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John M. Turner
President, CEO & Chairman

Katherine Randall Danella
Senior EVP & Head of Consumer Banking Group

ANALYSTS

Betsy Lynn Graseck
Morgan Stanley, Research Division

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Presentation

Betsy Lynn Graseck
Morgan Stanley, Research Division

Okay. Great. Well, I have to read a disclosure first. For important disclosures, please see Morgan Stanley research disclosure website at morganstanley.com/researchdisclosures. And if you have any questions, reach out to your Morgan Stanley sales representative.

All right, super. With that out of the way, please join me in welcoming to the stage, Regions Financial. We are pleased to have with us this morning John Turner, Chairman, President and CEO of Regions. Thanks so much, John, for joining us. David Turner, Chief Financial Officer; and Kate Danella, Head of Consumer Banking.

So with that, John is going to kick off with a couple of slides, and then we're going to get into some Q&A.

John M. Turner
President, CEO & Chairman

Yes. Okay. Thanks, Betsy. Just a couple of maybe comments, introductory comments. So our focus is on -- been on building consistent, sustainable long-term performance. We talked a lot about soundness, profitability and growth. That has led us to focus on improving credit risk management, liquidity and capital risk management practices and processes, operational and compliance risk management. We focused on diversifying and growing our revenue streams, and we've been investing in people and technology.

Part of that focus on credit risk management, better client selectivity, better underwriting effectively has, I think, significantly improved our credit risk outcomes, and that's reflected in our CCAR results, as you can see here. Our capital degradation under stress is quite a bit better than the median average. And our PPNR as a percentage of stress losses, again, the best amongst our peer group. So I think very reflective of the quality of work we've done around credit risk management.

All that's led to better returns. Since 2015, we've come from the bottom quartile to be the top performer in return on tangible common equity over each of the last 4 years and are trending to make that a fifth year in 2025. And additionally, you've seen nice growth in earnings per share as we've been a top quartile performer on both a 5- and 10-year relative basis.

So we look at these total shareholder returns and again, feel like that our -- we have delivered dividend growth of better than 10% on a CAGR basis, which is the top of our peer group as well. And all those results have resulted in total shareholder return of over a 3-, 5- and 10-year basis, that puts us again at the top of our peer group.

We think that growth in tangible book value and the payment of dividends is a real proxy for a good stock price, should be correlated. And again, as you can see here, our experience has been very good as we've delivered top quartile performance, tangible book value and dividends on a relative basis. We also have, over the last 10-year period, acquired -- bought back more stock on a relative basis than any of our peers as well.

So we're in a great footprint. So we talk often about that, really leads to our strong performance, 70% of our markets, we have top 5 market share or better. And our markets are growing at about 1.5x faster than the national average. And when you add our priority markets, we'll talk about in a minute, they grow at about 2.5x faster than the national average. So we have a really good opportunity within our markets and we expect to continue to benefit from that over time.

Deposits have been growing. We talk about growth. And while we haven't -- we're not projecting a lot of loan growth for this year. Deposit growth continues to be very good, and we're doing that at a cost that's considerably less than our peers. All that's led again to, I think, top -- when you combine our hedging strategy with the quality of our deposits has led to peer-leading margins, which continues to contribute to our overall profitability.

And I talked about our priority markets. We've identified 8. You can see the names of those markets here. They have contributed already to about $12.5 billion in deposit growth over the last 5 years. And the deposit opportunity, the deposit gathering opportunity in those 8 markets is over $1.5 trillion. So truly exceptional markets. We've been growing in each of the markets and have increased our market share in 6 of the 8 today. So we continue to make investments in our business. We'll add about 170 bankers over the next 3 years in commercial banking, in wealth banking and treasury management and in our mortgage business.

We're also -- think about the way we focus on capital allocation. We think about human resources, human capital in the same way. And so we're reallocating -- about 600 of our branch bankers who will be reskilled and focused on markets where we have real discrete opportunities, a high concentration of either small business bankers or wealth bankers around those markets, mostly in our

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priority markets, and that, we think, will help drive additional growth. There are about 12 million small businesses in our priority markets. Today, we bank 400,000 of those customers. So we think there's a tremendous opportunity. And again, we're already seeing good success here as we have generated over $2.5 billion in deposit growth among small businesses across our markets.

So we're going to continue to invest in our businesses, invest in technology, invest in people. We think there's a real opportunity to continue to grow and deliver the same kind of results that we have delivered over the last 5 years.
With that, Betsy, maybe we'll go to Q&A. Is that okay?

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Question and Answer

Betsy Lynn Graseck
Morgan Stanley, Research Division

Super. That sounds Terrific. Thanks so much, John, for that overview and reminding us about the profitability and the growth opportunities you have. And I did want to dig into all of that. But first, I wanted to understand how are clients thinking about investing today. Obviously, we've had quite a bit of volatility with the tariff talk year-to-date. And you've been out visiting with clients recently, right, across any particular regions that you've been to.

John M. Turner
President, CEO & Chairman

Across our footprint, the bulk of our business is in 7 Southeastern states and Texas, that's where I've spent more time, but I've talked to bankers across our footprint, and customers obviously hasn't been out in markets. And I would characterize their attitudes, as I'm sure others have, as sort of wait and see. Customers' sentiment is better. I wouldn't call it positive, but it's definitely less negative than it was the first part of September. We've seen continued improvement. Customers are preparing to invest, pipelines within our small business and middle market business have continued to grow. The corporate sector, which we would refer to as companies with $250 million or more in revenue, still soft. Real estate pipelines are beginning to pick up as multifamily developers look out and see opportunities to begin thinking about development.

So all in all, I'd say customers are, today, patient. They are watching closely what the impacts of tariffs, immigration reform and other things might be. But generally, the underlying economy is good and sentiment is okay.

Betsy Lynn Graseck
Morgan Stanley, Research Division

Okay. And putting capital to work is on pause or?

John M. Turner
President, CEO & Chairman

Yes. I mean we're seeing some borrowing activity again amongst the small business and middle market customers who just have a consistent need. But there's definitely not been the level of activity that we anticipated at the beginning of the year, and that's reflective of uncertainty about the path of tariffs and generally the economy. But all in all, I think the tone continues to improve.

Betsy Lynn Graseck
Morgan Stanley, Research Division

Okay. And Kate, how are consumers and small businesses that you focus on handling the volatility?

Katherine Randall Danella
Senior EVP & Head of Consumer Banking Group

Yes, Betsy. Same or it did for John's comments on the small business side. On the personal side, it's a similar kind of slight mismatch between feeling and fact. So sentiment is slightly down because of the uncertainty. Obviously, consumers have watched their 401(k) volatility there. The mortgage market not rebounding like many of us had hoped.

But to the facts and just how consumers are behaving, responding, still in a position of strength. If you look at retail spend as an example, our spend for our customers, our everyday spend. So if you look at Costco, if you look at Amazon, that's up year-over-year, Walmart up year-over-year, restaurants, entertainment, flat. So discretionary spend, which is where you see some of the softness, is still holding up. So spend is holding up.

I think if you were to look at employment and payroll. So our unemployment receipts are still below 2019 levels. Our payroll, social security is still indicating a strong labor market. In fact, payrolls are up on a real basis or adjusted basis from 2019. And then we -- I think we have a page in the slide deck around average balances in our checking accounts relative to spend. Our customers are holding about 1.6x their spend in their checking accounts, that's slightly down from prepandemic. But when you factor in the balances in interest-bearing accounts, that's really where the delta is. So across all spend, balances, payrolls, all still indicating financial strength across most of our customer segments, really all of our customer segments.

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Betsy Lynn Graseck
Morgan Stanley, Research Division

Excellent. David, how would you describe the expected impact of tariffs on your C&I loan book from a credit perspective? And is there any sectors you're leaning into or pulling away from?

David Jackson Turner
Senior EVP & CFO

Well, I think there's still uncertainty with regards to the impact of tariffs. I mean there are going to be some winners and some losers. What our clients are telling us is depending on the level of the tariffs. So if you're in the 20%, 30% range, they're telling us they can deal with that. Part of that, they'll eat. Part of that, they'll pass through to clients, I mean, to their customers. So if you can get it down from some of the levels that we've heard about to a little bit lower, that's all doable, and I think you can do that without having any real credit events.

So we don't have a lot of credit risk identified yet for tariffs. When we set the reserve at the end of the first quarter, all that hadn't happened. There were discussions until after that. So we need to wait until June. I don't see any real big change to credit coming up, all that trough until June 30. But right now, things seem to be okay with regards to credit. Our customers are pretty healthy. Kate just talked about consumers are pretty healthy. We talked about charge-offs being in the 40 to 50 range, with it being a little higher in the first half of the year and then settling down to the lower part of that range in the back half such as the end of the year, probably be between 45 and 50.

John M. Turner
President, CEO & Chairman

Betsy, that's interesting. The last time I checked, we have a very disciplined structured process to get out and talk to customers to try to understand what they think the impact might be. Last time I checked, we had talked to over 70% of our customers of any size. And to David's point, it is a very -- the results are mixed and some will potentially be better, some not as well. But there have been no sirens go off, no great concerns at this point.

Betsy Lynn Graseck
Morgan Stanley, Research Division

Okay. Great. So John, let's move on to strategy, and you gave us some of the results of that strategy in your slide deck with peer-leading returns and a great footprint. Just want to understand your assessment of your competitive position within the regions. And where the opportunities are to lean in? You talked about the deposit share you've been taking in the priority markets. Maybe you could talk a little bit on how that could translate into some incremental growth for you?

John M. Turner
President, CEO & Chairman

Yes. So we think we're very well positioned. We have a nice mix of core markets, places that we've been for 150, 160, 175 years. Markets that generate much of the core deposit base that we enjoy, the low-cost loyal core deposit base we enjoy and these priority markets where we have growth opportunities, where there's $1.5 trillion in deposits that we can compete for.

At the end of the day, our business is about gathering deposits. What we do with those deposits, those customer relationships, operating deposits then drives the success of our business. There will be periods of time when we lean into lending because the market gives us those opportunities. But at the core, we're focused on, are we growing core relationships? Are we growing operating deposits? Are we growing fee income that comes with those relationships? And I think if you look at our business today, we've been growing core deposits at a rate over 30%. So at the top of the peer group and at a very low cost. We are growing our service charge revenue. We're growing treasury management revenue at a 9% clip. We've been growing wealth management at an 8.3% CAGR over 6 -- over the last 6 years.

So the business, the core business is growing. We are exiting certain portfolios from time to time, very focused on capital allocation and credit risk management. And so loans aren't growing as rapidly, but they will grow over time when the opportunity exists. And in the meantime, the core business is doing well, and we're in some really good markets.

Betsy Lynn Graseck
Morgan Stanley, Research Division

And what is needed to unlock loan demand or?

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John M. Turner
President, CEO & Chairman

Yes. I mean I think customers need to have more clarity about the path forward. They need to feel more certain about the economy and understand. I mean everybody is not impacted by -- directly by tariffs. Everybody is, I guess, indirectly impacted by tariffs. But everyone wants to understand the path of the economy, wants to feel confident about the future. And so we still need a little clarity, I think, in order to unlock demand.

Betsy Lynn Graseck
Morgan Stanley, Research Division

Now you also discussed at the beginning of the year, the strategy to add bankers and relationship managers across the franchise. And how far along that effort are you?

John M. Turner
President, CEO & Chairman

So, we, as an example, we'd like to hire 80 commercial bankers as of yesterday, I think we hired 23. So it's a 3-year objective. We're continuing to recruit bankers in our markets, wealth bankers, treasury management bankers, mortgage loan originators, Kate and Mike can speak to mortgage. But it's a process. It will take some time. So we're -- what is that, we're 25% of the way there, 30% of the way there.

Betsy Lynn Graseck
Morgan Stanley, Research Division

Okay. And do you think that you're going to get to that 80 by year-end or that's just a multiyear goal?

John M. Turner
President, CEO & Chairman

I think it's a multiyear goal.

Betsy Lynn Graseck
Morgan Stanley, Research Division

Okay. And then what about the Capital Markets growth strategy that's part of that?

John M. Turner
President, CEO & Chairman

Yes. I think the market conditions have led to less growth over the last 2-plus years in the interest rate environment and other factors. But we're really happy with the success we're having with capital markets and continuing to build that business. Remember, back in 2014, it was a $65 million business really built solely around our derivative sales in an environment where you could really push a lot of interest rate derivatives out. That business has changed, the opportunity has changed, and yet we've grown to $340 million, $350 million business. We think our capital markets platform is a $400 million business over time. This year, we expect to generate $80 million to $90 million a quarter on a run rate.

So we feel good about capital markets and the impact it's having, not only on diversifying revenue but on strengthening relationships with customers, which was a primary objective.

Betsy Lynn Graseck
Morgan Stanley, Research Division

Okay. And you talked a little bit about treasury management. What's driving the growth there?

John M. Turner
President, CEO & Chairman

Yes. A couple of things. One is enhanced product offerings. Two is a focus on cash and the cash conversion cycle. So our bankers, we think, are highly skilled and talking to customers about cash, about their cash and cash conversion, which is -- so we're not leading with credit. We're leading, we're talking about the customers' business and how cash and the cash conversion cycle affects their business. And that has led to a lot of success continuing to grow treasury management opportunities.

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Today, about 65% of our corporate banking and wholesale customers have a treasury management relationship with us. So we have some upside opportunity continuing to grow that. Last year, we grew relationships at about 10% and fee income at about 9%. So you add that growth in relationships with new product offerings and that's driving the growth.

Betsy Lynn Graseck
Morgan Stanley, Research Division

Okay. And cash conversion?

John M. Turner
President, CEO & Chairman

Business is understanding what it means to sell a product, carry a receivable, collect the receivable, buy more inventory and how does that affect the working capital.

Betsy Lynn Graseck
Morgan Stanley, Research Division

Got it. All right. Kind of the basic fundamental.

John M. Turner
President, CEO & Chairman

Basic fundamentals of operating the business. Cash is king, we say so.

Betsy Lynn Graseck
Morgan Stanley, Research Division

Yes. Got it. Kate, maybe you can speak a little bit about that. I'm sure, in your world with the branches with the small business, can you speak to how you're utilizing the treasury platform that Regions has?

Katherine Randall Danella
Senior EVP & Head of Consumer Banking Group

Well, I'll start maybe a little bit with the banker strategy for us. So we noted earlier, we're investing in mortgage loan officers. We're about 8 bankers ahead of schedule. It's a 3-year plan, so ahead of schedule there. On the 600 bankers that we are repurposing in micro markets where we have outsized opportunity in small business or wealth, we're about 65% in staffing those 600 bankers, we'll get there by end of year, certainly before end of year. So feel good about those investments and the efforts to date to get there.

As it relates to small business, our focus is on the micro businesses in our branch trade area. So we're focused certainly on cash management, but first, getting that deposit, checking account, payments, and we've really focused our bankers, built a proprietary AI tool to help look within the 400,000 customers that we serve today to identify needs, prompt next best actions. That feeds a lot of our outbound marketing as well as our conversation guides for our bankers. So we rolled that tool out, something that we leverage from our corporate bank. Rolled that out at the beginning of the year and the beginning of this investment platform that we're making in small business. So tools, people, training, and really think that will help put wind in our sales as we grow small business through the branches.

Betsy Lynn Graseck
Morgan Stanley, Research Division

Excellent. And then on wealth, wealth is driven out of a separate channel than [indiscernible]. So can you talk a little bit about where the opportunities are in wealth?

John M. Turner
President, CEO & Chairman

Yes. So we've been growing the lower end of the market, which is a retail-focused platform we call, Regions Investment Services. It's essentially a branch brokerage business. That's been growing rapidly. We go back to, again, maybe 2014, '15, we had 0 branch-based brokers. We've added now over 250, and they are continuing to drive revenue and to strengthen relationships with existing customers.

In addition to that, we have a very effective investment management and trust platform through both our private bank, our wealth bank and our corporate trust group. And we are -- this may surprise some people, we provide a wide range of services in addition to

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management of securities portfolios, we manage natural resources. So we manage over 1 million acres of timberland. We manage oil and gas properties, commercial real estate, farmland for families and wealthy individuals, and that business continues to grow at a nice clip. Again, I think I mentioned the CAGR over 6 years is about 8.3% growth in wealth management.

So we're looking to hire more wealth bankers, tremendous in migration of people into our markets. We think that presents a real opportunity to us and for us. And so we'll continue to invest there.

Betsy Lynn Graseck
Morgan Stanley, Research Division

So you manage some very diverse asset classes for your clients. As the GENIUS Act makes its way through Congress, there is going to be more opportunity for banks to work with crypto assets and digital assets. And I'm wondering, is that something that you would consider adding to the product set that you offer to your clients?

John M. Turner
President, CEO & Chairman

Never say never, but I've not been a great fan of crypto. And so I think we'll be a follower there, for sure, not a leader.

Betsy Lynn Graseck
Morgan Stanley, Research Division

Okay. I guess, a function of demand from clients set.

John M. Turner
President, CEO & Chairman

Yes. And we -- and frankly, we have not had a lot of conversations with customers about that. But we do pay attention and follow what our customers are doing for sure.

Betsy Lynn Graseck
Morgan Stanley, Research Division

Okay. All right. Excellent. And so Kate, with that wealth strategy, you do need to partner with the wealth team. Is that right?

Katherine Randall Danella
Senior EVP & Head of Consumer Banking Group

That's right. The 300 bankers -- 300 of the 600 bankers that we are upskilling are going to be focused more and more on partnering with the wealth organization. We do a great job partnering with them today, but we have identified markets and really within a branch radius where we have outsized opportunity. And so those 300 bankers will be focused on, certainly, home equity mortgage, but making referrals into the wealth organization, and it's at a very hyper-local branch-by-branch basis.

Betsy Lynn Graseck
Morgan Stanley, Research Division

Okay, super. Back to you, John. Just generally speaking here. We've got a new administration that is considering lightening the regulatory burden on banks, right? We heard from Michelle Bowman on Friday. And while I know a lot of that is G-SIB focused, there's discussion around regulation in general. And then there's the supervision process and the list goes on. How are you thinking about what's likely going to change here? And what is the most important changes that you're looking for? And how would that impact Regions?

John M. Turner
President, CEO & Chairman

Yes. Well, we think we'll get more clarity on capital liquidity. Obviously, I think long-term debt, we hadn't heard anybody talk about that. So that proposal is probably not coming up anytime soon, if ever. I think the M&A, there appears to be a more favorable tone around M&A, which should be helpful to the industry in general.

I think the 2 biggest things from our perspective will be increased transparency, so better dialogue with regulators around their observations and hours. We participate in the CCAR process every other year. And we'd love to have better insight as to what their observations are about our stress losses, et cetera, and we've never had those kinds of conversations. So that would be helpful. The

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other is just generally the regulatory tone and supervision, which, again, I think there'll be more transparency around and a little more clarity.

So we've not -- as someone said at dinner last night, it's been 15 years since the regulatory regime has at least then has appeared to be as favorable as it looks like it may be. Now that's not to say that I expect we're going to get everything we want. The reality is the industry has improved tremendously over the last 15 years in terms of the way that we're structured, the way we're organized, the amount of capital liquidity that we carry, our processes, our controls, so much better than we were 15 years ago. And so I welcome the balance, which is what I think we're going to get, just a little better balance between the industry and supervision.

Betsy Lynn Graseck
Morgan Stanley, Research Division

You brought up M&A as a positive for the industry. Could you speak a little bit to how you could potentially use that more transparent, predictable M&A regulatory environment?

John M. Turner
President, CEO & Chairman

Yes. So we've -- I think we've been real consistent that we have not been interested in depository M&A. And that's still true. Go back to 2014, '15. As we looked at the environment then, our currency wasn't very good. We didn't believe we could participate in M&A if we wanted to. But we did see a real path to top quartile returns if we could execute our plan, which we did. That's helped improve our currency. We still believe that we have a real opportunity. Just focus on execution of our plan. We can continue to deliver top quartile results and grow the business versus do an acquisition, which is -- can be very disruptive.

So think about that, add to it the fact that we've got a big technology project underway. We would expect to complete our core deposit conversion sometime in 2027. And until then, I think we're going to just do what we do every day and depository acquisition is not necessarily in our -- is not in our future.

Nonbank M&A, we've been very interested in. I think we've been successful executing. We'll likely continue to try to find those opportunities. They've been harder to find over the last 2 or 3 years as others have been interested as well. So that's our view on M&A.

Betsy Lynn Graseck
Morgan Stanley, Research Division

But your point on good for the industry?

John M. Turner
President, CEO & Chairman

Well, I think the tone will be good for the industry, and that is it does appear that based on comments that leadership within the regulatory agencies have made, they're more favorably inclined to support M&A activity and to expedite processes. So whether things get approved or not, there's still a process for that. But creating clarity around and creating a better process so it's more clear and expeditious, I think they're committed to, which will be good for the industry.

Betsy Lynn Graseck
Morgan Stanley, Research Division

And when you think about the opportunity set ahead of you for nondepository acquisitions, thinking about it, where would you be leaning towards? Is it acquiring talent in some of the fee-based businesses you talked about? Or is it more on the technology side or?

John M. Turner
President, CEO & Chairman

Well, so we're continuing to look for mortgage servicing, right, acquisition opportunities. We may or may not want to add some capabilities within wealth management. Those are -- a lot of those are people-centric. They're expensive. They're just hard to find.

On the capital markets side, we have most of the capabilities we'd like to have. We talk sometimes about fixed income sales and trading. We don't originate fixed income offerings. We typically participate. Might we like to do that, we don't have the sales and trading capabilities we need. And so -- but those -- that's expensive and hard to start. So again, we're looking kind of around the edges. We might add to some of the things that we currently do. But we don't have different than going back to 2014, '15, '16, we don't have nearly the needs that we did back then.

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Betsy Lynn Graseck
Morgan Stanley, Research Division

Okay. Super. And on the thought of increasing your share, we'll look to Kate to help drive that.

Katherine Randall Danella
Senior EVP & Head of Consumer Banking Group

In markets? Yes. We are laser-focused on growing households, growing operating accounts, participating in the growth in our markets. We, as John mentioned, we have the luxury that we don't need to de novo in a net new market because our markets are growing. So while that's very expensive and time-consuming, what we look at every single day is optimizing the footprint we have, closing in lower growth areas of certain markets in order to open and constantly optimizing. And that's what we'll continue to do. It's been proven to be very successful for us.

David Jackson Turner
Senior EVP & CFO

Betsy, I'd add back to the M&A in these markets. If there's M&A in our markets, that creates a lot of disruption. And so we're not going to be part of that, as John mentioned. We are going to be part of taking advantage of the disruption if it occurs. Somebody is going to do a deal where we are, then we're going to be all over customers and people and trying to grow our business that way as well.

Betsy Lynn Graseck
Morgan Stanley, Research Division

Okay. So David, while we have you, maybe we could talk a little bit about the numbers. And first off, any change to guidance that you have for us right now?

David Jackson Turner
Senior EVP & CFO

Things are trending like we laid out in our guidance in our deck. We've continued to see benefit coming from the front book, back book, repricing of the balance sheet, $12 billion to $14 billion worth of fixed rate asset repricing securities and loans picking up 125 to 150 basis points. We're neutral to rate, short-term rates. So it doesn't matter whether we get rate cuts or not relative to interest rate risk. Having a little shape to the curve, a little steepening there helps us a bit.

So where we want to be with regards to continue to drive growth in net interest income. We talked about getting our margin to the 3.60% range. We were 3.52% last quarter. We're going to get to 3.60% by the end of the year. It looks like we might be able to get there a little sooner. So things are working well. Our deposits continue to reprice down. So if you take the CDs, a lot of them in Kate's world that mature and come up for repricing, we're getting benefit from having lower interest costs there.

Betsy Lynn Graseck
Morgan Stanley, Research Division

So your NII guide of plus 1% to plus 4% year-on-year with the curve, could be pushing up towards...

David Jackson Turner
Senior EVP & CFO

Right now, kind of the core is right there in the middle. So it's 2 or 3. And things continue to work out and we get, like I said, a little shape to the curve and it stays there. Could we be pushing to the upper end? Maybe. We don't have a lot of loan growth baked in at all. Our deposits continue to trend a little bit better than we thought. So things are working to the positive on that front.

Betsy Lynn Graseck
Morgan Stanley, Research Division

Yes. H8 is growing at about 3%. Does that sound right for you?

David Jackson Turner
Senior EVP & CFO

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Yes, I think, at least as of now, and we'll see a lot of the customers would like to put those deposits to work when they have more clarity with regards to the economy. That's part of why we don't have a lot of loan growth. We think those customers, commercial customers in particular, will want to work through their liquidity first before they start borrowing. So that could change the total, if you will, from deposit -- from a deposit standpoint.

Betsy Lynn Graseck
Morgan Stanley, Research Division

Okay, great. And then on fee income growth of 1% to 3%. Does that still sound about right?

David Jackson Turner
Senior EVP & CFO

Yes, we continue to do well. John mentioned service charges and embedded in that is TM. Our interchange is doing well. Mortgage is the one that's soft right now and capital markets. Those 2 have been a bit challenging. But as John mentioned, we think we can be in the capital markets of $80 million to $90 million, probably be at the lower end of that in the quarter. And a good component of that is M&A. That's probably 25% of that in a normal run rate and that's episodic. So it depends on if you get deals closed, you could be at the higher end of the $80 million to $90 million. If you don't, you're going to be at the lower end. And then wealth management continues to be a success for us.

Betsy Lynn Graseck
Morgan Stanley, Research Division

Okay. Great. And then on expenses, I know you're guiding flat to up 2% for the year, right, which is implying positive operating leverage. And maybe you can talk a little bit about where the cost saves are coming from? And is there -- is there more to give as we move into the future? I'm thinking about the core modernization cost and how that is going to fade from here?

David Jackson Turner
Senior EVP & CFO

Well, so as John mentioned, the deposit system, we'll be working on that, the remainder of this year, all of '26. We'll start doing some conversions in the latter part of '26 and into '27. That's baked into the run rate. So we don't see any near-term savings coming from that. And we're putting in our new commercial loan system in, call it, the end of the third quarter, fourth quarter, AFS vision, that's been the run rate. .

We've been looking at all areas of expense. We start with salaries and benefits and occupancy and third-party spend. We are trying to save there so we can make the investments we need to make. All those folks we want to hire, we have to pay for that. And so we still want to generate positive operating leverage, and we've been able to do all that and have the results that we've projected.

Betsy Lynn Graseck
Morgan Stanley, Research Division

Super. Well, thank you so much for joining us this morning, John, Kate and David. It's been a pleasure. And hope you enjoy the rest of your day. Thanks so much.

John M. Turner
President, CEO & Chairman

Thank you.

David Jackson Turner
Senior EVP & CFO

Thank you.

Katherine Randall Danella
Senior EVP & Head of Consumer Banking Group
Thank you

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