect to business fixed investment.

And so, we've seen quite a bit of runoff in our owner-occupied real estate portfolio, both as the result of [ph] attrition (13:05) and competition within that space, particularly with the middle market customer. We've been intentionally managing very closely our investor real estate exposure, given what we think are slower conditions in the market. And then we're managing to internal concentration limits and shared national credit exposure targets that again we think are appropriate if we're going to create the right balance and diversity in our loan portfolio over time.

On the positive side, we see opportunities to grow. There are certain businesses and markets where we're under-penetrated. We know that we have more credit-only relationships within our shared national credit book and we believe are appropriate. Today, it's just not we think reasonable or feasible to earn an appropriate risk-adjusted return on a credit-only relationship.

And then finally, while we think good about client selectivity, we probably haven't been as focused as we ought to be on returns. And so, having a lot of conversation internally about allocations to capital, risk-adjusted returns, we created an internal process to impose a good bit more discipline and structure around how we allocate capital, what our expectation for returns are. And so, we've got it toward really flat loan growth for 2016 as a result of those activities.

What we are seeing, though, is improvement in profitability and I'll give you a quick example about capital allocation. Through the first six months of the year, we had exited about just under $1 billion in shared national credit exposure. We added that back either to new relationships or expanding existing relationships and we increased the risk-adjusted return on that capital by about 260 basis points. More relevant to the customer, great deposit balances, more of fee revenue, and we believe that there's a lot of leverage associated with that opportunity.

In addition to those things, we combined our business and commercial banking businesses, so that we have a single approach to – at middle markets, small business customer across markets. We're leveraging our management talent to greater spans and we think making the customer experience better within real estate. We're shifting our mix of business from being primarily construction oriented to more term balance which gives us the opportunity to grow fee revenue and to grow balances with a different type customer within real estate. We think that creates more stability and a more predictable business. And then finally, within corporate banking that company with revenues over $250 million, we see an opportunity to lead more relationships. And I'll talk about some of the success that we've had there in a minute.

We're proud of our noninterest revenue story, we continue to grow a noninterest revenue. We've made a number of investments. At the end of 2015, only 22% of our revenue came from noninterest sources. Through the first nine months of this year, now we're generating about 26% of our revenue from noninterest sources.

A number of our peers generate as much as 50% of their revenue from noninterest sources, which as a result requires the use of capital in the business, better risk-adjusted returns, more stability of PPI. We hope to get to about 40% over the next couple of years. We think that's very doable as we add to our capital markets capabilities primarily.

As you see here, we made investments in long-term real estate financing products, Fannie DUS, HUD, Medallion, CMBS. We've acquired an M&A advisory firm, BlackArch Partners about a year-ago, that's been a really nice addition to our business. We just announced the acquisition of First Sterling, a low income housing tax credit indicator. We're in the process of building our fixed income sales and trading capabilities.

Not to make money trading, but to allow us position us with the debt capital markets capabilities to lead fixed income underwritings. Today, we can't do that, we're a participant, we have a lots of customers who are issuing bonds. This will position us as to be a lead in those relationships. We've seen our leads grow by about 54% over the last 2 years, now about 10% of our shared national credit exposure represents credit facilities that we lead. And we know that when we lead, we generate 2.6 times more revenue and the risk-adjusted return on those leads exceeds 23%. So, focusing on how do we position ourselves to be a lead is important and something that we think there's a lot of upside associated with as we build out these capital market capabilities.

I was asked on our Investor Call, how much potential is there in this segment of the fee business? And I said and I still believe, we're probably 70%, 75% along in developing our capital markets capabilities. Again, that debt capital markets platform. And most of the difference between 70% and 75% and 100% is about just maturing the things that we have put in place. And I think, within our customer base, we've only penetrated 20% to 25% of the opportunity that exist to expand relationships and provide product needs to our existing customers.

Credit quality remains good with the exception of energy, which we've talked about now for a number of quarters. We see some softness in indirect businesses or indirectly impacted by energy. Also light transportation, also little softness in commodity related export type businesses, agriculture, metals, mining has been negatively impacted but we don't believe at this point that we see any sort of significant deterioration in credit quality, or in fact, we would call credit quality stable and in good order.

Our current allowance for energy exposure is at 7.9%, down from about 9.4% in the second quarter, again despite some movement in pricing over the last few days in particular. We still are cautiously confident about the performance of our energy portfolio over the next few quarters. We've guided to 25 basis points to 35 basis points of charge-offs with $50 million to $75 million of loss within the energy book through 2017 and we still believe those numbers are appropriate.

We're working to optimize our capital and this is really a CFO slide, but I'll take it. We have returned about 99% of what we've earned through the first three quarters of the year. We recently announced a de minimis share buyback to take our share buybacks for the year to about $760 million, up from $640 million. Our priorities are organic growth both on acquisitions, dividends and share repurchases in that order. And I think you'll see us continue to focus on that.

And finally, I'd say, all of our businesses are committed to support our corporate priorities which you could grow and diversify revenue, then the corporate bank that means a particular emphasis on non-interest revenue. We want to effectively manage expenses and deploy capital to optimize our return to our shareholders.

And with that, I think we're prepared to take questions.

QUESTION AND ANSWER SECTION

Q

[indiscernible] (21:19-21:41)

A

David J. Turner, Jr.

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

So the question was, as we target our cost eliminations which are about 11.5% of our expense base again at $3.454 billion, with the need to continue to invest in technology, cyber security, [ph] allied (21:59) risk management and terms of making sure. The question is, how do you eliminate cost and still have a commitment to those kind of things that we need to have.

And it's a great question because, this is one we challenge our ourselves on every day. We will continue to have robust infrastructure to meet cyber security needs, risk management, compliance, audit, capital planning, all those things, we cannot back off on. We spent a lot time and attention to getting those processes nice and robust. Now, I would tell you, there are ways to get it, some of those things by leveraging technology more. Anything that has a process associated with it, there's a way to leverage the technology.

There are other areas that we focus on, we talked about branches, where we're going to be at the high-end of our 150 range. We're going to challenge ourselves even past that, we'll come up with a new number as I mentioned in December. But I think it's important for us to continue looking at occupancy. That's a big cost and it's not just branches, that's our headquarter offices and all the free standing buildings that we have and to try and minimize those. We still also have to get after vendors and make sure utilizing the ones we need to and when we do, let's get the best price as we can.

So, I think, there's enough room. We wouldn't have put the extra hundred out there, if we didn't have confidence that we can do it in an appropriate manner. We didn't come up with specifics on that $100 million for that purpose. We want to take the time to do it right. A lot buys are on it and we want to do right things for our company, for our associates, for our customers, for our communities and our shareholders, all in this concept of shared value and not just cut cost.

[ph] John (23:52)?

Q

[indiscernible] (23:52-24:10)

A

David J. Turner, Jr.

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

Yeah. I think, with the – so the question was as we've had a little bit of a movement in the 10-year, what's the reinvestment risk really look like. That continues to be a challenge for us, the 10-year going up helps us from that reinvestment standpoint. It also helps minimize the premium amortization in the mortgage backed book.

And so, with the recent steepening a bit is helpful but it's volatile. We're back down in the 170, something before the meeting started. Maybe we can get a short-rate movement. I think all that really informs our margin, right now which we would say is stable, we do believe from the third quarter, it will be up in that 309 range. I think, we mentioned that on the call. And from there, it's kind of dependent on where rates go. If rates are going to stay low, then we would have a little bit of a grind. If we get a movement in December perhaps, we can at least stay flat, maybe we uptick as we remix the balance sheet – with some of the consumer loans that we have.

Q

[indiscernible] (25:19-25:30)

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

A

Yeah. So the question was as we roll out some of the consumer initiatives, the Avant, GreenSky, those kind of things, how do we take into consideration regulatory concerns, in particular from the CFPB that's focused on the consumer?

I think, first, the way we go about business is we have to take care of our customers, forget that we're regulated by anybody. The right thing for us to do is do what's right for the customer. And I mentioned shared value and we'll do it one more time. Customers, associates, communities, shareholders, let's think about all four of those as we think business decisions that we've make.

So, we don't want to enter into products and services that aren't needed [indiscernible] (26:12) to any of our customers. Whether they're consumers or businesses, if they don't need it, don't value it, and don't want to pay a fair price for it. And I think that if we will keep that in mind, the product and services we deliver to the marketplace, sure they may be challenged by regulatory agencies because that's their job. But if we do it right, we should be in lockstep, because we shouldn't worry about a regulator if we're doing what's right for our customer.

So we consider – we watched the CFPB and what guidance they issue and their enforcement actions to others and they're public. We learn from that, we take it down. But an expectation that we learn from that and put it in the play as we make business decisions going forward.

Q

[inaudible] (27:02 – 27:17)?

John Turner
Senior Executive Vice President-Head of Corporate Banking Group, Regions Financial Corp.

A

Yeah, I'll take that. Answer the last question first. No influence by the regulators, I think. What we've done is we were growing that portfolio as many of our peers were over the last several years and then we reached the point where we had established an internal target for shared national credit exposure. Reason being, we recognized that there is significant [ph] tall tree (27:42) risk associated with that business. While our credit quality is better, we're allocating a significant amount of capital to those credits and we want to make sure we're getting an appropriate risk-adjusted return.

So, we're not growing commitments as I described in my prepared remarks. We are remixing the portfolio, we are reallocating capital within the portfolio, two companies who are going to reward us with deposits, with fee revenue, companies that we can be relevant to. And as a result, we may see some increase or decrease in outstandings. We expect commitments to be fairly flat until we get growth in the rest of the business, which will then allow us a little a headroom within that portfolio. May have as a result, some impact on loan growth. And that's why we're guiding toward flat, but we think that revenue growth will be manifested over time as we take advantage of what we think are both again deposit and fee-based opportunities within that business.

Q

[inaudible] (28:53-29:25).

John Turner
Senior Executive Vice President-Head of Corporate Banking Group, Regions Financial Corp.

A

Yeah. I mean credit quality is really is good. We do have some concerns about investor real estate and so, we've not been growing that book of business. We've been paying close attention to it. Again some of the commodities-related businesses are still under some stress. We want to manage our business to be balanced and diverse across all sectors. I would say that from where we are, credit can only get worse over time. We don't think that we can sustain this kind of credit quality for a long period of time.

If there's an area of the portfolio or an area within the industry that I would be concerned about it, it is the leverage lending book. And again, I think banks in general had been managing that exposure much more closely and more prudently. But that when rates begin to rise, where there can potentially be some stress.

We don't see anything on the horizon today that we haven't already called out. And so, would expect and the near term credit quality remain good.

Q

[inaudible] (30:37-31:22).

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

A

Yeah. So, the question was as we think about cost save, cost eliminations. The question was whether or not, should branches represent more than the 10% to 15% that we have laid out in front. I'll tell you that branches have real estate, branches have people attached to it and it has been a big part of our cost eliminations thus far. We will continue to challenge ourselves to see how much more we can take out. The branch channel is still very relevant, 80% of our sales comes through the branch channel today.

Now, we're going to make these, our branches smaller, more technology, fewer people. What people don't really realize is yes, we still screen but we've eliminated about 25% of our branches since the crisis, way more than anybody. We still have more, but it's our rule, footprint that we have, and that's where our deposit beta is, as I described earlier and that's important for us. If you look at the cost per branch, we actually do a very good job. We've reduced the number of people in the branch, our labor rate has [indiscernible] (32:40) and in the Deep South, our labor rate is lower than in the Northeast, as you know.

And so, we continue to challenge ourselves on rationalizing that quantity and the reach and the physical size of the branch network. And I do believe there can be a more meaningful part. We will lay that out in December, as more specifically what we can do. But we didn't want to leave the message that we're going to be at the high-end of our range right now and then some.

Q

Your commercial real estate portfolio in the last five to six years is declining, I think from $25 billion down to $6 billion to $7 billion. Is that now the cost at the bottom level, or is it going to continue to shrink?

John Turner
Senior Executive Vice President-Head of Corporate Banking Group, Regions Financial Corp.

A

It's as we – I'm sorry, question was, is our commercial real estate portfolio reached a bottom level? And currently investor real estate currently slightly less than $7 billion, is that a bottom? That's likely a bottom although, as we are shifting the mix of our portfolio from construction to term, we can't match the timing. And so, we may see some decline in that exposure until we begin the add term exposure back.

I would tell you that over time, we would expect that real estate book to grow as the economy grows, kind of 2% to 3% and we'll maintain its level on a relative basis about where it is. We're most comfortable there.

The question from the back.

Q

[indiscernible] (34:16-34:40)

John Turner
Senior Executive Vice President-Head of Corporate Banking Group, Regions Financial Corp.

A

Thank you for the question. Certainly the question was, what have we done to sort of reposition and change our risk culture, so that the next time we have an economic downturn that we don't have a typical, what I'll call, a typical legion's experiences. Somebody said this morning that zebra don't change its stripes and we are acutely aware for that attribution.

We're acutely aware of the marketplace's opinion of our credit risk management history. And I think what this management team is actually committed to, is to changing that history and changing your perception of the kind of management team we are and the kind of company we're going to run. We operate in some very good markets but they bring with them some volatility. It's important to us to build a business that is sustainable, that's consistent, that's predictable. And in order to do that, we've got to focus on balance and diversity which, again, we think is our greatest risk management tool. It means that we've got to maintain discipline around the concentration limits that we've put in place, that [indiscernible] (35:54) targets are important to us and we can't just blow through those because we need to grow.

And so while some of you may have some concerns about the fact that we didn't grow loans in the third quarter or we may not grow in the fourth, we feel good about what we're doing to the revenue and to remix the business so that it's more sound, it's more profitable, it's more consistent and it's more predictable. And I do think that we have the risk management infrastructure now that creates effective challenge and it provides the right mechanisms and controls for that more disciplined approach to the business.

And as a result, we're not going to disappoint you when we have an extra session. We think the energy, recession is a great example of the change in our culture. We're the largest bank in the Gulf South. We could have had an outsized energy exposure and we didn't. We had a larger exposure to oilfield services than many but that's because of our presence in South Louisiana where a good bit of the marine transportation business is actually headquartered. And so half of our oilfield service exposure was in marine and those were companies we've had relationships with for over 40 years.

So, I would tell you that we think that a good example of the change in our approach and the change in our culture is energy. And as we come out to the energy recession and we perform at least as well as everyone else, that's an indicator that our culture is changing. Thank you.

David J. Turner, Jr.

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

A

[ph] Martin (37:32), I'll add one thing to that. It's also how we compensated our people. So, they used to be compensated on volume. It's not compensated on that, it's compensated on profitability. And so we create a pool if profitable, we distribute the pool using different metrics. But we really have to get the improvement in net operating income to be able to distribute that from an incentive standpoint.

We had our senior leader meeting, as I mentioned it's about 100 of our leaders. And we talked about one [indiscernible] (38:04), if you only can remember one metric, remember return on tangible common equity of 12% to 14%. In order to get there, what you put on the book has to be helping us to work towards that target. And if you're putting volume on, that is chinning the bar that's working against us. And so, we have a lot of mechanism to make sure that it doesn't happen.

And as a just a total cultural transformation that Grayson put in 2010 when he became CEO, what we're learning is it takes a long time to get you guys where we are. And we're going to keep working on it, we're going to keep improving. And we think energy was at least a small example of how that culture is working.

Unverified Participant

On that note, I'm going to cut it off and please join me in thanking David and John.