

Regions Financial Corporation NYSE:RF

FQ1 2026 Earnings Call Transcripts

Friday, April 17, 2026 2:00 PM GMT
S&P Global Market Intelligence Estimates

	-FQ1 2026-			-FQ2 2026-	-FY 2026-	-FY 2027-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.60	0.62	▲ 3.33	0.64	2.59	NA
Revenue (mm)	1919.35	1886.00	▼ (1.74 %)	1961.98	7895.87	NA

Currency: USD
Consensus as of Apr-17-2026 12:21 PM GMT

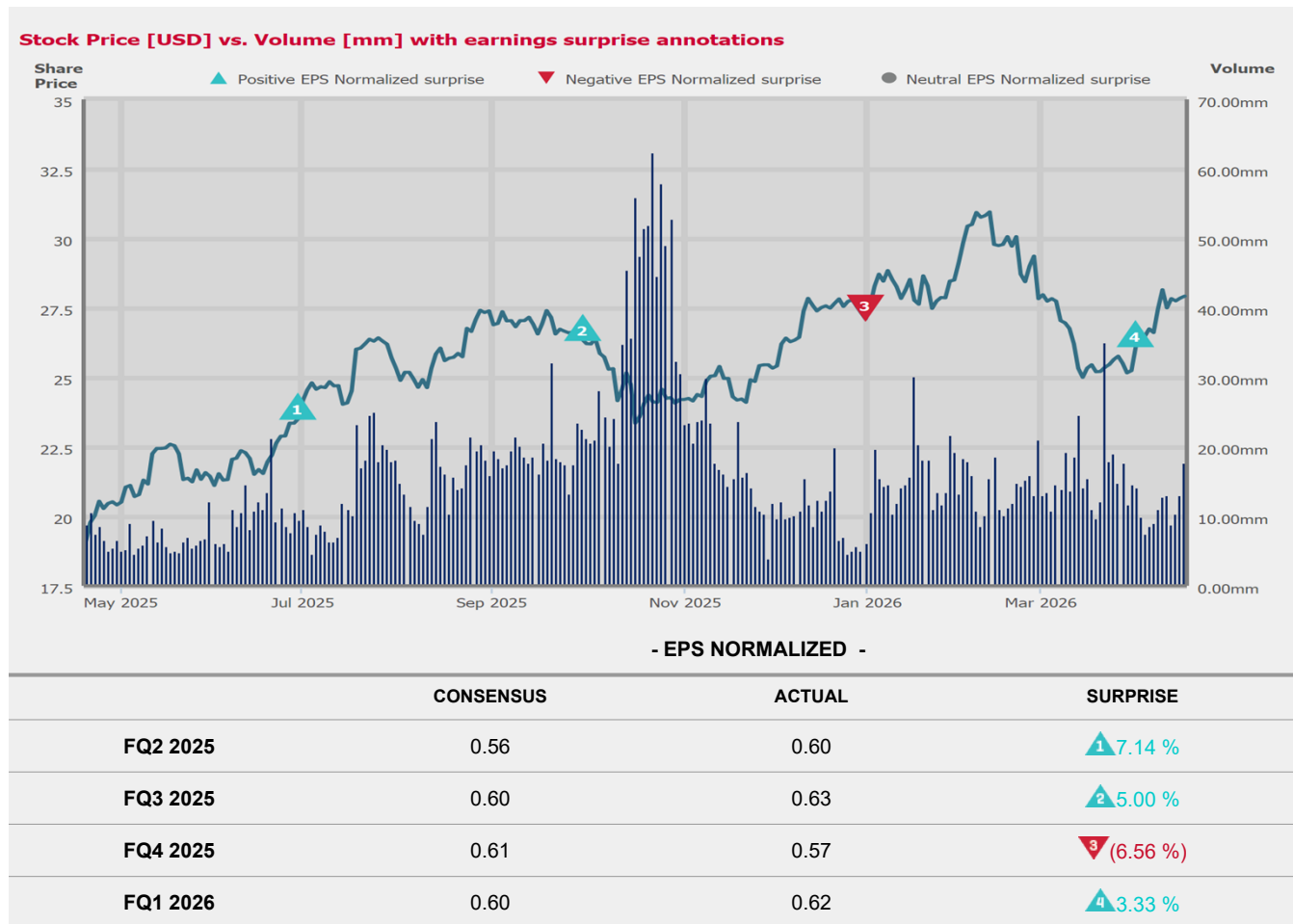


Table of Contents

Call Participants	3
Presentation	4
Question and Answer	7

Call Participants

EXECUTIVES

Anil D. Chadha

Senior Executive VP & CFO

Dana Nolan

Executive VP & Head of Investor Relations

John M. Turner

President, CEO & Chairman

ANALYSTS

Christopher Edward McGratty

Keefe, Bruyette, & Woods, Inc., Research Division

Manan Gosalia

Morgan Stanley, Research Division

David John Chiaverini

Jefferies LLC, Research Division

Matthew Derek O'Connor

Deutsche Bank AG, Research Division

David Patrick Rochester

Cantor Fitzgerald & Co., Research Division

Robert Scott Siefers

Piper Sandler & Co., Research Division

Ebrahim Huseini Poonawala

BofA Securities, Research Division

Ryan Matthew Nash

Goldman Sachs Group, Inc., Research Division

Erika Najarian

UBS Investment Bank, Research Division

Gerard Sean Cassidy

RBC Capital Markets, Research Division

John G. Pancari

Evercore ISI Institutional Equities, Research Division

Kenneth Michael Usdin

Bernstein Autonomous LLP

Presentation

Operator

Good morning and welcome to the Regions Financial Corporation's quarterly earnings call. My name is Chris, and I'll be your operator for today's call. [Operator Instructions] I will now turn the call over to Dana Nolan to begin.

Dana Nolan

Executive VP & Head of Investor Relations

Thank you, Chris. Welcome to Regions First Quarter 2026 Earnings Call. John and Anil will provide high-level commentary regarding our results. Earnings documents, which include our forward-looking statement disclaimer and non-GAAP reconciliations are available in the Investor Relations section of our website. These disclosures cover our presentation materials, today's prepared remarks and Q&A.

I will now turn the call over to John.

John M. Turner

President, CEO & Chairman

Thank you, Dana, and good morning, everyone. We appreciate you joining our call today. Before we turn to the quarter, I want to take a moment and personally thank Dana for her service and leadership. After nearly 40-year credit regions, she's made the decision to retire. Dana has been a steady and trusted voice for our company and an important link between our leadership team and the investment community. Her deep understanding of our business, fair with her clear and straightforward communication style help strengthen our credibility with investors and are widespread respect across the industry. We're incredibly grateful for Dana's leadership and the standard she's set, and we wish her nothing but the very best going forward.

Turning to our financial results. This morning, we reported strong first quarter earnings of \$539 million or \$0.62 per share. This represents an 11% and 15% increase, respectively, versus adjusted prior year results. Adjusted pretax pre-provision income was \$805 million, up 4% year-over-year, and we generated a return on tangible common equity of 18%. The momentum we saw at the end of last year and carried into the first quarter. We grew loans and deposits on both an average and ending basis and our credit metrics continue to improve as we resolve our portfolios of interest. Conversations with customers suggest that despite recent volatility, sentiment remains generally optimistic. Businesses are continuing to manage their balance sheets and income statements prudently with strong liquidity and solid capital positions.

On the consumer side, fundamentals remain relatively sound. Aggregate balance and spending trends for Regions customers are stable to mostly positive. The labor markets are not showing signs of material weakness. We are seeing some pressure among lower-income customers but larger income tax refunds compared to last year have helped to offset a portion of that impact. Importantly, our consumer loan portfolio continues to be primarily prime to super prime. We continue to make good progress on our core transformation, including investments in artificial intelligence. We are on track to deploy our commercial lending system and small business digital origination platform this summer and system testing on the core deposit system is also underway. We expect to launch a pilot in the third quarter and begin conversion in 2027.

At the same time, we remain focused on near-term drivers of growth. Our strategic growth hiring initiative is on track, and we continue to make targeted investments in products and services across all 3 of our lines of business. There's a lot of internal energy and excitement around our technology enablement initiatives, and we're motivated to continue building on that momentum. I'll just conclude by saying that we're pleased with our first quarter results and are excited about the opportunities that lie ahead.

With that, I'll hand it over to Anil to walk through the quarter in more detail. Anil?

Anil D. Chadha

Senior Executive VP & CFO

Thank you, John. Let's start with the balance sheet. Ending loans grew 2% while average loans increased approximately 1%. Growth was driven by broad-based C&I lending, including power and utilities, manufacturing, health care and asset-based lending. Roughly half of this quarter's growth came from higher line utilization with the balance driven by new loans, approximately 80% of which were to existing clients. Almost 2/3 of the growth was investment-grade credits with the majority of the remaining growth near investment

grade for very high quality. While the macroeconomic outlook remains volatile, we experienced strong loan growth in the latter half of the quarter.

As John noted earlier, client sentiment remains broadly positive. Loan pipelines and commitments remain strong, and overall lending activity remains at a good pace. An area that has not been a meaningful growth driver over the past year is NDFI-related lending. These lines reflect long-standing client relationships with predominantly investment-grade credits with nearly half of balances associated with our long-standing REIT business. Private credit exposure remains limited, less than 2% of total loans largely investment-grade, well enhanced and existing client paydowns exceeded draws during the quarter. With respect to our full year growth expectations, we continue to expect full year average loans to be up low single digits versus 2025.

Turning to deposits. Average balances increased modestly, while ending balances increased approximately 1%, reflecting normal seasonal patterns associated with tax refunds and payments. Balances grew while total deposit costs continued to decline, supported by our strong deposit franchise and focus on customer acquisition and retention. Through deliberate product management, we continue to see a shift from CDs into money market accounts across both our consumer and wealth businesses with growth in the combined balances. Our noninterest-bearing deposit mix remained in the low 30% range, consistent with our target and reflective of the operational nature of our deposit base. As a result, we continue to expect 2026 average deposits to be up low single digits versus the prior year.

Let's shift to net interest income. As expected, net interest income was lower linked quarter, driven primarily by 2 fewer days in the quarter and the absence of nonrecurring items that benefited the fourth quarter. The net interest margin of 3.67% continues to evidence region's profitability advantage. That said, margin came in below expectations for the quarter, reflecting tighter asset spreads as a result of market conditions paydowns of higher-yielding loans and remixing into higher quality credits. The core balance sheet performed well during the quarter and provides a solid foundation for net interest income growth over the remainder of the year.

Our neutral interest rate positioning once again performed as designed in the quarter with minimal impact to net interest income from the Fed's fourth quarter interest rate cuts. During the first quarter, interest-bearing deposit cost declined 13 basis points. The following cycle interest-bearing deposit beta stands at 35%, and we remain confident in the mid-30s beta with the potential to outperform over time. Net interest income also continued to benefit from fixed rate asset turnover with elevated long-term rates supporting pricing on term loans and securities. At current rate levels, we would expect balance sheet repricing to support margin expansion over multiple years. Finally, recent loan growth acceleration positions us well for future interest income growth.

Subsequent to quarter end, higher interest rates created an opportunity to sell approximately \$900 million of shorter duration of securities that no longer support our balance sheet management objectives at a \$40 million loss, repositioning those into longer-duration product types. The transaction is also well aligned with our overall capital deployment priorities, carrying a short approximately 2-year payback period and enhancing overall securities yields. In the second quarter, we expect a strong rebound with approximately 2% net interest income growth, followed by additional expansion in subsequent quarters. Fixed rate asset turnover, seasonal average deposit inflows accelerating loan growth and continued discipline and funding costs will drive net interest income growth and a stable Fed funds environment. For full year 2026, we reiterate our net interest income expectation of between 2.5% and 4% growth and for the net interest margin to exit the year at low [3.70s].

Now let's turn to fee revenue performance for the quarter. Adjusted noninterest revenue declined 2% on a linked-quarter basis as seasonally lower card and ATMs and a decline in other noninterest income were partially offset by higher capital markets revenue. Capital markets income increased 5% during the quarter, driven by improvements in commercial swap, loan syndication and securities underwriting activity partially offset by lower real estate capital markets and M&A fees. Despite ongoing headwinds associated with market volatility and elevated interest rates, we continue to expect Capital Markets quarterly revenue to increase within our \$90 million to \$105 million range, trending near the lower end of the range in the second quarter and moving higher thereafter.

Wealth Management remains a good story for us, supported primarily by continued sales momentum with revenue up 9% year-over-year, and we expect this business to continue to be a steady contributor to fee revenue growth. Card and ATM fees declined 5% from the prior quarter reflecting typical seasonal patterns. We expect this line item to draw normal patterns peaking next quarter and moderating throughout the second half of the year. Other noninterest income declined 29%, driven primarily by commercial lease sales activity with \$6 million of gains recognized in the fourth quarter and \$7 million of losses recognized in the current quarter. Service charges remained stable during the quarter as record treasury management fees offset seasonally lower consumer revenue. Overall, treasury management grew 6% on a linked-quarter basis, including strong growth in core payments revenue. We continue to invest in talent and innovation within the treasury management space with a focus on embedded payments and digital client experiences. We expect this business to remain a source of growth within overall service charges. For full year 2026, we continue to expect adjusted noninterest income to grow between 3% and 5% versus 2025.

Let's move on to noninterest expense. While we continue to make meaningful investments across the franchise to support long-term growth, we remain focused on maintaining a disciplined approach to expense management. Adjusted noninterest expense declined 4% linked quarter reflecting broad-based improvement across most expense categories. Salaries and benefits remained relatively stable as lower incentives and declines in market value adjustments for employee benefits liabilities offset the seasonal increases associated with payroll taxes, 401(k) match and merit. For full year 2026, we expect adjusted noninterest expense to be up between 1.5% and 3.5%, and we expect to deliver full year adjusted positive operating leverage.

Annualized net charge-offs as a percentage of average loans decreased 5 basis points to 54 basis points, reflecting continued progress on resolutions within previously identified portfolios of interest, which we reserved for in prior periods. Business services criticized and total nonperforming loans remained relatively stable during the quarter as risk rating upgrades continue to outpace downgrades. The resulting NPL ratio declined 2 basis points to 71 basis points, and the business services criticized ratio declined 16 basis points to 5.15%. Allowance increases tied to loan growth and greater macroeconomic uncertainty were more than offset by meaningful progress in resolving loans within previously identified portfolios of interest sustained risk-rating upgrades, exceeding downgrades and continued improvement in the business services criticized and total nonperforming loan ratios. As a result, the allowance for credit losses declined \$39 million. Strengthening asset quality across portfolios, combined with high-quality loan growth drove an 8 basis point reduction in the allowance ratio to 1.68%, while coverage of nonperforming loans remained solid at 238%. We expect full year 2026 net charge-offs to be between 40 and 50 basis points.

Let's turn to capital and liquidity. We ended the quarter with an estimated common equity Tier 1 ratio of 10.7% while executing \$401 million in share repurchases and paying \$227 million in common dividends. We are encouraged by the proposed changes to the regulatory capital framework, which will revise the definition of capital to include AOCI and implement broad updates to risk-weighted assets calculations under the standardized approach. Including AOCI reduces our reported CET1 ratio to an estimated 9.4%. However, based on our preliminary assessment, the proposed changes are also expected to result in an estimated 10% reduction in risk-weighted assets, contributing to an approximate 100 basis point increase in capital. Taken together, the proposed changes are expected to result in a fully implemented Basel III common equity Tier 1 ratio of approximately 10.4% on a pro forma basis.

Importantly, our capital priorities remain unchanged. Once finalized, we expect to continue managing our fully implemented Basel III co-equity Tier 1 ratio around the midpoint of our established 9.25% to 9.75% operating range. Finally, liquidity remains stable and robust with ample capacity to support future growth. As John indicated, we are pleased with our quarterly performance, particularly given the evolving market dynamics and believe we remain well positioned to continue delivering consistent, sustainable, long-term performance for our shareholders. This covers our prepared remarks.

We will now move to the Q&A portion of the call.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Ryan Nash with Goldman Sachs.

Ryan Matthew Nash

Goldman Sachs Group, Inc., Research Division

It was good to see that you reiterated the guidance across the board despite a slightly softer start. So I wanted to focus on revenues, whether it's NII or fees, given 1Q along with some of the 2Q commentary, maybe just give us a sense of how you're tracking relative to your ranges and what is your confidence in terms of reaching the middle or the upper part of the NII range? And what do we need to see that happen? I have a follow-up.

Anil D. Chadha

Senior Executive VP & CFO

So first of all, we're very confident in hitting the ranges. Let me start with net interest income. So I think importantly, exiting the quarter with the strong loan growth that we saw \$2.3 billion point-to-point is really a great tailwind for us heading into the second quarter, our deposit performance. The growth that we saw during the quarter was also really strong. Our ability to continue to bring down deposit costs. We exit the quarter on interest-bearing deposit costs of 1.69%. That's another good tailwind for us. And as we've talked about before, we still have fixed asset turnover that will benefit us over the course the remainder of the year. So all of those things coming together is really what gives us the confidence in terms of what we expect to see for NII, both in the second quarter and going forward through the year. And I'd say loan trends are still look good. So we're confident in what we're seeing will continue to persist.

With respect to noninterest revenue, a couple of things there. So first, cyclically, the first quarter is typically low for some of the consumer fee items, consumer service charges, card and ATM fees tend to be lower in the first quarter. We expect that to rebound in the second quarter. So that will be a nice tailwind. We've talked about capital markets and gave our guide for the second quarter and for the rest of the year. And then treasury management wealth just continue to be good growth stories for us. We continue to expect to see growth there. It's great to see another record quarter on treasury management. Wealth Management, up 9% year-over-year. So -- so all these things are really pulling in the right direction. And so what we're seeing right now really gives us confidence that we'll operate within the range that we've given.

Ryan Matthew Nash

Goldman Sachs Group, Inc., Research Division

And then I have a follow-up and a comment. First for my follow-up. You noted that you still expect to manage to the midpoint of your range on capital, but I think you noted that it creates meaningful flexibility. So just given the coming changes, maybe just talk about the potential to manage the low end or even below given that these changes are coming and maybe expand on the flexibility comment? What else do we see for leveraging the capital? That's my question. And then my comment Dana, I just want to say thank you for all the help over the years and enjoyed taking care of your grandchild and doing some traveling.

Dana Nolan

Executive VP & Head of Investor Relations

Thank you, Ryan.

Anil D. Chadha

Senior Executive VP & CFO

Yes. Great question, Ryan. So we don't want to get too far ahead of the proposed rule. So as we indicated, based on the proposal when you include AOCI and then the expected benefit in risk-weighted assets, we expect to be around 10.4%. The timing of each component, the phase-in schedule things of that nature will matter a lot. And so we're not going to get -- we're not going to get ahead of that. We're going to continue to manage capital the way you've seen us. Our capital distribution priorities are unchanged. We'll monitor these proposals and once finalized, it will be our plan to continue to manage capital within that range. That is unchanged. But we don't want to get too far ahead of this. We're fortunate we generate enough capital to do everything we want today to grow the business. And so we don't have to distribute capital ahead of this. We'll take our time. But when we get final rules, our distribution priorities are unchanged, and we still believe our targets are where we should be.

Operator

Our next question comes from the line of Scott Siefers with Piper Sandler.

Robert Scott Siefers

Piper Sandler & Co., Research Division

Maybe, Anil, I was hoping you could sort of address a little -- in a little more detail the moving parts in the margin outlook for the remainder of the year. I think you touched on combination of the tighter asset spreads and loan remixing as factors in the first quarter. Maybe just going forward, how much will those need to find relief? Or is there simply enough balance sheet repricing opportunity going forward that you can absorb continued pressure from those dynamics that hit the first quarter but still see both the margin and NII?

Anil D. Chadha

Senior Executive VP & CFO

Sure. So first of all, managing deposit cost is still the primary mechanism that we have to continue to meet our margin objectives for the year. As already alluded to where we exited the quarter from an interest-bearing deposit cost. So the opportunity there is still going to be a meaningful driver in terms of where we go over the balance of the year talked about the fixed asset repricing opportunities that we have, about \$9 billion looking forward. So that will be helpful. We did see, as we alluded to, some investment-grade credit draws late in the quarter, we like that credit. It's lower credit risk, great returns. We also saw a good kind of middle market growth throughout the first part of the quarter. So we expect to see that over the course of the year, and that's going to benefit the margin as well as we look forward. So deposit growth that's going to continue to grow. I already mentioned, we had good growth this quarter. We're going to see seasonal uptick in the second quarter. So all those factors coming together really going to be positive in terms of where our margin goes from here over the course of the year.

Robert Scott Siefers

Piper Sandler & Co., Research Division

Terrific. Okay. And then, John, your commentary on customer sentiment sounded pretty good. And I think, Anil, you mentioned that about half the first quarter loan growth came from higher line utilization. Maybe where are utilization rates versus, say, 90 days ago, where would you hope to see those advanced to as the year unfolds?

John M. Turner

President, CEO & Chairman

Yes. So utilization rates are up about 200 basis points, I guess, across both the corporate banking markets or customer base and our middle market customers. And we'd expect to see a little more activity as the year goes along, it is based upon the constructive feedback we're getting from customers. I will say that we observe liquidity -- customer liquidity is up, at least in -- at Regions by about 7% year-over-year. So customers are still creating additional liquidity. At the same time, we are seeing borrowing activity, which is positive.

Robert Scott Siefers

Piper Sandler & Co., Research Division

And then just final, Dana, same thing, thanks for all the help. Best wishes.

Dana Nolan

Executive VP & Head of Investor Relations

Thank you.

Operator

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

John G. Pancari

Evercore ISI Institutional Equities, Research Division

On the deposit backdrop. I know you had indicated some pretty good deposit dynamics. So I wonder if you can elaborate on the competitive backdrop that you're seeing in the Southeast. You've had a number of banks flag seemingly intensifying competitive

pressures on the deposit front from not only some incumbents, but some newer entrants to the market. So what are you seeing in terms of deposit pricing dynamics, has that been impacting your expectation at all underlying the margin?

Anil D. Chadha

Senior Executive VP & CFO

Sure, John. Yes. So we've been in a highly competitive deposit backdrop, I'd say, for north of a year. The one thing I'd say that's been consistent is we are seeing banks and we are as well, offering promotional offers in certain key markets where everyone is looking to grow customers. What I'll also say is banks are also being prudent in terms of how they think about the back book of their deposit base to manage that in the context of their overall deposit cost. And so the strategies are very similar to what we've seen over the past year. We've adopted an approach that we think appropriate, where we can continue to grow new customers, especially in these high-growth markets. but also take advantage of our back book to price that in a way that's able to manage our deposit cost where we think it should be over time. We're seeing the same thing within our customer base -- sorry, amongst our peers. And so we think that dynamic will continue to hold as loans continue to grow, I'm optimistic in terms of what we're seeing in the capital markets, the debt capital markets where banks are accessing liquidity there. And so from what I see now, the way banks are managing their deposit base and other funding sources, I think, will continue as we all have opportunities to grow loans from here.

John G. Pancari

Evercore ISI Institutional Equities, Research Division

Great. All right. And then on the margin, I know you cited the pressure from tighter asset spreads. If you can give us a little more color there on where spreads stand, what loan types are you seeing that compression? Is that competitive pressures? And you also mentioned the paydown of some higher-yielding loans. So if you can just give us a little more color on that? And is there any incremental actions you expect on the portfolio reshaping?

Anil D. Chadha

Senior Executive VP & CFO

Yes, really on the tighter spreads, it's primarily in larger C&I where we saw line utilization late in the quarter. That's a primary area. We also saw just earlier in the quarter broadly across the balance sheet in terms of tighter mortgage spreads for some of the actions the government is taking as well as retail [indiscernible] that we saw earlier in the first quarter. But primarily where we're seeing the tighter spreads is in IG within the C&I space.

John G. Pancari

Evercore ISI Institutional Equities, Research Division

Got it. Okay. And then the portfolio reshaping efforts, anything incremental that you expect on that front?

Anil D. Chadha

Senior Executive VP & CFO

I think all that's proceeding just as planned. And as we alluded to last quarter, a lot of that is behind us. And so we're -- we'll continue going down that path as we have.

John G. Pancari

Evercore ISI Institutional Equities, Research Division

Best of luck Dana on retirement. .

Dana Nolan

Executive VP & Head of Investor Relations

Thank you, John.

Operator

Our next question comes from the line of Manan Gosalia with Morgan Stanley.

Manan Gosalia

Morgan Stanley, Research Division

You spoke about line draws. I mean it sounds like it's a good fundamental demand coming through. Just wanted to see if you've seen any defensive line draws any reason that utilization rates may flatten or even decline from here?

Anil D. Chadha

Senior Executive VP & CFO

Yes. The line draws that we saw were predominantly late in the quarter when there is volatility in the capital markets. So that's really where we saw most of that come in. I wouldn't call it defensive in nature. I would just say given where the [counter] markets were, as we saw uncertainty in the market, customers drew on bank lines. So I'd expect that to abate through time as capital markets reopen, but nothing defensive in terms of what we're seeing. .

Manan Gosalia

Morgan Stanley, Research Division

Got it. And then maybe on the capital markets side, I guess your expecting that trend to the lower end given volatility in rates. Most of your comments in the environment have been fairly constructive. So I guess what market conditions would move you back towards \$100 million-plus range on capital markets revenues?

John M. Turner

President, CEO & Chairman

Well, the primary business that's impacted is our real estate capital markets business, and it's been soft now for 4 or 5 quarters based on just the rate environment. So as rates -- longer-term rates come down, we would see, we believe, a benefit in the real estate capital markets business, which would be important. And that would more than offset any impacts on other parts of the business. .

Manan Gosalia

Morgan Stanley, Research Division

And Dana, all the very best.

Dana Nolan

Executive VP & Head of Investor Relations

Thank you, Manan.

Operator

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

Gerard Sean Cassidy

RBC Capital Markets, Research Division

And Anil, in talking about the loan loss reserve, I think you pointed out that the increases were tied to loan growth, but also the macro uncertainty out there. If the conflict in the Middle East takes decided to turn for the better. The straits opened up today as you probably saw the headlines. What would that do for the second or third quarter allowance does that start to reduce the loans as that macro risk drops meaningfully and kind of surprises all of us that it's maybe going to be resolved sooner than expected?

Anil D. Chadha

Senior Executive VP & CFO

Yes. And if you look on the waterfall that we included in the appendix, we attributed about \$17 million of growth quarter-over-quarter to macro uncertainty. That's primarily what we're seeing in the Middle East. So to the extent that gets resolved and the other kind of second order effects resolve in a positive to neutral way, we could see a modest release in the allowance of that. I wouldn't say it's overly material, but we did feel appropriate to put up a little bit in terms of macroeconomic uncertainty, but that's the part of the allowance that I'd point you to.

Gerard Sean Cassidy

RBC Capital Markets, Research Division

Very good. And then to follow up on the commercial loan conversation, that you guys have presented, you're not really big NDFI lenders as a regional bank, you're down at the bottom of kind of the group, which lowers the risk, of course. But what -- I guess, why

haven't you maybe pursue it as aggressively as some of your peers in terms of the different categories of NDFI lending. What do you guys see there that makes you maybe a little more cautious?

John M. Turner
President, CEO & Chairman

Well, I think we just generally are more cautious, Gerard. And as we think about our lending activities, they're principally based on relationships that are established within our footprint. We have some businesses where we have specialized capabilities, and we actually do lend out of footprint. This would be an area where we're getting our feet wet, learning a little more about it. Today, we have relationships with about 20 -- just in excess of '25 funds, and those funds are fairly broadly distributed in terms of the businesses, the sectors that they're lending into total exposure, I think just above \$3 billion to those funds within private credit, about \$1.8 billion. So we're just in exposure, I mean, in outstandings. I think we're just trying to learn to understand can we build relationships, can we gain deposits? Can we participate in capital markets activity? Because that's fundamental to how we want to operate our business. We can't do that, then it's just not an appropriate allocation to capital for us.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

And Dana, hopefully, you have tons of fun in retirement.

Dana Nolan
Executive VP & Head of Investor Relations

Thank you, Gerard.

Operator

Our next question comes from the line of Ken Usdin with Autonomous Research.

Kenneth Michael Usdin
Bernstein Autonomous LLP

It was good to hear about -- sorry, let me start it again. First quarter credit quality was exactly as expected, taking care of that already expected stuff and then your outlook for the year looks good and there was good stability in the NPAs and some of the other metrics. So just are you kind of through that piece of taking care of some of that legacy stuff? And just your general line of sight on some of those other portfolios that you've mentioned in the past.

John M. Turner
President, CEO & Chairman

Yes. I would say, Ken, we previously identified office, multifamily, transportation and communications as portfolios where we have some credits we're working through, working out. We have generally seen most of that activity has been completed, but we still have a few credits of some size that we're working on. And so while we are indicating that we expect charge-offs over the course of the year to be between 40 and 50 basis points of the timing of which we get back within that range is still not entirely clear, but we think credit quality is continuing to improve, as indicated, reflected in our metrics. Nonperforming loans down to 71 basis points, criticized loans continuing to decline charge-offs should follow as their trailing indicator of improving credit quality.

Anil D. Chadha
Senior Executive VP & CFO

And I'll just add, as all that happens, our 1.68% allowance ratio should approximate down to the 1.62% that we disclose or kind of day 1 that assumes we resolve the credits that John mentioned, and that assumes that the macroeconomic uncertainty gets resolved in a positive way. The timing of which that happens, we'll see. That's where we think we'll end up based on the composition of our loan portfolio.

Kenneth Michael Usdin
Bernstein Autonomous LLP

Understood. Okay. And then just second thing on -- Anil, you're starting right off of the back following David, on the hedging and securities portfolio repositioning activity. Is that at all any adjustment to that higher for longer? Or is that -- is this more just kind of a normal course of moving some stuff further out to later time periods? I'm just wondering if it's just like normal course or if any adjustments you're making because the environment?

Anil D. Chadha

Senior Executive VP & CFO

No, it's just normal course as security shorten. They don't accomplish our balance sheet management objectives as they once did. And so we'll extend duration on the new securities that we purchase. So just an extension of what you've seen us do before.

Operator

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

Matthew Derek O'Connor

Deutsche Bank AG, Research Division

I just wanted to follow up on the fees. I guess some of these categories, if you look year-over-year, the growth was a little bit less than I would have thought like the consumer service charges flat operate up a little bit, hard flat? And maybe just talk about kind of some of those dynamics, and I know you gave some guidance for card in 2Q, but just kind of thinking about those categories maybe more medium term.

Anil D. Chadha

Senior Executive VP & CFO

Yes. So I'd say in terms of medium-term guidance, they are cyclically lower in the first quarter. They tend to peak in the second quarter and then kind of hold flat from there. From a year-over-year comparison standpoint, we do have some kind of one-off items, if you just look quarter-over-quarter, in particular, in terms of how we treated certain expenses associated with some of those programs. So there are some onetime changes if you just look year-over-year, would mute the growth. But in terms of past from here, we expect to peak next quarter at hold at that level throughout the rest of the year.

Matthew Derek O'Connor

Deutsche Bank AG, Research Division

And that will be for the card and ATM fees, right, to the...

Anil D. Chadha

Senior Executive VP & CFO

And the consumer service charges portion.

Operator

Our next question comes from the line of Ebrahim Poonawala with Bank of America.

Ebrahim Huseini Poonawala

BofA Securities, Research Division

I guess first question, just around looking to your sort of messaging on the drawdowns towards the end of the quarter due to market, does that create a risk of payoffs? And I'm just wondering if some of the macro subsidies markets are less volatile, do you see customers paying off and that credit then moves off balance sheet? And secondly, as we think about just capital markets, obviously, it's a more real estate bias. In your case, without getting any rate cuts for the year, do you think just CRE lending, real estate capital markets can still have a good year?

John M. Turner

President, CEO & Chairman

So maybe I'll answer the second question first. Yes, we continue to lean into that opportunity. We have actually a fairly significant portion of our portfolio is maturing towards the back end of the year. There will be some opportunities within that portfolio to help customers with permanent placement of those obligations. Additionally, we see other opportunities with customers who have debt and other places that will need to refinance. So I think the real estate capital markets business can still have a good year even if we don't get a lot of improvement in rate, but if we do, it gets materially better, we think.

With respect to line utilization, about half of the increase in line utilization was attributable to our larger corporate customers. The other half to our market customers, who are continuing to invest in their businesses and grow. And while there is some risk that we'll see some paydowns amongst those larger corporate customers, we expect the middle market customers, again, to continue to

borrow as they invest in their businesses. Pipelines are up for the year fairly significantly. And so we also expect new originations to overcome any paydowns that we might experience in the corporate space. So all in all, we feel still really good about our ability to deliver the loan growth that we've guided to.

Ebrahim Huseini Poonawala
BofA Securities, Research Division

Got it. And then just maybe, Anil, for you or both of you and we think about the declining RWA density on the back of the capital proposals, how sensitive are you to managing to a certain level of tangible common equity ratio. Just any thoughts there?

Anil D. Chadha
Senior Executive VP & CFO

Yes. I wouldn't say that we're managing to a tangible common equity ratio. I'd say what we're thinking about really is, one, across all the changes that are being proposed, hey, we think they're positive. We'll continue to manage to a total CET1 ratio within that 9.25% to 9.75% range. We think it's appropriate. We'll manage through that through time as we get finalization of the rules, with respect to the proposed RWA changes themselves. We have to think about not just the regulatory implications, but other constituents as well and how they think about RWA and the capital that's needed on our balance sheet. Again, we think all of this is positive to what we can do to capital through time. But our caution will be one tied to finalization of the rules and two, just to make sure that we understand where each of the other constituents land as well when it comes to these proposed changes.

Ebrahim Huseini Poonawala
BofA Securities, Research Division

Got it. And Dana, all the best, and I'm sure we'll stay in touch. Take care.

Dana Nolan
Executive VP & Head of Investor Relations

Appreciate it. Thank you.

Operator

Our next question comes from the line of Dave Rochester with Cantor Fitzgerald.

David Patrick Rochester
Cantor Fitzgerald & Co., Research Division

Just want to go back to the credit discussion. I'm trying to figure out how you're thinking about the trajectory of the problem loan buckets from here. Just given all the work that you've already done, are you expecting to see more meaningful moves lower in NPAs and criticized assets as we get to the back half of the year? And then if you could just update us on your progress in the transportation book, that would be great.

John M. Turner
President, CEO & Chairman

Yes. We should see -- continue to see some improvement in credit quality and NPAs could come down a little further. I would say if you look back over time, NPAs have averaged closer to 1%, I think. And so I wouldn't expect them to come down too much further than 71 basis points. Maybe we get into the 60s, but I don't see a lot of movement beyond that. But I would tell you that we think credit is pretty well normalized in our book given the composition of our portfolio today, and we feel good about our ability to deliver on the 40 to 50 basis points of charge-offs as we indicated.

With respect to transportation, we're still working through a couple of credits there. But generally speaking, I think we have identified and resolved most of the exposure. We provided some slides in the deck. I can't recall which slide it is exactly on transportation, 24, give you a little insight into our exposure there. And think of what you'd see is, one, we've had a fairly significant reduction in the size of the outstandings or commitments representing about 1.2% of total loans. NPLs have come down to about \$51 million. And again, just look at our reserve against that portfolio, we think it's appropriately reserved for any losses that we might experience.

David Patrick Rochester
Cantor Fitzgerald & Co., Research Division

So you're in the latter innings on that one [indiscernible]?

John M. Turner

President, CEO & Chairman

Yes, we are.

David Patrick Rochester

Cantor Fitzgerald & Co., Research Division

Great. And then just back on the securities repositioning you did, just given today's rates, is there any more you could do there? Anything that's left on the table that you could potentially source at some point in the future?

Anil D. Chadha

Senior Executive VP & CFO

Yes, I'd say it's small. There's not much right now. What we'll continue to look at as securities as they get closer to maturity, that creates an opportunity, but we'll need to see where rates are to see if it makes sense to do. As you've seen from us in the past, we're very mindful of thinking about it through returns, payback period, really strong payback period on this trade we did 2 years. So we're disciplined when it comes to using capital in this way.

David Patrick Rochester

Cantor Fitzgerald & Co., Research Division

Anil, welcome. And Dana, it's been great working with you. Good luck and enjoy.

Anil D. Chadha

Senior Executive VP & CFO

Thanks.

Operator

Our next question comes from the line of Erika Najarian with UBS.

Erika Najarian

UBS Investment Bank, Research Division

Anil, just a two-parter for you on CET1 first. Given your risk profile, what was the consideration? Or what are your considerations in terms of RSA, which you showed us versus ERBA? And you mentioned other constituents. A few of your peers have talked about the ratings agencies and perhaps because of the benefit to RWA, particularly for the regional banks that there might be a tendency for the rating agencies to look at unrisk-weighted assets. or sort of unrisk weighted capital measures. And so just wanted your comments on those 2 topics.

Anil D. Chadha

Senior Executive VP & CFO

Sure. So you really hit the second point. That is the other constituency that we need to be mindful of. And as you alluded to, some use direct regulatory risk-weighted assets and their approach. So we will need to see how they think about this. And we'll clearly work with them to share our thoughts on that, but you really hit the second piece there. On the first piece, just to walk you through our preliminary view of the 2 approaches. And so we communicated our 100 basis point expected impact under the standardized approach. We've looked at the ERBA approach. In particular, as you know, the 2 primary benefits that we would get through that approach are the incremental benefit of risk weights on investment-grade credits that we've talked about today. So that's meaningful. And then also other retail exposures where you could get an incremental lift in terms of risk-weighted assets. The counter to that for us is the operational loss add-on. And so our current oculation of that for us actually overwhelms the benefits from the other two. It's something we have to continually assess. We're fortunate that as proposed, you kind of have an evergreen option to opt in, which is beneficial. But for us right now, the operational loss component overwhelms the benefits, in particular, from investment-grade credits and retail exposures as currently proposed.

Erika Najarian

UBS Investment Bank, Research Division

Got it. And just -- and Tom will follow up with you a little bit on capital during our catch-up call. But the second question I want to pose is, maybe just directly asking you mentioned that deposit costs are a big factor in terms of your net interest income outlook. And

again, you must be very flat or that a lot of your peers, both money center and regional are coming into the markets that you've long dominated if the Fed doesn't cut, what is sort of the trajectory for deposit costs at regions? In other words, are you -- will you be able to keep deposit costs flat if the Fed isn't cutting this year?

Anil D. Chadha

Senior Executive VP & CFO

Yes. We will. And we think -- I talked about the 1.69% exit rate. We think that will continue into the second quarter, and it will decline modestly. Total deposit costs will decline modestly from there. Again, we think the competitive pressures banks are kind of performing as we'd expect in terms of how they're managing deposit costs, and we expect that to continue into the future.

Operator

Our next question comes from the line of Chris McGratty with KBW.

Christopher Edward McGratty

Keefe, Bruyette, & Woods, Inc., Research Division

Intra-quarter, you talked about living in the 16 -- the high end of the 16% to 18% return on tangible common equity range for the next 3 years. You were slightly above that next -- last year. I think the Street's got you a little bit over 18%. Is the outlook that those comments were made now that we have some clarity on regulatory how much does the numerator versus denominator play in maintaining that level of profitability?

Anil D. Chadha

Senior Executive VP & CFO

Yes. So looking forward, there's a couple of things to think about. One is with let's talk about the proposed capital changes first. If those go in as proposed and if the other constituents don't meaningfully impact how we think about capital, that in and of itself is a tailwind to returns to the extent we reduce the buyback shares from that. so that would prop up returns overall. But look, our -- the reason we frame up our guide of 16% to 18% is really because, as we've said before, we need to be top quartile when it comes to overall returns. We don't need to be #1. We need to make sure we make all the right investments into our business. And we believe that we can continue to do that. We do it this quarter in terms of the growth that we saw. But when we do that, we're going to continue to grow income and so returns will be increased from that as well. But the point of us making that statement is we want to reiterate that we are well positioned to grow we do not feel like we have to be #1 in our peer group. We're committed to invest capital as long as we get a good return out of it. But that's really why we positioned it the way we have. We'll continue to monitor the peer landscape. Back to my earlier point, everyone is going to benefit to some degree from these capital proposals. Others are taking actions where they think they may be able to raise returns. And so we'll continue to reassess what the right levels are for us through time, but our goal is to remain top quartile amongst our peer set.

Christopher Edward McGratty

Keefe, Bruyette, & Woods, Inc., Research Division

That's great color. And my follow-up would be just more capital beyond buybacks. You've been clear about inorganic not being a focus today. I guess, maybe remind us where you are with some of the projects internally. As you fast forward to the back half of the year, is that something where you may have to consider to be more flexible with inorganic growth if the right opportunity came about?

John M. Turner

President, CEO & Chairman

We'll deliver the loan system conversion. The end of May, we've got a fairly significant improvement in our digital offering to particularly small businesses that delivered over the course of the summer and then begin piloting our deposit conversion in the third quarter. And that project continues to progress on track. We feel really good about it. And so that will position us, we believe, to do a number of things, focusing on how do we continue to improve our business improve the customer and banker experience once we get that work done. So those are important areas of focus for us. In terms of what it means for inorganic growth, we're going to stay focused on executing our plan. We believe our plan will allow us to deliver top quartile results for our shareholders, consistent with the same good execution that we've experienced over the last 5, 6, 7 years, and we'll -- that will be our focus going forward.

Operator

Final question comes from the line of David Chiaverini with Jefferies.

David John Chiaverini
Jefferies LLC, Research Division

Follow-up on deposit costs. There's been some discussion about how cash optimization by customers in an AI world, could pressure deposits at banks that have a lower cost of deposits relative to peers. Can you talk about your view on this and how Regions plans to protect its market share?

Anil D. Chadha
Senior Executive VP & CFO

Sure. No, it's a great question. And what could happen from AI is kind of proliferating several parts of the economy. When we think about the impact on deposits, we kind of start with the nature of our customer base. So our customer base average deposit is about \$5,200. And when we think about the ability for customers to move money around what our customers are really using their account for is for ease of payments. And so we have to stay focused on making sure we're providing them the most efficient way to make payments across their daily lives, a much lower percentage of our customer base is really yield seeking. And so that, in my opinion, will be the first place where you will see the use of AI allow people to move funds around. I'd also say it's pretty easy to move funds around today. I mean it doesn't take too much effort to move cash in and out of accounts to get a higher yield. I'm sure AI can do it marginally quicker, but I'll just say, I think today, it's pretty efficient as well. So I think it's something that could play out. I think it will play out more severely for those customers that have larger balances seeking yield. We see them do it today. But as of right now for our customers, we need to make sure we're giving them all the payment capabilities they need to be done efficiently. And we'll continue to monitor this space, but that's kind of how we're thinking about it right now.

David John Chiaverini
Jefferies LLC, Research Division

Very helpful. And then shifting over to the hiring pipeline, how does that look given the M&A that's occurring in your footprint?

John M. Turner
President, CEO & Chairman

It's good. It's good. We have hiring plans in our commercial banking business, in our wealth banking business, in our branches. And we're moving along having accomplished more than 2/3 of the hiring that we hope to do as part of our plans, part of our 3-year plan. And so we feel really good about the quality of the bankers that we're hiring and the opportunities that we have associated with that. It takes a little while for those bankers to begin to generate new business once they get settled in. So we'd expect to see the impact of some of that hiring in the latter part of this year and into 2027, which is again another tailwind for growth, we believe.

Anil D. Chadha
Senior Executive VP & CFO

Yes. I'd just say even for our existing banker population, our platform is really delivering them the opportunity to grow their business. We're seeing a really nice decline year-over-year in attrition, even amongst our existing bankers. And so for us, we view that as a great lot of confidence that they have the platform they want to be able to deliver to their customers.

David John Chiaverini
Jefferies LLC, Research Division

All the best, Dana.

Dana Nolan
Executive VP & Head of Investor Relations

Thank you.

John M. Turner
President, CEO & Chairman

Okay. Thank you very much. Well, I appreciate everybody's participation. And once again, congratulations to Dana. We appreciate her leadership, commitment, connectivity with all of you in the investment community. We will miss her, but we're confident Tom is going to do a great job. So thank you, and have a great weekend.

Operator

This concludes today's teleconference. You may disconnect your lines at this time.

Copyright © 2026 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Copyright © 2026 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. **THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION.** In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

© 2026 S&P Global Market Intelligence.