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MANAGEMENT DISCUSSION SECTION

Erika Najarian
Analyst, Bank of America Merrill Lynch

Good morning, everybody. So I'm very excited to introduce our next speakers from Regions Financial. As you well know, Regions Financial is a diversified financial institution based in Alabama. It operates 1,500 branches primarily across the South, Midwest and Texas. And over the last few years, they focused on embracing innovation, announcing partnerships with multiple fintech companies, including GreenSky, Fundation, and Avant. And so we're very excited to have with us today Scott Peters, the Head of Consumer Services; Logan Pichel, the Head of Consumer Lending; and Deron Smithy, the Treasurer. So with no further ado, I'm going to ask you to take a seat.

Scott M. Peters
Senior Executive Vice President & Head-Consumer Services Group, Regions Bank

Thank you, Erika. Thanks for having us. We're going to talk a little bit – as Erika mentioned, I run consumer services. My name is Scott Peters. That's essentially the retail bank, Regions Financial. My colleague, Logan Pichel, runs our consumer lending area and Deron Smithy is our Corporate Treasurer. Today what we want to talk about a little bit is how we're using innovation at Regions to really deliver to our customers and build against our strategic initiatives.

There we go. So a reminder of our strategic initiatives at the top of the company. Three strategic initiatives, one is to grow and diversify our revenues. We're focused on expanding relationships using our 360 approach to banking with our customers. We're prudently growing non-interest income, so trying to increase the content and the sources of non-interest income, and we're doing this in a balanced fashion across our geographies, our product lines, and our lines of business. We are exercising disciplined expense management. We made a promise to find $400 million of expense efficiencies. The original target was by the end of 2019 we expect to complete that, and we're on target to complete that by the end of 2018, contributing to ongoing positive operating leverage and improvements in our efficiency ratio. And the third one is optimizing and effectively deploying our regulatory capital. And as most of you know and if you're familiar with our CCAR information, we are in the midst of a very robust return of capital to our shareholders.

So let's talk a little bit about the Consumer Bank. It is a large part of Regions. 56% of our revenue comes from the Consumer Bank. We're largely driving that by increasing customers, increasing our households, increasing our accounts, and penetrating them more deeply. A very sustainable approach to growth. As you can see, our revenues have been increasing consistently and our pre-tax income has also been increasing consistently, with pre-tax actually growing at a faster rate than the revenue increases based on good disciplined expense management which is delivering, again, positive operating leverage and driving down our efficiency ratio.

Let's talk about one of our biggest advantages. We have a tremendous deposit franchise. The majority of our deposits are in our retail bank. It's very granular and very loyal. And if you look at those retail deposits, roughly 90% of them are low-cost deposits, do our conservative pricing approach over the past few years has largely run away any what we might call hot deposit, so we have a very stable and loyal deposit base. Evidence of that would be if you look at the first three Fed increases of 75 basis points in total, our retail cost of deposits has increased 1 basis point over that time, so a real, powerful deposit franchise that we believe, so far, we have been very favorable versus our competitors from a beta perspective and we believe that we're going to continue to see an advantage there.

Now, we're going to talk a little bit about how we're serving our customers better and getting efficient at the same time through our digital enhancements, reshaping, and expanding our distribution and also removing friction and creating efficiencies for our customers, but not only our customers, our associates as well. Let's talk a little bit about digital. We've moved to an Agile framework a while back. What we're finding with our Agile teams properly deployed is that we're getting about 4.5 times the throughput on digital enhancements than we previously did under using more waterfall types of release methodologies. Some things recently that we've been able to achieve their, responsive platform, so new responsive platforms that really adjust to the type of devices that you might be entering and visiting Regions from. And we've worked very hard at our application flows in the digital environment, whether it's in the mobile space or and directly into online banking. And another area which is helping drive revenue and doing it by stimulating our customers to think about their finances and work with the bank is really behaviorally modeled information on our customers and delivering messaging, advice guidance to them in line in the digital environment which is stimulating them to take more activity with us and enhance our revenue profile.

Some good outcomes from that. Year-over-year we're up roughly 30% in digital deposit account openings. Mobile deposits continues to go through the roof. We're up roughly 100% year-over-year in our mobile deposits. And we're up roughly 30% in our mobile deposit income, which is for advanced funds availability. Some neat things coming down the pipe very shortly is virtual assistant, which will be good for our customers. It'll get them the right answers quicker and it'll also create efficiencies for us going forward, and also enhance two-way alerts which is going to make our customers' accounts more safe as they transact on all their payment products with us.

One of the critical things in our strategy that we've really been focused on is trying to add value for our customers in every single touch point or whenever they touch that. As you all know, the touch points have exploded over the years and the number of touches have exploded especially with the digital environment. We've done a few things to facilitate that. One of them is really to build a very sophisticated, addressable marketing system which updates on a daily basis. It tracks and monitors product sets, usage by our customers, external data, demographics, things they've shown interest in, and we are able to, with software, to be able to deliver that to the touch points wherever they are, whether they're coming in to see us online or whether they're contacting our contact center or whether we're reaching out to them with a marketing message or a contact from one of our bankers.

To give you an example of the power of this, just in a single month now we roughly drive 8 million intercepts out, and these are contextual, personalized intercepts when our customers are coming at us either in the digital environment or in the contact center, and so far we've experienced roughly a 25% internal rate of return on the investments of this technology. So it's really going after how do we add real customer value and stimulate the financial thinking and the financial well-being of our customers every single time they touch us.

The other thing that we have always been committed to is that people do still want to talk to bankers from time to time, so they need help with more complex issues and they want advice and guidance. We are still committed to training our bankers and certifying our bankers, so when an individual does get a Regions banker they're getting someone who's trained on our advice and guidance content, is trained to work with that customer to find the absolute best solution for that customer. Both of these are helping drive our revenue. An interesting thing about the advice and guidance is we've studied in the digital environment, if a customer actually engages with advice content or an advice tool, they're two and a quarter times more likely to deepen their relationship and open another account with us.

Let's talk about payments. We've always been very committed to being at the forefront of payments. We were early adopters of all the various pays, from Apple Pay to Android Pay, et cetera. Today, we're in the process of rolling out a best-in-class Regions LockIt, and what Regions LockIt can do is allow you to lock your cards up for particular types of transactions or all your transactions and also unlock it simply with your mobile device. Ours is best-in-class because it has a bit more functionality than the products that are out there that can allow you to do that now. And also, I believe we may be the only bank that allows you to do it on your consumer credit cards, your consumer debit cards but also your consumer prepaid cards. So giving advanced technologies to our customers to have peace of mind with regard to fraud, drive fraud losses down, but also with that piece of mind and control we expect that it'll help move Regions' cards to the top of the wallet.

We continue to be a leader in Now Banking which is a suite of products that we provide to some customers who are somewhat underserved in the banking market. It includes check cashing, prepaid cards, expedited payments through Western Union. That continues to grow for us with a nice clip every year. We're up to roughly 575,000 customers who use these services. It's a good fee income revenue generator. If you look at over the last three years from mobile check cashing, we've had a compound annual growth rate of 41% on the revenues from that. A lot of talk about Zelle here. We are also a Zelle bank and we will be rolling out our real-time person-to-person payments early next year. The branch is not dead and we believe actually firmly that local presence does make a difference. But our retail network strategy that we started in 2014 is really fundamentally a thin market strategy. By executing against that thin market since Investor Day, we've been able to consolidate 163 branches, which is more than originally what we thought our top end of the target was and we completed that roughly a year early.

During those consolidations, we've continued to grow the bank, grow our customers and grow our accounts and retain the vast majority of that business. Additionally, if you really look all the way back to the end of 2009 at Regions, we've consolidated 21% of all of our branches that we have and we've grown throughout that. The other part of the retail network strategy frankly is taking advantage of thin market approach in markets where we had suboptimal distribution that are more dynamic markets than some of the places we exited from. So we've made commitments to St. Louis, Atlanta, Houston, and New Orleans. We're adding thin market distribution components with the networks in those areas and we're excited about the opportunity to play in some of those denser, more active markets. If you look at the start of the retail network strategy to when we have the sites up and running in those four markets, we will be down 10% in our net count of branch but we'll be up 10% in households that are within a 10-minute drive time of a Regions location.

So more efficient, lower expenses, more revenue opportunity, in higher growth areas. I want to talk about making banking easier. This is an initiative that we are currently involved with and really have been doing things along the way over the last couple of years to get there. But fundamentally we're trying to make sure that all of our customers really understand how they can bank with Regions 24 hours a day. We'd love for them to come and see us in the branch and we're happy to take care of them but we've deployed a lot of technology that allows them to do whatever they want, when they want, and wherever they might be.

In conjunction with that, we are shifting our investment in human capital and our branches from largely folks taking low value transactions to really largely bankers who can provide advice, guidance, education and work with the customer on driving financial value for those customers and enhance driving revenue. By doing this, we go into one job family and if you look at our efforts over 2016 and 2017, we have cut out roughly 1,300 tellers while we're driving more productivity from a sales and revenue standpoint and we're increasing our customer satisfaction with their interaction with our bankers. So, we still have more opportunity going forward on this, but we're on a great path to drive more value for our customers.

Across our bank, we're working hard to remove friction while creating efficiencies. And so friction can be either for our customers. When we remove friction, we tend to get a lot more activity and engagement from the customers and frankly loyalty, but it can also be for our associates. So to give you a few examples, one of our first major AI projects is around the contact center and in our contact center, we're in the process of implementing and executing against a use of AI that is going to allow us to cut our contact center staffing by 15%. That's one project. We have numerous projects that are in the pipeline for using artificial intelligence where we cannot only get a better outcome from our customer – for our customers by serving them more quickly, effectively and consistently but at the same time gain efficiencies for both our customers as well as the expenditures on our associates.

Some other items we have. We've done this over the last year and we're getting to the culmination of it. For our small business customers, it used to be if you were a small business customer and you did your personal banking at Regions which we were very focused on doing you had to sign in multiple times to go and use your digital capabilities where you're coming in as a business owner or you are coming in as an individual. We've brought that to a single sign-on capability. We've increased our usage exponentially of those customers, toggling back and forth between that and we are in the process right now of rolling out what we call is paid services for small businesses. So smaller businesses who don't participate in a full Treasury Management solution will be able to buy paid services one at a time for Treasury Management solutions, which will be a nice fee income uptick for us, but also a convenience for our customers.

So across the board, we're looking for opportunities really to take friction out of the experience where it's a win-win. We can lower our expenses, but we can also create a better experience for our customers. The rankings we see in our digital environment tell us we're doing a good job of that, but we're looking for opportunities every day.

With that, I'm going to toss it to Logan.

Logan Pichel

Head-Consumer Lending, Regions Bank

Great. Thanks, Scott. And I'll talk about innovations in Consumer Lending and then I'm going to hand it back to Scott who has some brief comments about what we're doing in Wealth Management and Trust as we conclude our comments. The story in innovation and Consumer Lending is really about two items, and it's diversification and customer convenience. And the story goes back to 2010 when our portfolio is over 90% real estate, so mortgage and home equity and our production capabilities outside of mortgage were really all branch-driven and as we looked at that, we said we really need to diversify our portfolio and our production capabilities.

And you can see some of the things that we've done since then. So we expanded into the indirect auto lending business, repurchased our credit card portfolio, developed point of sale partnerships and created a fully digital loan experience. And as a result of that seven years later, we have gone from 7% of our production being in non-real estate to 37% of our production this year will be in non-real estate, so way to diversify our production capabilities in our portfolio. The result is that non-real estate consumer loan balances have increased 49% in a little under three years, you can see that on the left-hand side, two of the biggest initiatives for us and two of the more recent initiatives has been our point of sale partnerships primarily with GreenSky, and our fully digital loan origination.

So, for those of you not familiar with GreenSky; GreenSky is a company headquartered in Atlanta. They provide technology for point of sale financing for the home improvement industry. They have about 15,000 merchants that they've signed up nationwide and banks like us provide funding partnerships for them. So we provide GreenSky our underwriting criteria, the contractor will go into the consumer's home, talk about the project and ask the consumer, would you like to pay cash or finance it. If the consumer wants to finance the project, then GreenSky, they run the application through the GreenSky technology. If the loan gets approved, then the funding partner funds the loan.

What GreenSky has done, I think, is provide the ultimate in consumer convenience, right. If you think about the old way of originating a consumer loan, the customer would have a need for the purchase of a good and service and then they do have a need for financing it, it's two separate transactions. The auto industry brought that together by providing financing at the point-of-sale.

And what GreenSky has done is said, you know what, we can make that experience even more convenient. We will provide point-of-sale financing at the consumer's home. So they don't even need to go to the store. So that's where the transaction is done. It's done in the consumer's home and that's why I think we've seen and GreenSky has seen volume that has exceeded our expectations. We now have a $1.2 billion portfolio with them and more importantly credit, the credit criteria has met our expectations. This is – the economics on this deal work a little differently than the typical loan we originate. We get a fixed margin, the bank gets a fixed margin. So you get the yield on the portfolio minus losses then the bank earns a fixed margin and then GreenSky gets paid after that. We like that opportunity because again we think GreenSky has skin in the game. That means they're focused and care about the quality of the loans we originate. I said earlier we like the credit quality, in fact credit losses could double before we start to impact the fixed margin we have on this. So we feel really good about the quality that we are originating. We think there is upside in the opportunity. We've agreed to increase our commitment to $2 billion, so we've got some room there. And there's other verticals that we like in this space. Home improvement is which is what GreenSky is in. We also like home energy and elective medical. So we think there's opportunity to grow there.

From a fully digital loan experience, this is something we rolled out last year and continue to expand. These are things like customers applying through regions.com or with an online banking, which I'll get to in a second. We're starting to see more growth there. It's still a small piece of our business, but this is what our consumers are asking for which is provide me a fully digital loan experience. We do it today for unsecured loans and lines but the opportunity for us at Regions is how do we expand it to other consumer products beyond unsecured lending.

As I said earlier, the fully digital loan experience, customers can get to it two ways. One is the regions.com. Come to regions.com and apply for an unsecured loan, that's our partnership with Avant or apply for a small business loan, that's our partnership with Fundation.

With the Avant partnership, we now have a process where the average time to complete the application for a consumer is five minutes, they get a decision in three seconds and in 35% of the cases we can fund the loan the same day. The rest of the time we're funding the loan the next day. So it's a really convenient experience for unsecured loans.

Fundation again, the small business lending. We provide the same kind of experience. And then we've expanded most recently in the last three months into what we call online banking. Now, we think the online banking opportunity is the ultimate in customer convenience. What we do there is we create an eligibility file and we post offers within our online banking experience to consumers. So a consumer will sign-in to online banking, maybe they want to check their balances, maybe they want to pay money, maybe they want to transfer funds.

And in their online banking experience, we will serve up an offer to that consumer. No application required. If they like the offer, today the offer is an unsecured line of credit. If they like it, they click on it to review the terms and conditions, accept it and the loan gets funded right there. It's the thing that consumers have been asking for their banks for years, which is you know everything about me, make me an offer, why should I have to apply for a loan. And you think about the upside there is we're doing unsecured lines of credit today and the next six months we'll roll out unsecured loans, deposit secured loans and lines.

And in our branch network, for every dollar of unsecured lines of credit we originate today, we originate $3 of unsecured loans, deposits, secured loans in line. So we think, again there's upside there of expanding the product menu. And after that, who knows where we can go with some other consumer loan products. But probably the ultimate innovation for us is going to be how do we make – for every consumer loan, how do we make a fully digital loan experience. So this is a process and a project we implemented, started to implement about a year ago, and it is creating that fully digital loan experience for all of our consumer loans. So, unsecured loans and lines, deposits, secured auto loans, home equity mortgage loans.

And in fact, we started with mortgage and home equity because those were the most complex. There's probably five phases to the project that you can see them on the slide here. The first is the universal application making a consistent online application process and then moving into how do we process the loans fully digital, collect information, do a digital closing and then have digital servicing. And to put in perspective today, it takes us about 35 days to close a mortgage. It's five days to get the application in. It's three days on the backend to send – once we're committed to close the loan, to send the documents to the customer and to have them review the documents and close the loan. It's the 27 days in the middle of the processing, we think there's a lot of opportunity to reduce that turn time by automating the process by going to get information on behalf of the consumer versus the consumer having to send us the information or if the consumer does need to send us the information, make it easy for them to do that.

And so that's the process that we're undertaking. The first phase of this as I said is the universal application. We roll that out from mortgage and home equity next month. And as we've revised the application and made it real easy for consumers to use it, you can see some of the statistics on this, 48% of your questions. So, we've streamlined the process and we're asking questions that need to be asked, [ph] there's not much (23:29) to be asked. It's very intuitive. You can use it from your phone now, used to be you had to apply on your PC, it was a hard process to follow. It's now you can use it from your PC, you can use it from your phone. So it's far more convenient, it's intuitive questions. If you don't have a co-borrower we won't ask co-borrower questions. If you're refinancing your application we will prepopulate a lot of the information for you if you're already a Regions Bank customer. As you start to type in the address, we'll pop up the different addresses that have that same address, you pick on the one you want, a picture of the home pops up and that's the home that you've selected to purchase or refinance your property.

So we've been able to reduce the application process from somewhere around 15 to 20 minutes today, it will be less than five minutes when we roll this process out. And again the important point is, we'll roll this out for every product we have. So for all consumer loan products, we'll have a fully digital loan experience. We think that's the kind of the next step for innovation for us. Now do all consumers want to use a fully digital loan experience, no. For those that do, do they want to go through the entire process digitally? Maybe, maybe not. We'll allow them to start the process digitally, come out and use a person or go over the phone and get back into the digital process;

however, they want to use that process. They may want to start face-to-face and then go digital after that, but they will have the option to do business with us however, they want to do business with us in whatever form or fashion. It's just a way for us to complement and supplement the face-to-face and the over phone transactions that we do today.

And with that, Scott, I'll hand it back over to you. Thank you.

Scott M. Peters

Senior Executive Vice President & Head-Consumer Services Group, Regions Bank

Thanks, Logan. I'd be remiss, I run the retail bank, but I've got to tip my hat to my partners in Wealth Management and on the commercial and corporate side. Wealth Management, we just executed a conversion to SEI, which is a state-of-the-art platform, so it's better for our Wealth Management customers. But at the same time, we went from 12 systems down to one system. So, it is much more efficient for us going forward. These are the types of things that we're focused on where we actually create a better customer experience for our customers while at the same time becoming more efficient. And on the corporate side, Treasury Management in your pocket now, so we've really done a lot of work to be able to take the sophistication of Treasury Management services for our commercial and corporate customers and mobilize that so that they can interact with all those services anywhere that they are just as consumers and all of you interact on your consumer accounts today in a mobile environment. So to close, we focus hard on our innovation strategy supporting our strategic initiatives. It flows down from the top in our strategic plans, our business lines nurture innovation on a consistent basis and use it to do better things for customers and become more efficient and effective supporting our strategic initiatives. And we also benefit from real active involvement with investors in the fintech space as well as anchor partnership that we have with Plug and Play which is probably the largest global accelerator in the world. So we stay in touch with emerging technologies and emerging companies and we are open to using that to benefit our customers and become more effective whether it's through building, buying or partnering with good technology and good innovation. That closes my comments there.

Erika Najarian

Analyst, Bank of America Merrill Lynch

Thank you so much. So before we dive into some follow-up questions, I wanted to ask the audience one, you know, directly related to your presentations. So the first polling question, how do you view Regions' partnerships with online lending startups? One, attractive opportunities that should drive stronger revenue growth and allow Regions to take advantage of new technology without building it themselves. Two, cautious given unproven underwriting models over an extended credit cycle, or three, negative as online lending start-ups don't offer anything proprietary and as an investor, I'm worried that the bank is reaching for growth at the wrong part of the credit cycle. So you have five seconds left on the clock. Survey says, so 60% of you are cautious, given unclear underwriting models over an extended cycle, while 25% of you find these opportunities attractive.

QUESTION AND ANSWER SECTION

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

So Logan, maybe let me start with you.

Logan Pichel
Head-Consumer Lending, Regions Bank

A

Yeah.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

I thought it was very interesting economics. You said losses could double.

Logan Pichel
Head-Consumer Lending, Regions Bank

A

Yeah.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

Before your flat margin is eroded. Maybe give us a good sense what the absolute losses are today, sort of what you're building in for peak offers for GreenSky, for example?

Logan Pichel
Head-Consumer Lending, Regions Bank

A

Yeah. Yeah, so losses today in our GreenSky relationship are about 280 basis points.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

Okay.

Logan Pichel
Head-Consumer Lending, Regions Bank

A

Right. And I'm with you on number two, right. I think you need to be – we need to be very cautious about our third-party partnerships and the underwriting model. And so how we've addressed this issue is, we're partnering with third parties on the customer experience. But we're not advocating our underwriting discipline. And so, again, as I mentioned with GreenSky, they take our underwriting and built it into their frontend technology. Our partnership with Avant, it's our underwriting model that they've built into the frontend technology because one of the things that we've said strategically is let's partner from a technology perspective. They've clearly created a good customer experience, so we'll partner there. But it's an unproven underwriting model. We have a proven underwriting model. We'll maintain that discipline here. It's going to be the Regions underwriting model. We've not abdicated that to our third-party partners.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

So we had earlier in the day an artificial intelligence panel, so we had somebody that, essentially a big data aggregator and analysis company and an identity verification fintech start-up [indiscernible] (29:34) on the same panel and they were talking about the notion of beyond sort of the data that we have in-house. You know, a lot of your customers [ph] aren't (29:45) living their lives digitally. So as you bolt on your Regions underwriting standards and these partnerships, are they looking at the data that you already have or are you also looking beyond? Are you also looking at their digital footprint beyond the standard data that a bank gathers? How do you generally feel about using a digital footprint to help predict losses?

Logan Pichel
Head-Consumer Lending, Regions Bank

A

Yeah. It is primarily in a high percentage primarily. It's the data that we have today. Again it's our underwriting discipline. Can we supplement that over time? Maybe, but we've maintained our underwriting discipline, we're not using a different underwriting model.

Scott M. Peters
Senior Executive Vice President & Head-Consumer Services Group, Regions Bank

A

I think to your point though, Erika, with the way we're able to capture and put big data together, we've got to start looking at everything we do whether it's marketing modeling or whether it's credit modeling and underwriting and risk modeling, embracing that data because there can be real strong correlations that we can find in the data that can help us do a better job of making sure that we're making the right loans to the right people.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

Beyond lending you clearly talked a lot about the innovation initiatives within the bank. So, I wanted to ask your shareholders about how they feel about priority of investing in innovation? So, if we could pull up the next polling question. As a shareholder, what statement most closely aligns with your view on how traditional financial institutions like Regions should allocate investment spending on innovation? One, investment spending on innovation should be top priority for financial institutions, as leading the charge in innovation will better generate long-term shareholder value rather than short-term expense management. Two, given the revenue environment, institutions should invest in innovation projects, but be mindful of self-funding these investments with savings elsewhere in the firm, or three, given the challenging revenue environment, institutions should focus on improving the bottom line for expense management even if it means delaying innovation projects. By the way that was a great slide on pre-tax income at the Consumer Bank. So that wasn't a very difficult bottom line environment.

Scott M. Peters
Senior Executive Vice President & Head-Consumer Services Group, Regions Bank

A

Well, we're proud of our approach. I mean this is a – this is an interesting question because we kind of view this as you don't have to have cake or ice cream, you actually can have both, if you do it right.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

Yeah. So, they do want you to have cake and ice cream, so 70% of you say that you want it to be a priority but you want this to be self-funded elsewhere in the firm. I thought it was a very compelling slide in terms of your branch count, right. There are two people on the stage that have cut their branches about 20% over the past several years. Interestingly as we talked to those that are big in Consumer Banking and have a lot of branches, the theme that keeps coming up is flexibility as to the branch optimization plans. So, first what have we learned so far in terms of consumer behavior as you have shut down those branches that make you more confident in further optimization.

Scott M. Peters
Senior Executive Vice President & Head-Consumer Services Group, Regions Bank

A

Yeah. Probably to start is – and we've done closures in the past before maybe not in as mass as we've done, and we've also done new branch openings. So, the good news is that our – we've overperformed our pro forma. So you do expect to have some run-off of your portfolio, you do expect a little bit of sales power to be lost for a period of time, usually roughly 12 months to 18 months with the receiver as well as the consolidated branch, if you put together their volumes. Those things are attracting in a predictable manner for us, so we haven't learned a lot that was different than we expected. I think we've been pleasantly surprised that we've a little bit over-performed our retention models from the standpoint of the customer retention and I think that's in great part to the fact that we've made it so easy to bank from wherever you are. And we've also frankly kind of proven to our people on the ground, which is very important, because they're the ones who are enthusiastically sort of calling this market that we can consolidate our distribution, still serve our customers in a great way, hold our customer service scores up where they've been which is really best in class in the industry and continue to grow. So we've wanted, again, we wanted cake and ice cream. So we're getting big expense savings from consolidating in a smart way, but we're growing through those consolidations and we're able to not only drop a lot to the bottom line, we're able to self-fund a little more distribution in a smart fashion in some more dynamic markets.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

So as you think about the graphic that you showed where you had the traditional teller line and everybody that had higher, higher touch value in the back, how many of your branches look like the second graphic, which is a flatter sort of architecture in the [ph] branches (34:46)?

Scott M. Peters
Senior Executive Vice President & Head-Consumer Services Group, Regions Bank

A

Well, so if you're talking about structure obviously we only have a small percentage that are what we call Nexus branches which are all the new designs. All the new branches we'll put down follow that Nexus design, but what we do have is the technology in all of our branches to do scanner transactions for our bankers, so anything that's non-cash-oriented our bankers can do with the customer sitting at their desk. So every one of our branches as of January 1, every one of our associates will be a banker. We will no longer have tellers and they will be a variation of bankers from Banker 1s up to Banker 4s being the most sophisticated one. Banker 1s will do a little more transaction content, but what we're doing is we're getting rid of the latency of tellers who if they don't have somebody in front of them they really have nothing to do. So we're upgrading sort of our people but it's allowing by having one job class us to compress the number of people we need in order to effectively serve a site and frankly increase customer satisfaction and drive more revenue because essentially we have more banker equivalents.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

So there is a great debate at TCH about this question I'm about to ask you. If you think about your more rural markets and you're more urban markets, is there a difference in take up in terms of digital channels?

Scott M. Peters
Senior Executive Vice President & Head-Consumer Services Group, Regions Bank

A

Yeah. We don't see a big difference. I mean, the technology is fairly straightforward. If you think, this is kind of a funny thing to think about. But with a lot of really sophisticated digital technologies, one of the groups or a business that actually was high on the uptake early on were farmers because they were kind of in the middle of nowhere and to keep in connection with all of their vendors and their banking relationships and the financing they needed to do it. So smart technology is being used by everyone. There's probably, on average, more than one smartphone in a household today, so we don't see a big difference. We see everyone using the technology. The big part about it is we have to make sure we tell them about it and we show them how easy it is to use.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

That's great. So when we pull up the next polling question, I just wanted to ask about the stock overall. What do you consider to be the most important catalyst for Regions' stock in 2018? One, achieving positive operating leverage regardless of rate hikes; two, better clarity around the expense outlook – I think you're pretty clear; three, stronger top line growth regardless of rate hikes; four, maintain best-in-class capital return; and five, rising interest rates. So we have the clock starting. So you guys think that the catalyst for Regions that's most important will be 53% of you say achieving positive operating leverage regardless of rate hikes and 26% of you say stronger top line growth regardless of rate hike, only 5% said better clarity around the expense outlook. So Darren, congratulations to you and David for having a strong message out there.

I just wanted to – clearly everything that you just laid out has everything to do with achieving that positive operating leverage goal. I wanted to ask you a little bit about the expenses that have built up within the system, whether it's a consumer bank or otherwise since the crisis. So we had sort of a surprise agreement, bipartisan agreement, to raise the SIFI buffer to $250 billion on Monday afternoon. As you think of, and clearly the CFPB is a new agency that's been tough, and as you think about some of the regulatory-related costs that's embedded either within the bank as a whole and within the consumer bank, if you're no longer a SIFI what can that mean for your efficiency ratio?

Logan Pichel
Head-Consumer Lending, Regions Bank

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Yeah. So I'll start. Clearly, it's a very positive development. But I think a lot of what – coming out of the financial crisis we've done to build infrastructure around risk management, better capital planning, quantitative modeling, all of the fundamental activities that we've done to really be able to perform the stress tests and CCAR and the like. We've found ways to integrate that into the way we run the business, and so our thought was always well if we approach this as taking these things that we know we need to get better at and integrate it in the way we run the business, make it a competitive advantage, not just treat it as a compliance exercise, then we'll find ways to extract more value out of it. So the short answer is the stress testing, the enhanced risk management, enhancing our governance framework, we find a lot of value in that and that will continue no matter whether the SIFI threshold is raised.

There are some other elements, what I would just call overhead, that's associated with that, that we will get some relief on. But we've done a pretty good job I think over the last few years of looking for ways to automate, use technology to reduce that burden, not have so much of that cost be driven by people manually performing those tasks. And so I think it's more of a take some of that expertise and redeploy it now into more productive customer-serving business development activities rather than just shedding the expense altogether.

Scott M. Peters
Senior Executive Vice President & Head-Consumer Services Group, Regions Bank

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And I think one thing I'd say about it is we clearly don't want to compromise great risk management practices, so we worked hard to develop those. But there's an opportunity like anything when I was talking about my business or the retail business, relooking at something and saying we can achieve a positive result in a more efficient way. We have those opportunities across the entire bank, including in the way we approach risk management. So we do see opportunity to be more efficient.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

Rodge Cohen was here on the stage yesterday and talked about CAMELS ratings and the CFPB being a strict regulator. As you think about potential leadership changes in the CFPB, does that change how you approach kind of the consumer?

Scott M. Peters
Senior Executive Vice President & Head-Consumer Services Group, Regions Bank

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Really, it all depends on does that leadership really bring in a new point of view about some of the guidance and how they've acted before. So I think the answer is maybe hopeful that in some areas where they've put guidance out that's untenable. For instance, we were a good provider, a sound provider, and really pleased our customers with our small dollar offering. Based on guidance and posture, we backed away from that. So that's something our customers take advantage of. Not with us, right through non-regulated entities in some cases or regulated soon, that they'd like to do with us where we could provide services that in the past maybe the guidance has not been friendly to that. So to the extent there's a change in mindset on some of the guidances that have been said, I think there probably is some opportunity to better serve our customers.

Erika Najarian
Analyst, Bank of America Merrill Lynch

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Okay. Maybe one last question for the audience. If we can pull up the next polling question please. On the topic of innovation, especially after everything you heard, do you consider Regions' investment efforts to be, one, above and beyond what peer banks are doing; two, about in-line with the innovation investments and efforts of peer banks or; three, below the innovation investments and efforts of peer banks? We have two seconds left. So 57% of you say it's about in-line, 24% say above and beyond, and 19% say below the innovation investments and efforts of peer banks. I'm wondering if you wanted to – clearly had a great presentation – wanted to respond to this?

Scott M. Peters
Senior Executive Vice President & Head-Consumer Services Group, Regions Bank

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Yeah, sure. I think everybody's focused on innovation. Some of us are probably making progress a little faster than others. Clearly, the very large banks can throw a lot of money at it. We think we're throwing smart money at it and investing in the right places. I would say that we are extremely active at spending time with investors in the fintech area to really understand emerging technologies, companies that can add value. Sometimes we just get good ideas from it and when they build things their self, other times we're made a partner. Other times we become a customer of theirs and embed it within and our experience. And by doing that, I think we're doing an exceptional job of taking the investment money that we do have and really having it make a difference for our customers and for our bottom line very quickly.

Erika Najarian
Analyst, Bank of America Merrill Lynch

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All right. And so with that, I thought I'd use the remaining time to take questions from the audience if we have any. Any questions? Great. Thank you so much for your time. We appreciate it.

Scott M. Peters
Senior Executive Vice President & Head-Consumer Services Group, Regions Bank

Thank you, Erika.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Thank you.

Logan Pichel
Head-Consumer Lending, Regions Bank

Thank you very much.