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# EDITED TRANSCRIPT

RF - Q4 2013 Regions Financial Corp. Earnings Conference Call

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**OVERVIEW:**

Co. reported 4Q13 earnings of \$219m.



## CORPORATE PARTICIPANTS

**List Underwood** *Regions Financial Corp - Director of IR*

**Grayson Hall** *Regions Financial Corp - CEO*

**David Turner** *Regions Financial Corp - CFO*

## CONFERENCE CALL PARTICIPANTS

**Paul Miller** *FBR Capital Markets - Analyst*

**Gerard Cassidy** *RBC Capital Markets - Analyst*

**John Pancari** *Evercore Partners - Analyst*

**Kevin Fitzsimmons** *Sandler O'Neill & Partners - Analyst*

**Craig Siegenthaler** *Credit Suisse - Analyst*

**Erika Najarian** *BofA Merrill Lynch - Analyst*

**Sameer Gokhale** *Janney Capital Markets - Analyst*

**Ken Usdin** *Jefferies & Company - Analyst*

**Matt O'Connor** *Deutsche Bank - Analyst*

**Betsy Graseck** *Morgan Stanley - Analyst*

**Keith Murray** *ISI Group - Analyst*

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

**Josh Levin** *Citigroup - Analyst*

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

**Marty Mosby** *Guggenheim Securities LLC - Analyst*

**Gaston Ceron** *Morningstar Equity Research - Analyst*

**Vivek Juneja** *JPMorgan Chase & Co. - Analyst*

## PRESENTATION

### Operator

Good morning and welcome to the Regions Financial Corporation quarterly earnings call. My name is Stephanie, and I will be your operator for today's call.

(Operator Instructions)

I will now turn the call over to Mr. List Underwood to begin.

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**List Underwood** - *Regions Financial Corp - Director of IR*

Good morning everyone. We appreciate your participation on our call this morning.



Our presenters today are our Chief Executive Officer, Grayson Hall, and our Chief Financial Officer, David Turner. Other members of management are present as well and available to answer questions as appropriate. Also, as part of our earnings call, we will be referencing a slide presentation that is available under the Investor Relations section of [www.Regions.com](http://www.Regions.com).

Finally, let me remind you that in this call and potentially in the Q&A that follows, we may make forward-looking statements which reflect our current views with respect to future events and financial performance. For further details, please reference our forward-looking statement that is located in the appendix of the presentation. With that said, I'll turn it over to Grayson.

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**Grayson Hall - Regions Financial Corp - CEO**

Good morning. And welcome to Regions' fourth quarter 2013 earnings conference call. We certainly appreciate your participation and interest in Regions Financial.

Overall, we are pleased and encouraged by our achievements and results in 2013. During the year, we focused on the fundamentals: serving the financial needs of our customers and communities, and building stronger relationships with them.

We began 2013 with three important business priorities. First, loan growth. Secondly, customer relationships. And also third, prudently managing expenses.

Through the focused execution and dedication of our team, we accomplished these goals and made meaningful progress. For the year, total new and renewed loan production increased \$4.5 billion, or approximately 8%.

As a result, we experienced \$1.3 billion of balance sheet loan growth in 2013, which excludes the residential first mortgages, mortgage loans transferred to held-for-sale, which I'll address momentarily. This growth was achieved by expanding our customer base and deepening relationships with existing customers, aided by a new initiative launched in 2013 called Regions 360. This is a very deliberate and prescriptive approach to building a strong relationship banking culture on a foundation of trust.

Further, we increased our total number of customers and households in a diversified manner. Business lending achieved solid growth in 2013, led by commercial and industrial segment. This segment increased \$2.7 billion from the end of 2012, primarily driven by specialized lending teams. Also, we believe our investor real estate segment is close to stabilization as new loan production continues to increase and payoffs and paydowns diminish.

On the consumer side of the balance sheet, our indirect auto portfolio experienced a very strong year, with production up 35% and loans increasing 32%. We accomplished this by expanding our dealer network by 12%, and increasing our average loans per dealer by more than 50%. We also achieved growth in our consumer credit card portfolio, as a number of active cards increased 7% year-over-year, and we grew our home equity loan and line production by 78% from the same time last year.

Additionally, our full year 2013 adjusted expenses were lower than 2012 expenses on the same basis, and we did this while making significant investments in people, in products, and in technology. We will continue to rigorously manage all expenses in a disciplined manner as it is part of our culture while ensuring that we have the right infrastructure and foundation in place for future growth.

In addition to successfully executing our business priorities, we also had a number of other noteworthy accomplishments in 2013. We increased net income available to common shareholders 10% over the prior year.

We expanded our net interest margin by 16 basis points. We lowered our deposit cost by 10 basis points. We achieved broad-based improvement in asset quality with every metric significantly improving.

We raised our common stock cash dividend. We completed several actions that improved our debt and capital structure while reducing overall funding costs, and again, we completed a common stock share repurchase program. Clearly, we accomplished a great deal in 2013.

With respect to the fourth quarter, there are several notable items that impacted results. David will cover these in more detail momentarily, but I wanted to highlight a few of them.

First, accelerating our derisking strategy. We transferred \$686 million of troubled debt restructured loans to held-for-sale. This transaction has minimal capital impact and will improve the Company's credit profile. Importantly, as a result of this transaction, we can experience lower FDIC premiums and can redeploy the capital more economically.

In addition, we recorded a \$58 million nontax deductible charge related to previously disclosed inquiries from government authorities concerning matters dating back to 2009. And during the fourth quarter, we announced that we will consolidate 30 branches in early 2014. This will create additional efficiencies within our branch network channel and demonstrates our ongoing rigor and discipline with respect to expense management.

Looking to 2014, there are several underlying economic and political factors that have the potential to influence the US economy. But nonetheless, consumer balance sheets are healthier than they've been in some time. Corporate balance sheets are in solid condition, and the housing market in our communities continued to improve. These factors along with an improving global outlook should contribute to moderate and improving GDP growth in 2014.

Again, we are encouraged with the progress we've made in 2013. But more importantly, we look forward to building on that momentum in 2014.

All team members at Regions are focused on building a stronger Company each and every day. We believe in our Company, and we believe that by focusing on and serving our customers and communities will ultimately drive our results and benefit our shareholders. I'll now turn it over to David to discuss fourth-quarter results.

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**David Turner** - *Regions Financial Corp - CFO*

Thank you, Grayson, and good morning everyone. Today we reported earnings of \$219 million for the fourth quarter. And as Grayson mentioned, there were a number of notable items occurring in the quarter that warrant further explanation. I'm going to go over those first, then I'll get back to the core operating results later.

In the fourth quarter, we identified approximately \$686 million of primarily accruing first lien residential mortgages that were classified as troubled debt restructuring and transferred them to held-for-sale. The majority of these loans were originated prior to 2007, and approximately 40% are located in Florida. We expect to execute a sale of these loans early this year.

In connection with the loan transfer, we recognized incremental net charge-offs of \$151 million. However, this was partially offset by \$76 million of allowance for loan losses. As a result, the pretax net income impact of the transaction totaled \$75 million.

Also in the fourth quarter, we terminated two leveraged leases, incurring a \$39 million gain. However, the tax expense related to these terminations was \$33 million, and therefore the benefit to net income was \$6 million.

In connection with the branch closures that Grayson mentioned, we incurred additional pretax expenses of \$5 million in the quarter. In addition, as Grayson also mentioned, at the end of the quarter, we recorded a \$58 million regulatory charge associated with previously disclosed matters dating to 2009. We are in discussions with our banking supervisors to resolve their inquiries on these matters, and although you may have additional questions, please recognize that we cannot comment at this time beyond this disclosure.

Also, the Company incurred a \$40 million reduction to overall income tax expense, primarily related to the valuation allowance for certain state net operating losses that occurred in previous years. And finally, during the quarter we incurred \$25 million of additional legal expenses resulting from adjustments to the indemnification reserve established in connection with the sale of Morgan Keegan. These legal expenses are reflected in Discontinued Operations. Combined, all of these items lowered net income by \$75 million and earnings per share by \$0.05.



Let's take a look at fourth quarter operating results, starting with our loan book. Total average loan balances were up 1% from the previous quarter. However, ending loans declined 2% due in part to the transfer of residential mortgage loans to held-for-sale at the end of the quarter. Excluding the loans transferred, adjusted ending loans declined 1% linked quarter.

Specifically, average commercial industrial loan balances increased \$631 million from the prior quarter. However, on an ending basis they declined \$450 million. The decline in period end commercial loan balances resulted from repayment of loans, some of which were non-performing, corporate clients accessing funds in the fixed income market and volatility in REIT lines in the normal course of business.

Finally, part of the decline was also driven by \$104 million of leveraged lease terminations. This decline was partially offset by increases in specialized lending led by technology and energy.

Encouragingly, commitments for new loans increased quarter over quarter by \$500 million to \$38 billion. Investor real estate loans were down 3% from the previous quarter as the pace of paydowns and derisking was only partially offset by new loan production, which increased 2% from the previous quarter. And new production is expected to remain strong going forward.

Indirect auto continued to lead consumer lending as loan balances increased 6% from the prior quarter. At the end of the fourth quarter, we had more than 2100 dealers in our network, and we remain focused on increasing our pull-through rates primarily through technology enhancements.

The total home equity portfolio was steady linked quarter, as the pace of new production in the home equity loan product offset customer deleveraging within the home equity lines of credit. As a result, balances in the fixed rate home equity loan product have increased 17% over the previous quarter.

Credit card balances increased 6% over the third quarter, as we increased the number of active card holders by 4%. We will continue to focus on expanding the number of customers that carry a Regions credit card and have increased our penetration rate by 50 basis points over the third quarter.

And finally, mortgage balances were relatively flat excluding the transfer of loans to held-for-sale. Looking ahead, based on what we know today and our economic forecast, we expect 2014 loan growth to be in the 3% to 5% range.

Let's take a look at deposits. Deposit mix continued to improve in the fourth quarter as low cost deposits increased to 89% of average deposits. This positive repricing and mix shift resulted in deposit costs declining to a historically low level of 12 basis points. Total funding costs for the Company declined to 34 basis points in the quarter.

Let's see how this impacted our results. Net interest income on a fully taxable equivalent basis was \$846 million, up \$8 million or 1% from the previous quarter. The resulting net interest margin was 3.26%, an increase of 2 basis points from the previous quarter.

For the fourth quarter, continued increases in long-term interest rates served to further reduce prepayments on securities and the related premium amortization. Lower premium amortization contributed approximately 5 basis points' increase to the margin and totaled \$45 million for the quarter. Of course, higher long-term rates also benefit net interest income and net interest margin over time through higher yields on reinvested fixed rate loans and securities.

In 2013, liability management strategies and an improving mix of deposits offset the negative impact of a persistently low growth and low interest rate environment. Although the pace of decline in deposit costs has slowed, the recent rise in long-term rates off mid-year lows helped provide additional lift to the margin.

Our balance sheet continues to be asset sensitive to short-term interest rates, mainly attributable to floating rate loans. Moreover, further increases in long-term rates would provide additional benefit to the margin, but at a somewhat reduced base given prepayments and premium amortization have already slowed considerably. With rates at their present level, we expect the net interest margin to remain relatively stable in 2014.

Let's take a look at non-interest revenue. Fourth-quarter non-interest revenue was up 6% from the previous quarter. The fourth quarter included a net gain of \$17 million related to the sale of certain low income housing investments as well as the \$39 million gain previously mentioned related to leverage lease terminations.

Non-interest revenue continues to be impacted by lower mortgage revenue. During the quarter, mortgage production declined 23% and mortgage revenue declined 17%. As a result, we continue to optimize the mortgage operations model and reduced overall mortgage production expenses 10% in connection with lower revenue, and we expect mortgage expenses related to production to continue to decline. As a reminder, the previous quarter included a \$24 million gain related to the divestiture of a non-core portion of the Wealth Management business.

As previously disclosed, we will discontinue new enrollment for our Ready Advance product and begin working on a transition plan related to our existing customers. This transition plan will be executed during 2014 and includes the recently introduced new savings secured loan to help meet the credit needs of our customers.

In 2013, we made significant investments in our Wealth Management group by adding over 100 financial consultant positions, and we expect these positions to be fully profitable in 2014.

Additionally, we were successful growing certain consumer product lines throughout 2013 that will provide future revenue opportunities. For example, we grew our Now Banking households 26%, our active debit card users 2% and our prepaid card users 50%.

Let's take a look at expenses. Non-interest expenses totaled \$946 million in the fourth quarter and included \$58 million of expense related to the regulatory charge and \$5 million of expense related to the branch consolidations.

Deposit administrative fees or FDIC expenses were lower in the fourth quarter due to an improvement in asset quality, overall business performance, and refunds of previously incurred fees. As a result, these costs are expected to be lower in 2014 compared to 2013, and the run rate's expected to be between the levels reported in the third and fourth quarter.

Salaries and benefits increased 2% this quarter, reflecting an increase in headcount, primarily in customer-facing, revenue-generating and compliance positions. This was partially offset by a decline in mortgage incentives. Generally speaking, it takes about 12 months for these customer-facing positions to become profitable contributors.

Our adjusted efficiency ratio improved 100 basis points from the previous quarter, and we expect this to continue to trend down over the near term. Some fluctuation expenses can occur on a quarter-to-quarter basis in order to generate ongoing revenue. However, if the revenue does not materialize, we will adjust accordingly as we are committed to generating positive operating leverage.

We have effectively managed expenses throughout the cycle and have consistently reduced full-year adjusted expenses since 2009. Full-year 2013 adjusted expenses were lower than 2012 expenses on the same basis. And we expect this trend to continue in 2014.

Let's take a look at asset quality. Improvement continued in the fourth quarter as most credit metrics improved. As previously discussed, this quarter's results were impacted by the loans transferred to held-for-sale.

Adjusted net charge-offs which excludes the amount related to the transfer of loans amounted to \$127 million. The provision for loan losses was \$79 million, of which \$75 million was related to the loan transfers. Our non-performing loans declined 20% linked quarter, and in-flows of non-performing loans declined 12% to \$175 million.

Our coverage ratios remained solid. At quarter end, our loan loss allowance to non-performing loans increased to 124%. Notably, criticized and classified loans continued to decline with commercial and investor real estate criticized and classified loans down 14% from the third quarter.

Troubled debt restructuring declined 14% from the previous quarter, and excluding the loans associated with the transfer, TDRs would have been down 32% or approximately \$1 billion. Based on what we know today, we expect favorable asset quality trends to continue. However, at this point in the cycle, volatility in certain metrics can be expected.

Let's take a look at our capital and liquidity. Our capital position remains strong as our estimated Tier 1 ratio at the end of the quarter stood at 11.6%. Our estimated Tier 1 common ratio was 11.2%, an increase of 20 basis points. We estimate our fully phased-in pro forma Basel III Tier 1 common ratio would have been approximately 10.5%, well above the minimum threshold.

As you are aware, we submitted our CCAR earlier this month, and we expect to get the results sometime in March. Liquidity at both the bank and holding Company remains solid with a loan and deposit ratio of 81%. Lastly, based on our understanding of the proposed rule, Regions remains well positioned to be fully compliant with respect to the liquidity coverage ratio.

I'd say in summary, our fourth quarter and full-year results reflect our continued focus on moving the Company forward. At the core, we remain focused on our customers by continuing to drive a culture of leading service quality across the Company while following a shared value philosophy.

We believe focusing on our customers, having an engaged workforce and making a positive impact on our communities will ultimately drive long-term growth and shareholder value. Now I'll turn it back over to List for instructions on the Q&A portion of the call.

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**List Underwood** - *Regions Financial Corp - Director of IR*

Thank you, David. We are ready to begin the Q&A session of our call. We have a number of you already in the queue. And we want to take as many as possible this morning. As a result, I would ask you to each please limit yourself to one primary question and one related follow-up question.

Now, operator, let's open the line for questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Your first question comes from the line of Paul Miller with FBR.

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**Grayson Hall** - *Regions Financial Corp - CEO*

Good morning, Paul.

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**Paul Miller** - *FBR Capital Markets - Analyst*

Can you hear me, guys? How you guys doing?

I missed the very front end of your call. I don't know if you addressed it. But you did give guidance of loan growth of 3% to 5%. Am I correct?

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**David Turner** - *Regions Financial Corp - CFO*

That's correct.



**Paul Miller** - *FBR Capital Markets - Analyst*

Can you just tell me where do you think that's coming from, and is that just really through discussions through your customer base?

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**Grayson Hall** - *Regions Financial Corp - CEO*

Paul, we've gone through our lending segments extensively and have -- we had pretty solid growth in the fourth quarter in terms of average balances. There was obviously a lot of activity that occurred near the end of the quarter. We had a number of paydowns and payoffs that had taken place.

I think you had the transfer of the first residential mortgages over to held-for-sale. You had more customers taking advantage of the capital debt markets than we've seen in the past. But we have continued to be encouraged by signs that we've seen in looking at our production, looking at our pipelines and looking at what we believe is an improving economy.

We've seen particular strength in certain segments. I would mention three. I think we've seen good strength in both energy and in technology.

But we also have seen strength in commercial real estate. We believe that our commercial real estate portfolio for the first time is close to a stabilization point. We are encouraged by the production, and we think we've got an opportunity.

If you remember, we had indicated that we thought our loan growth on the upside might be as much as 4% a quarter ago. We've raised that slightly to 5% today. But we think we've got the opportunity to do that, and we're optimistic about it.

David, would you like to comment on that?

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**David Turner** - *Regions Financial Corp - CFO*

I think if you look at commercial real estate in particular, multifamily and home builder portfolios look strong. We feel comfortable with those going into 2014.

Grayson talked about the other parts of C&I. But the consumer side is getting better for us as well as our home equity loan product is just about to take care of the declines we've seen in home equity lines. Our indirect auto continues to be a nice growth story for us as we continue to expand on dealerships and our penetration within those dealers. Credit cards continue to grow, as well.

So we're feeling good about a broad array of loan increases and production leading us into 2014.

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**Grayson Hall** - *Regions Financial Corp - CEO*

The big thing I would say is we're seeing more diversified demand both across lending segments and across markets. It's broader and more diversified than it was a quarter ago.

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**Paul Miller** - *FBR Capital Markets - Analyst*

Okay. Guys, that's a very complete answer. Thank you very much.

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**Grayson Hall** - *Regions Financial Corp - CEO*

Thank you.

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**Operator**

Your next question comes from the line of Gerard Cassidy with RBC.

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**Grayson Hall** - *Regions Financial Corp - CEO*

Good morning, Gerard.

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**Gerard Cassidy** - *RBC Capital Markets - Analyst*

Good morning. Thank you.

David, you mentioned that you thought the expenses in 2014 were going to be lower than 2013's adjusted expenses. What's the adjusted expense level we should use for 2013 to measure against for 2014?

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**David Turner** - *Regions Financial Corp - CFO*

Gerard, that number is \$3.4 billion -- \$3.433 billion, to be exact, that you could calculate off of our supplement, taking all the adjustments out. It's working off that number.

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**Gerard Cassidy** - *RBC Capital Markets - Analyst*

Okay. And then just as a follow-up, on the LCR ratio, I think you said that you're well positioned to be fully compliant. Does that state that you're there already, meaning that you don't need to put more liquidity on the books that could pressure the margin if you were to do that to become fully compliant?

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**David Turner** - *Regions Financial Corp - CFO*

We aren't quite at 100% today as that number bounces around a little bit. We're pretty close to 100%. We're close enough to feel confident enough there's not a lot of restructuring we have to do with regard to being in compliance when the rule is effective.

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**Gerard Cassidy** - *RBC Capital Markets - Analyst*

That would imply we should not hear any margin -- some of your peers -- the reason I ask this is some of your peers have pointed out the margin pressure in 2014 will develop because of becoming fully compliant with LCR. We should not expect that from you guys? Is that correct?

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**David Turner** - *Regions Financial Corp - CFO*

We expect our margin to be relatively stable all-in through everything that we have to do. So perhaps we're a little unique, but remember, stable margin for us -- we've kind of given guidance -- that's 1 or 2 points either side of where we are, and we're sticking with that, even though the LCR's out there.



**Gerard Cassidy** - *RBC Capital Markets - Analyst*

Thank you. Appreciate the answers.

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**Grayson Hall** - *Regions Financial Corp - CEO*

Thank you.

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**Operator**

Your next question comes from the line of John Pancari with Evercore.

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**Grayson Hall** - *Regions Financial Corp - CEO*

Good morning, John.

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**John Pancari** - *Evercore Partners - Analyst*

Good morning. Wanted to see if you could give us some more color on your expectations for the efficiency ratio. Saw some good progress this quarter and wondered if we could get your thoughts on the 2014 outlook for that metric as well as how you would think about it on a longer term normalized basis.

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**David Turner** - *Regions Financial Corp - CFO*

Yes, John. This is David. As we've been mentioning on our calls, we are looking very closely at our efficiency ratio and positive operating leverage, as well.

You notice our efficiency ratio went up to 67 points and changed last quarter. We talked about working that down into the lower 60s without a rate increase. And we think with a rate increase, we can be in the 50s.

Our goal ultimately is in that 55 to 59 range, but we acknowledge we can't get there without a rate change, rate increase. But while we're waiting for that, we do expect us to continue to drift down during 2014 into the lower 60s. We've made investments in people, in technology, that have caused our short-term -- our expenses to increase, but we expect the revenue to come with that. And as a result, we expect that efficiency ratio to continue to drift down.

We've really looked at our efficiency more from a long-term perspective. We don't get so caught up on a quarter-to-quarter change. But that's kind of the broad guidance that we think over time we can get it to.

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**John Pancari** - *Evercore Partners - Analyst*

Okay. All right.

And then also my second question's just around expenses, as well. Do you have a quantification around the likely savings that you can get from the 30 branch closures on a combined basis?

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**David Turner** - *Regions Financial Corp - CFO*

We really hadn't quantified the savings from those 30 branches. You heard the number. We had about \$5 million that we're going to incur this quarter.

We will have some more related to people costs that you can't accrue until that time, but we expect to pay back in less than a year on these type of expenses. And we're constantly looking at all areas of our Company in terms of becoming more efficient. It is part of who we are and what we do, and we will make -- take appropriate actions when we can see the benefit of that as payback is relatively quick.

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**Grayson Hall** - *Regions Financial Corp - CEO*

I would just add, closing branch is a very public action, but internally there are a number of expense save initiatives that we're working on. Clearly, even within the branch channel, we're working on a number of efficiency programs that allow the branches that we have to operate at a lower cost basis and trying to improve both the utilization of all of our channels so that we get efficiency across the methodologies that we service our consumers on.

We realize that 2014 is still going to be a year where expenses are very important, and so we will continue to have a number of internal initiatives that look at staffing, look at work flow, look at the way we handle all of our operational processes to improve that overall efficiency ratio.

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**John Pancari** - *Evercore Partners - Analyst*

Okay. Thank you.

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**Operator**

Your next question comes from the line of Kevin Fitzsimmons with Sandler O'Neill.

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**Grayson Hall** - *Regions Financial Corp - CEO*

Good morning, Kevin.

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**Kevin Fitzsimmons** - *Sandler O'Neill & Partners - Analyst*

Good morning, guys. Just a few questions.

With CCAR coming up, just was wondering if you can give us an update on your capital return priorities. I know buybacks were a big part of it last year, but the stock is higher versus tangible book now compared to last year, and if you can just give us a list of where you think those priorities sit today? Thanks.

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**David Turner** - *Regions Financial Corp - CFO*

Sure, Kevin. As we think about capital, we really want to use the capital we have to grow our business. We think that's what the shareholders gave it to us for.

That being said, we acknowledge we'd like to get our dividend closer to where peers are, which has been in that 25% payout on income. We then want to use the rest of the capital to grow, whether that growing loan portfolios. We talked about acquiring a portfolio like we did our credit card book, and other acquisitions if there are opportunities that arise. And when we can't utilize all of our capital efficiency in those activities, returning



it to the shareholders is important, because we don't want it to build up and have trapped capital that builds up on the balance sheet. So having an appropriate return in the form of a buyback to the shareholders is certainly something we've looked at.

As you know, we just filed our plans. We need to let the process work.

We really have a very robust capital planning process, the output of which happens to be at times a couple of regulatory filings called CCAR and DFAS. But our capital planning process is built around the efficient use of that capital in getting the most appropriate risk adjusted return on that capital, and that's what we've done.

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**Kevin Fitzsimmons** - *Sandler O'Neill & Partners - Analyst*

Okay. Thank you. And just a quick follow-up.

If you can just talk about the timing of the transfer of those resi mortgages to held-for-sale now, and is that more a statement about the improvement you've seen in those -- in the housing market, there's more of a market for those loans today or just being teed up going into 2014 with that in the rear view mirror? Thanks.

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**David Turner** - *Regions Financial Corp - CFO*

That's a good question. We had a couple things working for us.

The market for assets is pretty strong. These were accruing first lien residential mortgage loans, but they weren't TDRs, and that's a designation that causes a little more of a charge when you go through the FDIC calculation.

And mathematically, if you took a look at the return on capital by holding those in our portfolio, versus how we could improve the return on proceeds from a transaction, we felt that's was the best thing for us to do at this time. We have not executed that transaction. We expect to do so in early 2014.

But as a result of making that decision not to retain those in the portfolio, it required us to move them to held-for-sale and take a mark on those to our estimate of fair value. Which is what we did in the latter part of the fourth quarter.

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**Kevin Fitzsimmons** - *Sandler O'Neill & Partners - Analyst*

Okay. Thank you very much.

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**Operator**

Your next question comes from the line of Craig Siegenthaler with Credit Suisse.

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**Grayson Hall** - *Regions Financial Corp - CEO*

Good morning, Craig.

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**Craig Siegenthaler** - *Credit Suisse - Analyst*

Hello, good morning, Grayson. First, I'd just like the to hit on the 2014 non-interest expense guidance again here.



So if the annualized adjusted 4Q run rate was \$3.5 billion, and the 2013 run rate was \$3.4 billion, with the guidance now south of \$3.4 billion, this implies about \$100 million plus of delta year over year. I'm just wondering, what are the biggest pieces here? Maybe you can give us some color in terms of the biggest pieces and maybe give us some sense of magnitude?

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**David Turner** - *Regions Financial Corp - CFO*

Craig, let me help you out with the start point I think is about \$3.4 billion, \$3.433 billion, should be your start point based on what we've released. We believe we can come under that number, and it's really no one thing. It's just a continued focus on every one of our expense categories.

Obviously, our top three expenses are salaries and benefits, occupancy and furniture and fixtures. There are other expense categories underneath those that we continue to focus on and make sure, while we hadn't come up with an expense initiative, that we require all of our leaders to really take a look at the expenses they have in their businesses and make sure they're being as efficient as they can be.

So you really can't look at one area. It's a little bit here and a little bit there, and over time, it adds up.

You look over the past several years, we've been able to do this because of this kind of cultural approach to expense management, and you will see that again in 2014. I think when you get your start point, the number's not as -- not your start point that you had.

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**Grayson Hall** - *Regions Financial Corp - CEO*

I think we just have to, in this environment, until we see the results of more sustainable growth and a different interest rate environment, we've just got to stay very diligent and very rigorous on expense management. To David's point, we haven't done a branded expense program, but what we have done is we have literally dozens of expense initiatives across the Company, and we've invested an awful lot in technology to improve efficiencies and work flow across all of our operating units.

We still believe that there's opportunities for us to improve the efficiency. We've been working on this for a great long time, and when you look at our expense metrics, by almost any measure, we've delivered some really good efficiencies relative to our peer group. Some of our biggest challenges are on the revenue side, and so we're trying to work on both. We're trying to have a balanced perspective on it.

And that's why we invested in people this past year to try to improve our revenue generation because, while we want to continue to be rigorous in our management of expenses, we do realize some spending is necessary to generate revenue growth. And so we have a very balanced perspective on it, but given where we're at today, we still believe we have identified enough areas that allow us to continue to drive our expenses down on a same cost basis year over year.

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**Craig Siegenthaler** - *Credit Suisse - Analyst*

Thanks, Grayson.

Just as my follow-up here, I just wanted to separate your expectations for overall earning asset growth next year versus the 3% to 5% loan growth guidance. So if the loans are growing in the 3% to 5% range, but if you notice your deposit growth has not been positive, should we expect to see modest declines in the securities portfolio to fund that, and will the LCR even allow that, or is it more likely that deposits will grow next year and potentially could grow from higher costing deposits like CDs?



**David Turner** - *Regions Financial Corp - CFO*

I think one of the things that you saw was the level of higher cost CDs that, as we lowered the cost, some of those did not -- we did not retain those in the bank, and so that worked against our earning asset growth that we had. We do have a little over \$4 billion of CDs maturing next year, but we don't have the price differential on those that we had in 2012 and 2013. So we don't see the retention issue with those like we just saw.

So we don't see that working against our earning asset growth. So I think the primary driver on earning assets in total will be the loan growth that we're talking about. And so we think we've hit the bottom of earning assets right now.

Remember, last year we also did some deleveraging and had some liability management activities on our -- in our bank and holding companies that also worked against us on that measure. We think we grew from here.

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**Grayson Hall** - *Regions Financial Corp - CEO*

With our loan deposit ratio at roughly 81%, during 2013, we made some very strategic decisions related to deposits. We have reduced our reliance on more expensive forms of deposits. In particular, time deposits are down to 12% of the total portfolio.

But we also took a very different strategy on the other high price sources of deposits such as public funds, and so we've seen the mix. Our overall deposits have not grown in 2013. We did see a real favorable shift in the mix of those deposits and are very pleased with where we stand today. From a deposit standpoint, we're feeling pretty good about our position.

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**Craig Siegenthaler** - *Credit Suisse - Analyst*

Grayson, David, thank you very much for the color.

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**Operator**

Your next question comes from Erika Najarian with Bank of America Merrill Lynch.

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**Erika Najarian** - *BofA Merrill Lynch - Analyst*

Good morning. My question is could you just shed some light on the CCAR process in terms of -- under stress, do the regulators treat a TDR similar to any performing loan, or do they treat it worse? And I guess the real gist of the question is, is the derisking in your TDR portfolio reflected in your submission for this year's plan?

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**David Turner** - *Regions Financial Corp - CFO*

Let me answer it a little different than you asked because we want to be careful about what we've turned into our supervisors. We have a capital plan, and our derisking relative to TDRs is not just the impact to capital, although that is true. TDRs are treated adversely by us and the way we look at capital.

So I think that as we think about derisking, you also have to look at the cost associated with maintaining a TDR, in particular, as it relates to FDIC insurance. Those are punitive in the calculation, and so being able to derisk helps us from an earnings standpoint, and the expense discussion that a few folks have asked us about this morning, you will see the benefits of that coming through in 2014.

**Grayson Hall** - *Regions Financial Corp - CEO*

It does derisk our credit portfolio. It accelerates the pace of that somewhat. But the economics are the primary driver.

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**Erika Najarian** - *BofA Merrill Lynch - Analyst*

The follow-up to that is in theory, if this were included in a submission, you have a derisked balance sheet from a TDR perspective as these are sold, but not just that, the cushion for your PP&R should also improve under stress because of the administrative costs that go away. Is that the right take-away to assume if it was in the submission?

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**David Turner** - *Regions Financial Corp - CFO*

That's right. The cost to carry these are punitive in all of our -- whether it be your base or your two adverse runs. So being able to strip that cost out and have the assets, the proceeds reinvested in assets that don't attract as much capital and generate more PP&R is what we try to do, and we think we accomplish that.

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**Erika Najarian** - *BofA Merrill Lynch - Analyst*

Great. Thank you.

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**Grayson Hall** - *Regions Financial Corp - CEO*

Thank you.

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**Operator**

Your next question comes from the line of Sameer Gokhale with Janney Capital Markets.

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**Grayson Hall** - *Regions Financial Corp - CEO*

Good morning, Sameer.

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**Sameer Gokhale** - *Janney Capital Markets - Analyst*

Good morning. Thanks for taking my questions. Just the first question, to go back to the discussion about the headcount, I think you mentioned two broad categories: one compliance and the other customer-facing.

I was hoping just to get a little more clarity, what was the rough mix of compliance versus client-facing? And then if you could give us some insights into which specific businesses on the client-facing side you added headcount to, maybe some geographic information, that would be helpful.

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**David Turner** - *Regions Financial Corp - CFO*

I will tell you that roughly half of our headcount, I think it was almost 60% of our headcount were in revenue generating positions. So we gave an example in our prepared comments, our financial consultants that we put into branches this year, a little over 100 that we hired during the year.



And then the other parts of this were really establishing more folks in our compliance areas and risk management as we deal with some of the changes in expectations that we all have in the banking industry. So the headcount that we've added, we expect the folks we've added to pay for themselves. In particular, the revenue generation, generating folks that should be paying for themselves in less than a year.

Our early read on that, and I will use the financial consultants as an example, is we're a little ahead of schedule, and we feel good about that going into 2014. But we've wanted to make those investments in people. We think it's the right thing to have done as we battle the balance between generating more revenue, yet watching our expenses in total.

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**Grayson Hall** - *Regions Financial Corp - CEO*

I think given where the industry's at, and there's clearly an expectation for greater focus and resources on compliance and audit functions, we continue to invest in all of those functions across our enterprise risk management program, if you will, and so we're going to continue to invest there. We have to find ways to pay for that, and we find ways to pay for that through efficiencies in other parts of the Company, and our additional revenue opportunities we have, we find by adding people or products where appropriate.

I think if you look at geographically, we've added those resources opportunistically where we see advantage. Clearly, we've done -- we've seen a lot of growth across the markets that are more heavily invested in energy, south Louisiana and Texas being two great examples of that. But we also saw strong growth in the auto sector. In the Southeast, we have a number of markets that enjoy large employment in the auto sector.

It's been pretty well disbursed across our markets, and we want it that way because we want that diversity.

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**Sameer Gokhale** - *Janney Capital Markets - Analyst*

Okay. That's good color.

And then just in terms of the auto business, I think in your prepared comments you mentioned that you expect higher pull-through from some technology enhancements in the auto business. I was just trying to get a sense for what you mean exactly by pull-through.

Is that more volume-driven from the dealers because of the technology or just the ability to process more volume because of the technology enhancements? If you could just talk about what these enhancements are, that would be interesting. Thank you.

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**David Turner** - *Regions Financial Corp - CFO*

It's all about speed of answer and quality of answer. We've got -- we continue to grow the number of auto dealers that we're working with, partnering with, but we have higher expectations for the volume we get through those dealers. And in order to do that, we had to invest in technology and had to invest in people in the back office to ensure that, as we get applications for credit, that the speed of our answers and the quality of our answers continue to improve. We've made some pretty dramatic improvements in that, and as a result, we saw very good results in that particular lending segment.

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**Sameer Gokhale** - *Janney Capital Markets - Analyst*

Okay. Thank you.

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**Operator**

Your next question comes from the line of Ken Usdin with Jefferies.



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**Ken Usdin** - *Jefferies & Company - Analyst*

Good morning, everyone.

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**Grayson Hall** - *Regions Financial Corp - CEO*

Good morning, Ken.

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**Ken Usdin** - *Jefferies & Company - Analyst*

David, I wanted to ask you to go a little bit deeper into your comments about the investments in the fee businesses starting to get to profitability this year. So the Wealth Management line hasn't really broken out yet, so-to-speak. Could you give us a little flavor for you how you expect the fee businesses to act this year, and can they more than offset the expected decline in mortgage that's just a matter of fact? Thanks.

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**David Turner** - *Regions Financial Corp - CFO*

Yes, Ken. We have -- we've just pointed to Wealth Management as an example. We don't have any one business that's going to light it up and take over all the pressures that we had in mortgage. We do believe mortgage doesn't have quite the decline it had 2012 to 2013 as it does in 2013 to 2014. We think as a matter of fact we will be down production-wise in mortgage about 10% to 15%. We will right-size the expense side of that and get to what will be a normalized mortgage contribution.

But Wealth Management, we have some new products and services that we're working on. We will have the full run rate of those additions that we had, the financial consultants, so you will see that. We've had some improvement in our investments in insurance that we think will also be a driver.

So it's not one -- it's not just one area. We think all those really are contributors to help offset any other negatives that we have in our NIR, primarily mortgage.

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**Grayson Hall** - *Regions Financial Corp - CEO*

I think the important point is those initiatives are on track, and Wealth Management in particular, our early results are exceeding our preliminary forecast that we made the decision upon.

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**Ken Usdin** - *Jefferies & Company - Analyst*

Okay. And my second quick question is just on the new deposit products and the sunsetting of Ready Advance. Can you talk about any net revenue and income effect you'd expect?

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**Grayson Hall** - *Regions Financial Corp - CEO*

Yes, I mean, it's a little early for that. We made the decision to discontinue new registrations or new enrollment of that product from our customers. That goes into effect in the morning. And we are working through our transition plan now. We have a fairly substantial group of customers who use this product, and we're being very thoughtful, very deliberate about how we transition them away from this product.



So we've got our product teams working on those transition plans now. They're going to take a few weeks to finalize. You will have more information from us forthcoming as this matures, but part of it is trying to predict customer behavior. And as we offer alternative ways of meeting this customer need, we're going to find out exactly how the customer responds to that, and it will sort of drive the end results.

We are still committed to focusing on our customers and meeting their financial needs, and we tried to do that with innovative products and really a focus on strong Customer Service. We will continue to do that. It's just on this particular product, we need to transition and focus our attention on other products in order to best serve our customers.

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**Ken Usdin** - *Jefferies & Company - Analyst*

Okay. Thank you guys.

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**Operator**

Your next question comes from the line of Matt O'Connor with Deutsche Bank.

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**Grayson Hall** - *Regions Financial Corp - CEO*

Good morning, Matt.

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**Matt O'Connor** - *Deutsche Bank - Analyst*

Could you just provide an update of how asset sensitive you were at the end of the year? I noticed your liquidity increased on a period end basis. If you could just provide an update of how much a benefit if rates rise 100 basis points.

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**David Turner** - *Regions Financial Corp - CFO*

Yes, Matt, we had right now, if the you look at 100 basis point parallel shift, it's about \$180 million to us. Down slightly from where we were last quarter, about \$200 million. I think we drifted down to about \$180 million.

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**Matt O'Connor** - *Deutsche Bank - Analyst*

Okay. And then just separately, as we think about credit going forward, obviously the held-for-sale action pulls forward some charge-offs, also uses some loan loss reserves. How should we think about both charge-offs and the provision expense going forward from here?

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**Grayson Hall** - *Regions Financial Corp - CEO*

Well, Matt, when you look at -- you look at when we had this call for the third quarter, we really, at that point in time, indicated that we thought our credit recovery would continue. We thought the pace might moderate somewhat.

But the fourth quarter, again, very positive results. It exceeded our internal early forecast. And so we continue at this juncture to still believe that that recovery process continues.

As David said earlier, there may be some volatility in a particular metric quarter to quarter. We had a little bit of volatility in, for example, charge-offs this quarter. We had a couple transactions that had we gone in a different direction could have been a much better number than it was. You're



going to see that sort of as we get down to where our distressed loans are more granular in nature, you're going to see a little bit more volatility, but we think the overall trend still continues.

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**Matt O'Connor** - *Deutsche Bank - Analyst*

Thank you very much.

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**Operator**

Your next question comes from the line of Betsy Graseck with Morgan Stanley.

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**Betsy Graseck** - *Morgan Stanley - Analyst*

Hi. Good morning.

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**Grayson Hall** - *Regions Financial Corp - CEO*

Good morning.

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**Betsy Graseck** - *Morgan Stanley - Analyst*

A couple of follow-ups on the NIM outlook. I know you've indicated that you're looking for relatively stable NIM if rates stay where they are. Is that in reference to current rates, or that's in reference to the forward curve?

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**David Turner** - *Regions Financial Corp - CFO*

It's really looking at the forward curve, as it exists today.

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**Betsy Graseck** - *Morgan Stanley - Analyst*

Okay. So if the forward curve were to shift up, then that's where the NIM benefit comes from?

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**David Turner** - *Regions Financial Corp - CFO*

That's correct.

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**Betsy Graseck** - *Morgan Stanley - Analyst*

Okay. And then could you give us a little understanding of how you're thinking about non-interest bearing deposits?

I know we had a conversation earlier in the call around the fact that deposit quality has improved significantly. But how are you thinking about what happens to non-interest bearing deposits in an environment where the forward curve is increasing, particularly they like the belly of the curve in the three- to five-year section?

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**Grayson Hall** - *Regions Financial Corp - CEO*

It's a great question and one we're spending an awful lot of time on, trying to figure out how do you forecast sort of customer behavior in a rising rate market after you've been through several years of such low rates, and there's really not a great empirical model that allows you to forecast this out. We have built that into our liquidity plans. We've built it into our business plans so that we have quite a bit of variability depending on changes in customer behavior.

Anecdotally what we're seeing from our customers is just a greater propensity for both individuals and businesses to hold liquidity. We've not seen a great movement when borrowing demands increase that liquidity diminishes to any great degree.

We're watching it closely. I don't think we have the answer. But we absolutely realize the importance of monitoring that on a daily basis and looking for trends over each and every quarter.

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**David Turner** - *Regions Financial Corp - CFO*

Go ahead, Betsy.

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**Betsy Graseck** - *Morgan Stanley - Analyst*

I was just going to say it's interesting because you highlighted that line utilization requests are up, and so what you're saying is at those customers where line utilizations are up, their deposits have not been coming down ahead of those.

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**Grayson Hall** - *Regions Financial Corp - CEO*

On average, that's true.

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**Betsy Graseck** - *Morgan Stanley - Analyst*

Okay.

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**Grayson Hall** - *Regions Financial Corp - CEO*

When you look at it on a customer-to-customer basis, you see a little bit of differentiation, but still what we see, both in the numbers and in conversation anecdotally, is still customers being conservative and still having a desire for increased levels of liquidity as to compared to what you would have seen prior to the economic crisis.

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**David Turner** - *Regions Financial Corp - CFO*

Betsy, I think it's a great question, and what we do know is you can take the history book and just about toss it out the window. We've been in the this low rate environment for so long. They all have deposits that are non-interest bearing, in particular.

We can go back and look at history. It's a data point. We study that. But we want to be careful that we don't lean too hard on history. We're sitting here at an 81% loan deposit ratio, and we think we're well positioned for that.

We look at liquidity as being the biggest risk we face. What we want to make sure is, what's the impact to our profitability as others who aren't that low on loan deposit ratio, if they start seeing deposits move out, what does that mean from a pricing standpoint.



So I think that, when we look at our forecast of liquidity, we've shocked that a number of times to see what might happen, and then we shock it again after that, just to be sure that we don't get caught in a liquidity play. But we still don't know yet exactly what that's going to mean to us.

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**Betsy Graseck** - *Morgan Stanley - Analyst*

Because then you kind of think should you have an LCR that's even above 100% at this stage of the rate cycle. I don't know if that's too gross of a comment.

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**David Turner** - *Regions Financial Corp - CFO*

We still have to work through LCR, as we mentioned on the prepared comments, we're pretty close to being there right now. We don't see that being a huge driver. It's clearly something we have to consider.

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**Betsy Graseck** - *Morgan Stanley - Analyst*

Right.

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**David Turner** - *Regions Financial Corp - CFO*

But one we need to get to the point where all that's happening. If that starts to happen, that means we're in a lot better economic environment than we are right at this minute.

While it has its challenges, it has its rewards that go with it, as well. It's a great question for all of us to pay attention to as we get closer to that time.

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**Betsy Graseck** - *Morgan Stanley - Analyst*

Thanks a lot.

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**Grayson Hall** - *Regions Financial Corp - CEO*

Thank you.

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**Operator**

Your next question comes from the line of Keith Murray with ISI.

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**Grayson Hall** - *Regions Financial Corp - CEO*

Good morning, Keith. I guess it's afternoon for many of you now.

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**Keith Murray** - *ISI Group - Analyst*

Can we spend a minute on expenses again? Just curious if there's any improvement in pension expense baked into your 2014 guidance, and if so, how much.

**Grayson Hall** - *Regions Financial Corp - CEO*

Clearly there's some pension benefits, but to my knowledge, we have not disclosed yet at this juncture.

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**David Turner** - *Regions Financial Corp - CFO*

We're going through all of that right now and getting updates, obviously discount rate changes. We know there's a rate environment, and therefore there should be some benefit of pension expense going forward. And that's baked into our guidance that we've given you, but we haven't been specific with disclosing that exact amount.

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**Keith Murray** - *ISI Group - Analyst*

Okay. And then just moving to funding costs for a second, they improved 1 basis point this quarter.

You mentioned the CDs that are left to reprice, not much of a savings there. Are you sort of out of room on the funding cost side?

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**David Turner** - *Regions Financial Corp - CFO*

I wouldn't say we're out of room. I would just say the kind of improvement that you've seen over the last two years for us is slowing quite a bit. When your 12 basis points of cost of deposits, it's hard to see how that moves.

As I mentioned, we have a little over \$4 billion of deposits maturing next year. It's almost about \$1 billion, \$1.1 billion each quarter. The first quarter has the bigger benefit. But I think what's coming off there is pretty close to what's going, like 42 basis points; what's going on is in the 20 range. There's just not a lot to pick up there.

We do have some liability management that we've done. We will get the full benefit of that in 2014 that we executed in 2013, so you will see some pickup there. All that added together is one of the ways that we're able to give you the stable margin guidance for 2014.

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**Keith Murray** - *ISI Group - Analyst*

Thank you very much.

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**Operator**

Your next question comes from the line of Ryan Nash with Goldman Sachs.

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

Yes, hi. Good afternoon, guys.

Just another follow-up on the funding side of the equation. Does the stable net interest margin outlook contemplate any further liability management actions outside of just repricing of deposits?

And then related to that, you noted that premium am fell to \$45 million in the quarter. How many premium amortization is left, what is the assumed duration of those securities today and what yields are you reinvesting today?

**David Turner** - *Regions Financial Corp - CFO*

I will tell you, on the premium amortization, I think our number's closer to about \$700 million. We will flip the pages and find that exact number in just a minute. That number's slowing down considerably.

What's really going on from maturities and paydowns, going back into mortgage backed here in that [275] range. And that's kind of where we will be. You had asked a funding -- what was your funding question?

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

Is there anything outside of deposit repricing that's contemplated in the liability management side?

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**David Turner** - *Regions Financial Corp - CFO*

Yes, we really kind of run the course of the pure liability component of that. Anything that has to do with this type of capital has to go through the CCAR process.

We need to -- we can't comment really on the capital elements of that, that manifest themselves at times in interest expense. So you have to wait until March to hear our CCAR results.

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

I just have one quick high level follow-up. If I tie together all the guidance that you've given with improving loan growth, stable margin, lower expenses, is it fair to say that the operating leverage that you drive in 2014 will be more balanced between revenues and expenses relative to your -- I believe your prior guidance was it will mostly come from the revenue side?

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**David Turner** - *Regions Financial Corp - CFO*

We've actually been working on operating leverage from both sides. It's obviously a little easier to move on the expense side, but this year, 2014, we see contributions from both revenue and expenses.

As we mentioned pretty confidently, our goal is to generate positive operating leverage. We think we have the plan in place to do that. We could change that; it's a very different rate environment than what we're assuming. But we're fairly confident on that.

The premium by the way is \$700 million of amortizable, tied to the mortgage backed. I just want to confirm that with you.

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

Thanks for taking my questions.

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**Operator**

Your next question comes from the line of Josh Levin with Citi.

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**Grayson Hall** - *Regions Financial Corp - CEO*

Good afternoon, Josh.

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**Josh Levin** - *Citigroup - Analyst*

I wanted to ask, you've been a bit more upfront than some of your peers about considering making acquisitions. So in terms of getting a deal done or making an acquisition, has anything changed in terms of the number of conversations you're having or in terms of the regulatory burden that you have to clear to get a deal done?

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**Grayson Hall** - *Regions Financial Corp - CEO*

I can't comment on the comparative analysis between us and peers. But clearly what we're trying to do is to strengthen our balance sheet, finish our derisking activities and put ourselves in position when and where opportunities present themselves and when and where they're appropriate.

But we really have no comment beyond that. I still think it's early yet in that whole debate.

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**David Turner** - *Regions Financial Corp - CFO*

Let me clarify what you may be getting at. The question we get oftentimes, we got it today is how do you think about capital allocation, and so we mentioned acquisitions as the thought process before we get to the return to shareholders. The caveat is, if and when those are available, and you need to -- we don't want to get the cart before the horse; there are a lot of things that need to happen in order to get to that.

We do believe acquisitions would be part of our industry. We think it will be part of us. But it will be at the right time, and we're not trying to signal anything other than the capital allocation process and how we think about it.

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**Josh Levin** - *Citigroup - Analyst*

Thank you very much.

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**Operator**

Your next question comes from the line of Matt Burnell with Wells Fargo.

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**Grayson Hall** - *Regions Financial Corp - CEO*

Good afternoon, Matt.

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

Good afternoon, thanks for taking my questions. Maybe a couple quick ones for David. David, you mentioned that we should probably throw out the history books in terms of thinking about deposit outflow.

So let me ask the question in a slightly different way. If you were to assume something closer to 80% of the incremental deposits you have in this cycle flowing out rather than maybe -- rather than a historical number that's closer to 50%, how much of a change would that create in your estimate of the interest rate benefit from higher rates?



**David Turner** - *Regions Financial Corp - CFO*

I don't know if I can answer it that way. Let me try to frame it -- what I see throughout the history books, we clearly look at what occurred last cycle, but we've all had deposits that have come into our balance sheets over the past several years. And what we think is happening is that the liquidity requirements of our customers, in particular our commercial customers that have non-interest bearing deposits, we think they're not going to -- we think there's a chance that they actually keep more on deposit and leverage up more to preserve that liquidity for a rainy day.

We don't know that that will happen. It may. That's why we go through multiple scenarios with regards to outflows. Clearly, something out of the ordinary deposit outflows. We have multiple risk scenarios that we use to establish tolerance, risk tolerance in the Company, subject to Board review.

If we end up having more outflows than what we think our core is, we will have a plan to address that. So if it's higher, markedly higher, then there will be actions that we take well in advance of that occurring so that we don't get caught having to go out and put high price deposits on our books to fund ourselves.

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

Okay. And then for my follow-up, in terms of the expense guidance that you provided, I'm presuming that your expense number for 2014 is going to be on an adjusted basis, as well. When we begin that comparison to the \$3.43 billion number that you gave us.

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**David Turner** - *Regions Financial Corp - CFO*

I think we put in our prepared comments on the same basis. That's what was intended to do, to be clear that it's apples to apples.

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

Thank you very much.

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**Grayson Hall** - *Regions Financial Corp - CEO*

Thank you.

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**David Turner** - *Regions Financial Corp - CFO*

I will go ahead and add, we have in our base scenario for outflows of deposits a higher percentage than our history indicates. I just want to point that out.

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

That's helpful, David, thank you.

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**Operator**

Your next question comes from the line of Marty Mosby with Guggenheim.



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**Grayson Hall** - *Regions Financial Corp - CEO*

Good afternoon, Marty.

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**Marty Mosby** - *Guggenheim Securities LLC - Analyst*

Hello, guys. Had a question going back -- David, you will probably not like this -- to revisit the expense kind of guidance again.

If you look at the trends through the year, the adjusted operating number went down from around \$850 million to around \$830 million, from fourth quarter last year to mid year. And mid year to the end of the year, it increased from that \$830 million number closer to the \$888 million or \$890 million-ish type level in the fourth quarter.

To get back down to the annual number, you've got to really reverse that trend and get down something close to \$850 million. So just making sure that the trend and the thought process of what's happened the last couple of quarters is going to reverse, and quarterly we're going to see incremental declines.

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**David Turner** - *Regions Financial Corp - CFO*

Marty, our guidance that we're giving you is on an annual basis, and we furthermore indicated there could be some volatility in a particular quarter. We think looking at this as more a long-term basis, one year, is a better indication of kind of our commitment to expense management.

You saw our increases in second half of the year, primarily due to investments that we decided to make. We thought it was important to make investments in revenue generation. I talked about financial results in wealth a couple of times, but there have been other areas that we've made those investments in.

We've also are working down costs, costs in mortgage we talked about, cost in our branch network, which we will continue to focus on. We've looked at legal and professional fees. We're continuing to watch that very closely.

Our FDIC costs in terms of reducing the risk in our balance sheet, such that we get lower charges coming from the FDIC there. So it's no one place, but yes, if you wanted to get on the run rate, you see the change that has to happen from the fourth quarter to the first, if you use history of having to come down pretty aggressively.

But our commitment is for the year right now. As we get going for the year, we will be perhaps more specific on the quarters, but that's not our message today.

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**Marty Mosby** - *Guggenheim Securities LLC - Analyst*

Understood. I'm just trying to get to the kind of benchmark you'd have to get to, to get to the full year. Then lastly, the follow-up question would be on the FDIC or deposit administration fees or expenses.

You dropped from the mid-\$30 millions to \$20 million this quarter. Is that a good run rate, and does the sale of these TDRs eventually bring it lower than the \$20 million per quarter that it was at this quarter? So just kind of a continuation of the trend in that line item.

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**David Turner** - *Regions Financial Corp - CFO*

We put in our prepared comments that we thought the run rate would be somewhere between the third quarter and the fourth quarter's number. We did have some unusual things in this quarter that won't repeat.



So we're giving you guidance that will be between those two, third and fourth. We do in our overall expense guidance number take into account changes that we're making on the balance sheet, which includes this quarter's transfer of loans to held-for-sale and the ultimate disposition of those. So yes, that's already been baked in to our guidance.

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**Marty Mosby** - *Guggenheim Securities LLC - Analyst*

Okay.

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**Operator**

Your next question comes from the line of Gaston Ceron with Morningstar Equity Research.

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**Gaston Ceron** - *Morningstar Equity Research - Analyst*

Good afternoon.

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**Grayson Hall** - *Regions Financial Corp - CEO*

Good afternoon.

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**Gaston Ceron** - *Morningstar Equity Research - Analyst*

Thanks for taking my question. I know it's been a busy call.

Just quickly, I just wanted to go back to the branch consolidation issue. You're cutting 30 offices. That should take you to around, what, 1675.

I know you didn't say anything -- you didn't say I think the number of expenses associated with the offices. Curious if you released the headcount associated with those branches?

And also, I thought I saw a comment sort of intra-quarter from one of your executives in one of your conferences about how something to the effect of you're always looking at branch consolidation, but some of the low hanging fruit is gone given the consolidation you've done. I'm curious what does this 30 office cut means as far as anything we can expect in the future.

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**Grayson Hall** - *Regions Financial Corp - CEO*

Well, I think we've gone through a fairly extensive review of all our branch offices, and we do that on a continuous basis. And so the 30 consolidations that we announced in the fourth quarter shouldn't surprise anyone. This is not new for us.

We look at our branch offices literally on a regular basis and make decisions. If you look at remaining offices, we had little over 1700, 1705 offices. By reducing these 30, you have to look at the remaining balance of that and about 1600 -- sorry, if you look at full service branches, we had 1625 of those.

A lot of the other offices, 1705, were drive-throughs, just purely drive-throughs. And so we have -- you have to back out the drive-throughs to get to full service.



On the full service, we've gone through a fairly exhaustive process of looking at staffing, looking at transactions, looking at kinds of technology we have in those offices and have made decisions that improve the overall efficiency of that channel. We balance that with also looking at other channels in terms of our web-based services and our mobile-based services and our contact center.

And there's a lot of changes in customer behavior across those channels and we're finding ways to continue to serve our customers well but differently. And so branch channel's still very relevant for a big percentage of our customers and a big percentage of our sales, and we're continuing to invest in physical branch offices. But we're going to do it obviously with a lot more discipline than we've embarked on as we studied this issue much more closely.

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**Gaston Ceron** - *Morningstar Equity Research - Analyst*

Got it. I'm sorry, have you released the headcount associated with the 30 branches or no?

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**Grayson Hall** - *Regions Financial Corp - CEO*

We have not.

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**David Turner** - *Regions Financial Corp - CFO*

That will be a first quarter.

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**Grayson Hall** - *Regions Financial Corp - CEO*

That will be a first quarter event.

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**Gaston Ceron** - *Morningstar Equity Research - Analyst*

Thank you.

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**Operator**

Your final question comes from the line of Vivek Juneja with JPMorgan.

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**Grayson Hall** - *Regions Financial Corp - CEO*

Good afternoon.

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**Vivek Juneja** - *JPMorgan Chase & Co. - Analyst*

Good afternoon. A couple of questions.

First one, how are you thinking about reserve levels, reserves to loans are down to 1.8%. And especially in light of the fact that you took a fairly large 22% mark on the loans you transferred to held-for-sale. And what that would imply for your ongoing provisions, David and Grayson, if you can -- because your core provisions were only \$4 million when we exclude that portion of the mark that went to the provision line.



**David Turner** - *Regions Financial Corp - CFO*

Yes. So we're down to 1.8%

We acknowledge the charge taken on the transfer. But that charge is related to fair value of the loans that exist, and those fair values are derived from the required rate that they would have on those assets today versus the yield that's on the assets when they went through a troubled debt restructuring.

If you think about a troubled debt restructuring, one of the ways that you reduce that payment if you will from the individual is to reduce the rate. So our primary mechanism of troubled debt restructuring at that time was rate reduction and/or extension of terms, very little principal forgiveness. The market is demanding a fair value rate today. So when you calculate that, that differential has to go through your reserve, but that is not something that you normally can reserve for in your allowance.

So I don't think you can equate the deduction to the adequacy of the 1.8%. I will tell you as our credit metrics continue to improve, including a reduction in non-performers, reduction in criticized and classifieds, a reduction in past dues, a reduction in the transfers going into non-performing, all coming down, leads us to believe that our reserve number will continue to decline.

We are at a charge-offs of 67 basis points this quarter. As Grayson mentioned, there are a couple things in there that cause that to be higher than what we thought it might be, which was continued to be lower than that number.

So we see charge-offs continuing to come down, maybe some volatility here, but we feel good about where we're reserving and that our provision will continue to be lower as a result of that credit, quote, credit leverage that we have in the reserve. We will have to see.

**Vivek Juneja** - *JPMorgan Chase & Co. - Analyst*

In light of that, though David, if you take out that \$151 million mark, your net charge-offs are \$127 million. And your provisioning, your core provisioning was \$4 million. You how should we think about going forward even if that \$127 million comes down, where does that \$4 million trend to?

**David Turner** - *Regions Financial Corp - CFO*

We will have to see how things settle out in terms of the ultimate reserve levels, but we do expect that \$127 million to continue to come down as a whole. Again, with some volatility. Where it stops and where the terminal point is, we will have to see.

We would argue that it wouldn't be sustainable, that it would be \$4 million every single quarter. But given our reserve levels, compared to how our credit metrics are trending, makes us feel good that we have the right reserve levels today. And how low they can go, we're just going to have to see.

**Vivek Juneja** - *JPMorgan Chase & Co. - Analyst*

And Grayson, I have a follow-up for you. The loan growth you said you raised by 1%, is that just reflecting the loans because you sold 1% of loans; is that simply what's reflected there?

**David Turner** - *Regions Financial Corp - CFO*

It's actually -- it's we went and looked at our expectations of GDP growth for next year, slightly higher than what we had a quarter or so ago. We feel incrementally better about that. And as a result of that and talking to our business groups and team leaders, we felt that an increase from the 2% to 4% that we had indicated a quarter or so ago, the 3% to 5% was a better indicator of what that percentage increase could be.

**Vivek Juneja** - *JPMorgan Chase & Co. - Analyst*

But then when you -- given that you guys sell 1% of loans, would that mean from a dollar amount that didn't really change that much, right?

**David Turner** - *Regions Financial Corp - CFO*

Yes, because the base is so large, it's just not that big of a change.

**Vivek Juneja** - *JPMorgan Chase & Co. - Analyst*

Okay. All right. Great. Thank you.

**List Underwood** - *Regions Financial Corp - Director of IR*

Thank you. There are no more questions, and so we thank you for your time and attention on this call, and we will stand adjourned.

**Operator**

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

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