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John M. Turner
President, CEO & Chairman

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Jason Michael Goldberg
Barclays Bank PLC, Research Division

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Presentation

Jason Michael Goldberg
Barclays Bank PLC, Research Division

Great. If we could just -- next up, very pleased to have Regions Financial. From the company, John Turner, CEO; David Turner, CFO; Deron Smithy, Treasurer. They've been very long supporters of this conference, so then you don't need more of an introduction. John is going to give some brief opening remarks, and then we're going to take some Q&A.

John M. Turner
President, CEO & Chairman

Great. Thank you. Thanks for your participation this morning, and I appreciate it very much. I thought I'd just make, as Jason said, a couple of comments. I'll start our performance over the last 10 years has really been highlighted by our commitment to build a consistently performing sustainable bank, and that's really been our focus. We talk a lot about the importance of soundness, profitability and growth in that order of priority. Worked really hard on building better credit, interest rate and liquidity risk management practices and processes, I think, are operational and compliance programs are much, much better as a result of that.

We worked on growing and diversifying revenue, made investments, particularly in businesses like capital markets, mortgage, wealth management to help us do that. Our focus has been on capital allocation and particularly on risk-adjusted returns, and I think that has paid really big dividends for us over that period of time. And we've continued to invest in people, in technology, in markets and products and services, all of which I think has served us really well.

We have, as I mentioned, improved our credit risk management processes and I think, built a much stronger culture through better underwriting and servicing a focus on client selectivity in particular, and through, again, just paying attention to credit risk management, concentration risk and things of that nature that have also helped us.

We've exited certain businesses and portfolios, talked a lot about that over time, gotten out of indirect auto, sold our GreenSky business, gotten out of medical office building, as an example, all with the intention of reallocating that capital into portfolios that produced better returns.

You can see this through the results -- the benefits through the results of the CCAR process, where our capital degradation in the severely adverse scenario is better than most of our similarly situated peers. These actions are also, when combined with our best-in-class hedging strategy, are paying off as again through the CCAR process, our pretax pre-provision income coverage of projected stress losses is better than all of our peers.

Further demonstrating I think our resilience and strength of our business, we have grown earnings per share over the last 10 years at a better than 10% CAGR, while repurchasing more shares on a relative basis than all of our peers. We've also, as a result of our efforts, significantly improved our return on tangible common equity. We were performing at the bottom of our peer group in 2015. And over the last 4 years, we've actually led the peer group with the highest return on average tangible common equity.

We've also delivered earnings per share growth at the top of the peer group, at least in top quartile over the last 5 and 10 years. With strong track record of generating total shareholder value, as through a combination of capital returns, dividends and strategic investments, you can see again, we have performed in the top quartile over the last 3, 5 and 10 years from a standpoint of total shareholder value.

And we think that tangible book value growth plus dividends should align closely with our share price performance. And notably, again, over the last 3 and 5 years, we've performed 1/3 or better during that period of time on that metric.

We often hear from investors and others that we're not growing as fast as our peers are, and we're -- and yet we're talking about being in really good markets. We're not going to apologize for that. In fact, we think that's really an important part of our success, again, focused on soundness first, profitability second and growth third. But if you look at the real data, take out M&A activity amongst our peers, in our markets over the last 5 years, we've actually grown loans and deposits in the top quartile amongst our peer groups, again, ex any M&A.

We are in very good markets. We have top 5 market share in 70% of the markets that we operate in. Seven of the 8 are actually growing faster than or have unemployment rates that are better than national average and 17 of our top 25 markets are growing faster

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than the national average in terms of population growth. And in fact, our footprint will grow at about 1.5x faster than the national average.

We think we're uniquely positioned given the deposit base that we have and our ability to leverage those deposits. If you look at growth in our deposit base, we have grown the second highest rate over 30% over the last 5 years amongst our peers. And we've done that at a cost that is significantly lower than our peers.

Our business is built around the focus on growing operating accounts of businesses and consumer checking accounts. We're not competing day in and day out for interest-bearing deposits. We certainly want those and we're winning those. But when you look at our ability to grow deposits and grow deposits at a low cost, I think this is a great example of the leverage in our business. And we think when combined with our hedging strategy, it will allow us to continue to leverage our franchise and create real value for our shareholders over time.

We're investing in what we call priority markets. We've identified 8 in our footprint that we think give us a tremendous opportunity. We've grown deposits about $12.5 billion over the last 5 years in those markets and actually gained share in 6 or 8. The other 2 were sort of traded sideways. These markets give us the opportunity to grow deposits. They are about $1.5 trillion in deposits in these 8 markets. And again, the population growth in these markets is expected to grow at about 2.5x the national average. So we think a tremendous opportunity.

We're continuing to invest in people. We'll add 170-plus bankers focused primarily in commercial, wealth and mortgage over the next 3 years. We're also reallocating branch bankers. We think about how we use our branches in the same way we think about the way we allocate capital. So we've identified real opportunities around markets, specifically branch markets where we can retrain branch bankers to focus on the opportunities in those markets, 300 of them oriented towards small business, another 300 towards the mass affluent opportunities around those branches.

In addition to that, we're investing in technology. We've just implemented a native digital platform, mobile banking platform that we're really proud of and our customers like a lot. We've talked about our commitment to transition to a new core deposit system, which will -- is on track, and we think will give us some real advantages over time.
We really believe in the opportunities that are presented in the markets that we serve, and we think we have a proven track record of success that we'll continue to build on. And so I look forward to your questions, Jason? Thank you.

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Question and Answer

Jason Michael Goldberg
Barclays Bank PLC, Research Division

Very interesting, John, and informative. I guess maybe just to kind of pull up for a second, you kind of showed the map of your kind of Southeast footprint, good markets on average over time. Can you talk to kind of what you're kind of currently seeing. There's kind of some cross commerce on the consumer around employment data elevated inflation, corporate-facing tariffs yet kind of continuing to grow. So maybe you're out there all the time talking to customers and have good data. What are you think and seeing?

John M. Turner
President, CEO & Chairman

We still feel good about economic conditions and about the economy. Our customer base has enjoyed 4 or 5 years of good earnings, good performance, good results. The company's balance sheets are in good shape. A lot of liquidity still on the balance sheets. They're enjoying pretty good margins. And so they have some ability to adjust to increased cost, and we're seeing them do that. They're beginning to think about making some investments. Our pipelines in our corporate banking business, the wholesale business are up 71% over last year, pretty well distributed across our businesses. And so we feel good about that.

On the consumer side, again, consumers have enjoyed nice increases in their wages. Deposits are up about 20% year-on-year. They're roughly equal to from a -- relative to their spend, the same levels that they were prior to COVID, but overall deposit balances are up. Again, I think balance sheets are in good shape. We see consumer past dues very much in line and trending positively. So in our markets, again, unemployment rates lower than the national average, we still feel good about economic conditions.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

So we can put up the first ARS question, I think we -- this is just for the audience. And I guess the other thing when you kind of put up that Southeast map, Southeast has got a lot of attention at this conference, some banks that have been there expanding, adding more there, some banks that haven't been there kind of coming. Fifth Third mentioned opening branches there. JPMorgan is actually opening branches there. Just maybe just talk about, has the competitive landscape changed? Obviously, you benefit from being the incumbent. But kind of you mentioned wanting to hire people. I imagine it maybe gets more challenging because all the good people are everyone is kind of going after them. Just maybe talk to just...

John M. Turner
President, CEO & Chairman

Yes. Well, business has always been competitive. Some days, it feels more competitive than others. We are, in fact, do have more competitors entering the marketplace. We talk about just doing our business well every day. And if we do that and stay in front of our customers, consistently call on our prospects, if our leaders continue to work, the talent in the market, make sure they know who the best talent is, and we're constantly recruiting. And I feel both -- by the way, both internally and externally, we need to make sure we're recruiting our teams. We'll compete fine against the incoming competition. We've been in markets for 100 years, 150 years, in some cases, 175 years. We are the local bank. We're the hometown bank in many, many cases where we enjoy nice low-cost deposits and good relationships with customers, and I think we'll continue to experience that.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

Got it. And I guess we saw decent loan growth in the second quarter. You kind of modestly improved your outlook for the year in July. Maybe talk to maybe some of the puts and takes in terms of what you're seeing on both the commercial and the consumer front?

John M. Turner
President, CEO & Chairman

Yes. So we said at the end of the second quarter, we are seeing a nice increase in pipelines and production. At the same time, consistent with the way we've been running the business over the last 10 years with a few exit portfolios, things we want to try to get out of because we don't think we're generating an appropriate return. That's some of the leverage lending we were doing, some enterprise value lending. We have some solar exposure in our consumer business, we're working out of. That was about $700 million in the first 6 months of the year, which was a headwind to growth.

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We've got another couple of hundred million dollars that we'll work through in the balance of the year. But at the same time, we're seeing production come up and pipelines come up. So we feel good about our ability to continue to sustain importantly, our profitability. As we said, we'll have sort of stable to modest growth. And things seem to be lining up well for better growth in 2026, but we'll see, we thought that about 2025, too.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

Right, right, right. I guess maybe -- or just any kind of thoughts on the deposit front. It feels like deposits growing in the third quarter, but just comments in terms around mix, noninterest-bearing versus interest-bearing or beta that's supposed to cut next week and just how you think about that?

John M. Turner
President, CEO & Chairman

Yes. Maybe I'll let David address that question, but I'll say we are continuing to grow consumer checking accounts and small business operating accounts, and that's what's really important to us. We see good activity there as there's population growth in our markets, businesses getting started, businesses moving from one institution to another. So we are enjoying nice growth in those deposits and that's really our -- that's our raw material. That's what makes our P&L really go.

David Jackson Turner
Senior EVP & CFO

Yes. No, John said it well, we continue to enjoy nice growth in deposits, and we're real pleased with the performance there. I think the outlook, as you mentioned, for Fed cut, probably likely next week. We're kind of right on track. And from a deposit beta standpoint, we expect it to manage in the mid-30s. That's where we are today. And if the Fed cuts, we'll make adjustments accordingly, but I think the performance overall from a deposit standpoint, right in line with our expectations on rate, but certainly seeing nice growth, good customer growth, good balance growth on both fronts, on both corporate and retail.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

Got it. Maybe put up the next ARS question. But I guess when we think about -- I guess, maybe this way, net interest margin was up quite a bit in the second quarter. Even if you kind of back out maybe some non-core items, it's still tended to outperform peers. Just maybe talk to how you think about NIM performance in the back half of this year and as you kind of think about 2026, kind of the puts and takes around that?

David Jackson Turner
Senior EVP & CFO

Yes. As we mentioned coming into the year, we've got a nice tailwind from the balance sheet continuing to reprice higher. So fixed rate lending that was put on in previous years at lower rates, rolling off, getting an opportunity to put new dollars to work in new originations as well as reinvestment in the securities portfolio. And that's a nice tailwind that we're going to continue to enjoy for the next couple of years, and that will help fuel continued margin expansion.

You mentioned the third quarter, we had, as you mentioned, a number of positive onetime items. If you were to normalize for those, we're in the low 3.60s. We think that's a pretty stable level here for the next quarter. And then continue the path to margin expansion in the fourth quarter and well into next year. So we think we exit the year somewhere in the mid-3.60s and continue seeing nice expansion in the margin throughout 2026 and potential to get up into the 3.70s by the end of '26.

John M. Turner
President, CEO & Chairman

I'll add that phenomenon on the second, third, fourth quarter NIM. So we had a lot of CDs that came -- that matured in the second quarter that we benefited from repricing. We don't have a lot of that maturity in the third quarter, but we do back in the fourth quarter. So that's why we have pretty good confidence that we would finish even if you adjust to low 3.60s today, taking out the onetime for the quarter, we would be at, call it, 3.65 by the time we get to year-end.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

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Right? And then there's the audience view for what it will look like for next year. So that's a wide range, but I think not inconsistent.

John M. Turner
President, CEO & Chairman

Yes. Center of gravity there is in a good spot.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

All right. And I guess kind of think near term, I think you kind of -- on the July call, you kind of increased the NII guide to 3% to 5% for this year. How do you, I guess, feel about that given what we've talked about, it feels like that still holds. And as you kind of begin with the 2026 budgeting process, how are you feeling about the trajectory there?

John M. Turner
President, CEO & Chairman

Yes. We -- again, no changes in our outlook there. The quarter allowed us to bring up the lower end of our guidance range. And so we think we're solidly in that growth range. A lot of that, just again, driven by the expected repricing of the balance sheet and how we'll manage deposit costs if indeed we get a rate cut. So I think that's a pretty durable expectation for us.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

And while we got you, I guess, maybe just talk to kind of how you're approaching kind of the hedging and swaps in the securities portfolio, you've kind of been actively kind of adding forward starting swaps and managing the balance sheet. I guess, as this interest rate environment remains dynamic, just how are you kind of thinking about that?

John M. Turner
President, CEO & Chairman

Yes, that's really important for us. We know what our risk is, and that's to lower rates. Our deposit advantage gets squeezed if you get lower Fed funds rates. And so we're always actively protecting against that situation. We're really happy with our position for the next few years, but our focus is really on continuing in those out years, so '28 and beyond and make sure we've got good protection on and always looking for opportunities, put protection that we think is opportunistic or cheap, and we're staying out ahead of the need, so to speak.

So recently, as you've mentioned, we've been adding to years '28 through the early 2030s, and we've been getting really attractive levels, receive rates that -- and our philosophy is that we want to have a relatively neutral balance sheet when the Fed is at neutral rates. And so if you think somewhere in the, call it, 3% range is neutral, maybe a little higher today. But if we can add protection at rates better than that from a receive standpoint, then we feel pretty good that in the environment where we're at risk, which is rates below 3% level, that we've got nice protection in the form of swaps. And if rates are higher than that the rest of our balance sheet and the deposit advantage is performing well. So that's kind of our philosophy. It's pretty straightforward, nothing complicated, but it does require discipline to keep adding to that position out on the horizon, and that's what we've been doing.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

Got it. And maybe shifting gears to the fee income side. You've been making some investments there. We've seen positive growth. Capital markets may be operating below normal, but it feels like it's on an upward trajectory for you and others. Maybe just talk to kind of just generally speaking, kind of some of the key drivers there.

John M. Turner
President, CEO & Chairman

Well, capital markets is a good -- has been a good story for us. I made the remark recently, back in 2014, it was a $65 million business, this year should be a $350 million to $360 million business, and we anticipate to get to $400 million in revenue in the near term. As rates come down, the real estate capital markets part of the business improves. We see more M&A activity. Both those things are occurring. So we feel good about the next couple of quarters and the trajectory that the business is on. The investments we've made are, in fact, paying off and we'll continue to look to make others.

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We also have made some investments in the Wealth Management business. It's growing at an 8% to 9% CAGR treasury management, growing again at somewhere between 7% and 9%, really foundational to our business and relationships we have with customers. And then we've been investing in the mortgage business. We're a low-cost mortgage servicer. We -- mortgage is an important relationship product to us. About 30% of our mortgage origination comes from referrals from our branches. And we have a much higher percentage of purchase money mortgages than our peers do. Typically, you'd see a higher level of refinance versus purchase. In our particular case, we have more purchase than refinance activity. So it has been a good business for us and one we want to continue to support, will support. So all those things are drivers of noninterest revenue. And then as we grow consumer small business checking accounts, that certainly is a catalyst for an increase in NRR also.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

I guess any updated thoughts on the outlook that you gave us in July?

John M. Turner
President, CEO & Chairman

No change. No real change.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

Sounds good. And then I guess on the expense front, this year guidance implies, call it, 200 basis points of positive operating leverage, give or take. Just as you kind of approach the 2026 budget season, how are you kind of thinking about expenses kind of balancing the need to invest? John, you mentioned a bunch of opportunities versus that commitment to -- I assume there's a commitment to positive operating leverage for next year, but you can correct me if I'm wrong.

David Jackson Turner
Senior EVP & CFO

No. We submit requests for next year to our businesses to see what they're going to do. And when they send us negative operating leverage, we send it back to them. So it goes about 5 iterations, and we end up generating our expectation to have positive operating leverage when the market gives you that. There are some years where just trying to force that is not a good idea because you don't let yourself make investments you need to make. Given the environment that we have, we're generating nice revenue growth. We are in the middle of putting in our new deposit system and our loan system. We have GL after that. So we have to make investments there. John mentioned the investment we made in our mobile.

So we've been able to do the things we need to do to serve our customers. And as long as we're making enough investment there to take care of our customers, we're in pretty good shape. So we are going to generate positive operating leverage this year. There's an expectation we should be able to do that in '26. The exact amount of that, I'm not going to tell you. You have to wait until later in the year when we get through the budget process. But yes, I think we can do that in '26.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

Got it. I guess looking at your guidance for this year it kind of implies a pickup in the back half of the year. Is there anything in that, in particular, beyond seasonality or just kind of typical spend?

David Jackson Turner
Senior EVP & CFO

Nothing too unique on that. As John mentioned, we're making investments in people. Those people cost us money without generating revenue on the front end. So it takes time to generate that sometimes up to 24 months, some 12 months, some 18, some 24, depending on who it is. But continuing to invest in those priority markets that John mentioned, with people 170, 180 people is important for us, and so you'll see expense tick up relative to that. But we're saving in other areas so that we could generate positive operating leverage.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

Got it. And then maybe just on the credit quality front, maybe just talk to what you're seeing, thinking and then kind of take it from there.

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John M. Turner
President, CEO & Chairman

Overall, credit quality continues to improve. We guided towards the -- guided at the beginning of the year that we thought losses would be slightly elevated in the first half of the year and then decline in the back half of the year. It may be the reverse. We reported because we've got a couple of large office credits that we've talked about needing to resolve and the timing of which we couldn't predict was it the first quarter, second quarter. Now it looks like maybe third and fourth quarter as opposed to -- obviously, it wasn't in the first and second. So we've guided to losses, 40 to 50 basis points is -- would be typical for us. We said this year, we would expect to be at the higher end of the range. That's still true.

First 2 quarters, we outperformed that relative to our expectations. But all in all, criticized classified loans, nonaccruals all trending down. And so feel good about that. We've talked a little bit about provisioning and our allowance as credit quality improves. You can expect absent changes in economic conditions or loan growth that the allowance would begin to return toward what would be CECL day 1 levels given the composition of our portfolio. Today, we're about 1.82%, and I think CECL day 1 is 1.62%. So over time, again, assuming no changes to the composition of portfolio, stable to modest loan growth and improvement in overall credit quality, that's a trend that you should likely see. That's I think, implies a credit quality, we expect to continue to improve.

David Jackson Turner
Senior EVP & CFO

Yes. The timing of charge-offs moved on us a little bit, and the charge-offs that we're seeing coming through are primarily in those portfolios of interest, so office transportation. There had been some in senior housing, although that's getting a little better. We can't predict the exact timing of the charge-off. Good news is it's all well reserved. So the expectation would be that your provision would be under charge-offs as you work your reserve down because you -- absent something changing or you have loan growth that's disproportionate to what your expectations are, you would expect provision to be lower than charge-offs.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

Got it. So some lumpiness in charge-offs, but all kind of stuff you identified. And then you talked about the reserve coming down over time. I guess how do we think about the definition of over time?

David Jackson Turner
Senior EVP & CFO

Well, we have to go through the math every quarter and do what's right. So that 1.62% number that we calculated when CECL was adopted, that was at the end of '19, beginning of '20 before the pandemic, things were benign. So that's kind of the base case. So the question is how do you get back down to that base case? And your guess is good as ours in terms of timing, but I think if everything plays out like it is, maybe you get there in a year or so. It's hard to tell the exact timing.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

Interesting. So I guess reserve comes down and that helps build capital. Those capital builds, how do you think about -- and obviously, you have earnings. How do you think about kind of redeploying that capital in terms of dividend, buyback, loan growth, obviously, after accommodating loan growth?

David Jackson Turner
Senior EVP & CFO

Yes, that's a good question. So just how we think about capital allocation. We have been generating about 40 basis points of capital through earnings every quarter. We pay out about 18 basis points. That's right at 45% of earnings in the form of a dividend. We then use capital to support loan growth. That's first priority when we have loan growth that we're proud of and get paid for the risk that we're taking. We've then used a little bit of capital to reposition the securities portfolio. We run the math on, Jason, so this was in your note, so I just won't go through the math. We run the math on securities repositioning or buyback, and we do which one is best in terms of return and earnings per share. And the repurchasing -- I mean, taking securities losses and repositioning have been far superior to buying stock back, which is dilutive when you're trading at, call it, 2x tangible. So we'll do that when that math works.

If it doesn't work, we will not do that, and we will buy shares back because we have our capital ratio pretty close to where we want it to be. It's 9.2% after including AOCI. With the tenure coming down, if you were to remeasure today, you're probably at 9.25%, maybe

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pushing 9.30%. We have a stated range of 9.25% to 9.75%, so call it 9.50% that we'd like to get to over time. We're close enough there to be able to get there in any quarter that we wanted to. And we don't know what the B3 regime is going to be. We do have rating agencies that look at that, and they're trying to figure out AOCI too. So we -- all we need to do is be within striking distance, which is where we are. We don't need to let our capital continue to grow. So if we can't put it to work through paying our dividend and securities repositioning and loan growth, we'll buy the shares back.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

I guess as you sit here today, how does the math translate between securities restructuring and buyback?

David Jackson Turner
Senior EVP & CFO

Yes. There's -- I would say, as the curve has steepened, there's a little bit that has come into the window as a potential. So again, I think it's all about the math. Today, there's some marginal opportunities there, and we're looking at those.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

Got it. And then another use of capital is M&A. I guess, John, on the July earnings call, you seem to talk down the desire to do bank M&A. It seems like others are kind of looking but can't find any, but are interested. Maybe talk to kind of your thought process of maybe the environment feels like it's more conducive to bank M&A at the moment. That window may only last 3 years. I guess just what are your thoughts around that?

John M. Turner
President, CEO & Chairman

So we have historically said we've not been interested in bank M&A because honestly -- primarily because we -- as we looked at our plans, we felt like we just execute our plans, we can deliver top quartile returns, and we've been able to do that. M&A is disruptive. It can take you off your focus, and we just didn't need to do it. We also didn't have the currency to do it when we first started talking about M&A. We weren't in a position to pursue M&A. So our commitment has been to not -- we've certainly done some nonbank M&A, but we -- we have not pursued any depository M&A.

And that's still our point of view. We're certainly paying attention to all that's going on around us and the market has changed a bit in the last few weeks. The regulatory environment appears to be more conducive to M&A. We go through a strategic planning process every year. We'll -- we talk with our Board about M&A. We'll do that again this year and just in the coming months. But our -- we believe that if we continue to execute our plans that we can continue to deliver top quartile returns for our shareholders over the next 3 to 5 years, and that's where we'll be focused.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

I guess you have the currency now, you took regions from maybe below quartile or bottom to mid-quartile company to a top quartile company. It looks like some other banks could maybe benefit from that?

John M. Turner
President, CEO & Chairman

Well, we want our shareholders to benefit from that, not other banks. So we'll see. I mean things change over time. But right now, we're going to stay focused on our plan.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

And I guess on the nonbank front, you've had success there over the years in kind of several different pockets. Kind of any areas that is kind of maybe more open to?

John M. Turner
President, CEO & Chairman

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We continue to look for opportunities potentially in wealth management. We're always looking for additional mortgage servicing rights. Maybe there are some things around the edges in capital markets we have some interest in, in the payment space. We're focused on health care payments as an example. And so there are opportunities like that, that we're continuing to pursue. But none of them will be big commitments of capital nor will they be real game changers. They give us additional capabilities to meet customer needs.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

And then you mentioned or maybe David mentioned kind of moving to this new loan and deposit platform. It sounds like a big undertaking. Maybe just talk a little bit about that and what that involves, how long it takes? And what does that allow you to maybe do in the future that you can't do today?

John M. Turner
President, CEO & Chairman

Yes. It is a very big commitment. It's a long-term process. It will, from start to finish, probably have taken us 7 years, I guess, from the time we began to conceive it to the time we finish it. We have engaged with a company called Temenos, who is an international provider of core systems. We're moving from a system that has been -- has reached end of life and transitioning to a hosted sort of cobalt driven system to a cloud-based contemporary platform. We think it will give us some capabilities that we don't have today, allow us to use APIs in a way that we're not able to today.

Force us to organize our data and clean up our data so that we'll be in a position to really take advantage of the opportunities the system provides, helps us with artificial intelligence because of the work we have to do around cleaning up our data and position us there. So in the end, we'll be faster to market with products. We'll be, I think, much better positioned in terms of our ability to integrate additional capabilities. And if we decided we were interested in depository M&A, I think it positions us really well to engage with prospective companies or banks that would be acquired because we'd have this new contemporary technology.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

And when, I guess?

John M. Turner
President, CEO & Chairman

We expect to begin testing in early 2026 and conversion in early 2027.

David Jackson Turner
Senior EVP & CFO

We'll put in our commercial loan system most likely in the first quarter of next year, '26.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

Great. Any questions from the audience? I guess just a follow-up I had on credit. And maybe we got the next ARS question is we talked about that upper end of 40 to 50 basis points of charge-offs for the year, and I know it's lumpy. I guess, as we kind of work through some of the identified stuff as we kind of think about credit for next year, I guess, how are you thinking about where you see kind of losses.

John M. Turner
President, CEO & Chairman

Well, again, we had identified a couple of office-related credits. My hope we'll get through those 2 or 3 remaining loans latter part of this year, first part of next year. Transportation has been in a recession, we would say, for more than 24 months. We have had charge-offs there. We'd expect some additional charge-offs. There are a handful of what I would call technology-related kind of one-off credits that we've been working through. But otherwise, again, we're seeing improvement in criticized and classified and in nonaccruals. And so we would expect charge-offs to begin coming down in 2026. Still going to be just based on historical data in the 40 to 50 basis point range, but would anticipate it would be on the lower end of that range more than likely as we see improvement.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

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Some of the audience agrees. I guess most of it in terms of '26 NCOs. And then maybe just as we wrap up, we've talked in the past about this 18% to 20% ROTCE target. Obviously, a lot of moving pieces with rates and the economy and whatnot. Is that kind of still how we should think about the franchise and how you're thinking about running longer term?

John M. Turner
President, CEO & Chairman

Long term, we've said 16 to 18. We would 18 to 20, I appreciate that.

David Jackson Turner
Senior EVP & CFO

Think of yours has AOCI in it, so that's benefiting. You can get to 18 to 20, but John has taken that out, neutralized at AOCI, so 16 to 18 year in and year out. That's the difference.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

Yes. That makes sense to everybody.

David Jackson Turner
Senior EVP & CFO

All right. You got a lot of heads nodding. That's not your ARS, just saying.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

I guess last, is that still how you're thinking about, I guess, the franchise?

John M. Turner
President, CEO & Chairman

Yes.

Jason Michael Goldberg
Barclays Bank PLC, Research Division
Right. Perfect. On that note, please join me in thanking the Regions team for their time today.

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