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# EDITED TRANSCRIPT

RF - Regions Financial Corp Investment Day

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## PRESENTATION

**List Underwood** - *Regions Financial Corporation - IR*

Good morning and welcome. Good morning, again and welcome to Regions Financial Corporation's 2015 Investor Day. We are really excited to be here and honored that so many of you turned out. We are simulcasting this event live via video streaming, which is accessible through our website at [regions.com](http://regions.com).



Our theme for Investor Day is building sustainable franchise value and our program begins with Grayson Hall, our Chief Executive Officer, who will start us off with an overview of our Company strategy. Next will be followed by John Owen, head of our Regional Banking group, who will update you on our consumer and wealth management businesses. He will then be followed by John Turner, who heads up our Corporate Banking group. Following John will be Matt Lusco, our Chief Risk Officer and Barb Godin, Chief Credit Officer. They will give you an update on enterprise-wide risk and credit risk management respectively. David Turner, our Chief Financial Officer, will then share with you our financial strategy, including some key financial targets both for next year, 2016 and long-term. To close, Grayson will join David and other members of our executive management team for any questions you may have.

In addition, we will have Q&A sessions, which will follow each presentation beginning with John Owen, so there will be ample time for questions throughout the morning.

In addition to the presenters, several other members of our management team are present and available to participate in the Q&A sessions as appropriate and we will introduce them at that time.

Before we get started, let me mention a few other housekeeping type items. First, I would be remiss not to mention the presence of my colleague from investor relations who most of you know, Dana Nolan. If you need anything at all this morning, find either Dana or me and we will see that you get what you need. We have not provided, as I think is apparent now to everyone, any hard copies of the presentations. However, the information is being made available for you to download on our Investor Relations website as each speaker begins their presentation. We do expect to conclude the meeting around 12:30 PM and are providing a buffet lunch for those who wish to join us. There will also be a couple of short breaks, 15 minutes, between some of the presentations.

Finally, let me remind you that we may make forward-looking statements, which reflect our current views with respect to future events and financial performance both in the presentations, as well as in the Q&A sessions. For further details, please reference our forward-looking disclaimer that can be found in the presentation that will be filed with the SEC. And with that, if there are no questions, Grayson.

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**Grayson Hall - Regions Financial Corporation - Chairman, President & CEO**

Thank you, List and good morning. As List had said earlier, we very much appreciate your attention and participation today. I think we are going to spend the next several hours really trying to go over in some greater level of detail our plans, our strategies for our business in the markets we operate in. We think that Regions provides a very unique and compelling investment thesis. We think we've got a great franchise in great markets and we are going to try to expose some of that, but we do want today to be an interactive day where you get an opportunity to ask your questions and hear our responses.

To that end, we've got a number of speakers, but starting after John Owen, we are going to take Q&A after each speaker. We also brought a number of members of our management team. They are located in the front of the room so that as questions come up about different products or different markets, we've got the people who run those parts of our business here and we will be calling on them from time to time through the meeting.

I'm going to take just a few moments and just give sort of a high-level overview of our Company, why we think it's such a compelling story and why we have a passion for what we do at Regions. And then we will start getting into more depth as we go into the other presentations. So if you look at the franchise today, we think it's a very unique franchise, a very valuable franchise. We cover 16 states. We've got roughly \$125 billion in assets, \$97 billion in deposits and on a deposit basis, that would rank us as sort of the 15th largest bank in the country.

But we span these 16 states and serve over 150 different community markets and in those markets, we've got a very stable and very dominant presence in those markets and we serve roughly 4.4 million customers. And so we've got, we believe, a very valuable franchise that's very difficult to replicate and we will talk about how we are trying to manage it to optimize the performance of the organization.

If you look at -- one of the advantages we have is the markets we operate in. As we built this franchise over a number of years, again in the 16 states, all the way from Texas to Indiana to Florida, we cover a lot of markets. And if you look at those markets relative to the rest of the US, about 41% of the jobs that have been created in our economy have been created in our footprint since 2009.

We have a huge automobile assembly manufacturing segment in our markets. In fact, 30% of all the auto manufacturing in the country is now within our franchise footprint. But probably one of the more unique things about our franchise is we are the dominant financial institution across what we call the Gulf Coast region. In fact, we have 3000 miles of coastline from Florida, Alabama, Mississippi and Texas and over 62% of the port trade in the country goes through ports located in our footprint. So we are 42 ports, including two of the largest in New Orleans and Houston. And the south really is becoming a much more dominant manufacturing sector with 53% of the nondurable goods being produced now inside our franchise footprint and with roughly 39% of the GDP of the country coming through the economies that are located in our 150 communities.

If you look at core markets, and I said we are in 16 states, it's a fairly diverse presence across those 16 states. One of the advantaged that we have is, in some of our core states, and I will talk about six of them because these six states make up 80% of our deposits as part of this franchise, so we have number one share in both Alabama and Mississippi. We have number two share in Tennessee. We have number three share in Arkansas, number four in Louisiana, number five in Florida. All of these markets are very key and critical to our success. We try to maintain and grow relationships in these dominant markets while trying to leverage the diversity of the other markets we are in to grow our institution in a more prudent manner.

If you look at, again, the strength of the markets and the growth opportunities that exist there, we've got a number of our markets that will have growth rates that far exceed the national average. So the message here is we have a unique franchise located in markets that have very strong opportunities. If you look at some of these markets, they are all different. We have some markets we are very dominant in. We have markets that the market is demonstrating tremendous growth and we are trying to leverage off that growth. In markets where we have dominant share, we still try to grow and deepen relationships, but there's a lot of markets like Houston and Atlanta and St. Louis and New Orleans where we have a decent share in those markets, but our opportunity is that we can really leverage our franchise and leverage our bankers to grow even faster in some of these markets given our relative share.

If you think about diversity and you are going to hear a lot about diversity of revenue streams today because we've been working very hard over the last several years to try to create more diversity and diversity by product, diversity by segment, diversity by industry. And if you look at the balance sheet today, you've got a fairly even mix across both consumer and corporate banking, but with a growing presence in wealth management. And we've really invested a lot of our resources in hiring bankers that can bring to us some non-interest revenue. And so we are really trying to diversify that revenue stream by creating revenues that are more consistent, more dependable, more -- that you can count on from quarter to quarter.

If you look at how we have built our strategic plan for our business, we've tried to build a credible plan, a plan that challenges our teammates, challenges us as a leadership team to deliver performance. But also one that is credible to our investors, ones that they believe that can deliver on our goals and today, you're going to hear a little more about our plans and what we believe the possibilities are if we execute on those plans.

Our strategies really are around five priorities and number one is focusing on the customer. We believe in the business we are in that it is a highly competitive, highly commoditized business and that customer experience, that customer satisfaction, customer loyalty is job one. We really have to make sure that when a customer meets one of our bankers, walks into one of our branches, goes on to one of our mobile or Web-based products, calls our call center, regardless of channel they come into, that's got to be a unique and powerful experience for that consumer. That's how we differentiate ourselves is by the level of service that we offer. You are going to hear today both measurements that we are making internally, measurements that we have made externally, but also a lot of anecdotal information, awards we are winning for the kind of service we are delivering.

Second is risk management. You are going to hear from both Matt and Barb today about our risk management activities. We know that in the business we are in, we are in the business of taking risk, but it's got to be thoughtful, it's got to be prudent, it's got to be appropriate for our organization and we've invested heavily in people, process and technology to make our risk management activities even more robust and more disciplined than they've ever been in the past. As an investor, you've got to have some confidence in what we are doing and that we are not taking imprudent risk to grow the bank. We got to grow. We need to make sure we've got challenging growth goals, but we've got to do it the right way.

And next is really building the best team. Again, we still believe, at its core, banking is still a people business. We are fully embracing all the disruption that all the digital technologies are bringing to our industry. We are investing heavy in them. We believe we've got to compete across all channels, but we also believe at the end of that it is still a people business and people are still relevant, branches are still relevant. We have to invest in those

and we're trying to build the best team in the industry. And we've done -- you will meet many of our teammates today, but also you will get to hear a lot more about some of the expansion we've done and how successful we've been in recruiting bankers.

And the strengthening financial performance. That's predominately why you are here today. Again, we've tried to put together a thoughtful and credible strategic plan that allows you to measure our ability to execute, our ability to perform against that plan. We've put together goals that clearly realize we are in a challenging economy with a slow -- low interest rates and slow growth economy, but an improving economy and we believe we've got some opportunities to continue to outperform many of our competitors.

All of that's got to be on a foundation of managing performance. The real question is not can we build the right plan, can we be in the rate markets, can we hire the rate bankers, but do we have disciplined execution around our plans, do we manage for performance and you'll see performance mentioned throughout all of our presentations today. But I would leave you just with a couple of thoughts. One is we believe, over the last several years, we've really built a foundation that we now can leverage. We believe we've got strong markets. We believe we've got the right strategies in what we call Regions360, which is really just relationship banking, making sure that we are doing needs-based selling, that we are meeting customer needs in a way that they value, that they need, that's responsible and transparent and creates long-term sustainable value for our organization.

We are not focused on just next quarter or next year, but building long-term sustainable franchise value. We've got a strong team. We are building a very, very strong culture and we have to prove strength of execution. If you look at some of the basic values that's inside our Company, we really do believe that people make the difference and we've embraced a concept called shared values where we are trying to deliver value to our customers, our communities, our teammates and our shareholders.

We've got a number of outside recognitions lately. This year, we won an award for the most reputable bank in the US. Just this past week, we got ranked number one in customer satisfaction across the American Customer Satisfaction Index. Gallup ranked us as one of the top 40 places to work, but it's about customer satisfaction, customer loyalty, associate engagement and making sure that we are delivering performance.

If you think through strength of education and execution, that's really what we are here to talk about today is what our plans are and how we plan on delivering that execution. We've made good progress. We've grown loans in almost every category this year with almost -- a little over a 5% growth rate year to date. We are growing household, we are growing checking accounts, we are growing credit cards, we are growing almost every business we've got in the Company incrementally. And we are diversifying our income and we are managing expenses through targeted initiatives and I will talk more about that in a moment, but we also are committed to making sure we are returning more capital to our shareholders in a more reasonable way.

So the three things you are going to hear today from us -- one is this grow and diversify revenue. We are in a number of different markets. We are in a number of different businesses. We continue to look for ways through hiring bankers, through buying bolt-on businesses that we believe that can add value to our Company, but we are looking for ways to create diversity because we don't want to win just by one single product or one single geography or one single industry; we want to make sure that we are creating granularity across our portfolio. We can't always be right, so we are big believers in diversity. We think it makes us a more consistent and a more predictable performer over time.

But we also are realistic in that we still operate in a challenging environment. We still are in an environment where rates are historically very low and we are still in an environment while the economy is recovering, the recovery is a fairly slow pace. And so we have to control what we can control and predominately that's around expense management.

David is going to talk much more in detail about this, but all I will say is, over the last several months, as we saw 2015 unfold and we thought rates would go up earlier, they didn't go up earlier, we had to come back and sort of rethink what our strategy is because, for four years, we reduced expenses year-over-year. And then we made some investments in our businesses, smart investments, investments to grow revenue and those investments, as we will show you today, are paying off. We feel good about the investments we've made, but this year we will grow expenses faster than we grow revenues and that's not a sustainable strategy. So we've gone back and we've gone through a very rigorous process to figure out how do we deliver positive operating leverage going forward and so you will hear a lot about that today.



But lastly, we need to effectively deploy capital. We believe the best use of our capital is to deploy it back into organic growth. That's our number one priority is to show how we can grow across all of our markets, across all of our products, across all of our customer segments to deliver diversified revenue, but we also realize, with the capital levels that we are generating, the capital we're generating, that there's an opportunity to make sure we are returning capital in the form of dividends and share repurchase. We are proud of the level of capital we have. We feel like we are a very safe and sound institution because of the capital. It gives us certain advantages, but we also know we've got to be good stewards of that capital and manage it correctly.

So I'm going to ask John Owen to come up now, but please, if you would, let's make today very interactive. We will have a question-and-answer after John's. My hope is you get all your questions answered, but also my hope is that we deliver to you some information you didn't have before about our Company that gives you more confidence in Regions as an investment opportunity. Thank you.

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**John Owen** - *Regions Financial Corporation - Senior EVP & Head of the Regional Banking Group*

Good morning. My name is John Owen. I manage our Regional Banking group. This morning, I'm going to spend about 20 minutes on prepared remarks and then we will have about 30 minutes of Q&A. We've got several members of the management team here with me, so we will be able to answer all your questions.

I wanted to start off with really giving an overview of what's in the Regional Banking group. If you think of the consumer services group, I will start off with our retail, which is our 1630 branches and all our associates out in the field, followed by small business, which serves customers that are \$20 million in revenue and smaller. We have our mortgage group. We have about 450 mortgage loan originators that serve our customers. We don't use brokers, about a \$12 billion mortgage portfolio.

We have our indirect lending, which really has two aspects. Indirect lending is our indirect auto, which is the larger portion and something I will spend more time on around the indirect business we've started in the home improvement space. In wealth management, really four businesses in wealth management -- our private wealth group, which serves those customers that have \$500,000 in assets and above; our investment services group, which is \$500,000 in assets and below; our institutional services, which is retirements, endowments, trusts, corporate trust; our insurance group, which serves corporate, P&C, property and casualty, also personal lines.

When you put it all together, we serve about 4.4 million customer households, about \$73 billion in deposits, just under \$40 billion in loans and proud to say we are growing that quite nicely on the consumer side, about \$27 billion in assets under management of which we will add about \$800 million to that this year and about 17,000 associates that serve our customers every day, make sure they understand their needs and come to work to figure out how to do a better job for our customers each and every day.

If you look at 2015, just some highlights. 2015, I would tell you, has been a steady growth year. We've grown customer accounts. We've grown credit cards in that 7% to 8% range. We've grown debit cards. We've grown Now Banking, which serves our underserved market. We've grown deposits a couple billion dollars in this area. We've grown assets under management and when you look at wealth management, they've done a great job in growing NIR about 10% to 12%.

If you think about our delivery model, our delivery model, one of the things we say in our strategy is we want to allow our customers to bank the way they want to bank. So if you want to come in a branch, we've got 1630 branches over 16 states. If you want to do the digital and online space, we've got 1.9 million online users and growing. The digital mobile space is growing rapidly. So we allow customers to choose how they want to interact with the bank. Also, we are very focused on local bankers and local markets that understand that customer's local need. What does that business need in that community and be heavily engaged in the local community?

I'm going to go to consumer. If I dig in a little bit deeper on consumer, you are going to hear some common themes whether I am talking consumer or business or wealth around organic growth, deepening relationships, the Regions360. On the consumer side, I will spend quite a bit of time on the network, our network channel and distributions on where we are investing and also talk about some of the new initiatives that we've launched over the last few years and kind of give a status update on where we are with many of those initiatives.



Grayson mentioned this. We are fortunate to operate in some very attractive markets. In our 16 states, we've got about 80 million of the population of the US in our 16 states and the good news is that number is growing. In 17 of our metro markets, which have over 500,000 population, we've got over 5% population growth. Also, when you look at our markets, they are very good markets for not just one business. It's good for consumer, it's good for wealth and it's good for business.

When you look at our diverse and growing businesses, I know this is a busy chart and I'm glad this is a busy chart because every one of those dots on this chart represents a business in our footprint, a large or mid-size business that is growing and growing quite nicely. It's also all the businesses it takes to support these large industries. Grayson mentioned some of the numbers, but we've got great automotive manufacturers in our footprint. Healthcare national is a great hub for healthcare. We've got really good healthcare opportunities. Energy, right now, we will spend more time on energy in later presentations, but it is still a lot in our footprint and is something that over time will do quite well.

Entertainment, consumer products, but the good news is we've got a lot of businesses and more businesses moving to our footprint each and every day.

I want to talk about Regions360 and when we say Regions360, I know that is an internal label. Let me spend just a minute and talk about what it is. It really is just our internal brand for how we go to market. It's a very prescriptive go-to-market strategy. This is how we as a group understand customer needs regardless of where you are in the bank. Your first job is to get in and understand what does that customer or business need. After that, it really is about bringing the right team members together to go serve that customer so if you need to bring your wealth partner, bring your wealth partner. If you need to bring your corporate partner, bring your corporate partner. Treasury management or whoever, but it is team -- selling as a team, going out and meeting that customer need.

Now this is a consumer example. We've grown consumer 360 relationships about 2% to 3% this year. Now, when you look at that number, you go, okay, what does that mean? When we say a 360 relationship in consumer, it is someone that has their banking relationship with us. They have a checking account, they have a credit card, they have a savings account, they may have a loan with us, but it's really a full relationship and we measure by depth of relationship. When we have a relationship that we call 360, it is worth 50% more revenue. So it's worth 50% more revenue than a non-360 account.

Referrals and branches, our team has done a great job increasing referrals and branches, which, when we say referrals, we have referral agreements across most every part of the bank. So in consumer, just this year, their referrals are up 42%. Now that 42% improvement in referrals is \$45 million in revenue. So just the incremental 42% is \$45 million in incremental revenue. Also branch revenue per referral is up about 13%. So our goal is to grow the number of deep relationships, the revenue numbers are better, retention numbers are better and it really is a better experience for the customer and for the bank.

If you talk about our distribution network, and when I am talking distribution network, I am going to go really all the aspects where there's mobile, online, branches, DepositSmart ATMs, contact center, social media. I'll kind of start with DepositSmart ATMs. Over the years, we've made a very focused effort to invest in DepositSmart ATMs because it allows customers to do the vast majority of their bank transactions when they want to at whatever hour they choose to do that.

So over the years, we've interested in that. At the end of this year, we will be about 90% complete with having all of our DepositSmarts deployed. We will probably stay at about that 90% point and you'll see the numbers in just a few minutes.

Also in the digital space, you will see us continue to invest in mobile and online. We've just released some bill pay enhancements this past week. We will do some additional enhancements in both online and mobile in 2016, but I view that as an ongoing space where we have to invest, have to enable more capabilities, more self-service and over time more sales will head that way.

On the branch part, when you look at our branch network, Regions peaked in 2007 with 2127 branches. So in 2007, that was our high watermark, 2127 branches. Today, we are at 1630 and by the end of the year, we will be slightly under that number. We will have reduced our branch count by 500, 500 up to this point, which is about 23% of our branches off that high watermark.





You will also see us continue to do consolidations over the next three years, somewhere in that 100 to 150 range over the next three years. We will also do some building of branches. This year, we will open five new branches. Next year, we will open three branches and you will see us over time continue to invest in some key growth markets in building branches. What I would tell you over the next three years is the consolidations will far outpace the builds over the next three years and be happy we will take questions on that, I'm sure, in a little bit.

Let's talk about some of the things we've launched. I'm going to go back to 2010 and talk about what's driving some of our revenue growth. We relaunched our indirect auto space and I will talk more about the results in a minute. We purchased our credit card book back and we are growing 5000 active cards every month and the team has done a great job growing the card base on the actives. We launched Now Banking, which really serves that underbank space and we've grown that to 500,000 customers. About 65% of those customers are new to the bank and about 35% were already with the bank.

We've launched our remote deposit capture and when we look at remote deposit capture, we were not the first by any stretch, but ours is unique and ours is different in the respect that we offer customers choice. Our team came up with a way to say what do customers want. Customers want choice, so if a customer wants immediate funds availability, they can have it. If they want funds availability tonight, they can have that. We also charge for that feature.

A couple others I will point out. Streamlining credit we've launched, both Savings Secured, we've launched. These are all new things to serve customer needs and one of the things I should point out, some of these where we get the input, Grayson mentioned Gallup and J.D. Power's. One component of Gallup is voice of the customer and when you look at the voice of the customer, a lot of the things I've shared on this slide and the previous slide really came from customers saying can you do this for me.

The other thing I will point out, we recently launched an agreement with a point-of-sale partnership with GreenSky and I will talk more in detail about that in a minute, but you are going to see us continue to try things, learn from things. Some are going to work and some are not going to work and the ones that don't work over time, we will ship those off. So really going forward, we will test other point-of-sale relationships. We will drive increased revenue out of the initiatives I've shared with you and it really is a pilot [learner] go forward.

Let's talk about GreenSky in a little more detail. A lot of questions on is it working, what are you seeing volume wise. What I would tell you is we launched this in fourth quarter of 2014, late in the fourth quarter. You can see the balances. We had \$6 million in production in that fourth quarter. We will end the year at over \$350 million and you'll see that number go up to roughly \$575 million in 2016. So this initiative is working. It is serving a customer need. It is allowing us to really expand our consumer portfolio. So I would tell you this one is off to a really good start.

Indirect auto, I mentioned we entered that in 2010. Some of the things we've done over the time, we've grown it to roughly \$4 billion. We will grow that to roughly \$4.6 billion next year, but a couple things I would point out on indirect auto. The auto space has, from 2009 when it kind of hit the bottom, about 10 million cars sold in the US; hit 16 million for several years; hit 17 million. There's a chance we are going to hit 18 million new car sales in the US. Now what we've done to kind of make sure we stay in our credit box and stay in our lane, we are doing no subprime. We are doing no leases with our dealer group and we are also partnering with the large preferred dealer groups. And the reason we have chosen to partner with the large preferred dealer groups, they have the size and scale to have great compliance infrastructures and really good regulatory environments in those large dealer groups. So we are getting 50% of our production today from that and you will see that production number with preferred dealers go up over time.

I'm going to switch gears to business banking. And when I think about business banking, the same core themes -- organic growth, deepen relationships through Regions360. I will talk about the alternative channel that we launched a few weeks ago and also talk about the SBA initiative.

I will start with the challenges side. When you look at the challenges in small business and again, I will put this out, this is \$20 million in size in smaller businesses. Through this cycle, we've lost about 18% of the small businesses in that \$20 million and smaller size in our 16 state footprint. So a lot of businesses have gone away in this cycle.





The other thing that's a challenge, and remains a challenge is small business formation remains weak. So really that engine of go start your new business is still fairly weak. Loan demand remains weak, so we're really not seeing a high demand in loans. We are also seeing rapid growth in the online lender space and I will talk about that more in just a minute.

On the positive side, what I will tell you is a great story in business banking is business banking has done a terrific job in deposit-gathering. We've grown deposits 8%, balances are up 8%. So we've really done a good job gathering deposits. They've done a good job growing business accounts. So in spite of the fact that the number of businesses, it's not growing, we are getting more than our fair share, so we are growing the business. SBA is a bright spot and I've got some more details on SBA in just a minute.

When you look at business banking, the red dots on this chart really are our core markets. It's no surprise, as Grayson had in his presentation, it's kind of where we have scale. So red dots are really where we have a strong small business, business with deposits and loans, treasury management, full relationships. Talk about where the growth opportunities are, good green dots are loan growth opportunities. No surprise, Texas, got great opportunity for small business growth. Our Texas team is doing a really nice job in small business. Over in the Carolinas, we are seeing good growth in the Carolinas as well, so good opportunity in pockets of the US.

Talk about SBA, we've talked about we've made investments in people; we've hired people. We've hired 22 SBA specialists. It takes an SBA specialist about 11 months to come up to speed and pay for themselves and you can see from the production numbers, we've grown from a very small number to a couple hundred million, to \$225 million and growing to \$250 million. So this group is getting good results.

Talk about our new online lending partnership. Now we've only had this partnership out there for a few weeks. We are talking two, three weeks. We stood back and said where do we want to go with this online space and what does it look like and how should we engage. And when you look at the small business lending space, it's about a \$280 billion space of small business loans. And the actual online providers only have about \$5 billion to \$7 billion of that \$280 billion. So it's a small number, but every day there is a new online vendor out there getting in this space, number one. So that has kind of prompted us to investigate.

Number two, we surveyed our customers and asked our customers about the online space and what they perceived the value was. We had about 20% of our existing Regions customers tell us that they would prefer to go through the online space. So you put those two things together, we went out and looked at several partners. We ended up with a partner called Foundation. We've launched here recently. We haven't really done any advertising; it's kind of been a quiet launch, if you will and we are going to learn and we're going to learn the space, understand the space with a partner. Can't tell you if this is going to be something that will grow well or not. Time will tell.

I will move on to wealth management. Wealth management, same couple core themes. Talk about organic growth, talk about Regions360. I will talk a little bit about making some bolt-on acquisitions in some of the space there, primarily insurance. If you look at wealth management, wealth has done a really good job of stepping back, updating their strategy, putting really a strong team in place. They really have invested in some talent in that space. They've done a lot of performance management and changing some staff out to really get a higher performing organization. You are seeing it in the numbers. We are getting double-digit growth of NIR and I think Bill and his team will continue to get double-digit growth as we go forward. We've made that commitment into 2016 and I think you will see that go forward.

If you look at some of the other investments we've made in people, we've said on calls in the past we've hired financial consultants and again, to remind you, that financial consultant space is \$500,000 in assets and below and they've grown that from zero to about \$2 billion in assets under management. You can see the fee income. It takes about nine months for these individuals to pay for themselves. We've got \$225 million. We are going to kind of pause at that number and see what the performance is. You can see what I have out there for 2016. It's continued double-digit growth in fee income. We are pleased with the progress. We are going to watch the progress. We are going to try to get more performance out of the group. We think this has been a very good investment.

Insurance has been another place where we've had good, steady growth. The insurance team has done a really nice job of clear strategy, going out and bringing in good talent. They have done a number of liftouts. We've done one acquisition in this space. They have also put insurance on one technology platform, paperless, fully image-enabled, workflow-enabled, a very efficient platform and also I would tell you this is a low-risk business. We are a broker in this model. We do not take the risk of [cats].



If you look at the growth, they've got double-digit growth. I think you'll see that continue. This team has done a good job. You will see us stick to what we've already said around liftouts and acquisitions. We think there's more opportunity here.

If I talk about expense management for a minute and Dave is going to talk a lot about this. I'm going to spend a few minutes on some of the things we are doing in the Regional Banking group and when you look at the Regional Banking group, we've got a lot of initiatives where we have taken our Lean Six Sigma team under Keith Herron and we've got black belts and green belts and we really have ingrained those in the business. This year alone, we've completed 14 initiatives. We will see a \$35 million annualized benefit. About 70% of that number is in revenue pickups and about 30% of that is expense reductions. You will see us in 2016 commit to get another \$30 million to \$50 million of either revenue or expenses out through our Six Sigma initiatives.

The second point I would make is around how we've deployed technology and different things to really be more efficient and effective. And really what that second bullet on the chart is, through deploying DepositSmart ATMs at the level we have, through deploying remote deposit capture, our Universal Banker rollout, really the combination of those things have allowed us to reduce our teller staffing by about 380 positions just in 2014 and 2015 just by using and deploying that technology and letting the customer choose where they want to go to use that technology. These numbers don't include anything to do with branch consolidations. Those numbers would be above that.

Branch consolidations I've already mentioned. We will have somewhere between 100 and 150 over the next three years and I think we will see that continue.

One of the things I would point out on this chart, we are making a commitment going forward that when we do initiatives, you are going to see revenue growth, you are going to see positive operating leverage and you are really going to see that play out in all the initiatives that we've launched on a go-forward basis.

I will wrap up by really, for the Regional Banking group, saying what we are coming forward with is we think we can get 2% to 4% revenue growth. We think we can have positive operating leverage and we are going to do this by really sticking to the fundamentals of organic growth. We are going to grow customer accounts. We are going to grow deposits. We are going to grow loans. We are going to grow assets under management and our wealth management team is going to continue to grow NIR at that 10% to 12% range.

With that, I will pause and we will take questions and like I said earlier, we've got members of the management team here and be happy to take as many questions as we can.

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## QUESTIONS AND ANSWERS

**Jeff Elliott** - *Autonomous Research - Analyst*

Jeff Elliott from Autonomous. You kind of laid out some of the areas where you see the biggest opportunities, particularly on the fee side, but what about the places where there are headwinds?

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**John Owen** - *Regions Financial Corporation - Senior EVP & Head of the Regional Banking Group*

I think the question on where are the headwinds, I think probably more the biggest areas of headwinds, as you saw the announcement that we may have some issues with building branches in the future. I think there are growth opportunities around us building branches in metro markets and I think over time, you will see us do that. We won't be able to do a lot of that in 2016, so I think that's one.

And the other is in the small business base. Small business really is doing a great job on the deposit side, but loan demand really remains pretty weak and I would ask Joe to comment on that just a minute.



**Joe DiNicolantonio** - *Regions Financial Corporation - Head of Business & Community Banking*

Thank you, John. I am Joe DiNicolantonio; I run business banking for the Company. What we've seen in business banking is really loan demand is weak, but what we are focusing on is really taking care of the customers that we have today because, at some point, that loan demand will actually turn around. And so what we are focused on is growing relationships and we are doing that through prospecting the small business markets we serve, for partnering with all the other partners in the bank for that referral network that John talked about and really meeting their needs. And so if we stay focused on those, we meet their depository needs, we meet their treasury management needs, we refer to wealth management, the opportunity is going to come when loan demand comes back to grow those loans.

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**John Owen** - *Regions Financial Corporation - Senior EVP & Head of the Regional Banking Group*

Yes, I think the biggest headwind, which we don't have control over, is rates and so what we've chosen to do is let's focus on what we can control. And when you saw -- what I went through is we can control growing customer accounts and we are. We can control growing deposit and we are. We can control growing loans and we are. So I think you'll see us stay focused on organic growth and deepening relationships and let's focus on what we can control.

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**Jeff Elliott** - *Autonomous Research - Analyst*

And just to follow up, you mentioned issues opening branches. I guess you are referring to the Community Reinvestment Act rating potentially getting cut. So can you give a bit more background on what happened there and how quickly you can address that?

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**John Owen** - *Regions Financial Corporation - Senior EVP & Head of the Regional Banking Group*

What I will say is we use the word may be affected and when that gets finalized, we will have more information and Matt can comment on that, but what I would tell you is we view it as a temporary delay. We will implement our growth plans. We may have a pause here for a time period, but it's just a pause.

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**Grayson Hall** - *Regions Financial Corporation - Chairman, President & CEO*

And if I could just for a second sort of address that. I think one is that our whole strategy is about being engaged in our communities that we operate in and servicing customers. And so we feel very strongly about what our team is doing in communities and we fully embrace that that's part of the foundation of our strategy. I do think, in this environment, you are going to have points in times where you pause for various reasons. And so I think that, from an earnings standpoint, this is not an issue. But we continue to want to manage our branch channel. We want to try to make sure that we are not only trying to create a more efficient channel, but also expanding where that makes sense in that channel.

But we are trying to manage all of our channels because we can't predict where our customers want to bank with us. We want to give them choice. Today, we have an unbelievably high number of our customers who visit our branches every 30 days and in addition to that, over 80% of our new account sales happen in those branch offices. But as John had explained to you, we have been pretty aggressive consolidating branches.

We think it's made us more efficient because we are the 15th largest bank in terms of deposits, but we are the seventh largest bank in terms of the number of branches. And the total number of branches in the United States is roughly 95,000. It's gone down a few percent, but the number of branches in the US still holds up pretty high. We still think they are relevant, but we've got to adjust. We've got to create -- we've got to place more technology in those branches. We've got to go to a different service model in those branches, but we've got to also make sure that we are creating the same experience across all of those.

I think at our core, we really feel strongly that we've got to be a great consumer bank. We think it's a key part of who we are. I think it's a key part of our strategy. One of the things, and I will ask John to speak to it in a little more detail is, we've faced several headwinds over the last few years

to our revenue stream out of consumer because of different legislative and regulatory challenges. The good news is most of that is behind us now and it really gives our consumer bank an opportunity to really grow at a faster rate than we've been growing because quite frankly we don't face the same headwinds we've been facing for the past few years. You may want to elaborate?

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**John Owen** - *Regions Financial Corporation - Senior EVP & Head of the Regional Banking Group*

Just to elaborate a little bit on what Grayson said, if you look at over the last several years with different legislation and rules, it's taken roughly \$500 million of revenue away from Regions, whether it's Durbin or Regulation E or you can go down the list. And the reason I went down that track record of a couple slides that showed you all the things we've launched is we've seen that coming. We've recognized that and all those things we've launched, we have filled that \$500 million hole. And we have proven we can launch things and meet customer needs. We've proven that we can come up with new things that fill that need and help customers meet what they want.

The other thing I would point out is, on a go-forward basis, we've got very good consistent growth in our consumer bank. Our consumer team has really -- and I will give you an example. We've got 1630 branches and they roll up to 137 what we call consumer sales managers. And when I look at those weekly sales goals, those 137 consumer sales managers, over 100 of them are over 100% of goal and our lowest performing consumer sales manager is at 80% of goal. That is consistent performance and over the years, that's where we have focused and tried to really get consistent process and delivery in meeting customer needs and that's why you are seeing the growth in the consumer side.

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**Ryan Nash** - *Goldman Sachs - Analyst*

Ryan Nash, Goldman Sachs. Just two quick questions. One, you highlighted the potential for some partnerships. You talked about the GreenSky partnership. Could you maybe talk about what the economics of that business looks like in terms of yields and returns? And are there other partnerships that could have as big of an impact on balance sheet growth over the next few years that you are currently looking at?

And the second question, within your outlook, I didn't see a slide on service charges. This has obviously been an area that has come under pressure. Can you just help us understand, within your expectations for growth and positive operating leverage, what are you factoring in in terms of the changes of the service charges line?

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**John Owen** - *Regions Financial Corporation - Senior EVP & Head of the Regional Banking Group*

Okay. I will take the first one. When you look at what we are proposing, we've already launched our partnership with GreenSky. We have launched our partnership with Foundation and when you look at -- I will take Foundation. Again, very early, but we are talking an average loan size of roughly \$165,000 to \$170,000. You are talking rates that are going to be in that 5% to 9% range for most of the loans that would be approved, but through our credit box. So you are talking a good performing portfolio. We are talking really sticking to the credit box that we have for our business.

Talk to GreenSky, the way we've got GreenSky structured, those loans are on average about \$8000 to \$9000 loans. They are in that 7% to 8% range in terms of rate and the duration on those is somewhere around 24 to 28 months in duration is about what those are. So early on those two, but again performing like we thought they would, especially GreenSky. If I had to say, GreenSky is probably a little better than I thought, but I would ask Logan to talk a little -- Logan Pichel, who runs our consumer lending -- to talk a little bit about some of the other opportunities that we are looking at potentially piloting.

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**Logan Pichel** - *Regions Financial Corporation - Head of Consumer Lending*

Thanks, John and good morning. I am Logan Pichel; I manage consumer lending for Regions. And when we stood back and looked at our strategy a couple years ago, we said one of the things that we need to do is develop a way to complement our branch-generated loan production business. And so how we've looked at that is are there opportunities to look at non-branch-generated businesses.

So a couple of spaces there. One is the point-of-sale business. That's a \$500 billion industry, point-of-sale industry. We looked at that and said there's probably three verticals we would like to play in. The first is home energy. The second is home improvement and the third is medical. So we are now in two of those three spaces. The home energy business we have about a \$200 million portfolio. We've been in that space for a number of years. We got into the home improvement space with GreenSky. As John showed you, that's now about a \$350 million portfolio that is going to grow next year to \$550 million and now we are starting to look at the medical space.

As we looked at these industries, there is a couple of reasons to get into this space. One is it helps us diversify our revenue streams. Second is it helps us diversify our risk. Third is there's clearly client demand. With a \$500 billion industry, there's clearly client demand. As we look at how we execute on those businesses, you can build it, you can buy it or you can partner with it. We've decided to partner with industry experts in this space. The reason we've done that is it's probably quicker to get into the businesses. It becomes accretive earlier and you don't make as big an investment. It allows us to pilot a number of different initiatives.

So we've picked our three verticals. We think picking the right partner is the right choice. The other advantage is, as you can see in the GreenSky numbers, if you pick the right partner and you execute it well, you can get some pretty significant loan growth in those businesses. So we still think there's some good upside there.

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**John Owen** - Regions Financial Corporation - Senior EVP & Head of the Regional Banking Group

Thanks, Logan. Scott, why don't you talk about fee income opportunities in the consumer space? Scott Peters runs our consumer services group.

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**Scott Peters** - Regions Financial Corporation - Senior EVP & Head of Consumer Services Group

Thank you, good morning. Service charges. We talked a little while ago, John did, about roughly \$500 million over the last five years have been carved out from a revenue perspective. A lot of that has happened in the retail space with service charges. The good news on this is that I think the lion's share of external forces driving that down have calmed and were starting to level off. We've talked about our posting order changes, which went in across our entire bank in November. Given you some guidance on that of roughly \$10 million to \$50 million per quarter that that will drive some revenue down.

The good news though on the overdraft side is that we feel we have a fair and strong overdraft program for our customers. They use it as a good source of liquidity. We are seeing the behavioral differences that occurred during the crisis start to temper. So in addition to some of the things that happened around overdraft during that time, basically there was better money management by consumers. So there were two headwinds going on at the same time. Now people are managing their accounts more consistently. We are growing accounts, so we feel that actually over time that that is going to level off. We're going to see less overdrafts from an overdraft perspective.

The other good news is that we continue to grow and growing checking accounts is critical to us. So our interchange continues to grow at a nice clip, just shy of double digits between credit cards and debit cards. So that is a strong income line for us and in addition to that, now banking continues to grow at almost double-digit increases on revenue. So we feel pretty good going forward from the what we'd call combined service charge alliance coming out of retail.

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**John Owen** - Regions Financial Corporation - Senior EVP & Head of the Regional Banking Group

Thanks, Scott.

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**Unidentified Audience Member**

You talk about, in the previous slide, apologies if we have miswritten some of the numbers down, 10% to 12% growth annually in wealth management, 3% to 5% loan growth, if I remember writing those down, but 2% to 4% fee revenue growth. So want to triangulate Ryan's questions earlier another



way. Besides deposit service charges, do you have any other decline in revenues? Are you assuming a margin compression or is there anything else going through trying to get from 10% to 12% and 3% to 5% loan growth to the 2% to 4% revenue growth?

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**John Owen** - *Regions Financial Corporation - Senior EVP & Head of the Regional Banking Group*

I will make a couple comments and I will ask Bill to make a couple comments about wealth management. What we are seeing, which is really exciting for where we are in this cycle, we are seeing steady growth across the business in the Regional Banking group with one exception, which is loan demand in small business, we are seeing strong, steady growth in consumer really in all aspects of consumer -- accounts, credit cards, debit cards, Now Banking, loans. We will grow consumer loans a little over \$1 billion this year. Wealth management, good growth out of wealth management. Bill, why don't you talk a little bit about wealth management growth?

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**Bill Ritter** - *Regions Financial Corporation - Senior EVP & Head of Wealth Management Group*

Good morning. I am Bill Ritter. I lead our wealth management group. As you saw in the slide, we will grow revenue 10% to 12% next year, but I think more importantly we will grow revenue at a faster pace than expenses. We will generate positive operating leverage throughout wealth next year. John touched on it. We are fully built out with our financial consultants. We don't have any plans to hire any additional bankers in private wealth or institutional. And with regards to insurance, we will continue to look for bolt-on acquisitions and liftouts that add to revenue. Thank you, John.

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**Joe DiNicolantonio** - *Regions Financial Corporation - Head of Business & Community Banking*

I can add a little bit to that. So [Vic], you were asking really how do you reconcile that operating leverage. I think when you look at, across the board, so wealth management is still a small percentage of our base. So 10% to 12% on the base is why you don't see it manifest itself at all on consumer at this particular point in time. We are trying to grow wealth management so that it contributes more to the bottom line, as Grayson mentioned earlier.

The compression and the risk of downside pressure in terms of fees outside of posting order are pretty much abated on the consumer side. So we are looking to continue to grow and as Scott mentioned, really you will see that growth manifest itself as we continue to grow customer accounts, more importantly checking accounts.

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**John Pancari** - *Evercore ISI - Analyst*

John Pancari, Evercore ISI. Just on the CRA topic, Grayson, just wanted to see how -- if you could give us a timeframe at all where you expect that that could be addressed. I know you called it a pause and then does it also impact M&A and could it impact M&A for this business, for example, business acquisitions, portfolio deals? I know Joe just mentioned that possible bolt-on acquisitions in wealth management. Does that get impacted by the CRA?

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**Grayson Hall** - *Regions Financial Corporation - Chairman, President & CEO*

It wouldn't be appropriate for any of us to speak on some of these matters from a regulatory nature, but talk about our business is that we've been pretty clear for several months now that our focus has really been on organic growth and doing bolt-on acquisitions, predominantly non-bank bolt-on acquisitions and that continues to be our strategy. I don't see this having any impact on that. Our strategy has not been to -- at this juncture, when we look at the economics of an acquisition, we think we are better off figuring out how to grow organically. We think we're better off focusing on our business. We want to be and I used the words last time, patient, but prepared. We still believe that's the right thing to do. We do believe in the world we are operating in, there's going to be periods of time that you've got -- to do a transaction, you've got to have -- it's got to be a strategically compelling transaction. It's got to be an economically compelling transaction and you've got to be in a position to get approval for that transaction. And so we believe that there still is a lot of consolidation opportunity in the industry long term.



But short term, our strategy is really around building a better business, driving organic growth, doing bolt-on acquisitions or liftouts of talent where they make sense, but they are incremental. But also as you've listened to John talk about it, we do believe innovation is a big part of what we've got to do to have a successful, long-term, valuable franchise. And so we are making a number of small investments in different partnerships and in different technology projects that allow us to grow incrementally, but I keep coming back to this word diversification. And so we want to really be diversified, not only our revenue streams, but in our investments.

We are not going to make a big capital investment in a single transaction or a single deal. We want to make sure we are diversifying those investments across a number of opportunities. And so I think short term I think little impact to us as long as we keep focused on organic growth and I think long term takes care of itself. I'm not really concerned about that long term. John, anything you want to add to that?

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**John Owen** - *Regions Financial Corporation - Senior EVP & Head of the Regional Banking Group*

No, well said. Any other questions?

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**Matt Burnell** - *Wells Fargo - Analyst*

Matt Burnell from Wells Fargo. Just a question in terms of the trajectory of expenses and specifically on technology or cyber expense. You are obviously putting a lot of focus both individually and with partners in terms of your technology offerings, but the consumer side of the bank is typically cited by banks as being the area where they have the greatest level of concern relative to bad guys getting in, for lack of a better term. How are you thinking about the trajectory of those expenses and do you believe that when the larger banks say that they believe they've got a competitive advantage in terms of the amount of money they can spend on both technology and cyber defense that you can compete with the big guys specifically within your footprint?

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**John Owen** - *Regions Financial Corporation - Senior EVP & Head of the Regional Banking Group*

Sure, I will talk about cyber in general to start with. When you think about cyber, it's been a topic that's gotten more and more and more airtime over the last five years especially. There's really nothing new to banks. Banks have for years been trying to figure out ways and put up good defenses to keep the bad guys from getting at the money. So this is not a new thing for banks. Banks have been doing this for a long time. Now there is a heightened focus in the last five years and we at Regions, we have invested significant dollars over the last several years to up our game, if you will, in cyberspace. We have a large number of associates in our information technology world that focus on cyber. It really goes beyond information technology. It's really all associates.

I will say again, it's not a new thing -- BSA/AML. Know your customer. Our front-line associates have been really kind of a first line of defense for cyber for years and years and years. And so heightened, yes, something that the banks have invested in for a long time, we have and we have invested more. So I think you'll see that happen.

The other thing that's gotten heightened focus is that vendor management response and how you work with your vendors and partner with your vendors and our level of due diligence around vendor partners and vendor management has heightened significantly I would say over the last five years. When we do relationships and partnerships with a GreenSky or a Foundation, we always have a third party work with us and assess the risk both from a compliance, security and really all aspects of risk going forward on those relationships. That's why it takes us several months to launch these things.

So when we launch a new initiative like GreenSky, we've spent over a year working through that process with that partner, with our vendors, with all the appropriate parties to make sure that's a nice, good, safe relationship. Same thing with Foundation. So a lot of things are going on behind the scenes. We think we've done a very good job in vetting those. It is something that we will be more vigilant as we go forward with more partnerships. I might ask Matt Lusco if he wants to comment any on some of the work we've done with third parties on vetting these things.





**Matt Lusco** - *Regions Financial Corporation - Senior EVP & CRO*

Thanks, John. I think you said it pretty well as it relates to the level of diligence that we undertake as an organization with warning levels of launches that occur. From our perspective, from a risk management standpoint, I am very comfortable with some of these launches and the fact that we are actually launching them through third parties, through partnerships that John has mentioned.

He mentioned the aspect of actually getting to market quicker from a revenue standpoint, but from a risk management perspective, we are partnering with people that have greater levels of expertise that we are learning from along the way. It also enables us to evaluate workings of these investments and take a course correction or a difference on our strategy if we actually don't like the results of those as well.

So from a compliant standpoint, clearly a lot of these are consumer businesses. We are very engaged as it relates to their interactions that they may have directly with our customers. John mentioned use of third parties. Those would be certain levels of testers or compliance experts that we make sure we evaluate how those transactions are occurring on a real-time basis prelaunch.

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**Grayson Hall** - *Regions Financial Corporation - Chairman, President & CEO*

If I could just add to it real quick and just I think getting a little more directly at the question you asked is that when you look at technology as a competitive advantage, generally, in our industry, that competitive advantage has a pretty short half-life. Technology, in fact, some of the smaller players are much more nimble on technology than even medium to large players are. But if history holds true, those technology investments also decline in cost to implement over time and we are seeing a lot of smaller non-bank players in the technology space that, while still small in terms of scale, are playing some pretty disruptive games in our industry and pulling in some customers that we would prefer come to our bank.

And so we see them as competitors, but in many cases we have figured out ways to partner with them in a productive way. We still are increasing our technology spend even though we are looking for managing expenses. We have to continue to improve our technology spend because we believe it's the cost of admission. We believe that customers want to have choice, they want to do business their way and we believe that technology, the convenience of technology, banking from your mobile, banking from your computer, banking from your telephone, from the ATM, from the branch, they want to do all that, but they want it to be a great experience. So our expenses, our capital investment in technology continues to go up year-over-year and we have to figure out a way to self-fund that through efficiency saves and other areas.

Cybersecurity is a totally different, but related question in that our cybersecurity spending in terms of staff and in terms of tools for defense and monitoring have gone up substantially over the past few years and will continue to do that. I think that being large or small is not particularly relevant in that arena because the industry needs to defend the industry. I don't think there's any advantage to one of us having cybersecurity defenses that far outpace the others. I think we all need to have prudent cybersecurity defenses and we've been very supportive of legislation that would allow not only our industry, but other industries to be more open and sharing so that we can all improve our overall defenses because I believe the financial services industry, we need to have good strong defenses.

To John's part, we've been dealing with people trying to perpetrate fraud for years in banking. We have the old-fashioned bank robberies. We have a lot of card fraud that occurs and we still have the old-fashioned check fraud that occurs. We've managed check fraud, card fraud and robberies very well and we know how to do that. In cards, we've made some big changes in the last year on cards. We need to make more, but I think it's really helped. Cybersecurity has been -- is both about fraud and also about disruption and today, we try to build as good a defenses as possible, but we realize that there are always going to be opportunities for people to penetrate those defenses. So we've had to build a lot of monitoring tools to be able to monitor someone that potentially got through the defenses.

I don't think anybody believes that they are totally safe in the cybersecurity world, but you just have to keep investing and you keep having to hire good people to try to build as good a defenses as you can and just really be on top of this. So even though we are looking for places to create efficiency and save money, cybersecurity and technology investments are not two places we are doing that.

**John Owen** - *Regions Financial Corporation - Senior EVP & Head of the Regional Banking Group*

For the sake of keeping us on schedule, we will have time for questions later. I want to thank you for your attention, thank you for your questions. We are very confident about our business plans going forward, but it's time now to take a 15-minute break. So coffee is down the hallway and we will come back in about 15 minutes. Thank you.

## PRESENTATION

**John Turner** - *Regions Financial Corporation - Senior EVP & Head of the Corporate Banking Group*

Good morning and I will offer the same welcome the others did. Thanks for your interest in Regions. I am John Turner and I lead our Corporate Banking business. I am joined today by Terry Katon, who runs our capital markets business and Terry will join me for the question-and-answer session. I am particularly pleased to get to share the corporate banking story with you because I think at Regions, it's a business that we are building, that we are growing. We've got a solid plan and I think a real opportunity to continue to grow prudently and profitably our revenues.

As Grayson mentioned and John reiterated, our focus is on growing and diversifying revenue, particularly with an emphasis on growing our non-interest revenue. We are going to maintain good expense discipline while continuing to invest in people, products and our capabilities. And finally, we are going to effectively deploy capital by ensuring that we are getting appropriate risk-adjusted returns on the businesses, the portfolios and the relationships that we enjoy today.

Just to give you some sense of the corporate bank, we have about 1200 associates working in corporate banking, today representing about 5% of the Company's workforce. We generate roughly 27% of Regions' revenue and about 42% of the Company's PPI. Roughly 50% of our loans and 22% of our deposits are attributable to Corporate Banking group customers.

When we define Corporate Banking, we define it as three businesses -- commercial banking, corporate banking and real estate banking. Commercial banking is a traditional middle-market commercial banking business defined as companies typically with revenues between \$20 million and \$250 million. These are locally owned businesses. They are primary or really only source of capital is a traditional bank loan. So their relationship with their local banker is very important to them. These are customers that use a lot of bank products and services. They are very loyal. This is core business to Regions and it's been built in markets like Jackson, Mississippi; Mobile, Alabama; Chattanooga, Tennessee; across that southern franchise that Grayson showed and talked about a little bit earlier today.

Our second business is our corporate banking business. These businesses typically defined as companies of revenues between \$250 million and \$2 billion, are often publicly traded or sponsor-owned. They have access to multiple sources of capital. And so what they want is bankers who have a real understanding of capital sourcing and structuring and they often expect bankers who have specific industry and/or product expertise. This is a business that has been growing for us in markets like Dallas, Texas; Charlotte, North Carolina; Indianapolis, Indiana; Miami. And it's a business that we think we can continue to grow. Our specialized industries bankers and our Regions Business Capital bankers have been particularly active in this particular space and as we think about growing non-interest revenue, this is the customer segment where we really have the greatest opportunity and where we are making significant investments.

The third business is our real estate banking business and we think it's a good story. When the Great Recession started, on a relative basis, we were the largest land lender in the country, not something we are particularly proud of today, but we had to do over time reduce that book of business from about \$26 billion down today to an investor real estate portfolio that is just under \$7 billion. We've rebuilt the business model. It's really centered around professional real estate bankers who are doing business with experienced developers who have good access to capital, good liquidity. They are operating in good markets. We have a very diverse portfolio by product type and by geography. We learned a hard lesson about concentrations and so we are actively managing the concentrations in this book of business.

Today, it is more construction-oriented than term-oriented and so one of our strategic objectives is to begin to balance the portfolio to have a greater percentage of term exposure in the book of business. That means growing our customer relationships with owner operators, giving us a

greater opportunity again in this business to generate more non-interest revenue. And so as a result, you have seen us invest in and we will continue to invest in capital markets products that make this -- make that available to this customer segment.

Our go-to-market strategy is built around local bankers working with industry and product specialists across our footprint to deliver the entire bank to our customers to meet their particular needs. We call this Regions360. It is our needs-based approach to banking. Bankers teaming together across our platform and we think this makes us unique and makes us different and I will share some examples of that in a minute.

In terms of opportunities, I think we have several. First, we are underpenetrated in certain businesses, markets and products and that is natural. We are growing the business. It's emerging at Regions. We have too many single service relationships, particularly credit-only relationships. I think we have an opportunity to recycle the capital that's been allocated to those customers and in doing that, building broader and deeper, more profitable relationships. We have lower returns in some parts of our business than would be optimal. We've been I think very focused on client selectivity and so now we are shifting our focus again to risk-adjusted returns in the business.

And finally, we've got to alter the mix of revenue. We've got to drive more non-interest revenue in our business. Today, or as of year-end 2014, only about 22% of our revenue, total revenue, was from non-interest sources as compared to a number of our peers who generate as much as 50% of their revenue from non-interest sources. As a result, they use less capital in their business, they generate better risk-adjusted returns and their earnings are more -- the revenue streams are more stable. So you'll see all of our plans support these opportunities and in particular our opportunity to grow non-interest revenue.

As John mentioned, Grayson mentioned, we think that our markets are a real strength of the Company and today, our business, that core commercial banking business, is built around roughly 15 markets where we enjoy number one, two or three marketshare. Been in those markets a long time and we've built a good, stable business. But our opportunity we think is in three strategic markets -- Birmingham, Nashville and Memphis and additionally 10 growth markets like Dallas and Houston, Charlotte, Atlanta, St. Louis, Indianapolis, Miami. Today, roughly 70% of all of our corporate banking associates reside in one of those 13 markets. 8 of the 13 are in the top quintile for projected employment growth in the United States over the next five years. That means roughly 2.1 million jobs or about 20% of all the jobs in the US will be created in one of those 13 markets. And over the last 18 to 24 months, roughly 75% of our loan growth has come from one of the 13 markets that you see here. So we think they really present a great opportunity to expand our business.

I talked about our go-to-market strategy, Regions360. Our bankers working with industry and product specialists to really leverage the synergies that our businesses provide across our platform and again, we think it really makes a difference. What we see is when our specialized industries bankers or our Regions Business Capital bankers partner with local RMs to deliver the entire bank to our customers, we generate 134% more revenue than on a non-shared basis. And when we normalize all those companies, take the big companies and small companies and we effectively make them the same size, we still generate 73% more revenue when our bankers partner together, when they team to deliver the entire bank to our customers and we bring that specialization to those relationships. So clearly a differentiator.

Within our core middle-market commercial business, which is again a business that we've built over a long period of time in those 15 markets, roughly 85% of our revenue comes from customers who represent Regions360 relationships. And those customers generate 3.3 times more revenue than our non-Regions360 customers. So we know if we sell broadly and deeply into these relationships and if we support those relationships with industry and product specialists, there is a great benefit to the Company and so a real opportunity.

We've been investing in people and products, particularly over the last two years. We've added bankers within our specialized industries groups. We've opportunistically hired corporate and commercial bankers. We've added to our product capabilities, M&A advisory, loan syndications and again providing longer-term real estate financing products primarily through Fannie DUS. As we look forward, we intend to do the same thing over the next three years.

CMBS is a platform we'll roll out in early 2016. Again, focusing on providing a long-term real estate financing solution to non-multi-family developer customers. We also intend to offer loan sales and trading and in early 2017 fixed income sales and trading again to meet the needs of our customers as we seek to grow out our debt capital markets platform.



We make all these investments in a disciplined way. So today, when we hire a corporate banker, we expect that corporate banker to break even within 10 months; commercial banker 11 months. In both instances, we expect to recoup our investment, if you will, the money that we spent on those bankers, within 18 months. We make an acquisition like the Fannie DUS platform or like BlackArch Partners, the expectation is that those acquisitions will hurdle an internal rate of return in excess of 15%. And we are disciplined in our review of those acquisitions. Fannie DUS, we believe, has been a great success, already generating 30% more revenue and income than we had anticipated.

We make investments, as I mentioned. These are efficient businesses for the most part. They are not all efficient, but for the most part our opportunities are so. For every dollar we spend, we will generate \$3 in revenue, a minimum of \$3 in a revenue and that will translate to \$2 in pretax income.

Growing non-interest revenue is really important. I mentioned we ended the year 2014 at about 22% of total. We would expect over the plan year by 2018 to grow that percentage of revenue to about 20% and over time our hope would be to get to about 40% of total revenue. We are going to do that primarily by investing in capital markets and in some treasury management products. As you will see on the slide to the right, the investment in capital markets really pays off as we begin to create greater diversity and balance in those revenue streams.

It's also important that we grow our leadership roles, both right and left leads and again, today, at Regions, when we have a left lead role in a syndication and we are -- as you can see, we are growing our lead roles on a pretty consistent basis as we build out this corporate banking effort, we know that when we have a left lead role, we generate about \$1.7 million in revenue on an average basis for those leads versus just over \$600,000 when we are in a shared national credit, but we are not a lead. So leads are important to us.

The risk-adjusted returns on those lead relationships exceed 23% and on average, the risk-adjusted returns on non-leads are about half that. So again very important that we lead more opportunities. Now how are we going to do that? Well, first, we've got to continue to build out debt capital markets platform. And I mentioned some of the investments that we are making. We think by the end of 2017 we will have really all the capabilities that we need to continue to improve our position.

We've got to leverage our specialists, whether it's our specialized industries bankers, our Regions Business Capital bankers, whether it's our M&A advisory capabilities and talents, really important that we take advantage of all those assets. And then finally we've got to focus where we win. It's important for our bankers to understand where we have success. Our balance sheet is not as big as some of the banks that we compete against, but we know that our talent is because when we are competing for an opportunity in that \$50 million to \$500 million credit facility range, we've got our best bankers out calling on the customer and often times, the bigger banks we are competing with may not have their A-teams on the field. And so we find that we compete well in that space. It is just important that our bankers stay focused there and continue to optimize our opportunities in that market segment.

So we are off to a good start in 2015. Our businesses are growing, we're growing loans, growing deposits, growing Regions360 relationships and importantly growing non-interest revenue and we expect the same trends to continue 2016 through 2018. We are projecting loan growth of 4% to 6%, deposit growth of 2% to 4%. On average, non-interest revenue will grow at a rate of about 10% and again, we expect Regions360 households to grow all the while maintaining good credit quality. Very important to us.

And we will do that by continuing to recruit, retain, coach, develop, motivate quality bankers. We are convinced that bankers make the difference. It's the unique ideas and solutions that they provide to our customers that help us continue to win business and sustain long-term relationships. We are going to continue to focus on execution of our Regions360 team-based approach to banking. As I clearly demonstrated, I hope, when we partner well and deliver the entire bank to our customers, we significantly benefit.

Third, we are going to use data and analytics to help us continue to drive our business and allocate resources whether it be people, capital or other resources to businesses, to portfolios and to relationships that generate the appropriate risk-adjusted return on those assets that -- that capital, if you will, those resources that we are allocating to that business.

And then, finally, we are going to continue to develop our capabilities. It's important that we give the bankers that we are recruiting all the tools they need from a debt capital markets perspective to deliver to our customers. And we think we've got a really solid plan again, as we continue to seek to grow out this business and grow its importance to Regions. As I mentioned, Terry Katon is here with me. Terry leads our capital markets

business. He has been with the Company about six years. Prior to that time, he came from Bank of America and he is providing great leadership in helping us drive a number of these initiatives and so we are pleased to answer any questions that you have.

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## QUESTIONS AND ANSWERS

**Jeff Elliott** - *Autonomous Research - Analyst*

I am curious on slide 4, the Corporate Banking section, 766 clients, 20 relationship managers. Why is that the right number of relationship management managers and what are the aspirations to grow that business?

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**John Turner** - *Regions Financial Corporation - Senior EVP & Head of the Corporate Banking Group*

Well, so, let me see if I can go back to slide 4 here without creating too much havoc. That slide -- what you can't see is the number of shared relationships. So again, I described our approach, team-based approach. Often times, we have a customer within the corporate segment where the lead banker is actually a specialized industries banker or is a Regions Business Capital banker. So today, we have roughly 30 relationship managers, plus or minus, in specialized industries. We'd have a similar number in Regions Business Capital. They are covering both the corporate and the commercial markets and so when you look at the total universe of bankers, it would be more like potentially 80 that are working across both corporate banking and commercial banking together to deliver the bank to the customer.

We think that the right number for our corporate bankers is somewhere between 15 and 20 relationships and it's largely a function of revenue managed. So our commercial bankers will manage \$8 million to \$10 million in revenue each. Our corporate bankers would manage again half as much more revenue than that likely, kind of the \$15 million to \$20 million range. That's the way we tend to think about gearing ratios in the business.

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**Keith Horowitz** - *Citi - Analyst*

Keith Horowitz from Citi. On slide 14, on the RAROC target, how does that translate to ROE and then what percent of the equity is allocated to your business?

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**John Turner** - *Regions Financial Corporation - Senior EVP & Head of the Corporate Banking Group*

David, do you want to help me there? The question was how does the RAROC projection on the slide translate to ROE and how does that translate to the percentage of equity that's allocated to the business?

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**David Turner** - *Regions Financial Corporation - Senior, EVP & CFO*

Yes, so if we look at all the business services and we think about returns in that business when we get to the end of the day, that business returns to us about 16% on capital compared to the consumer side, which is about 23%. The difference though is the consumer side is less efficient. The efficiency ratio is probably in the 68% range; efficiency ratio in the business services in the 35% range. So as we put together really all these businesses, we are trying to get -- obviously to get our returns above our cost of capital. Cost of capital ranging somewhere in that 10% to 11%. Hopefully, that comes down over time as we continue to perform and get our price up, so that's generally what the returns will be.

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**Keith Horowitz** - *Citi - Analyst*

(inaudible) 16%, but what percent of your capital for Regions overall is for this business?

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**David Turner** - *Regions Financial Corporation - Senior, EVP & CFO*

Yes, so I don't have that -- I will look that up, the precise amount. We have a disproportionate amount of capital that is allocated to business services because it takes that. I will get you the exact percentage in just a minute.

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**Unidentified Audience Member**

It seems like the largest part of the growth in fee revenues is coming from the capital markets business and typically, I think about that being a fairly high expense efficiency ratio business. Can you talk about what gives you comfort about that you can grow those revenues without a corresponding increase in expenses?

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**John Turner** - *Regions Financial Corporation - Senior EVP & Head of the Corporate Banking Group*

Sure. I will maybe answer and then ask Terry to fill in. When I think about the businesses, they sort of break down. The M&A advisory business, a lot of people, we think that's a 25% to 30% sort of EBITDA business, but not terribly efficient. On the other hand, loan syndications where we can add one or two people and significantly grow our capacity is a very efficient business. And so there's a real mix, I think, and Terry can speak to this, between the different elements of a debt capital markets platform that we will offer. Some are inefficient, some are very efficient. All are significant contributors to our meeting customer needs and allowing us to be more relevant to our customers and as a result generate more revenue.

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**Terry Katon** - *Regions Financial Corporation - Head of Regions Bank Capital Markets*

I would add, I think when you look at our position in the capital markets business, as John mentioned, we are underpenetrated in aspects of the business and so we have a great opportunity now to bring capabilities across our entire franchise that really pay off very quickly. We will get to a point several years down the road where it is less incremental return per dollar of investment, but, at this point, we can invest very efficiently. This year, we will grow our staffing in 2015 about 15% and we will grow revenues 50%. We can do that again next year, a little more infrastructure required next year as we build out some additional capabilities. John talked about sales and trading, a little more requirement there on the infrastructure side, but we've got an opportunity to grow these businesses with very high returns in the near term. And then as we mature, it will slow down and to your point get less incrementally efficient to further invest.

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**Unidentified Audience Member**

So if I could, one of your competitors was obviously here this week talking about how the capital markets investment banking is a huge differentiator for them. And I don't have a belief that you guys are trying to rebuild Morgan Keegan, per se, but can you talk a little bit about what you are hoping to accomplish here, what you are trying to build and what the investments look like maybe even longer term moving forward?

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**John Turner** - *Regions Financial Corporation - Senior EVP & Head of the Corporate Banking Group*

Go ahead.

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**Terry Katon** - *Regions Financial Corporation - Head of Regions Bank Capital Markets*

Sure, happy to and that's a great question because, when we sold Morgan Keegan in 2012, it gave us a fresh start in the capital markets business in a lot of ways. Morgan Keegan had a fully built equity and fixed income capital markets business, M&A business. So what we were able to do is look at our customer needs and figure out where can we really invest efficiently, where can we be important to our clients. So debt capital markets, as John mentioned, very important.





M&A is an area -- in capital markets, that's the tip of the spear, that's where the transactions begin and that leads to financing opportunities. So with the acquisition of BlackArch, that puts us right there in the space where our clients are making strategic decisions. Out of that comes financing, comes hedging, etc. So John didn't talk about equity capital markets. We don't believe for our platform building out equity capital markets is going to be an efficient investment. So it really gave us the chance to say where can we invest strategically to earn the highest returns and serve our clients the best we can.

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**John Turner** - *Regions Financial Corporation - Senior EVP & Head of the Corporate Banking Group*

Yes, and I would add we really I think are growing the business in a very measured way. You see some of our peers add product capabilities first and then add bankers. We've begun really building the business with bankers first and then adding product capabilities as we had the bankers who could deliver on those product needs and ultimately meet customer needs to provide solutions.

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**John Pancari** - *Evercore ISI - Analyst*

Hi, John Pancari, Evercore ISI. Back on the SNC business and your efforts to up the lead arranger participations, can you remind us the size of your shared national credit portfolio and does this imply that that portfolio is going to continue to grow? And then also to up your lead arranger status, does that mean you are going to move upstream in terms of larger credits to get that done?

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**John Turner** - *Regions Financial Corporation - Senior EVP & Head of the Corporate Banking Group*

So the size of the portfolio is roughly 45% of total commitments, or in the range of about \$40 billion, Barb?

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**Barb Godin** - *Regions Financial Corporation - Senior EVP & CCO*

Yes. \$18 billion in outstandings and about \$36 billion in commitments.

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**John Turner** - *Regions Financial Corporation - Senior EVP & Head of the Corporate Banking Group*

In commitments. We have an internal target to manage our Shared National Credit exposure to about that 45% target and so our objective, I mentioned that we had a number of credit-only relationships that we either need to expand or we need to reallocate the capital that's been allocated to those relationships. Our opportunity is to grow those relationships or exit them and begin to reallocate the capital into opportunities where we think we can be most impactful.

In terms of size, I mentioned that we think we are most competitive in that \$50 million to \$500 million credit facility range. Correct me if I am wrong, Terry, but I think our largest single fee event this year was -- or the second largest single fee event was the result of our leading a credit facility that was less than \$200 million, but there were a mix of solutions, a mix of different kinds of capital that we helped the customer find, or obtain, and as a result of that, we didn't hold a lot of the credit, but we earned significant fees and we are the lead. We have the operating business and the rest of the relationship. So it comes back to really understanding where we can be most effective and we think it's in that \$50 million to \$500 million credit facility sort of range and there's plenty of opportunity there for us, we believe.

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**Terry Katon** - *Regions Financial Corporation - Head of Regions Bank Capital Markets*

I would just add to your question. We are not looking to grow our commitments to achieve these lead roles. Obviously, if you are the lead lender, you provide the largest commitment in a traditional bank syndication. We don't want to go upmarket to achieve that. We want to stay focused in our core segment. The largest left lead we have is a \$1 billion credit facility. That's larger than we will typically do, but it's a very good client, long-term relationship house account. We want to have that capability, but we really want to focus our efforts in that \$50 million to \$500 million segment



where we can be important and where it doesn't require a huge amount of capital laid out with a relatively modest fee. When you get into those larger numbers, the competition certainly increases and sometimes the fees actually go down because there's so much competition at those larger amounts.

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**Marty Mosby** - *Vining Sparks - Analyst*

John, Marty Mosby with Vining Sparks. On slide 9 that you put up there where you talked about the opportunity in corporate banking, what percent of those clients that you have are the higher profitability clients where you have the 360 degree relationship versus the overall customer base? Is it 10% that are already there just to kind of frame up how you could transition some more customers?

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**John Turner** - *Regions Financial Corporation - Senior EVP & Head of the Corporate Banking Group*

Yes, great question. In terms of opportunity, in our core middle-market business, over 70% of our customers are Regions360 relationships. In the corporate space, it's in the less than 40% range. So there is where again we have the opportunity we think to significantly grow.

Similarly, when we think about relationships that are single service, that credit-only piece, most of those are in our corporate customer group as we have tried to build the business. Often times, we will enter a relationship thinking that we can improve -- increase our relevance over time. We've only been doing that for a few years, so we are sort of now facing the cycle of choosing to exit where we weren't relevant and again reallocate that capital elsewhere.

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**Marty Mosby** - *Vining Sparks - Analyst*

And when you are talking about these single service or transitioning, what is the strategic change that's going to all of a sudden convince so many more customers to amp up their or deepen their relationship with you all? Doing capital markets, that's already out there. Some of the other super regional banks are already kind of ahead of you there. So what's the paradigm shift internally that's going to help you be more competitive there?

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**John Turner** - *Regions Financial Corporation - Senior EVP & Head of the Corporate Banking Group*

I think for us having the product set and adding bankers -- so first, it's about bankers and we've been adding to our specialized industries teams, adding to our corporate banking teams, recruiting bankers from a number of our very successful peers who help us continue to have success because of the way they execute their business. We have to give them the product set in order to have that capability and in fact, we are doing that. And I think the combination of bankers and products given the markets that we are in with a particular focus on where we can have success is a strategic change for us that will allow us to -- you saw the trend. Each year, we are growing those lead relationships by 10% plus. We believe we can continue to do that combining bankers and products and markets.

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**Grayson Hall** - *Regions Financial Corporation - Chairman, President & CEO*

And Marty, if I could add to that, just to clarify one point, as Terry and John were saying is we divested Morgan Keegan in 2012. We've had to rebuild a lot of our capabilities in the capital market space, not to rebuild Morgan Keegan, but to make sure that we can service our commercial and corporate clients. So for some number, some period of time, we really didn't have the capabilities to compete effectively. Now we don't have a competitive advantage over the people competing in the space.

As you pointed out, other people had this capability for a good while. But in the markets where we are dominant, where we are engaged in our communities and our bankers engaged in communities, where we can get the right bankers on our team and we are having a lot of success in that regard and we've built the right culture inside the Company that attracts and retains these bankers, then in our markets we are such a dominant player in some of those markets, it gets us the chances to be able to lead relationships that we really couldn't lead before because of a lack of capability. So for us, it is just getting back in the game where we actually have some of the same opportunities our competitors do.



**Ken Usdin** - *Jefferies & Co. - Analyst*

Ken Usdin from Jefferies. As a follow-on to other non-capital markets fee businesses, some of your competitors you mentioned have 50% coming from fees, have bigger either treasury management, purchasing corporate payments cards and even insurance. Can you tell us how penetrated are you on those areas and how much investment do you still have to make, if any, to get those up to that similar competitive nature as well? Thanks.

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**John Turner** - *Regions Financial Corporation - Senior EVP & Head of the Corporate Banking Group*

Sure. With respect to treasury management, roughly 75% of our customers have some treasury management relationship. It's roughly 86% of our commercial middle-market customers have a treasury relationship, but only 50% of our Corporate Banking group customers have a treasury relationship. So we think we have all the products we need to continue to grow the business, but we've got to do a better job of penetrating, particularly that corporate bank segment. Where a customer has a treasury relationship with us on average, they use 4.5 products. So in that commercial space particularly, we've been very successful in building broad and deep relationships.

Insurance is another opportunity for us and one that we are just beginning to leverage as is wealth management. We see both in the private wealth and institutional and corporate trust business a real opportunity to continue to grow those sectors and to contribute fee income. As I have looked at our peers, they've got a pretty diverse balanced revenue stream in terms of non-interest revenue. It's not particularly weighted to one category or another and that would be our hope over time is again as we seek to build out both product capabilities in, for instance, insurance or wealth management and at the same time, we seek to deliver more to our customers, particularly in the corporate banking space.

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**Chris Spahr** - *CLSA - Analyst*

This is Chris Spahr with CLSA. How much is your growth rate dependent upon adding new bankers?

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**John Turner** - *Regions Financial Corporation - Senior EVP & Head of the Corporate Banking Group*

We will add 10 bankers in 2016 and our projection is to add a few more in each of the following two years, but not significant. We are not adding a bunch of bankers over the next couple years. Our investment is primarily in capital markets capabilities and in our treasury management platform.

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**Chris Spahr** - *CLSA - Analyst*

And if you get such good return on your bankers, at least an internal rate of return, what makes you so attractive versus your competitors to recruit these bankers and retain them?

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**John Turner** - *Regions Financial Corporation - Senior EVP & Head of the Corporate Banking Group*

Terry is one of our chief recruiters; I might let him speak to that.

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**Terry Katon** - *Regions Financial Corporation - Head of Regions Bank Capital Markets*

Sure. I think, as John mentioned, I spent the bulk of my career at Bank of America and have a network of former colleagues who have at times gotten frustrated in larger institutions. You sort of get to the top of the hill and you've got to just play defense. At Regions, we've got a great opportunity in a great culture to build something and people get to a point where they say I want to start and build something, that's the fun of creating something, creating value and putting a team together that really is cohesive and enjoys what they do.

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So I have found we've been very successful in recruiting. We continue to find success. Obviously, in the capital markets business, our peers, a lot of them have larger businesses, but that's where the experience comes from. We take that experience, put them in a great team, great culture and they love building something. So we've had success in recruiting and great success in retaining and I expect us to do the same for the next several years.

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**John Turner** - *Regions Financial Corporation - Senior EVP & Head of the Corporate Banking Group*

And with respect to bankers, I would say that our focus on local, our commitment to local, commitment to communities, commitment to relationships is important. Similarly, our team-based approach is, we think, unique. We are serious about it. It makes a difference. We hear that from our customers, we see that in our numbers and I think the bankers that we are out recruiting, they enjoy the opportunity to work collaboratively with other experts within our business and as a result, we are able to create a culture that they want to come to work in.

Okay, well thank you again for your questions and for your interest.

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**David Turner** - *Regions Financial Corporation - Senior, EVP & CFO*

So if we look at total capital allocated to business services, we have more common equity than we need to run the business. I want to talk about that later on today. But if you look at the allocation relative to economic capital, we allocate about 55% to business services for John's team. I think that's the number you are looking for.

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**Unidentified Audience Member**

(inaudible - microphone inaccessible)

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**David Turner** - *Regions Financial Corporation - Senior, EVP & CFO*

That's because we have more capital than we need to run the business. So if you look at the returns on the economic capital deployed in the business, it's higher. So as we think about deploying our capital, it's one of-- you've seen it a couple of times now and I will talk about that later on. That's the point. So we get the capital base rightsized so that our return is appropriate for the shareholder. You are hitting on exactly a great point. Hopefully I will answer that even more fulsome today.

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**Unidentified Audience Member**

Okay, thank you.

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**John Turner** - *Regions Financial Corporation - Senior EVP & Head of the Corporate Banking Group*

Okay, so I will turn it over to Matt Lusco. Matt.

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**Matt Lusco** - *Regions Financial Corporation - Senior EVP & CRO*

Good morning. I am Matt Lusco, Chief Risk Officer at Regions. I would like to open up by revisiting the discussion of Regions' strategic priorities that Grayson introduced this morning by addressing enhanced risk management. You heard earlier from Grayson about how he really has built our strategy around it and how he has focused the organization around these five strategic priorities.

When he invited me to join the organization in 2010, the need to enhance risk management at Regions was particularly acute. I was confident assuming that role because of the tone that Grayson set at the top of our organization and that tone has not wavered. Since that time, I'm happy to say our situation is far less acute, but we really remain very committed to the investment that we've made into risk management both to sustain our returns, as well as to reduce the volatility in our performance.

So this morning, I want to talk about some of the investments that we have made in people, in processes and technologies around our risk management to better identify risk, to ensure that we've got our assets safeguarded and to ensure that we are creating a high percentage of effective execution of all of our operations. Then I'm going to invite Barb Godin, our Chief Credit Officer, to come up. Barb will take a deeper dive into some of our credit risk management practices and talk about how those have been enhanced and show you exactly how that's been manifested in our credit portfolio composition.

She will also give you some additional color around our energy exposure. That's an area, obviously, that's had a lot of focus right now, but I think in terms of the way she presents it, you'll actually see that that's a solid example that our experience with that portfolio shows that our risk management practices are working.

You've seen several maps that our presenters have put up this morning and you'll see that we sit squarely within the Gulf states. It's our dominant market. And if you look at the portfolios of a lot of peers, they would have upwards of 10% to 11% penetration in energy. As Barb will lay out for you, our total exposure is only 4%, evidences that those concentration management limits are working, but she will also show that we've got a lot of granularity and further differences within that portfolio. So again, I think it will be a solid example of how our risk management within that space is working.

This slide will show a little bit about the evolution of risk management that's gone on over the last five years. When I first arrived, I would have characterized our risk management practices as basic guided more by ad hoc policies and procedures. Since then, we've traveled along the spectrum a little bit to a state I would call more integrated risk management. In that space that we've got -- we've got significant more investment in people, we've got detailed risk appetite statements. It's guided by coordinated activities across all Company and far, far more focus on risk management as a way of doing business at Regions.

I will talk a little bit about some of those investments that we have made in that space. We've invested in our loss forecasting and capital planning processes and we've gone beyond that and integrated that into our strategic planning and other capital planning allocations. We've added operational loss capabilities, including cyber and added personnel to ensure that model developments and any models that we are working on are appropriately developed and guided and that we have strong validation processes along the way.

We've invested significantly in our office of the General Counsel and added capabilities to ensure that we are proactively managing legal and reputational risk. We've invested in compliance risk management, including BSA/AML and fair lending. We've centralized our credit portfolio management capabilities and added risk analytics to ensure that we can be better positioned to address any concentration exposures, as well as engage in portfolio shaping activities to ensure that we've got better allocation of capital and focus on risk/reward outcomes all along the way.

While all of that has significantly enhanced our capabilities, we are aspiring to the right end of that spectrum, a state I would call risk intelligence. I am pretty confident that this risk intelligence state is -- we are on track for that and are feeling the benefits of that right now primarily for the work that we've put into building culture. You've heard a lot about culture reference this morning by Grayson and other presenters. You heard it earlier as it relates to a means to actually building our best bankers and actually achieving effective recruiting results across our franchise. That work in culture in general and risk management in particular will yield to this risk intelligence state that I mentioned. You've heard about several companywide initiatives already this morning, which have already enhanced the fact that risk management is integral to the Regions culture.

I will start by talking about the work that we've put into strategy. We engaged Dr. Michael Porter from Harvard University to really look at our processes guiding strategy development. That's been extremely helpful to us from a risk management perspective. Not only does it enable risk management team players to participate early and often in the business of vetting risk return proposition and strategy development, we are also there to ensure that our resources are more aligned along the way. And we've built in the type of talent we need as it relates to new initiatives that are coming in online.

But we've also been able to work very closely with the businesses in developing business-specific risk appetite statements to ensure that we've placed the right guardrails in to deliver the strategies inherent in those businesses. The greater visibility around execution against strategy and appetite has resulted in far greater levels of accountability in Regions today.

Regions360 has also been very, very critical to our risk management as well. If executed properly, its focus on needs-based selling, on identification of customer needs and having deep relationships and delivering our products and services into those relationships in a transparent fashion is absolutely tailor-made to the heightened expectations around our industry as it relates to ensuring that we are delivering suitable products to our customers. So Regions360 has been extremely important on helping manage the risk related to our consumer businesses.

But beyond that, Regions360 makes a very tangible difference from an asset quality perspective. We have -- our analytics group has conducted a lot of empirical work in that space and for those customers where we have extremely deep relationships where we've got multiple exposures into their business, they actually perform far better for us under stress. We know them a lot better and our performance with them exceeds those of non-360 customers. So it's been great from an asset quality perspective as well.

Finally, we have a specific initiative that is focused on risk culture directly. It's Regions' Risk Ownership and Awareness, we call it Regions ROA for short. It is a Regions initiative versus specifically a risk team initiative jointly led by John Owen, John Turner and myself. And it is top of the house and focuses on building the risk awareness that all associates of Regions are risk owners, that everybody is charged to be a risk manager in Regions. At a recent meeting of our senior managers, I asked everybody in the room who was a part of the risk team to stand up and be recognized and the whole room stood up. That's the kind of mentality that we are building through this process.

But it goes beyond education. It is specifically tactical as it relates to education in terms of the fact that everyone is conversant with our framework, with our vernacular in terms of how we are going to manage risk, but it goes beyond that to process. We charged all of the businesses, all of the businesses within John Owen and John Turner's world with conducting detailed documented bottoms-up risk assessments where they identified all key risks that are embedded in their strategy delivery, but also identified all of the mitigants and we agreed -- so we could reach agreement the key mitigants for those risks were on the table and appropriately managed and focused on as well.

ROA also enabled the creation of these business-specific risk appetites that I referred to earlier to ensure that we can have strong conversations about the risk return proposition that's effective within their strategies. So that's been one of the really key benefits of ROA.

Let me talk to you about a couple of the initiatives that were embedded specifically within ROA. One was our ROA communications and outreach campaign. It's a series of videos and meeting guidelines that are designed to bring risk management to life at the grassroots level of Regions. Remember what I said earlier about Grayson setting an appropriate tone at the top. These tools enable branch managers and other very small unit leaders at Regions to also set the appropriate tone at the top of their organizations to really carry that through at every level of Regions and very powerful.

Our business risk committees, business risk committees were formed to do some of the heavy lifting of ROA implementation. They led those documentation processes. They've led the teams that were cross-functional teams of business and risk individuals for those bottoms-up risk assessment, the risk identifications. Now we've built them into a part of our governance process. Today, they serve as valuable forums for vetting new initiatives, for critiquing strategy and for assessing performance against those business-specific risk appetite statements. The business risk committees ensure that risk management is part of business as usual at Regions.

Our risk and control self-assessment process was refreshed. We put a lot of work, including technology enablement so that risk managers across the Company have a better means of assessing the workings of key internal controls that we are relying upon to manage risk; provides for real-time assessment of workings of those controls. And finally, we've already had a lot of questions about cyber. We've put significant investment in our IT risk management frameworks, including additions of personnel and capabilities, but it's also been very important to ensure that our strong front-line resources are augmented by the appropriate second line of defense resources. So we've made the appropriate investments there.

Let me talk a little bit about our how our risk management framework actually works. And centerpiece to that framework is our risk appetite statement. It is created at the enterprise level, top of the house. It is reviewed on a quarterly basis by our Board Risk Committee and it's approved

on an annual basis. But beyond that, it has cascaded down across the organization through those individual business-specific risk appetite statements to ensure that they are actionable, that they guide better decisioning by our business leaders across the Company. It is aligned with our strategy. As we have invested in our strategy process, we also invested significantly in ensuring that it's aligned with these risk appetite statements to ensure the appropriate risk reward returns.

Finally, a key element of all these appetites is our concentration limits. John Turner mentioned earlier that, in the crisis, Regions has upwards of \$26 billion of investor real estate. Today, that number is \$7 billion. It couldn't go back to \$26 billion today because of the focus around our concentration risk management and the level of attention that gets as a part of strategy development, strategy delivery. So a key, key difference within our risk management framework.

Let me talk about how we execute. We utilize a classic three lines of defense approach where our first line of defense is heavily counted on for our risk management activities. These are our customer-facing associates, those that are dealing with transactions every day. They make the all-important risk management decisions around customer selection. They're charged with execution and delivery of products and services consistent with strategy and the principles of Regions360. But they are absolutely a critical part of our risk management equation.

The second line of defense is comprised of the individuals that you would traditionally think of as risk managers -- Barb, myself and those teams that are organized around our eight categories that we report on risk throughout the organization. We oversee our risk management framework. We oversee maintenance and critique of the risk appetite statements. We provide challenge to strategy development across the organization and we ensure that we work very closely with the first line of defense to include that we are getting it right on a real-time basis as it relates to conducting our business and executing strategy.

The third line of defense consists of our assurance functions, our internal audit, our loan review, our model validation teams. They evaluate the design and workings of the second and first line together and provide independent assessments to ensure that we are working as we are charged to work within the first and the second lines.

If you look at this, this kind of really ties it all together and talks about the fact that our risk management framework is powered by sustainable risk processes that all of our associates across Regions understand their roles as they are charged to identify, to measure, to participate in mitigating and monitoring and reporting on risk across the Company. That's all sustained by a very strong and specific governance process starting with our Board and cascading all throughout the organization through various risk-specific governance committees, through the business risk committees that are focused at the strategy and the business levels all the way down to individual associates along the way.

So that's an overview of -- for risk management. I'm going to ask Barb Godin to come up and really go with a deeper drive around credit risk that I mentioned earlier and after that, I will rejoin Barb and we can address any questions that you've got around risk management and credit. Barb.

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**Barb Godin** - Regions Financial Corporation - Senior EVP & CCO

Thanks very much, Matt. Good morning, everyone. I'm going to really touch on three things. One is a little bit of where we've come from in credit, a little bit of where we are going to and I'm going to have a focus on our energy portfolio. So let me start with some credit metrics of where we've come from. As you can see, this is our net charge-offs and we go back to the fourth quarter of 2009 and move them forward. And what you can see on this chart and graph is that we have continued on a quarterly basis to reduce that net charge-off rate down to a level where it's very sustainable now.

This next chart on the left-hand side, the green bars, that is our criticized loan level. On the right-hand side is our non-performing loan levels. Again, what you can see from these two charts is, again, we continue to make ongoing reductions in all of these metrics, but I would also point you to the black line. That black line on both charts is our total loan portfolio. You can see our total loans reduced and the reason why is we sat back at the end of 2009 and said we need to derisk our portfolio. And we did that very conscientiously and happened up to the fourth quarter of 2012 and in the fourth quarter of 2012, we began to re-risk our portfolio, but we did it differently. We were very prudent this time, very balanced, managed through our concentration limits, etc. So you can see total loans have gone up, but even at the same time as that, you can also see that our criticized loans continue to moderate down as did our nonperforming loans.





So how did all this happen, what happened, what was the difference between 2009 and now? It really comes down to what we call the five pillars of credit culture. The first is that everybody in the Company owns risk. That starts with our relationship managers and with our relationship managers in particular, what we believe is that the best credit risk comes from customer selection, so we start there. We have a strong risk appetite statement, strong policies we live within.

We are committed to continuous improvement. Yes, that means training, but what that also means is that we actually do things like deep dives, root cause analysis on loans that go bad, especially loans that go bad quickly. We want to know what happened. We go back to the underwriting. Did we underwrite it properly? Did we consider all of the risks? Did we mitigate it properly upfront? When we credit serviced it, did we do the same thing? So we want to see what happened to make that loan go sideways and then we feed that back into our policies, our procedures and our training.

The middle pillar is the one that's the most important pillar and one that has changed us the most. The asset quality is derived from people quality. We are not the same bank at all because we don't have salespeople anymore in our Company. We have bankers. And what that means is bankers sell into the customers' needs, but they also manage the credit risk. We also hold our associates accountable for the decisions they make. We look at our tolerances, we look at exceptions and we say were the exceptions made to our policies or procedures, were they the right exceptions? Again, how do we mitigate that risk, why do we feel good about it and if we don't, we are quick to take action.

And lastly, you heard a lot about diversification because diversification is key. Diversification starts with that risk appetite statement. It starts with what we will do, what we won't to. We get into our concentration limit management and we do concentrations in a variety of ways. We do concentrations by obligors, by property type, by portfolio, by industry. In fact, we've got, as an example, 23 different concentration limits around our industry classifications. Then what we do is we bring a lot of data and analytics to it and the data and analytics is supplied to us primarily by our applied market research group. Again, that's another group we did not have in place previously and what they tell us now is they look at our portfolios and they tell us what's going on in that industry, what are the new risks that we need to be aware of, what are the existing risks that we need to be aware of and then we talk about how we are going to remediate those risks.

And some of the risk when you start to hit a concentration limit, you've got a few choices. One choice is stop producing loans into that segment. Next choice is you can sell some of those loans and the third choice is to look at all the loans in your portfolio, determine those that are not as profitable as others. Also look to see are their loans that are starting to exhibit some signs of potential credit deterioration and sell those loans. And we've done all three to manage our concentration limits. So it's not just we are talking about it, we are actually doing those things.

Very busy chart, but you've heard a lot about this, diversity in the overall loan portfolio. I'm just going to point you to two colors. The first one is green and you'll see on the green for both the chart on the right as well as the chart on the left, what you can see is, in 2009, our investor real estate portfolio represented 24% of our portfolio outstandings. Today, that's a much more prudent 8% of our portfolio. The only other bar there that looks large is the brown bars. Those brown bars all other commercial and that's made up of a myriad of industries. So we feel very good about how diverse our portfolio is today.

So let me now spend a few minutes on the energy portfolio. I want to start with why are we in energy. Because we are in the Gulf states. It's a very important sector for us. But we only have roughly 4% of our outstandings in energy. That would be \$2.7 billion of direct energy exposure, \$554 million of indirect energy exposure. 78% of our outstandings in energy are in four states -- Texas, Louisiana, Mississippi and Alabama. And in our E&P and our oilfield services sectors, in both cases, 75% of those balances are made up of less than 40 customers on each of those segments.

I would also point you to the fact that we have been in this business for 40 years. It's not something we just got into and a lot of our customers, by the way, have been in the business with us for 40 years as well. We have learned from them and they have learned from us. They have learned from us how to also manage their risk. And lastly, we've had less than \$11 million of loss in this segment since 2008.

So surrounding this portfolio is a really experienced energy team. The person who leads it in our specialty segment has got over 25 years of experience. Supporting him on the credit side, our segment leaders have got over 30 years of experience and we have three petroleum engineers and one technician with over 100 years of combined experience. Again, feel very good about the team.





And let's look a little deeper at the energy portfolio all in. As I mentioned, it's \$3.3 billion, \$2.7 billion of direct and then we have \$554 million of indirect, as I mentioned. Indirect exposure is made up of customers with energy-related revenues. That would be things like investor real estate customers that have energy tenants, warehousing, as well as things like helicopter companies.

I did pull out the circle, and again, I used green here, pulled out the circle for oilfield services. Our oilfield services book is \$1.1 billion in size and it's made up of -- 75% of that book is equal to 34 customers. 98% of our book is equal to 66 customers, so it's not a large number. We are able to get our arms around these customers. And as I go around the circle, I will talk for a second on our marine exposure. The marine exposure is \$481 million. Marine is separated into two pieces. We have the deepwater marine operations and we have the shelf operators.

Now deepwater marine is \$313 million of that portfolio, 75%. We feel very good about that subsegment and the reason is because more than 80% of our clients have more than 70% of their revenues contracted. The shelf operators, \$168 million. Those are more prone to the spot prices, as well as industry volatility. And so what we anticipate there is we are going to see some pressure on that segment. We also know though that, as we look at our collateral, we feel very well collateralized and we do believe there will be some losses, albeit small and very manageable.

Integrated oilfield services, those are things like coiled tubing, well intervention, fishing, etc. And we know again there that those that are closest to the wellhead are going to have more issue. Again, that's a segment that we are spending a lot of time on. We have 13 large clients that make up 75% of that book and do anticipate again some movement into some criticized classified non-performing. Some small segment of that we also anticipate will go to loss, but again very manageable.

Compression is a full pass-rated book. There are no non-performers, criticized, etc. Fluid management, \$99 million, three clients. Two of the three are some of the largest fluid diversified companies in the world. But, again, we are going to see pressure in that segment. And then the drilling and sand etc., they are all pass-rated credits.

So why are we comfortable with our oilfield services portfolio? Well, it's because the way we credit service it. We have a monthly review of all credits in the oilfield services and that monthly review encompasses our relationship managers, our credit people. They talk about each credit, they talk about what the current state of the Company is. If we have any financials we need to look at, we look at those, etc. We write up tear sheets and then we also have what we call a SWAT team. The SWAT team is comprised of the same groups. We have the relationship managers, we have the credit teams, we have my head of corporate lending. We have our loss mitigation people in there. We have our applied market research people in there and I myself attend and we talk about what's happening in the industry, what's happening client by client. We look at the tear sheets, we make decisions. And lastly, any renewals or new credits require the approval of the Chief Credit Officer and I can tell you very few have crossed my desk as of late.

On the E&P credit servicing, we start with the fact that the customers are required to have at least two redeterminations a year, one in the spring, one in the fall. We also have the option to do a third if we wish and we set our price decks using our petroleum engineers. We set our price decks at least quarterly. We can do it more often if we wish and the price deck is our internal view of what the average price of oil and gas will be over the coming year. So it's not a spot number, it's not an immediate number. And that price deck, of course, is used to determine the borrowing base.

Customers in this segment as well, they are able to adjust their CapEx and we have seen that live with these customers. They've adjusted already 20% to 40% in their CapEx and again, we know that because we are talking to them on an ongoing basis, not just once a month, an ongoing basis.

So where does all that lead us? Credit quality outlook. Net charge-offs, we believe, will be somewhere in the 25 to 35 basis point range and at the end of last quarter, we were at 30 basis points. Nonperforming loans, long term, we believe 75 to 100 basis points and we were at 97 basis points at the end of September. And our allowance, we think it is going to be somewhere in that 120 to 140 basis points. I don't think ourselves or the industry will ever go back to sub-100 or even just over 100. So our best view at this point is, as I said, 120 to 140. We are currently at 138 and all of these metrics I think given the pressure on the energy portfolio, we will probably be at the higher end of those, but I will tell you we have our arms around credit and we are going to deliver on these numbers. I will invite Matt back up and we are happy to take any questions.

## QUESTIONS AND ANSWERS

**Jeff Elliott** - *Autonomous Research - Analyst*

Thanks. So the message on energy seems to be that you think the situation is very manageable, there will be some downgrades, some losses, but it's going to be small. And then if I look at energy loans that are traded, some of them seem to be pretty distressed down into often \$0.60, \$0.70 on the dollar. So I guess my question is, if you feel that it's going to be manageable, why not take the opportunity to step in, buy some of those loans that are traded or get more active in growing the portfolio when I guess there are lots of energy companies out there looking for sources of funding?

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**Barb Godin** - *Regions Financial Corporation - Senior EVP & CCO*

Good question. We are actually doing all of the above, not on the traded loans, but certainly looking for good quality customers. Some of your best customers you are going to get at the highest distressed level of the industry. But, again, we are doing that in a very methodical fashion. So we have not turned the taps off. We are just making sure we are prudent, we are crossing the Ts, we are dotting the Is and we know exactly what we are putting on our books.

Back to we want to be with the largest customers in these segments. Again, we are not very granular in this book on purpose. We went to deal with customers who have been in the business for a long time and we are going to stick with those customers even in our periods of distress because they are going to come out at the other end and we are all going to be better for it.

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**Matt Lusco** - *Regions Financial Corporation - Senior EVP & CRO*

Barb, it might be appropriate to introduce Ronnie Smith. Ronnie Smith is one of our regional presidents and Texas is within his space and Ronnie, you might just talk about what you are seeing in the markets.

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**Ronnie Smith** - *Regions Financial Corporation - Senior EVP & Mid-America Region President*

Sure. We are certainly seeing a lot of pressure in the space as you would anticipate, a lot of headwinds that are out there. But the clients that we are really looking for are those who have equity and those who have weathered the storm before. And those particular clients have a good home. It is still a competitive set for them, but overall if we have not seen them weather the storm and if we don't see a good piece of equity on their balance sheet, that makes it a difficult piece for us to get to.

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**Barb Godin** - *Regions Financial Corporation - Senior EVP & CCO*

Thank you, Ronnie.

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**Unidentified Audience Member**

Appreciate all the granularity on the energy. Just two follow-ups there. One, have you guys disclosed the loan loss reserves against the energy book?

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**Barb Godin** - *Regions Financial Corporation - Senior EVP & CCO*

Yes, we have. 4.7%, \$122 million at the end of September.



**Unidentified Audience Member**

And then separately, just from a timing point of view, when do you think we start seeing some charge-offs related to the energy book? I know a lot of the production is hedged through, I want to say the first half of 2016. Do you start seeing charge-offs after that, before, or any guesses on the timing?

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**Barb Godin** - *Regions Financial Corporation - Senior EVP & CCO*

Yes, we have till the end of 2015, which isn't much left. We have 48% of our book hedged on oil and we have next year 34% hedged. So I believe looking again at each of these credits, we're going to see some happen. I don't see them all at first, second, third or fourth. I think they will be a little bit spread out.

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**Unidentified Audience Member**

Thank you.

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**Ryan Nash** - *Goldman Sachs - Analyst*

Barb, I think on the earnings call you had told us you thought \$30 million to \$50 million of energy losses the next 12 to 18 months. How does that break down across both E&P and oilfield services? And if we do sit in an environment with oil prices in the \$40s or low \$50s over the 2 to 3-year period, do we start to see an acceleration in losses in oilfield services?

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**Barb Godin** - *Regions Financial Corporation - Senior EVP & CCO*

Thanks, Ryan. When we talk about oilfield services in particular, the majority of our losses are going to come out of that segment versus E&P. And the reason I say that is, as I think about the E&P segment firstly, these are customers who have done it for a long time, number one. Number two, I know where my collateral is. It is not going anywhere. It's in the ground. On the oilfield services, they are going to feel some stress. If I sized that book as to what we would consider high risk in oilfield services, a total of nine customers for \$300 million. Doesn't mean they are all going to go sideways or go bad at the same time. And doesn't mean the entire balance goes bad. And that's part of the way that we've sized this.

Our view as well as we think about our price deck and we think about what the industry says, our price decks, etc., call for us being oil at \$60 a barrel by the end of next year, end of 2016. Industry is somewhere around \$60 to \$62. So we are pretty close to the industry. Now if oil does not get to \$60 or \$62, then we are going to come back and we are going to give you a better number as to what we think the losses will be, but that \$30 million to \$50 million is -- again, feel very solid about that number because looking at the clients one by one.

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**Unidentified Audience Member**

How would the loss (inaudible) change in (inaudible) stayed flat (inaudible)?

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**Barb Godin** - *Regions Financial Corporation - Senior EVP & CCO*

If oil prices stayed flat, that \$30 million to \$50 million would probably go somewhere between \$50 million and \$100 million.

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**Unidentified Audience Member**

Hi, Barb. On the long-term 25, 35 basis point charge-offs, that's a lot lower than it used to be when you had a much riskier portfolio. But, at the some point, you are growing loans, none of which have really had a chance to season yet and you are already at 30 today. So can you walk us

through -- is it that you are just putting on much, much, much lower risk loans that you don't expect really any seasoning from the current loss rate? So can you kind of walk us through the new targets and how do you expect that to trajectory over time?

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**Barb Godin** - *Regions Financial Corporation - Senior EVP & CCO*

Certainly. As I think about our book right now, it is heavily weighted on Shared National Credits. Shared National Credits are our best credits by far. And so what we are seeing, even in the early stages, we do vintage analysis; what do the numbers look like three months after we put them on the books, six, nine, 12, etc. And we are seeing those loans perform so much better, not just the Shared National Credits, the entire book, than what we did back in that 2009, 2010 era.

So again, that's what leads us to a great feeling as to the 25 to 35 is very accomplishable. We are going to have some volatility in that number though. We know that. As I talk about large credits, we are going to go as we did down to 23 up to 30. We could even go to 36 or 37, but again that range is going to stay -- I feel very confident with a 25 to 35. It's also the mix of business that we have, both consumer, as well as the commercial mix of business, the fact that we have lost targets on every one of our businesses, that each of our business leaders here have committed to and when we approach one of those targets and we have in one area, we sit down and we talk about what happened and how are we going to get it back to where it needs to be and that leader worked very closely with credit to say here is the following four or five things we are going to do and it's going to take us approximately a year. And in fact, we've executed on that and that target is back. So it's that discipline that we have now that I would say we did not have as strong of a discipline back in that 2009.

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**Matt Lusco** - *Regions Financial Corporation - Senior EVP & CRO*

That's a great point. I think you are bringing to life one of the things that I was saying earlier, which is the very specific -- the business-specific risk appetites enable a lot tighter, a lot closer monitoring, a lot better effect of course correction along the way within our individual businesses.

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**Unidentified Audience Member**

In addition to energy, are there any other industries that you are pulling back on or looking at more closely from a credit perspective?

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**Barb Godin** - *Regions Financial Corporation - Senior EVP & CCO*

We are certainly looking at commodities right now and I would say things like fabricated metal, primary metal. So fabricated metal, we have \$410 million in outstandings and primary, it is \$430 million. I would say the ag business as well. We have roughly \$800 million in outstanding in ag. Chemicals not so much; we have \$320 million in that. But clearly that's the area we are looking at and that's again a function of our strong US dollar right now and it's putting pressure on those industries. (technical difficulty) we are looking at again a lot of the same things we are doing on the energy. We have a process we call our vulnerable industries. When we get a vulnerable industry, we put a flag on the account and then that becomes a requirement that we start looking at loans in those industries on a minimum quarterly but often monthly basis.

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**Unidentified Audience Member**

Maybe following up on the question on the long-term targets. You are already at the high end of your target on both the non-performers and the allowance. Does that suggest that there are parts of the portfolio that are -- you kind of expect as the order book runs off and you are de-risking there that that offsets more of a normalization of the current originations?

**Barb Godin** - *Regions Financial Corporation - Senior EVP & CCO*

Absolutely. And again, even though we are at the high end of the target, you've seen us come down -- again, I will use charge-offs -- down to 23. That was one or two loans that created us going from 23 to a 30 basis point between the second quarter and the third quarter. I do see that there continues to be a very stable book with some improvement in it.

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**Unidentified Audience Member**

Two separate questions, if I can. First of all, what is the rate scenario built into your credit outlook over the next couple of years; and then secondarily, Barb, I guess back on the fallout from energy, I noticed in one of the charts that the energy exposure does include some non-direct energy exposure (technical difficulty) other portfolios that are having -- that are affected at all in terms of maybe the Texas exposures in other parts of commercial real estate? And is that one of the reasons why business lending is a little bit lower than you might hope for because you are being diligent in terms of underwriting there?

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**Barb Godin** - *Regions Financial Corporation - Senior EVP & CCO*

Okay, so let me start with the first question, that would be on the rates that we used and the rates that we used would be rates that we used across the bank. I'm going to have David stand up and speak about that for a second.

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**David Turner** - *Regions Financial Corporation - Senior, EVP & CFO*

So for purposes of the numbers that you are going to see from me too, we looked at the yield curve at November 6 and so you can base your expectations off that curve for all of our presentations.

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**Matt Lusco** - *Regions Financial Corporation - Senior EVP & CRO*

In addition to that though, I would tell you we've got various stress scenarios that we put all of our books through, the credit book specifically, and so we've got that stress for a lot of different rate scenarios as well too. So we bake that into all of our planning.

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**David Turner** - *Regions Financial Corporation - Senior, EVP & CFO*

And I think where you are going on the question was relative to the pace of change on rates and how quick that -- obviously, quicker the rates go, it puts more credit stress. We believe the rate environment, while it will increase, we think it's going to be very measured. So if rates rise faster than that, then there could be additional pressure put on the credit portfolio, but we don't forecast that.

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**Barb Godin** - *Regions Financial Corporation - Senior EVP & CCO*

Then part two of your question was about other portfolios, what about a contagion effect. And we spent a lot of time looking at, in particular, the Texas market, but again looking at all the other markets. One of the things you have to remember about energy is it's not all downside as well. Energy prices are great for our consumer book, great for my transportation book, great for my restaurant book, credit cards, etc. Insofar as Texas itself, we have \$8.7 billion of outstanding in Texas. You think about our investor real estate portfolio there, it's 1.7% there and based on what we see, for example, in Houston, we don't -- let me talk about various sectors -- it's probably the easiest. If I talk about multi-family, we see there is some pressure on the multi-family, but at the same time we see very strong demand still in the Houston area.

Office, we think office is getting overbuilt in Houston. There's a lot of build-to-suit and what that's going to create is some vacancy pressure. We have very little office in Houston. I'm going to have Ronnie talk about Houston in a second as well.

Insofar as single family, both on the consumer side, as well as the residential side of commercial real estate, anything above \$600,000 we are seeing some price pressure, but again not just bringing it back down to the national average. Anything below \$600,000, still very strong demand. We are seeing retail do very well not only in Texas, but in all of our states. So Ronnie, maybe with that, you can --.

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**Ronnie Smith** - *Regions Financial Corporation - Senior EVP & Mid-America Region President*

Yes, I would just add, in the Houston market, it is a diversified market and I was visiting with a couple of you about that earlier today. But if you look at the extraction percentage of employment in Houston, it's about 4% of the employment base. And I think the perception that we get a lot of times is that Texas is this energy-dependent state and look, it is true, it is a big piece of the economy, but there has been a great diversification of that economy over the past several years and it has allowed us to continue to see growth coming out of that particular market. So Barb, do we have headwinds? Yes, but we still have strengths in other sectors. It is a very vibrant economy.

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**Barb Godin** - *Regions Financial Corporation - Senior EVP & CCO*

Thank you, Ronnie.

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**Stephen Scouten** - *Sandler O'Neill - Analyst*

Stephen Scouten with Sandler O'Neill. You guys have done -- made an important point I think of trying to say, hey, Regions today is not Regions before and the culture has changed. I guess two parts to that. How do you continue to get by and around the truth of that statement and why the market should view you differently today? And two, how do I reconcile the comment that maybe previously you had some bad people, so to speak, because now you have good people? You had these salespeople versus the bankers. So how do I reconcile that statement with the statement that the experience within the energy sector is a highlight, is a benefit? So you've got these people with 40 years experience, but the previous Regions people might have been bad actors, so to speak. So how can I reconcile those two things?

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**Barb Godin** - *Regions Financial Corporation - Senior EVP & CCO*

Yes, firstly, I would want to correct you to say bad actors or bad people. I don't think we have any bad people. I think what we had were roles that were not as well-defined as they are today. We had people that were true salespeople. And then separate to that completely, you had your credit people. Now what we have -- I work with my partners every single day and so do all of my people. We are part of their teams. We are part of the discussions. We are part of their agendas. And so now we have people who understand. We have bankers. So we don't just want somebody out there selling. We want somebody out there helping our customer and making sure that customer doesn't get into trouble. That's part of credit risk management as well.

And as I think about the energy portfolio, we've had a lot of new blood as well in there and we've had a lot of our experienced people in there as well. They get it. Once you define and say we want you to help our customers understand their needs, including credit, understanding that credit, don't give them something they can't handle, they got it. They get it. So again, I feel really good about the team we've got.

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**Matt Lusco** - *Regions Financial Corporation - Senior EVP & CRO*

I think that's a key part of ROA specifically really to -- Barb mentioned role clarity, but it's about role clarity, but it's also about teaming as well across the organization. I mentioned a huge part about our difference is really risk management working across the silos of the Company and a very coordinated strategy. You don't really achieve consistent returns and strategy unless you are meeting risk management targets, as well as sales targets. And those are key elements of the risk appetite that's defined at each of the individual businesses along the way.

So we have a lot greater visibility around that for real-time course correction and I think the cultural aspect is just very, very much changed. I think when you go through the type of de-risking exercise that Regions actually had to go through as a result of this, it changes a lot of behavior and I

think as it relates to constructing the portfolio that we really have right now and that we want to keep, we don't want to have to go through that again at all.

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**Grayson Hall** - *Regions Financial Corporation - Chairman, President & CEO*

I think it's a great question. I would just tell you that I think banking for years has really been focused on servicing customers and meeting customer needs, but trying to do that in a safe and prudent way. And we've really been in three businesses. The one business is gathering deposits and making investments for customers. The other business is trying to provide the credit needs for customers and the third has really been around providing payment services for customers and those are the three core businesses that traditional banks are still in today. And we are still in those and we were before.

But if you look at the entire industry sort of pre-crisis, sort of forgot some of the fundamentals of banking in terms of diversification and concentration management, because bubbles are very, very difficult to predict prior to them happening. After they occur, we all saw them coming. So diversification really is the best risk management practice that we as bankers can have. So we are working real hard to diversify our revenue streams, but also to diversify our concentrations on our balance sheet because if you build a balance sheet in those businesses, in those three businesses, there is some level of risk in every one of them. And as we build our balance sheet, our guiding principles and values today is building a balance sheet that is safer, that is more prudent, it is more diversified.

But you still got bankers who want to serve the customer and serve their needs and occasionally, we will have reached our risk appetite on a particular type of lending segment, but there's still legitimate customer need in the market, but we've reached our concentration limit. We've reached our appetite for that particular product and we will start trying to find different ways to serve that customer, but we can't allow ourselves to get overconcentrated in any one segment or any one geography. Hope that helps.

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**Unidentified Audience Member**

Barb, just to go back to the energy topic, if I understood it correctly, did you say that you are using \$60 for your recent price deck as part of the updated redeterminations?

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**Barb Godin** - *Regions Financial Corporation - Senior EVP & CCO*

That's right. That's on the base price deck because we also have the sensitivity price deck. So right now, \$46 on base that we are using, \$60 is the forward view, at the end of 2016 forward and we are using \$36.80 as our sensitivity price and that's what we are basing our borrowing base on.

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**Unidentified Audience Member**

Okay. And I guess just to understand it more, why not be in the \$40s on the price deck for the forward view, especially how oil prices have been remaining in the mid-\$40s? And I am also basing this question on the fact that we've got a good number of other banks that we cover that are giving us price decks that are pretty draconian.

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**Barb Godin** - *Regions Financial Corporation - Senior EVP & CCO*

Again, recognizing our \$40 is our average. Again, we will use the base only, the \$46. That's our average between now and the end of 2016. We think at the end of 2016 it will start going into the \$60 for 2017, but again we are going to review that. As I said, we do it at least quarterly; sometimes we do it monthly. So we think that \$40 is the right number.



**Matt Lusco** - *Regions Financial Corporation - Senior EVP & CRO*

I think we've got a graphic that's in the appendix of our materials there too that you will see that really is kind of a funnel type graphic that shows the levels of discounting that goes on, which I would characterize as pretty conservative. I don't know that I would say draconian, but I would say it's pretty conservative as it relates to the price that's yielded at the bottom of that funnel. So you might --.

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**Barb Godin** - *Regions Financial Corporation - Senior EVP & CCO*

It starts with 100% at \$46. You work your way down to roughly -- with all the different cuts we do -- 53% is what we lend on, so at a \$46 price deck, multiply that by roughly 53%, \$24.60 is what we lend on a barrel of oil.

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**Unidentified Audience Member**

That's for (inaudible) loans, right, that's not for (inaudible)?

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**Barb Godin** - *Regions Financial Corporation - Senior EVP & CCO*

No, it's for all loans. Not just the new loans, borrowing base.

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**Unidentified Audience Member**

(inaudible) 50% on a \$100 price (inaudible).

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**Barb Godin** - *Regions Financial Corporation - Senior EVP & CCO*

If you use \$100, let's say a barrel of oil was \$100, that would be great. If it was \$100, we would still discount it down to lending \$53 on a \$100 barrel of oil. So again on a \$46 barrel of oil, we will lend \$24.60.

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**Matt Lusco** - *Regions Financial Corporation - Senior EVP & CRO*

Barb and I will be available for some questions as well as the rest of the management team after David Turner's presentation. Right now, I think we have a 15-minute break and then we will resume with David.

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## PRESENTATION

**David Turner** - *Regions Financial Corporation - Senior, EVP & CFO*

Okay, we will go ahead and get started and wrap this up for the day and we'll have a Q&A session. I do have Deron Smithy here, our Treasurer, that will be available for questions, as well as the rest of the management team. So you've heard a lot of presentations today from our business leaders and we really are focusing on how Regions continues to improve and strengthen our financial performance because it's about building sustainable franchise value.

And in order to do that, we have to strengthen our financial performance. So I'm going to walk through how all this looks together. You've seen these three pillars of execution that are important for us. So we've talked a lot about growing and diversifying revenue. That growth is coming from having great bankers in great markets doing what they do best every day and serving our clients and executing on Regions360. It is paying off and that diversification part of this means a lot of different things. You've heard diversification as a strategy to reduce our risk and to also promote

a more resilient income statement regardless of the environment that we operate in. It's not just diversifying from NII to NIR, which I will talk about in a minute. It's diversification in geographies and products and services that we offer, so we have a more holistic view of the income statement and not overly relying on one particular area.

We also have to acknowledge we are in a very challenging environment. Yes, we are having growth in our country, but we also are in a low rate environment that could stay lower for a while. Or if we get increases, that the increase in the rate environment will be very measured. So we have to become more disciplined with expense management. We have to become more aggressive with how we manage expenses and I will talk about that in a bit.

And then the third pillar, effectively deploying our capital. First and foremost, our capital is going to be used for organic growth. We also believe we need to have a robust return of capital to our shareholders, which shareholders are receiving today and then we have capital even after we do that to deploy strategically in the businesses. And John and John talked about those this morning.

So let me take you through each one of these and what that means to us. So just to remind you, our revenue today, 63% of our revenue comes from net interest income; obviously the rest from non-interest revenue. And I want to focus first on NII and what that means to us as we think about the rate environment. So we aren't counting on rates. That's a change. We expected rates to go up. I think most everybody expected rates to go up in 2015. It has not yet. Maybe we get a rate increase in December and a couple more next year. But what we want to do is let you know is we are going to win regardless of what the rate environment is and that's a change.

From an asset sensitivity standpoint, we continue to be asset-sensitive, naturally asset-sensitive on our balance sheet with 59% of our loan portfolio being variable-rate loans and the way we fund ourselves, core deposit funding. Today, our deposit costs are about 11 basis points and our total funding cost is about 25. We do have some sensitivity scenarios we put in the appendix to the presentation. You can see those later. But I want to send the message that net interest income increases for us even in a flat rate environment commensurate with loan growth and we are using the November 6 yield curve, so you can base the discussion off of that.

Let me tell you why being asset-sensitive and what that means for us and the unique advantages of our deposit base. We talked about our markets. We've talked about our markets in terms of ability to grow loans, but we also want to talk about our markets in terms of the deposit base and Grayson put -- or John put a chart up there showing where our deposits were concentrated.

When we look at betas, change in deposit costs versus market rate changes, in the last cycle measured in the second quarter of 2004 through the second quarter of 2007, our deposit beta was 54%. Now for planning purposes for the next cycle, we believe that deposit beta we've put in terminates at 61%. We believe it's -- we wanted to use something higher acknowledging that we haven't been here before. We haven't been in this low rate environment for this extended period of time, so we believe deposit betas will be different for everybody, but we believe we are going to have and do have a competitive advantage at Regions because we believe our deposit base is different. And let me show you a couple of things that demonstrate this point.

If you look at our deposits, 50% of those deposits come from cities with less than 1 million people and you can see how we are arrayed relative to the peers at one of the highest. Also on the right side of the chart, you will see deposit customers make up -- 50% of deposits are from customers with \$250,000 or less in their account. And the reason that's important is these customers have a tendency to be less rate-sensitive than other customers. We believe this is why our deposit beta was better than our peers last time and we believe will be a competitive advantage for us next time when rates eventually do rise.

So let me shift and talk a little bit about non-interest revenue. We have wanted to grow and diversify revenue and we've done a pretty good job making the investments that you heard about earlier and focusing on Regions360. More specifically that Regions360 focus, the go-to-market strategy we have has helped us grow checking accounts. We are up about 2.5% this year thus far. Households, our penetration into our credit card book all because of our people executing. We have made the investments to expand capital markets and treasury management capabilities and you've heard about our acquisitions of insurance companies. Those last three will be ones we continue to make investments in.

And as you also heard, we hired about 225 financial consultants. That's just about the number. We are going to pause here; we think that's the right number for us. And so we are looking to reap the benefits of those investments in 2016.

If you look at why this is important to us, that diversification we believe strengthens our financial performance. And we believe that is the source of sustainable franchise value. So you have seen these initiatives in 2015, some of which started in 2014. We are going to get the full-year benefit of that in 2016 and beyond and we have additional investments that we want to make in 2016 through 2018. And the reason for it, investments to grow NIR, because it's working. If you look at year-to-date through September, we've grown non-interest revenue 4.5%. Specifically, if you look at wealth management, we are up 10% plus. Card and ATM fees were up about 8%. Capital markets were up 43% and so those are the areas where we want to place our bets and you can see how those tie into the right side of this chart.

That being said, we understand that if we want to make the investments to grow our revenue, we have to have that translated into growth in net income and earnings per share. As a result, we have to be more aggressive and better disciplined even than what we have been on expense management and we've done actually a pretty good job over the past few years. As a matter of fact, for the four years leading up to 2015, we've reduced expenses each year. Now if you annualize 2015, it will be higher than 2014 and that was intentional.

We continue to make investments to grow our business. We've made investments to grow risk management, compliance, audit and capital planning and we are proud of what we've built. Those processes, those are just four examples, those four processes are very strong at Regions. And you heard Matt talk about that just a minute ago.

That being said, we have to become more efficient at everything we do, including those areas that I just mentioned, without backing off of our commitment to continue to have strong risk management and compliance and audit and capital planning.

Now if you look at the right side of this chart, you can see personnel costs make up about 54% with occupancy and FF&E, the other two big categories, that if we are going to control expenses, you have to control those three. But I'm here to tell you we are going to control every one of them because in order for us to do what we need to do, we have to look at every expense category that we have. And we are embarking on a process to do that.

So here's what we are going to do. We are going to eliminate approximately \$300 million of our core expenses over the next three years and that represents about 9% of our 2015 expense base and we are looking to get about 35% to 45% of that in 2016 with the remainder being split in 2017 and 2018. Now some of the things that we will look at to do that, you may have heard, may not, that we did have -- put in place hiring restrictions on non-customer-facing positions last month that continue. We have streamlined automated processes to reduce costs. John Owen talked a little bit about that earlier today and we are not finished.

We have a group of Lean Six Sigma personnel led by Keith Herron and we are committed to have them look at many processes in 2016 and beyond in order for us to continue to get more efficient. We are going to be evaluating staffing models, spans and layers throughout our Company, not just in the geographies, the back offices, all kinds of review there and we are going to leverage technology to reduce our dependency on labor in terms of how efficient can we become. And most importantly, the incentives that we are setting up starting at the top of the house from Grayson on down are aligned to the execution of our strategic plan, including this plan to eliminate \$300 million worth of expense.

John touched on it a little bit from a branch standpoint. We realize we have more branches than others. There's a reason for that in terms of where we operate and we have consolidated over 20% of the branches since the financial crisis. And we are looking to consolidate somewhere in the 100 to 150 range, branch range, and we are looking to reduce all-in occupancy square footage of about 1 million square feet, a little less than 10% of our total.

From a third-party spend standpoint, we do spend a lot on third parties. Not all of it is consulting costs, but there is some of that. So we are asking everybody to look at third-party spend and if we have to have the third party, ensuring that we get the best rate available and really challenge us on all vendor spend that we have.



Furthermore, we are asking every employee -- we had an officers meeting yesterday and I mentioned this -- that we are asking everybody to look at the expenditures for which they have discretion and control those. And when we think about that, you may say that's not a lot of money. It all adds up. It is a cultural change we are putting in place to get more efficient because we are committed to improving the efficiencies because it's important for us to continue to be able to make the investments we want to to grow the revenue of our Company and continue to diversify the revenue streams, but we have to show an improvement to the bottom line, net income and earnings per share and this is the way to get that done.

So let me talk a little bit about the third pillar. We have a very strong common equity base. As a matter of fact, our common equity tier 1 of 11% is industry-leading. And if you look at our long-term targets, our long-term targets are in the 8.5% to 9.5% range. And I will tell you every point is about \$1 billion right now just round numbers for us. So we are looking to effectively deploy that capital and put it to work.

And let me tell you about our priorities and how we expect to deploy that capital. First and foremost, we've talked an awful lot today about organic growth and leveraging the markets and the people that we have to grow our balance sheet. It is important for us to continue to do that and we have the capital in place to execute.

Second, between dividends and share repurchases, you saw the chart Grayson put up, we are returning close to 100% of our earnings to our shareholders whether it be in the form of a dividend or share repurchase and we expect that to continue, that robust return back to our shareholders, because we have the capital to do that and the earnings momentum to do that.

Even after that, we have capital to use strategically and strategically includes the things that you have just seen from John Owen and John Turner, as well as using that capital to help us from a future run rate expense standpoint. An example of that would be branch consolidations where we will have a one-time charge to improve the run rate going forward. So we have the capital to do all of those things and invest in non-bank acquisitions.

So what does this mean for 2016? We believe based on the strength of our people and our markets and our commitment, we can grow the balance sheet, we can grow loans 3% to 5% and we believe we can grow deposits 2% to 4% and then based on that growth in the balance sheet, we believe net interest income will be up somewhere in the 2% to 4% range. And let me also let you know that we used the November 6 yield curve. If rates are flat from that day, we will be at the lower end of the range. If the market forwards come to fruition, we will be at the higher end of that range.

We believe based on the investments that we are going to make, the adjusted non-interest expense -- and let me back up and just tell you the word adjusted, I think most of you know, those are less one-time charges or security gains if it's on the income statement, so that's what the word adjusted is. But that would be up 4% to 6% in 2016 and that is net of the posting order change that we just recently implemented, which we still believe is somewhere in the \$10 million to \$15 million per quarter range of revenue that we have to overcome and we will update you on that posting order change as we get a little more experience under our belt. Just not enough time yet.

From an expense standpoint, our expense base will reflect two things. One, the continued investments that we want to make, which includes people and the offset to that will be the effect of our elimination, our expense elimination program that we are putting in place, that 35% to 45% of \$300 million. So net, when you look at those two together, our adjusted expenses we expect to be flat to up modestly and more specifically, we believe an efficiency ratio of less than 63% should prevail in 2016. That will generate positive operating leverage somewhere in the 2% to 4% range. Again, if the flat rate environment exists, that will be in the 2% and if market forwards come, work out, we will be closer to the 4%.

As you mentioned, heard from Barb, charge-offs will be somewhere in that 25 to 35 basis point range for this next year.

So if you add all that up for 2016, clearly, there is going to be growth in net income and earnings per share over that of 2015.

Now let me wrap it all up with some other longer-term targets. We are working hard to improve our financial performance so we can build sustainable franchise value. And we believe executing on these three pillars that you've seen here, by leveraging our strengths, by investing in the growth initiatives that we want to have, by executing on the expense elimination program that I just laid out and leveraging our capital to grow our earnings, we believe will increase our return on capital.



So here are the long term over the next three years that we expect to have. We expect adjusted EPS -- again, that is carving out the one-time -- EPS growth of 10% to 12% on a compound annual growth rate. We believe our adjusted efficiency ratio will be below 60% and all of that will result in a return, an adjusted return on average tangible common equity in the 12% to 14% range as we execute this strategic plan. So the strategic plan for us as presented to our Board is our blueprint. It is how we will strengthen financial performance, and it is how we will build sustainable franchise value over time.

So with that, we've pulled it all together for you. That's the end of our presentations. Grayson will join me and we will be happy to take your questions.

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## QUESTIONS AND ANSWERS

### Unidentified Participant

David, could you just clarify again what you are contemplating in the adjustments for all those adjusted metrics of what you are taking out of that?

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**David Turner** - *Regions Financial Corporation - Senior, EVP & CFO*

Those would be the one-time charges like the branch consolidation charge if we have to do a one-time severance charge or a property writedown. Those will be carved out. They are the same adjustments that we've been putting in our quarterly earnings, so we will have those from time to time in security gains on the revenue side.

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### Unidentified Audience Member

But not the posting order?

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**David Turner** - *Regions Financial Corporation - Senior, EVP & CFO*

Not the posting order. Posting order is -- that's part of it.

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### Unidentified Audience Member

Great. Grayson, could you also just clarify the lack of interest in M&A? Again, I think you've got some scars out here in the audience from recent deals and if you could just repeat the message about the priority of where you are looking to invest and kind of how you think about deals given your currency.

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**Grayson Hall** - *Regions Financial Corporation - Chairman, President & CEO*

Yes, if you look at the presentation we've tried to present today, this is the result of a three-year strategic plan that we've built. We want it to be a credible plan. We want it to be a plan that our investors can have confidence in. And as part of that, we talked about strengths of our markets, the strengths of our franchise, the uniqueness of our franchise, the strength of our culture because we believe we have tremendous opportunities given the franchise we have and the markets we operate in to achieve strong organic growth. We believe that that's where we ought to be focusing our attention.

When we talk about expansion opportunities, those expansion opportunities were predominantly restricted to bolt-on non-bank kind of acquisitions like you've seen us do over the last few days. Long term through that three-year period, you'll see us do some modest branch expansion and you will hear the words from me in terms of bank acquisitions to be patient, but prepared because we want our teams prepared, but quite frankly,

given our valuation, we don't think that's something that we need to be all that focused on. We believe we need to be focused on organic growth and we believe that there's tremendous opportunity if we do that and do it well and that's the message we are trying to deliver.

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**David Turner** - *Regions Financial Corporation - Senior, EVP & CFO*

I would add to that that as we prepare for things like those type acquisitions, that it's important for us to make the math work and the returns work and right now, where our price level is, I think you are alluding to that, it's just not there. We are going to execute this plan and the goal is to get our price to a better level over time. And we will see what opportunities are afforded after that, but our focus right now over the next three years are what we just laid out in this plan, which does not have that.

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**Unidentified Audience Member**

Just on the long-term targets, could you lay out -- obviously, margin is an important component in where you think rates are going to be. Can you give us a range of where you think net interest margins are in a normalized world? And then also what are you assuming on fees because for 2016 you've got 4% to 6% and that's absorbing the posting order. So as you think about three years out, what kind of compound growth are you assuming on fees?

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**David Turner** - *Regions Financial Corporation - Senior, EVP & CFO*

Yes, so Deron, do you want to step up and you can answer the rate question. I will answer fees. So for us, what's important for fees is the growth that we can get fees will be commensurate with growing checking accounts, growing customer accounts. As Scott mentioned earlier, we've kind of gone through the change in terms of fees relative or service charges relative to the customer behavioral changes. So we believe that downward pressure has abated and we believe we can grow net of posting order the fees commensurate with our customer growth, so it's modest. It's not the growth in some of these other businesses that you've seen, but it's modest growth.

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**Deron Smithy** - *Regions Financial Corporation - Treasurer*

Yes, so I would just say -- so David has given you guidance on net interest income growth over a range of scenarios. The flat scenario, there's not going to be a lot of leverage to grow the margin in the near term, but we are going to continue to grow net interest income commensurate with loan growth. In a more normalized rate environment, we see the margin getting back to what we would call a normalized level of somewhere in the 330 to 350 range depending on what the ultimate level of rates are.

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**Unidentified Audience Member**

(inaudible - microphone inaccessible)

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**Deron Smithy** - *Regions Financial Corporation - Treasurer*

I would say rates are -- you are talking Fed funds up in the 3% range or North and you've got to get the 10 year up closer to 4% I think to get -- 3.5% to 4% to get in that range.

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**Unidentified Audience Member**

(inaudible - microphone inaccessible)

**Deron Smithy** - *Regions Financial Corporation - Treasurer*

The lower end of the range is Fed funds in the 2% to 2.5% range and then a flatter curve where the 10-year treasury is somewhere in the range of 3%, the low 3%.

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**Marty Mosby** - *Vining Sparks - Analyst*

Two questions. Just following up on the net interest margin, Marty Mosby over here. In those assumptions you just gave, David, you are using that higher deposit beta in the sense of the pricing assumption over time. Can you and should you envision that in the first 100 basis points you've been overly conservative in a sense of looking through the cycle, which we all know is front-loaded in a sense of getting the beta through to the deposit rates.

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**Deron Smithy** - *Regions Financial Corporation - Treasurer*

Yes, Marty, that's a good question. So if you go back and look throughout history, as we go through rate cycles, the first 100 basis points or so, and let's say the first year of a tightening cycle, deposit rates tend to move more slowly. What we reference in the slides is really a point to point. Once rates have fully stopped moving, once deposit rates have fully indexed, how much of that rate increase have we passed along in the form of deposit rates. But it really does have a curvature to it in that it's not linear. The first basis point doesn't produce that 60% beta.

So we would believe there would be some lags. We don't build in material lags from a forecasting standpoint, but if history holds, we would expect things to be more gradual as rates start to move. But as time passes and if we get to higher rate levels, that's when you start to see the upper end of that beta range.

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**Grayson Hall** - *Regions Financial Corporation - Chairman, President & CEO*

But, Marty, we have tried to take a very conservative stance on that because there is not a historical precedence for us to use to try to predict and forecast where this is going because if you look at it, rates have been extremely low for an extended period of time and you have to figure out what's the level of customer indifference to rate until it gets to a certain level. And you also have to try to anticipate competitor behavior. And we've got a whole new set of rules around liquidity that weren't there in prior events. So how do competitors react to rising rates? And so we do think the prudent thing is to be more conservative in our forecast, but we are encouraged by the balance sheet we've built on the liability side and we do believe that we've got every opportunity to outperform in that rising rate environment.

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**David Turner** - *Regions Financial Corporation - Senior, EVP & CFO*

And Marty, I would say that that's why Regions360 is so important because if we have our customer tied into all those products and services -- we have to be competitive, but we are not going to have to pay up and that's where we believe we will have a competitive advantage when we execute 360.

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**Marty Mosby** - *Vining Sparks - Analyst*

And then, David, when you show the adjusted return on tangible common equity at 12% to 14%, are you assuming that you are taking off 2 percentage points of excess capital in that, or are you, in your mind, saying, no, that is trapped for the time being over this three-year period as you are being patient and looking for the right opportunity to deploy it?

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**David Turner** - *Regions Financial Corporation - Senior, EVP & CFO*

Yes, so it's a little bit of both, Marty. I gave you the long-term targets getting our capital down, the common equity tier 1 to 8.5% to 9.5%. Frankly, at the end of this three-year period, and we're talking about return to the shareholders to commensurate with what you have seen, so what's not baked in there is what else can we do. And frankly, that capital levels that resulted at the end of the three years is just right at the high end of that range, frankly a little higher than that.

So we are not -- the question was asked earlier in the day, you are trying to take business returns and equate them to returns that the shareholders see, it's because of that capital base, that common equity more specifically. We have more common equity than we need and we are working diligently to deploy that in the most effective manner, but realize we are in -- we've got to go through CCAR and other measures to get the capital where we want it to be.

So today, we are returning let's call it 100% of our earnings just for easy math and we are growing loans almost 6%, 5% to 6%, call that \$4 billion. So you are going to eat up \$400 million of capital on top of what we are returning to the shareholders. So just business as usual is going to bleed down the capital ratio some, but going at that pace takes a while to get there until we can use it more effectively.

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**Unidentified Audience Member**

A couple of questions. If I go back to the first speaker -- sorry -- not the first speaker, the corporate bank and that was John Turner, he talked about profitability targets for 2016 to 2018 in a range of 15% to 18%. And David, you said currently we are at 16%. So hearing all the stuff about cutting expenses, growing revenues, can you reconcile why the target of 15% to 18% is still the same as the current levels? That's my first question.

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**David Turner** - *Regions Financial Corporation - Senior, EVP & CFO*

So the returns that I'm giving you are returns on the economic capital deployed in there. We still have capital sitting aside that's unallocated that we have to get a return on for the shareholder and that's why there's a little bit of a different -- we're really talking about two different things. I think ultimately the returns in the business will be at the higher end of what John was saying in time because of the investments we are making, but also remember some of these businesses are less efficient, a little more expense, payroll-related, expense-related to them. So I think in time we will have a tendency to get that return up to the higher end. John, I don't know if you want --.

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**Grayson Hall** - *Regions Financial Corporation - Chairman, President & CEO*

I think the thing to understand is that we've got to be very thoughtful and very careful about how we manage expenses because there're still investments we are going to want to make, but when you look at the rate environment we have faced over the last year and potentially what we believe we will face going forward, that if we want to continue to make investments in our businesses that we believe are prudent for the long term, we've got to figure out how to self-fund those investments by reducing core expenses. And so that's what we are trying to communicate today is the commitment to do that and so we still want to grow our businesses, we still want to invest in our businesses, but we realize we've got to reduce core expenses to be able to afford that. So John, anything to add?

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**John Owen** - *Regions Financial Corporation - Senior EVP & Head of the Regional Banking Group*

I think, too, if you look at -- I brought this slide up just to show you where the investments are being made. So John Turner is going to have a disproportionate amount of what we are adding from an expense standpoint because these fall into his world. So the expense cuts net net are coming from other parts of the Company.

**Unidentified Audience Member**

So that brings me to my second question, which is that -- so you've got the \$300 million in cost cuts. How much of that will get offset by spending and especially looking at the growth areas, most of them seem to be what I would consider high incentive comp type revenue areas. So a lot of that, even without just simply getting the revenue growth, plus you've got investments and just throw in that on the retail bank, what is it that you still need to do in terms of investing for your online and mobile capabilities, as well as cybersecurity expenses, which are growing pretty explosively for the whole industry?

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**David Turner** - *Regions Financial Corporation - Senior, EVP & CFO*

So let me answer the first piece and then John Owen may address the second piece. So we tried to give you this slide to help you. So if we have \$300 million of cost elimination, 35% to 45% of that we believe we can take out in 2016. You can do your math there. Then we are going to make investments, the slide I just came from, that's going to cost us some expense going forward. So net net, we believe that expenses will be flat, so that's where the money is going are those investments and that's why it was important for us, if we want to grow the bottom line, that we have to continue to figure out a way to fund the investments that we want to make.

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**Grayson Hall** - *Regions Financial Corporation - Chairman, President & CEO*

John, do you want to speak about the consumer bank?

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**John Owen** - *Regions Financial Corporation - Senior EVP & Head of the Regional Banking Group*

What I would say on the consumer bank side, on the investments in digital and mobile, part of what we are doing with funding that is I mentioned we are going to consolidate 100 to 150 branches, which will free up -- it will be a savings and some of that savings will fall to the bottom line and some of that savings will be used to fund things like digital and mobile investments we need to make.

But what I would tell you on the mobile and digital space, we've been making those investments already. We continue to make those investments. We think we have a pretty good mobile and online platform offering. We will keep adding feature function over time and I think we have a very competitive offering. So I don't see any huge lifts in spend in that space. We've been spending at a pretty good pace. It's working. We think we've got a good, fair competitive offering.

On the cyber part, we will continue to invest in cyber. It is something that we have increased our spending on over the years and you will see us continue to increase spending in that space as new things evolve in terms of software solutions and other capabilities that we need to implement. But that is something we will invest in.

But at the same time, what I would tell you is, in order for us to make this \$300 million number, we are going to have to have other places in the bank where we are getting more efficient, we will reduce staffing in parts. It will be through gaining efficiencies and automation. One I guess I would maybe ask Joe to talk about, we are looking at more automation in one of the business banking areas and it will reduce staffing.

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**Joe DiNicolantonio** - *Regions Financial Corporation - Head of Business & Community Banking*

Thank you, John. One of the things that we are looking at for the [paralleling] function in the business space is an automation process that we will really start to roll out beginning of next year and what we are looking at doing is real simple, is we have a very manual process today to document loans. So for example, with a real estate loan, once the loan is approved, we have to order title, we have to order a flood search, we have to order an appraisal. So what we are doing is we are building automated processes that not only order those documents, but have an intelligent capture with it so they read those documents and then they take the next action.

So for example, we will roll out a flood certification and it will read the document, or the flood search. The flood search comes back, determines if it's in a flood zone. If it's in a flood zone, it reads it, determines the amount of insurance that's needed, sends a notification to the banker and asks them to get insurance. Now it sounds real simple, but it took all the human process out of that. So we will do that for multiple processes across that and gain huge efficiencies.

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**Unidentified Audience Member**

Just a few odds and ends follow-ups. Just first on the CRA issue, so you can close branches, but obviously there's a challenge to open new branches, but there's still no issue closing down branches right now?

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**Grayson Hall** - *Regions Financial Corporation - Chairman, President & CEO*

Yes, as we said earlier, we are still investing in the communities we operate in. We are very engaged in those communities. We do think that our expansion plans were not very large already and that potentially our expansion plans as de minimis as they are may be constrained for some period of time, which actually allows us to focus on what we are doing anyway. So we do believe that we are correctly focused. We do believe we are executing on our plans and we think that, in a lot of ways, this sort of crystallized sort of what we need to do next.

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**Unidentified Audience Member**

But there's no issue with shutting down branches over that period?

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**Grayson Hall** - *Regions Financial Corporation - Chairman, President & CEO*

I think that when you look at consolidating branches, and a number of banks are doing that, is our average branch I think now has about \$57 million in that branch and we are taking a very analytical data-driven approach to it. Consolidating branches is not just about buying into the fact that we believe branches are going to operate with less customer interactions at branches, but quite frankly it's a more analytical process than that. We look at the number of not only monetary transactions that go through that branch, but also the non-monetary customer service advice guidance and education type of transactions that occur in our branches. We look at the receiving branch because as we consolidate branches, there's going to be a branch that receives that.

All of our branches by and large are contributing to our earnings. We have from quarter to quarter only a very small number of branches that don't contribute in any particular quarter. This will make our branch channel more efficient, it will make our branch channel more profitable, but every decision we make is a data-driven decision about that branch and what customers it is serving. And in this environment, we still have the opportunity to close and consolidate branches where it makes sense. And we go through a very formal process to do that.

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**Matt Burnell** - *Wells Fargo - Analyst*

And then maybe just a quick question for David or Deron. I don't have the appendix in front of me, but if we get a rate increase in December, does NIM in the first quarter go up or is there a lag, or do we need two increases?

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**Deron Smithy** - *Regions Financial Corporation - Treasurer*

Again, a December rate increase, it would stabilize the margin, I would say. There's not a lot of -- depending on what ultimately plays out with deposit rates, there's not a lot of expansion that occurs immediately. It just really serves to stabilize the margin and just put it on a path for growth.



**David Turner** - *Regions Financial Corporation - Senior, EVP & CFO*

I can answer that in a slightly different way, Matt, that might help. So right now, we are up \$100 million -- it's about \$143 million, if I remember the number correctly, and the way that -- if you look at our 10-Q, you will see our sensitivity and we really broke it out between short and long term. We didn't the deep medium term in there. But if you look at the percentage change of that \$100 million, it works out to be about 25% of that would be short rates. There's about 30% medium term and 45% long term, so more on the longer end than on the short.

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**Unidentified Audience Member**

In the beginning of the presentation, you guys showed I think 80% of your branches located in six states, yet you guys operate in 16 states. I guess if you looked at the metrics of your six core states versus your, I guess, 10 other states, I suspect the six are much, much more profitable and efficient. I guess any thoughts about being more deliberate in terms of maybe just exiting some of those markets and reallocating that capital to give back to shareholders or back into the core franchise?

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**Grayson Hall** - *Regions Financial Corporation - Chairman, President & CEO*

Yes, the chart I showed you indicated that roughly 80% of our deposits reside in 6 states out of 16. But as I mentioned just a moment ago, all of our branches regardless of location are contributing in a positive way and again, on a quarterly basis, and it moves around, just a handful of our branches, and it's not the same handful from quarter to quarter, don't pass the hurdle.

With that being said, one of the themes you've heard from us today is diversification and there are certainly parts of our franchises that are very valuable that other people would like to have, but they are also valuable to us for that same reason. We really like some of the markets we are in that we have a low share, but a growing share and a growth opportunity. We like the diversification, we like the contribution. We've got good bankers in those markets and we think we've got good growth opportunities in those markets. And so quite frankly, we like the franchise. We like the footprint we've got. We are not looking at changing that footprint.

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**Unidentified Audience Member**

Okay, let's see, I have a question about your hiring freeze you discussed. How do you differentiate between the growth parts of your business like asset management and the non-growing parts and when do you think it might lift for the growth parts of the business?

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**David Turner** - *Regions Financial Corporation - Senior, EVP & CFO*

So we put the hiring restrictions on non-customer-facing. I should've added that doesn't impact though these initiatives that we want to make to grow those businesses. So we will hire the proper people to execute the business plans for that because there's revenue associated with that. So that's a little clarification there.

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**Grayson Hall** - *Regions Financial Corporation - Chairman, President & CEO*

Yes, and if we would, Dave Keenan, who runs our human resources group, is here with us today and I will ask Dave to make a few comments. But what we tried to do was to restrict our hiring of non-customer-facing, non-customer-servicing positions and to do that in a thoughtful way. It's just like we will have to work on expenses is that we don't want to use any blunt instruments to control expenses, but we want to use good, solid analytics, good, solid thought, business thought on how we reduce staffing and so the restrictions we've put back on a couple months ago were intended to slow the pace of hiring down in non-customer-facing roles. We think we've done that in a very thoughtful, credible way and we've made exceptions to that where it has to do with risk, compliance or making sure we are servicing our customers with the highest level of customer satisfaction.

**Dave Keenan** - *Regions Financial Corporation - Senior EVP & Director, Human Resources*

I really don't have much to add. Grayson laid it out well. We've put a rigorous process in place. We want to ensure this doesn't adversely impact revenue. It's a messaging to the organization. In the fourth quarter, other companies do this regularly, it is something for us that sort of sets the tone as we go forward. We are going to continue to get more efficient as we go into this expense exercise. So we feel like it's well-managed, it's effective doing what we hope it to do.

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**Unidentified Audience Member**

David, a couple of questions for you. First of all, are there any charges expected related to the \$300 million expense reduction?

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**David Turner** - *Regions Financial Corporation - Senior, EVP & CFO*

Yes, we will and that's why we put the adjusted numbers, so there will be -- and I used the example, when we close branches, there are one-time -- there's a one-time charge for that and so we will have to have that to get some of the \$300 million.

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**Unidentified Audience Member**

And then within the longer-term targets for return on tangible common equity, what are you assuming in terms of tangible common equity reduction if rates were to go up to the level that was mentioned before in terms of a normalized net interest margin? So for example, at the low end of the NIM guidance, 330 was mentioned, 2% to 2.5% on the short end, longer end or the 10 year being at 3% to 3.5%. What does that do to your AOCI and how does that affect tangible common equity?

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**David Turner** - *Regions Financial Corporation - Senior, EVP & CFO*

Well, clearly, so rates are going up, AOCI is going to go the other way. We think that from a tangible common equity standpoint, our overall return rate going up faster than we have will be at the higher end or even surpass that if rates are climbing faster than we think they will and of course the guidance that we've given you. So I think net net those return numbers could be at least at the high end of the range, if not a little better than that. Deron, anything you want to add to that?

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**Unidentified Audience Member**

David, just in terms of the capital return, do you have a sense in the CCAR process of whether there's a soft ceiling at 100% since you are almost at that in terms of payout, or do you not know, so how will you approach that in terms of CCAR if you are not sure?

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**David Turner** - *Regions Financial Corporation - Senior, EVP & CFO*

Yes, so that's always the challenge that we have is really trying to figure out what -- is there a limit. There's nothing baked anywhere that says thou shalt not. So we have to try to anticipate what our regulatory supervisors may be thinking on that point.

I get the question a lot why don't you just ask for whatever you want to ask for, forget 100% and then use your mulligan. And I've tried to be clear that that's really not a mulligan situation. Mulligans come in when your stress capital falls below the threshold, 4.5% common equity tier 1 because of all the stresses in capital return. We're not talking about getting to that level. We have that much capital.



If you look at our Dodd-Frank submission, I think the Fed ended up -- Dodd-Frank was about 8.5%, if I remember, so it's not a mulligan situation. What we believe it would be if they didn't like that is a qualitative failure for which there is no cure quickly, which means now you are on the sideline to execute even what we've been doing and that would be devastating in particular for a CFO.

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**Grayson Hall** - *Regions Financial Corporation - Chairman, President & CEO*

I agree.

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**David Turner** - *Regions Financial Corporation - Senior, EVP & CFO*

So we have to -- now, times have changed, so we pushed the return to the level that we thought was appropriate in our CCAR submission and relative to our peers, we are paying out more than everybody and we had to do the same exercise. We had to anticipate what we thought was the right answer. What's most important about CCAR is to have a robust capital planning process that has good governance and more involvement and all that and then we fill out this thing called CCAR. That's how it's supposed to work and I think as we get further from the crisis that we have a chance to let that mousetrap that we've built to actually govern. And I think that we are constantly looking at how we improve our capital stack. I'd like to have a little more preferred, a little less common equity. We have to figure out how that works in the context of a CCAR submission. So we are shareholders too, we get it. We are trying, but what we don't want to do is have that qualitative failure.

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**Grayson Hall** - *Regions Financial Corporation - Chairman, President & CEO*

And I think if you look at the process, it's gotten better every year, not only within our bank, but within the industry and if you look over time, two years ago, our capital returns in terms of dividend and share repurchase was much more modest than it has been this year. We felt like that was appropriate. We felt like given where we were at and where our capital levels were at that we needed to be more conservative. As we entered the 2015 plan, we obviously had more confidence in our capital planning process. We had more confidence in the way that our capital planning process would be reviewed and critiqued. And so we were able to be a little more thought forward-leaning in our plan and still have confidence that we would get no objection to our plan.

And our goal still is to submit plans that are credible, that we have confidence in, that our regulatory supervisors have confidence in that allows us over time to do the right thing to run our Company in a safe and prudent way. I think you saw that this year. We've made improvements since the last submission and we will continue to do that, but the good news is we've got a lot more confidence in what we are doing from a capital planning standpoint than ever before and getting better.

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**Unidentified Audience Member**

One quick follow-up, David. There was a little confusion at the end of the energy discussion. If oil remains at \$46, if it averages \$46 next year, that's where you would expect to have the incremental \$30 million to \$50 million and that's what's baked into your charge-off outlook and what you've already provided for?

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**David Turner** - *Regions Financial Corporation - Senior, EVP & CFO*

Yes, and what we really have reserved for too. So Barb had given you guidance as to what our reserves were, I think \$122 million in the reserves to cover charge-offs.

**Grayson Hall** - *Regions Financial Corporation - Chairman, President & CEO*

That's based off what we know today. When we look at the market and we try to forecast where we think oil prices are going, we try to very conservatively estimate what our loss forecast is for that. If we have material changes in the market then we have to relook at it, but right now knowing what we know, we feel pretty confident. Barb.

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**Barb Godin** - *Regions Financial Corporation - Senior EVP & CCO*

Yes, I just wanted to add one thing and this is really a clarification that I had grabbed the wrong price deck and so I told you that our prices were going to be at \$60 a barrel. It's \$52 a barrel, discount that by the 53% and that's what we lend against. So if I use even today's numbers, the \$46, we lend really as if that price of oil is at \$24.60.

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**Grayson Hall** - *Regions Financial Corporation - Chairman, President & CEO*

And that gets redetermined twice a year, right?

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**Barb Godin** - *Regions Financial Corporation - Senior EVP & CCO*

At least twice a year and -- that's for the redetermination, twice a year, could be a third and then our price decks get done quarterly and we could do it monthly if need be and we have done it monthly previously.

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**Unidentified Audience Member**

David, Grayson, maybe this is a question more for Matt and Barb and if you can dive in, we have talked about credit risk. Wanted to touch base a little bit on what I would call market risk since you're doing more loan syndications, more capital markets. There's been comments in industry rags about you all having some hung deals right now, some loans you are trying to market. So can you give us some update on where those stand, how much you think those -- how much of a mark you will have to take for one.

For seconds, is that -- and a longer-term question is since markets are becoming obviously a lot more volatile, we've seen that multiple times over the past year with the treasury market, etc., and the most recent, what are you assuming you'll have to do in terms of keeping aside more capital against that and are you still confident you can grow your fee revenues at the rate you have?

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**Terry Katon** - *Regions Financial Corporation - Head of Regions Bank Capital Markets*

I can address the question about hung situation. We do have one position; it's not a multiple deal situation. Important client of ours was making an acquisition. We participated in a number of portions of that financing. As you well know, the high-yield bond market has been quite volatile and choppy over the last month or so. We funded a portion of that bond. We are already marking it to market. What I would point out though is we have a profitable outcome on that in today's environment. So we have not yet booked fees that we've earned there, but we've marked the position on the bonds.

So we expect to earn money in that. We will, we have and will support the client. When the market comes back, the bonds will be sold into the market, but we are on a daily basis marking them. So I wouldn't expect any adverse situation in terms of our overall economics. We expect to earn a nice return on that situation even under a quite adverse scenario from a bond standpoint because we are already marked down substantially.

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**Unidentified Audience Member**

But it's still going to be below par I am presuming?





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**Terry Katon** - *Regions Financial Corporation - Head of Regions Bank Capital Markets*

Oh, yes. It's marked in the low 90s at this point and yet, we are still profitable overall on the transaction given the other economics beyond just the bond position.

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**Unidentified Audience Member**

And if you can talk about your longer-term cap -- how much capital you keep given the increasing market risk?

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**John Turner** - *Regions Financial Corporation - Senior EVP & Head of the Corporate Banking Group*

The only thing I would add to what Terry said, and I think he underscored it, is the underwriting was for a customer that we have a relationship with. We are doing a handful of committed underwritings currently a year and therefore customers who are involved in transactions that we think we have good depth of relationship with and there were multiple pieces of capital in this particular transaction. The others went off very smoothly and this one likely will as well. And so it's an aspect of the business that we are continuing to build, we understand and it's about meeting customer needs and we will manage it carefully.

To the question of capital, I'm not sure --.

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**Unidentified Audience Member**

How much more -- you obviously need more capital for market risk given that you are trying to increase your -- if I look at the initiatives, they are all market risk-driven, so what are you doing in terms of longer-term capital requirements?

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**John Turner** - *Regions Financial Corporation - Senior EVP & Head of the Corporate Banking Group*

Sure. We will need more capital in our broker dealer as we undertake new activities, but what I would say is there's much less risk-taking in the marketplace from a trading standpoint today than there ever has been. So we don't anticipate a lot of capital going in. We want to support our clients. That's why we are entering into these sales and trading businesses, but there will be very minimal capital attached to them. Most of the trading will be on what we refer to as a matched basis, so really just settlement risk. But, yes, we will and we are planning for that, but I think what you would find much less than you would have seen years ago when there was more risk-taking, more position-taking.

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**Unidentified Audience Member**

You've given loan growth guidance of 4% to 6% this year and it looks like you're going to come in at the upper end of that. I guess the question is, with some of the progress on consumer, and it looks like commercial real estate may be inflecting here, why the 3% to 5% for 2016? Is that an economic outlook view, or is that -- just curious as to why the loan growth guidance is a little lower this year or for 2016?

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**David Turner** - *Regions Financial Corporation - Senior, EVP & CFO*

Well, as you may recall, we started 2015 with a 3% to 5% range as well and as the year went on, we really didn't change that guidance I don't think until the third quarter. So we look at the economy improving, bumping along, doing a little better. John Turner had mentioned about recycling some of our capital and some of our businesses that -- loans that really aren't giving us the return that we need. And if we can't get the returns on those credits where we need -- if it's a credit-only situation then that math is not going to work any longer and we're going to recycle that credit, that would be great.

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**Unidentified Audience Member**

Okay, great. Then just one clarification. On the branches, the 100 to 150, is that a gross or a net number on the closures?

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**David Turner** - *Regions Financial Corporation - Senior, EVP & CFO*

That's a --.

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**John Owen** - *Regions Financial Corporation - Senior EVP & Head of the Regional Banking Group*

Yes, if you think of today, we've got 1630 branches today. It's 100 to 150 off that 1630.

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**Unidentified Audience Member**

David, just one clarification on the long term. When you are talking about the long-term plans, is that a 2016 to 2018, is it a through the cycle or is it to an end of point? So specifically 12% to 15% earnings growth is a lot for a regional bank of the Company's size, so is that more of a next couple of years and then are the efficiency and ROTC more of an end of period and is it the 2016 to 2018, if you could just clarify that?

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**David Turner** - *Regions Financial Corporation - Senior, EVP & CFO*

No, you are exactly right. So that compound annual growth rate on EPS really is working off of this year's base and so, yes, that's not sustainable over the long term, 12% to 15%, we get that. But that is through 2018. And then the efficiency and return numbers are in 2018.

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**Unidentified Audience Member**

Okay. And then on the expense side, if you can keep expenses kind of flattish to maybe slightly up next year, is that also what you expect in 2017 and 2018 to kind of also hold that line all the way through and to continue the self-funding ability? Would there be anything that would pressure you upwards that you would be --?

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**David Turner** - *Regions Financial Corporation - Senior, EVP & CFO*

Well, the timing of our initiatives and the investments that we are making will put more pressure on that being flattish to up modestly, which is why we gave you the long-term targets. So we're not going to commit right now to having flat expenses for three years.

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**Unidentified Audience Member**

Okay. And then, lastly, just 12% to 15%, if that's a cyclical three-year type of plan, what do you think just the organic growth rate of the Company is? Obviously, the buyback is in there too. So I don't know if you can kind of put it into pre-pre-perspective or something like that? I don't know if you can do that at this point.

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**David Turner** - *Regions Financial Corporation - Senior, EVP & CFO*

So we try to plan for what that might look like. Again, there are a lot of uncertainties with regards to rates, but when you have share buyback and earnings growth, 3% to 4%, buying back 3% to 4%, now you've got EPS growth 6% to 8% range we think is kind of a doable number.



**Grayson Hall** - *Regions Financial Corporation - Chairman, President & CEO*

I also think with that question, it might be interesting to let the leadership that's managing our different geographies talk about the organic growth opportunities they are seeing in their markets. And so Brett, why don't you start that. Remind them which markets you're managing.

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**Brett Couch** - *Regions Financial Corporation - Senior EVP, East Region President*

Okay, we will just start with Florida at a number 5 marketshare and it's a pretty fragmented group at 4, 5 down and we are seeing through some of our consumer efforts, as well as in business banking and household growth, we are seeing solid single-digit growth rates. And it's very diverse and I want to repeat that anytime I talk about Florida, very focused on diverse growth.

One of the great opportunities about Florida as well is while there are nice loan opportunities there, it is a high deposit or liquidity state for us. If you were to add the deposits in Alabama, Georgia and Tennessee and add them together, it still doesn't equal the total market deposits of the state of Florida. So that's one of the real attractive portions of our operation in Florida.

Georgia, number 6 marketshare. Again, another state that is poised to grow not only population, but employment over the next four years and our number 6 market share, as Grayson had pointed out, gives us more of an opportunity to grow faster than say the market average.

Our East Tennessee market, Chattanooga and Knoxville, is one of those core markets that we will probably grow at or slightly, just slightly above, and we are very small in North Carolina. We only have six branches. Obviously, our growth rates there are pretty solid because we are operating off of a low base, but as Terry mentioned, our ability to attract talent in that market grows every day, wanting to be a part of that growth story.

And finally, in South Carolina, another smaller market for us. We do have 30 branches there. Two of the cities in particular that we find very attractive and doing your research on it and you would agree, Greenville, South Carolina and Charleston are both poised for very high employment growth that once again is very, very diverse.

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**Grayson Hall** - *Regions Financial Corporation - Chairman, President & CEO*

William.

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**Bill Horton** - *Regions Financial Corporation - Senior EVP, South Region President*

My name is Bill Horton and I'm responsible for the South region and that would include Alabama, Mississippi, the Panhandle of Florida and South Louisiana from Baton Rouge down to New Orleans. And if you look at Alabama, Mississippi, we have number one marketshare. And so we are growing today in households in both of those markets and we are doing that through the execution around Regions360. It is so important that we find ways to grow organically and as Grayson and others and John have said, the organic piece of all of this is really tied to our ability to take care of our customers and service quality is of a high priority in what we are trying to do in those markets.

You've got population growth in about the 1% to 1.5%. There's a lot of good economic activity going on in the markets and the good part about Alabama is it's very diverse. You've got the tech and defense in Huntsville. You have a lot of automotive activities, healthcare in Birmingham. You've got a lot of government activities in Montgomery and then you've got the ports in Mobile. A lot of port activity in Mississippi and Gulfport and then we are a major provider in New Orleans to the ports, as we talked about earlier.

Tourism is going to be another great opportunity for the region. Then we've talked about energy, but when I look at what's going on between New Orleans and Baton Rouge with petrochemical activities, there's billions of dollars being invested and we've got to find opportunities to help support that. So that's a quick overview of the South regions. Ronnie.

**Ronnie Smith** - *Regions Financial Corporation - Senior EVP & Mid-America Region President*

And I will not repeat all of that again, but just understand that from a 360 standpoint, we have got a real chance of digging deep into the relationships just like Brett and Bill said. The markets that I serve are the triangle from Nashville down to Houston and back up to Indianapolis. If you look at our core markets like Bill, Tennessee, Arkansas, really represent good core markets for us and the beauty of that is that in the growth markets, whether it's Texas or Indianapolis, we have these core markets that produce very low cost core deposits and we are able to redeploy those low-cost core deposits and loan growth opportunities in some of the higher growth market areas that we serve.

When you think about all of these economies much like Bill said, we have a really deep diversity. If you start in Indianapolis, the manufacturing sector there is very strong. If you move down to Houston, the Port of Houston is really driving economic activity not just throughout Texas but throughout the Southwest. And it ranks either number one or two in most port categories for the entire country.

So the 360 approach is simple. It's just digging deeper into the relationships that we have with clients and I think about it from a balance sheet perspective. Every client has a balance sheet and we have a solution for everything on the balance sheet. And when we go to market like that with our RMs, we are trying to identify the solutions for each of the clients, whether it's consumer or whether, John, it's in the large corporate space and as we go to market, what we are trying to press is the partnership across all business lines to provide the solution for each individual client.

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**Grayson Hall** - *Regions Financial Corporation - Chairman, President & CEO*

Thank you.

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**Unidentified Audience Member**

I just had a couple of quick follow-ups on the expense side. So I know you are going to be taking a charge and I know we've seen charges in the past maybe 10%, 15% of these kinds of cost saves. Is that the kind of range we should be looking at, or is it a higher 25%, 30%? Is it all at once? Would we be anticipating this quarter and 4Q take it and then get the benefits in 2016, or is it going to be ratable as you are getting the cost saves through?

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**David Turner** - *Regions Financial Corporation - Senior, EVP & CFO*

Yes, so there's not going to be just one quarter. Depending on the initiatives, some of these initiatives pan out over time, so you are going to see it scattered throughout quarters and years even, so --.

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**Unidentified Audience Member**

Because the 35% to 45% of the cost saves are coming in in 2016, right?

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**David Turner** - *Regions Financial Corporation - Senior, EVP & CFO*

That's right.

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**Unidentified Audience Member**

So that piece is a little bit front-end-loaded, so just wondering are we going to start to see the one-time charges come through in 4Q and that feeds into 1Q, 2Q kind of cost saves, or is it going to be front-end-loaded in 2016 on the merger charges, back-end-loaded on the cost saves? Maybe you could give us a sense of the timing.

**David Turner** - *Regions Financial Corporation - Senior, EVP & CFO*

Yes, so Betsy, I would tell you the sooner we get going the better for all of us. That being said, there's a lot of moving parts with this. We need to be really careful how we roll this out to our organization. I'm going to use branches just as an example. It's not just picking out a number of branches and saying those are consolidating. There's an incredible amount of work that has to go in with each of the market -- the regional presidents and the area presidents and people that run those markets, the people that manage the people. And so as we think about that particular one, it hits in two quarters.

If you go back to last year, we made a decision to consolidate branches. We had a charge in the fourth quarter. We had a charge in the first quarter and it's because you can't do it all at one time. You can't take your final charge until the people are finished and out of the branch. So you are going to see it stagger. We haven't made the exact decision on timing whether it's fourth and first or first and second on something like that, so you will just have to stay tuned. We've got some more work we need to do internally.

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**Grayson Hall** - *Regions Financial Corporation - Chairman, President & CEO*

Betsy, we've got work groups all over the Company that are trying to put together their individual initiatives and to David's point, when you look at how we are looking at this, it's going to be ratable over time.

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**Unidentified Audience Member**

Okay. And then just a bigger picture question on the expense side with technology expenses. So I'm getting the message, obviously reinvest more in technology. You've already been a bit of a leader in your group with regard to investment in tech. We see it in the check imaging and giving people immediate availability. We've seen it in your mortgage process. I'm just wondering should we be anticipating that your tech spend as a percentage of total spend or as a percentage of total revenue is ratcheting up kind of permanently and you are going to take this investment spend in tech to a higher level permanently, or is this kind of a one-time increase that will come down over time?

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**Grayson Hall** - *Regions Financial Corporation - Chairman, President & CEO*

No. If you look at our technology spend even through the crisis, we maintained a pretty steady state of technology investments. And if you look at those investments on an annual basis, about a third of them are replenishment of the infrastructure. They are replenishment of equipment in the data center, but also in our branches and replenishment of our telecommunications network, just making sure that our core is still solid. About a third of it, generally speaking, is around regulatory compliance, risk management kind of activities and about a third of it has been line of business enhancement to products and process. And within an organization our size, there's only -- there's a finite capacity for technology changes because they have to be managed and absorbed and trained and delivered and we've built up to a pretty steady state.

So I don't see the level of technology spending really changing. I think it'll stay pretty consistent to where it's at because we believe we've got the workforce in place to do that. What changes is which ones we prioritize and so we look at the opportunities we have to invest in technology. We make some pretty tough decisions in that regard. And so as we go through this process, we are looking at the ones that really deliver return and those are obviously getting more priority than others. John, do you want to add to that?

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**John Owen** - *Regions Financial Corporation - Senior EVP & Head of the Regional Banking Group*

The only thing I would add to what Grayson said is what has forced us to do a better job from a strategy standpoint in the last couple of years is really back up and go. We've got a bucket of capital spend and look at enterprise projects that touch really across the bank. So this year, we went through this process a couple months ago. There was a lot of heated debate. We took the top 10 projects that were enterprise-level projects, debated those and what I would tell you we are doing a better job of picking the ones that will have the biggest impact in the short term and long

term. It will also help you with taking cost out or driving revenue. So I would say a much more directed approach and a broader based look by a large group in the Company.

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**Grayson Hall** - *Regions Financial Corporation - Chairman, President & CEO*

But it's important -- we are trying to build long-term sustainable franchise value and we're not going to do that by making expense-savings decisions that take away from the value of the franchise we've put together. And so we need to be very thoughtful and very careful how we do this, but nevertheless we still have to do it.

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**Unidentified Audience Member**

When you think about the various initiatives you talked about today on the investments and expenses and the capital deployment, are there areas that you think are going to be more challenging to achieve, or do you think that the achievability is fairly balanced across what you've laid out today?

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**Grayson Hall** - *Regions Financial Corporation - Chairman, President & CEO*

Well, like I said, we've tried to create a credible plan that there's clearly challenge in. I think that we all try to put together plans across every business unit, every geography that challenges our teams, but that are credible plans, plans that we have a high degree of confidence that we can achieve. My impression is is that, across the board, people do feel challenged but they do feel like they have confidence to deliver. But we have to execute. We have to deliver. I'm sure all of you will hold us accountable for that over time.

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**List Underwood** - *Regions Financial Corporation - IR*

That's it. That concludes our program today.

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**Grayson Hall** - *Regions Financial Corporation - Chairman, President & CEO*

Well, thank you for coming. We appreciate your participation. Thank you.

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