

Regions Financial Corporation NYSE:RF

Company Conference Presentation

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Table of Contents

Call Participants	3
Presentation	4
Question and Answer	5

Call Participants

EXECUTIVES

Anil D. Chadha

Head of Corporate Finance & Controller

Brian R. Willman

*Senior Executive VP & Head of
Corporate Banking Group*

David Jackson Turner

Senior EVP & CFO

ANALYSTS

Ebrahim Huseini Poonawala

BofA Securities, Research Division

Presentation

Ebrahim Huseini Poonawala

BofA Securities, Research Division

So we'll go ahead and get started. So first of all, welcome, everyone, to Bank of America's Annual Financial -- 34th Annual Financial Services Conference. Ebrahim Poonawala, Head of North American Bank's research for BofA. We're on the Day 2 of our conference, or actually Day 3, in earnest began on Monday evening. And I think so far so good. Outside of all the market noise, I think just the updates from the banks across lending, capital markets has been fairly constructive. So hopefully, that can continue today if we kick off our sessions. And a lot of points of discussions around regulatory clarity. We hosted a panel yesterday talking about potential for some Basel Endgame proposals towards the end of the quarter and some opt-in, opt-out option for regional banks ex the G-SIB. So I think should be interesting few months ahead.

And then obviously, AI disruption risks being sort of the topic du jour. Whether or not it lasts a week from now, time will tell, but great conversations. I would also like to request you all to save the date for next year, it's February 8 to 10, same location. Turns out people don't really hate being in Miami in February. So we decided we'll do more of the same.

And for those of you who are on the webcast, hopefully, you can join us next year. So with that, I would like to welcome our next speakers, Regions Financial. From Regions we have David Turner, Chief Financial Officer; sitting next to David, we have Brian Willman, Head of Corporate Banking; and then Anil Chadha, incoming CFO of Regions Financial. Thank you, gentlemen, for being here.

David Jackson Turner

Senior EVP & CFO

Thanks for having us.

Ebrahim Huseini Poonawala

BofA Securities, Research Division

And I mean, obviously, a huge time you to David, who was not planning to participate on this discussion. So I had to drag him and I think I just feel like there's so much history around banks and Regions tied to David. So it would be remiss if I lost out on this opportunity to ask you a few questions. And not all of you may know, like David's had a big part. I actually indirectly work for David back in the day as part of Morgan Keegan, and David played a role in, for better or worse for sort of kicking me out. So...

David Jackson Turner

Senior EVP & CFO

We sold the whole company. Sorry.

Question and Answer

Ebrahim Huseini Poonawala

BofA Securities, Research Division

But I always knew he didn't really like me as much. But -- so I wish I was that important. But David, more seriously, I think, you've been in banking 40 years. At Regions, I think like most investors think of you, along with John, as sort of the architect of the Regions that we know of today. Maybe spend some time talking through the evolution of this franchise, maybe going all the way through the Regions-AmSouth merger prefinancial crisis. And where -- how it has evolved during the crisis, and what you have as a bank today, one of the best deposit franchises in the country, one of the highest ROE franchises within the regional banks? So over to you, David.

David Jackson Turner

Senior EVP & CFO

Okay. Well, thanks for having us, and good morning, everyone. Yes, it's been a great long ride. I go back to the merger, Regions acquired AmSouth in 2006. We put 2 real estate banks together, concentrated real estate in the state of Georgia and Florida. Didn't know there was going to be a great financial crisis right around the corner. And that move of putting those 2 banks together just about caused us to fail. We did not fail, as you know. And the reason for that is our deposit franchise, which continues to be a competitive advantage for us today. We have a very loyal deposit base, low-cost deposit base, and I'll get to that in a minute, but that really saved us at the time.

We were not particularly good at interest rate risk management, and we weren't particularly good at credit risk management, 2 things you actually have to be pretty good at if you're going to be in regional banking. We weren't really good at expense management, and our capital allocation process didn't exist. So other than that, we were pretty good. And so we learned a lot of lessons for what not to do. And on Page 21 in the deck, it really speaks to our net interest income and margin lesson from that time. We had the highest net interest margin in 2007, a little over 4%, and we wrote that down, staying asset sensitive when rates were cut in the great financial crisis to 2.56% or something like that. And we learned that what's important to us is low interest rates are really our nemesis. So we have this great deposit franchise. But if you can't extract the value out of it in all interest rate environments, then you don't have a competitive advantage because when rates are low, everybody has cheap funding.

So we started hedging, and we're really good at that. Our treasury team worked together to start doing that in 2019. And now we have -- if we're not the highest margin, we're #1 or 2, and not only that, our volatility is down dramatically. So our margin is going to be somewhere between 3.60% and 3.90% just about any interest rate environment. So we've taken that volatility out. That was a huge lesson for us to learn. That's 2/3 of our revenue. If you don't do that well, you're in trouble. Credit risk management, we had concentrations, as I mentioned. We've taken care of all of that. We did some derisking, and Brian will talk about that, last year, and that was a headwind to loan growth, which shouldn't be there this year, so we'll talk about that in a minute.

And then we had to be really good at expense management, which we were not. We -- today, we have a pretty good efficiency ratio. And yes, we have more branches than almost everybody on a relative basis, but it's where our low-cost core deposits come from. So you can't just look at that. Every banker that comes through ask us to get rid of branches, and it's not happening. So good expense managers. We're very good from a liquidity standpoint and capital allocation became really vital. So we think of capital first. So we generate 40 basis points of capital, round numbers, every quarter. We use 18 of that for dividend. So the 22 really is for loan growth.

When it's there, appropriately priced, relationship-driven, we get paid for the risk that we take. And if it's not, we buy our stock back or we'll do a securities repositioning. So all those things were -- sound so basic today, but if you don't do them well, you're not going to perform. And so we do that. That's in place. We have processes in place. And this transition to Anil as CFO is going to be seamless. And I'm going to go play golf and learn how to putt and move on. But I'm excited about what we've built together as a team and looking forward for these guys to continue growing.

Ebrahim Huseini Poonawala

BofA Securities, Research Division

I think you said this in one of our published reports that David should write a book on interstate risk management for bank CFOs as a manual. But I guess maybe, Anil, over to you. Sort of big shoes to fill. So just if you don't mind spending a few minutes around your background with Regions, and just as you come through, your view of the balance sheet, sort of risk management, interest rate and otherwise, yes?

Anil D. Chadha

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Head of Corporate Finance & Controller

It's great to be here. So I've worked for Regions for right at 15 years, just over 15 years. I joined the bank in 2011 in the Corporate Treasury group, and task #1 was to build out the CCAR stress testing process. Well, first figure out what it is and then build it out. The commitment that we had from the CEO down is what allowed us to be successful in doing so. So I was fortunate enough to lead that team for the better part of probably 8 years, became Assistant Treasurer, worked with David in the early stages, primarily on capital, liquidity and funding. That was my primary areas of focus when I was in corporate treasury.

Had the opportunity in 2019 to go to our risk management team, help build out the CECL function, build out risk analytics and really kind of bring some structure to how we approach credit risk. So did that for about 3 years. And then when our Controller retired, David asked me to come back to finance, not an accountant by trade, but we have a fantastic team there. So it was just an opportunity for me to come back to finance, lead in a broader way, did that for a couple of years and then took on the corporate finance FP&A role when that leader left the bank.

What's important in all that is 15 years is not just me. There's a deep talent base that we have within our finance function, where we've all learned from David and his 16 years as being CFO. And so he mentioned everything that we've done to improve, and he mentioned we built processes in place. And that to me is what's critically important. My approach is going to be very similar to David's. I have a similar risk lens to how we approach making decisions, how we position our balance sheet, how we take actions going forward. It's proved us incredibly well in the past, and you should expect to see the same from that on a go-forward basis.

Ebrahim Huseini Poonawala*BofA Securities, Research Division*

Thank you for that. I'd love to circle back on a few things you mentioned. But maybe, Brian, for you and before we talk about the today and the now, but something that David mentioned, like I had the view that it's very, very challenging for a real estate bank to all of a sudden overnight become a C&I lender. Just talk a little bit about the transition when we think about Regions over the last decade in terms of diversifying the loan book. And then maybe from there, we can talk about what growth outlook looks like.

Brian R. Willman*Senior Executive VP & Head of Corporate Banking Group*

Sure. Well, good morning. Thanks for having me. I think David alluded to this, when Regions was combined with AmSouth, primarily real estate bank, I joined in 2009. And my background was primarily C&I. And so I was charged with basically helping reshape the commercial bank into going from CRE lenders to bankers. And so you do that over time. Some of that's developing your own within, but also a lot of hiring external and really putting out a North Star around, "Hey, we want to be local bankers, giving advice, giving different products and services to the Southeastern footprint that we operate in." That took time. There was turnover. We had some days where we didn't really know if we were going to make it, as you alluded to, but here we are 17 years later and a really diversified book, both in C&I and CRE.

We've also done that based on without making a bank acquisition, but really filling in product capabilities on nonbank side, whether it's building up our capital markets capabilities to service our capital needs of our clients, certainly on the real estate side, that's been a good story for us. But the fundamental change was we had to be really good risk managers. We just could not afford to continue to go back and have volatility in our charge-offs. And I think you'll see that as we work through some of these portfolios of interest, that volatility will continue to decrease, and we feel really good about the portfolio as a whole.

As I transition maybe briefly to kind of the growth, I know the knock has been, well, when is Regions going to start showing loan growth? Last year, you recall, we were really focused on derisking our corporate banking group's portfolio targeted around our portfolios of interest. We had about \$770 million or so of those in our portfolios of interest, office, trucking, senior housing. We also, based on our leveraged lending book, realized that, that was probably not the right risk-adjusted return. And so we also reduced and exited about \$1.7 billion or so last year. We've reduced the leverage lending book about 20% last year alone. And then as you think about the normal capital markets activities that refinance off our balance sheet, that was really good for fee income, but obviously a headwind to our balance sheet.

You transition to 2026, that capital markets activity will always be there, but it's not a headwind for us to grow the loan book. And we're already seeing some green shoots midway through the quarter around loan growth. We feel good about the guide that we've given. I think the operating environment is very constructive for our clients to start putting capital to work. Good news for us is that line utilization hasn't really picked up at all, but we're still been able to deploy our capital and grow the book. And so -- and then the last thing I would say is remaining derisking is really only about \$400 million over the next 2 years. So that's vastly behind us, and I think we'll have a good story around growing the book.

Ebrahim Huseini Poonawala*BofA Securities, Research Division*

That was helpful. Maybe just sticking with loan growth and the customer sentiment. What do you think it takes for line utilization to pick up? A couple of years ago, it used to be that clients were waiting for rates to be cut by the Fed, et cetera. There was policy tariff uncertainty a year ago. My sense is there's a lot more higher tolerance for some of the unknowns. But what do you think it takes for clients to sort of actually...

Brian R. Willman*Senior Executive VP & Head of Corporate Banking Group*

Yes, I agree. I think the environment, certainly, lower rates could be a catalyst, but it's not a requirement. We've been growing commitments about 2%, 2.5% a year, just to level set 1 percentage increase in line utilization. We're about 31.5% right now, translates to about \$660 million of fundings. And so when I'm out with clients, whether it's middle market, large corporate, they realize that their strategy, they have to start deploying capital. I do think the tariff uncertainty of last year, the geopolitical, that's largely subsided. They've been able to protect their margins. Top line growth is still strong. And I think now we're seeing some evidence of that in some sectors, not broad-based, but I do expect line utilization to pick up in '26 for us. The sentiment just is different. The uncertainty, everyone was kind of in lockdown mode. I don't see that being the case. And that's already happening, at least evidenced in our book.

Ebrahim Huseini Poonawala*BofA Securities, Research Division*

Got it. Maybe, I guess, Anil, switching to you. As we think about the levers that banks have capital expenses, maybe just talk about, I think over the last 12 to 18 months, Regions has talked about investing in expansion, higher-growth markets. Give us a mark-to-market on where that stands? And when you look at '26 and beyond, what are the top 3 investment priorities?

Anil D. Chadha*Head of Corporate Finance & Controller*

Sure. So our investments have been equally in 2 places. One, banking is a people business, so heavily invested in hiring more bankers, reskilling bankers for different roles. What's important is that's work we started last year. We're about 75% through the hiring plans that we have across Brian's business, across consumer and wealth as well. So we have already made significant traction in onboarding those associates. We expect them to start delivering mid this year in most cases. And to Brian's point, we're already seeing green shoots of what they are producing. That's what we planned initially. We're more than willing to increase that to the extent there's good banking teams come available. That is where we think we should continue to invest in people, in markets that we feel have a great opportunity to deliver for us.

To your point, technology is another place where we are heavily invested. We've talked a lot about the core transformation that's underway. We'll deploy our commercial lending system mid this year. We'll start to deploy and test our deposit system this year and into next year. And then we also have a new general ledger that we'll be putting in place into the future. But beyond all that, we're also making targeted investments in each of our businesses aligned with our strategic plan. So making sure Brian's treasury management team has all the products and capabilities they need to be successful, making sure, on the consumer side, we have the best digital experience that we can in order to continue to attract new customers there.

So these are places that we will continue to invest, both in people and technology. We'll make sure those investments generate the returns that we expect to see. But when we have opportunities, we're more than willing to continue to make additional investments. And as we've said before, it's incumbent upon us to continue to find ways to fund that internally as well. You've seen that historically for us with our compound annual growth rate of 2.8% from an expense standpoint, and we are committed to continuing to deliver positive operating leverage. But when it comes to investing, to making sure that we can grow and deliver the returns that our shareholders and that we want, we're more than willing to make investments today to the extent those opportunities exist.

Ebrahim Huseini Poonawala*BofA Securities, Research Division*

Got it. I think that's a good message. I think most long-term investors would like banks to invest, grow, sort of make resiliency towards the growth and the profitability profile. When you think about the savings, just given the job you've -- it's been great over the last 10 years, like how hard is it to find incremental savings today?

Anil D. Chadha*Head of Corporate Finance & Controller*

It becomes different. So when we went back in 2017, '18, '19, we had a much bigger opportunity. And so you can take a different approach to how you do that. Now you need to be more focused, right? So where are the pockets where there's opportunities to be more efficient. This is where you can bring in new technological advances and say, okay, in places like contact center, in places like certain parts of risk management, we know there's potential capabilities, whether it's with traditional AI, machine learning, generative AI to bring additional technology to bear and supplement the work that needs to be done. In many cases, these areas have high turnover. So it's a natural place where you can embed technology and be more efficient, things like co-development.

It's a place where -- that's not to reduce, but it's to limit the amount of increase that we may need in terms of new developers through time. So we've started to deploy GitHub Copilot across our developer community. We deployed about 10% of the developer community by end of -- at the end of 2025. Where we've deployed in limited use cases, we've seen 30% to 90% lift in co-development. It's our goal to deploy that across 100% of our developers this year. So when you think about all the technological advances that we need to make as a bank, when you have capabilities like that, that can drive greater efficiency, it's a way for us to limit incremental headcount that's going to drive business performance.

Ebrahim Huseini Poonawala
BofA Securities, Research Division

Got it. Maybe, Brian, for you, when we think about just corporate banker hiring, one, talk to us about how competitive the landscape is to hire bankers, plus you're in markets where we are seeing a fair amount of M&A going on. Does that create opportunities for the bank?

Brian R. Willman
Senior Executive VP & Head of Corporate Banking Group

It does. Maybe I'll separate into 2 categories. First, in our priority markets where we've been making investments that Anil alluded to, we've had success. I think it's a local approach. Our local leaders know who the competition is. The recruiting doesn't happen overnight. That's built over time with relationships. And then because we've not done a bank transaction, we've been very stable. And so with the disruption of some of our competitors, that's been an opportunity for us to bring over talent, to onboard them and obviously, their client book at some point. In our core markets where we've been operating 100, 120, 130 years, for perspective, the average client tenure in the corporate banking group is 30 years. And 75% of our revenue comes from clients that we bank 5 years or longer.

And so we have an innate kind of sticky client base. And so when competitors come in and they're disrupting, I tell our teams all the time like, know who your clients are, assume somebody else is out there talking as well as your team, have a plan of being proactive, not reactive. And at the end of the day, we're still in the customer service business. Don't give a client a reason to move. And if you do that, you're bringing advice and products and services, you're deploying the balance sheet and you're doing that in a consistent way and you institutionalize the clients, so they just don't have one contact person with their banker, it's the whole support team, then that typically works out well.

On the priority markets, we're already seeing benefits of the hires that we made last year. We grew our new client, we call them, new logos 17% last year, and 40% of that growth came from those priority markets. And so I think, just to level set, last year, for the Corporate Banking Group, was a record year for top line revenue. It was a record year in treasury management. It was a record year for total client liquidity, both on and off balance sheet, hit \$50 billion, and it was the second best year ever in capital markets. And so we have momentum, and I think we certainly expect that to continue. We're about 2/3 of the way of hiring our bankers. We'll have the rest of them hired by, I would imagine, the third quarter this year. Onboarding is going well, and they see the value of our culture and ability to service their clients.

Ebrahim Huseini Poonawala
BofA Securities, Research Division

And just to that point, I think Anil mentioned hires from last year or over the last 18 months should start sort of delivering by the middle of the year. What else is required in terms of the infrastructure build-out? When you think about the priority markets, hiring the bankers, I think Anil mentioned like supporting you on the tech side, on payments, et cetera. Like what are the 1 or 2 things most that you need beyond just the banker hiring to be sort of 100% there?

Brian R. Willman
Senior Executive VP & Head of Corporate Banking Group

Yes. I've talked about the banker kind of the frontline client-facing. But behind that, you have to hire treasury management support. You have to hire credit product support to deliver and underwrite and service credit risk. The technology investments around product that we're making in treasury management, all that is a total view. So the bankers kind of get the headline, but you're going to have more investments to support that. I think, for us, as Anil mentioned, as a business leader, we're always trying to find ways to self-fund this growth. And there's opportunities, whether it's around our AI journey, it's around banker enablement, client onboarding, credit delivery and servicing. So all those things will gain efficiencies that we can redeploy and hire those product teams.

For me, it's -- our business is not complicated. You hire the best people in the best markets, and you empower them with really good product and intelligent delivery, you're going to differentiate yourself and you're going to see the success that we've enjoyed. And so competition is good. I have a college baseball background. I love the competition. I think our teams thrive on it. It makes you better. You can't get lazy. You have to have a sense of urgency, and that's what we're doing, and we're in great markets, but we can't take that for granted because we know competition is out there.

Ebrahim Huseini Poonawala
BofA Securities, Research Division

It's good to hear. When you think about the investment banking business, Regions obviously has sort of higher exposure to real estate banking, which just a sector that's been more rate sensitive. When we look at it today in terms of like the real estate -- investment banking to hit its full potential, do we need the curve to be a bit lower? Like what do you need from the rate side for that business to pick up?

Brian R. Willman
Senior Executive VP & Head of Corporate Banking Group

Yes. I think that's a great point because as we alluded to last year, we had a little softer fourth quarter in capital markets. Primarily the miss was in M&A. We had 2 acquisitions over the years, ClearSight and BlackArch, as you know. The M&A side, that pipeline has fully recovered. We see really the bid-ask spread has started to tighten, pipelines look really good. But in the real estate capital markets, when we build up that agency platform, historically, you've needed the 10-year to be 4% or lower. Now we'll see what the jobs report comes. We'll see what happens. But that -- I tell our teams that can't be the sole reason why you perform or not perform. And so we've hired additional originators within our HUD business. We actually are out there in the multifamily space saying, "Hey, what's the supportable loan that we can do? Can we make sure that we pull some of this forward?"

And then a lot of people talk about the upcoming maturity wall. We have a bridge lending program that we feel like we can retain if we don't place them in the agency permanent market. So I think that's more of a little bit more interest rate dependent, but I don't think that's going to be a big headwind. We've guided to [90 to 105] or so a quarter. Some of that's episodic. We did see some delays because of the government shutdown in some cases. But if you think about the allocations that Fannie and Freddie are getting in 2026, we feel like there's a lot of pipeline that can fill for us to deliver those capital market fees, so...

Ebrahim Huseini Poonawala
BofA Securities, Research Division

Got it. I guess maybe switching gears a little bit to deposit growth outlook. Just talk to us, like we've talked in the past, right? I mean every bank in the country wants to get into the Southeast, makes the market extremely competitive. When you think about, one, what does the competitive landscape look like today? Is it any better or worse compared to a year ago? And then how does the bank like Regions that already has a very good deposit franchise go about growing deposits or core deposits?

Anil D. Chadha
Head of Corporate Finance & Controller

Yes. So competition has always been pretty stiff in our markets. They've been desirable for a long time. They've gotten increasingly more desirable. So competition has always been the case. Logos may change, but we're still competing with bankers day in and day out. When it comes to protecting our deposit base, there's a couple of things that have to be front and center. One, you have to continue to deliver the capabilities that your existing customers want, whether it's on the consumer side or on the business side. You need digital capabilities, you need treasury management capabilities that evolve with the business. And so you've got to do everything you can with your investments to make sure you protect what you have today.

When it comes to attracting new, you want to be in the markets we're in. That's where you're seeing population growth. That's where you're seeing small business formation. And so we have that natural tailwind that we can take advantage of, but we also need to invest in that. And so investments that we're making in better capabilities to capture small business deposits are something that we're really

excited about. But they're also just continuing to make sure we have good branching. We're in the right locations within our footprint. We'll relocate as we need to, to make sure we're where the population growth is, but you need to do a little bit of everything. That's how you protect what you have. And going back to what Brian said earlier, you do not need to give your existing customers any reason at all to move. Nobody wants to move their operating accounts. It's a very difficult thing to do. It's a headache. And so we cannot give them a reason to do that. And that's we have to continue to invest to make sure we're meeting the needs that they have.

Brian R. Willman

Senior Executive VP & Head of Corporate Banking Group

Yes. And maybe just if I could add real quickly. In the wholesale bank, I talked about total client liquidity getting to an all-time high. We did that while still bringing down wholesale deposit costs 37 basis points last year. And so again, it kind of goes back to that local relationship that we've -- I mean that's our secret sauce. That's how we differentiate.

David Jackson Turner

Senior EVP & CFO

Let me add one other thing because Anil mentioned the small business opportunity. So there are 5 million small businesses in our 8 priority markets. There are 12 million small businesses in our footprint. We bank currently 400,000. We have a huge opportunity to grow small business deposits because every small business has to have an operating account. They don't all need loans, but they need an operating account and the payment mechanism. And so we are reskilling 300 bankers in the consumer side. We've hired small business relationship managers, and we're going after the small business because you can get low-cost bulk deposits to go with the loan growth we just talked about because you can't let loan growth outstrip your deposit growth. Otherwise, your profitability is not there. So doubling down on small businesses is important.

Ebrahim Huseini Poonawala

BofA Securities, Research Division

That's a good point. I guess maybe, Anil, just sticking with deposits balance sheet. I think David mentioned NII 3.60% to 3.90% range, more or less. Just as we move forward, what's your view on interest rates or the outlook? And how do you think about just risk management to keep the margin in what's still a relatively narrow band?

Anil D. Chadha

Head of Corporate Finance & Controller

Sure. So just to level set, we ended the fourth quarter at 3.70%, had a couple of onetime items, really sets kind of a 3.66% starting point. We expect that to grow throughout the year towards the end of the year. And so that's what we expect in terms of what we're seeing right now. In terms of protecting the margin, going back to my opening comments, we've seen the benefit of the importance of appropriate risk management around the margin. You saw us start to do some of that late last quarter. We put on \$3.5 billion of hedges looking at longer-term rates. So really protecting against what could be lower rates on the long end. We added about another \$1 billion this quarter. So we're effectively hedged at around \$4.15 billion plus or minus on the 10-year equivalent.

We think that's important because if we deliver what our expectation is relative to margin performance, we're going to deliver the returns we expect. We don't need to take outsized risk when it comes to NII and margin to get there. So when we have a plan that delivers what we think is appropriate, we're going to lock in a portion of that and minimize the variability around that. That's what we've done for many years, and we're going to continue to do that. So we think the outlook is positive. We look at deposit costs. Brian mentioned our ability to manage deposit costs. We exited the year at 1.78%. January is at 1.73%. So we continue to have the tailwind of being able to bring deposit costs down. And with loan growth that we expect this year, with fixed asset repricing occurring this year, \$12 billion to \$14 billion of -- probably picking up about 75 basis points to 1% on that. Those are all the tailwinds that we have into this year when it comes to NII and margin.

Ebrahim Huseini Poonawala

BofA Securities, Research Division

And what gets the NIM to 3.90% versus 3.80%, like how you think about it?

Anil D. Chadha

Head of Corporate Finance & Controller

Yes. I think you have to have a steeper curve to do that. I think you need to have -- you have to continue to outperform on the deposit cost side. That type of environment is going to allow you to get to a higher end of that range.

Ebrahim Huseini Poonawala

BofA Securities, Research Division

And the back book repricing, do you think, for the most part, the benefits of back book repricing begin to fade as we look beyond '26?

Anil D. Chadha

Head of Corporate Finance & Controller

We still have a couple of years of benefit there. So I would not expect that to fade this year. It will continue out a couple more years.

Ebrahim Huseini Poonawala

BofA Securities, Research Division

Got it. Maybe pivoting to just regulations, capital allocation. First, from a regulatory standpoint, I think we had a conversation yesterday where, among all the rules, there's a heightened focus on one on the supervision side and in terms of looking at liquidity, liquidity rules, stress testing, et cetera. Is there anything from a regulatory standpoint that could -- I mean, again, you have done an awesome job managing through the way the framework is today. But I'm just wondering, is there anything at the margin that you could see get shifted or normalize on the regulatory side that would sort of help Regions?

Anil D. Chadha

Head of Corporate Finance & Controller

Well, broadly speaking, not getting anything new is incredibly valuable. When you don't have the new things coming at you that you have to throw people, time and energy at, that is a huge benefit. So just knowing what the rules are going to be, that don't underestimate the benefit of that. In terms of what could happen this year with respect to wherever the Basel III Endgame comes, we might get some marginal relief from a risk-weighted asset standpoint. We'll see what happens with respect to inclusion of AOCI. I know the rating agencies still care about that. So we're going to continue to manage inclusive of. But just not having new things coming at you is a huge benefit across the company.

Ebrahim Huseini Poonawala

BofA Securities, Research Division

Git it. And I guess tied to that, when we think about capital deployment priorities, obviously, there's a lot of M&A going on. It feels like there's a window over the next few years to do some deals. Just talk to us -- remind us on the capital deployment priorities and how M&A fits or does not fit into them?

Anil D. Chadha

Head of Corporate Finance & Controller

Sure. So we'll generate -- as David mentioned earlier, we'll generate 40 basis points of capital a quarter. Number one priority is we'll have our dividend of 18 basis points of that. From there, we're going to invest in good organic loan growth. And we think we have great opportunity this year, as we've talked about before in terms of what we'll see in our core markets and our priority markets. If there's capital left over from there, we'll continue to look at nonbank acquisitions to bolster the noninterest revenue sources that Brian alluded to earlier. We're constantly looking at that. And from there, we'll buy back shares. We don't need to execute M&A to achieve our strategic plan. It's disruptive. It takes us off the goals that we have in place. We know it's out there around us. We love to be able to take advantage of opportunities to hire bankers when that's the case. But that's not something that's at the forefront of our mind. It's not something that we need to achieve our strategic plan. And so we're going to focus on executing our plan and delivering what we've committed to.

Ebrahim Huseini Poonawala

BofA Securities, Research Division

And on the nonbank side, would it be wealth management, would it be capital markets, like where would we see interest?

Anil D. Chadha

Head of Corporate Finance & Controller

I think it's both.

David Jackson Turner

Senior EVP & CFO

Yes. We're evaluating capabilities in 2 areas: capital markets, specifically, municipal finance. And then on the health care payment space, we've actually had 2 recent joint ventures and announcements and partnerships around really patient refunds. That whole payment ecosystem, embedded finance, that's something that's really important to us, and we've made investments, and we're starting to kind of see some early returns of those. I think that's the 2 main areas from a nonbank perspective that we will either make direct acquisitions or investments or potential JVs with so...

Ebrahim Huseini Poonawala
BofA Securities, Research Division

David, for you. I mean, we started with the Regions-AmSouth merger. When we think about bank M&A, like -- so you laid out a great case for organic growth, investment spend, like what's happening there. But are there good strategic deals that can be done or just M&A is so disruptive to the process of running a bank where it becomes prohibitive to some extent?

David Jackson Turner
Senior EVP & CFO

Well, I think John Turner, our CEO, has mentioned that we are obviously aware of what's going on around us. We know that the environment is conducive to M&A, and you've seen that. But they are -- it is disruptive. And bank M&A, if you look -- our history is not a good history in our industry. We have a tendency to overpay. We don't get the returns. We have cost saves that are too high that don't come to fruition. And so that being said, as we think about M&A and Anil now has a corporate development group, they look at things all the time, but it's not part of our plan. But when we think about it, what matters is when you can get density in the market that you're already in, when you get products or services that you don't have that you can push through your customer base, we look at the deposits of those potential opportunities because we have the best deposit franchise, and we're going to be -- if we did a deal, we'd be giving that to a target, what are they going to give us, our shareholders in return?

And so looking at their deposit base is important, looking at their business and how it can be helpful, not just to get bigger. We're \$160 billion. If we were \$320 billion, people would still say you need to get bigger for scale purposes, and that doesn't matter. It's the density in the market that matters, and running your franchise appropriately matters. There're banks that are smaller than us that are very good banks that operate just fine. It's not about getting bigger. But if we can find something that really was complementary that made sense at the right price, all these things lined up, then maybe you could do a deal. But for us, trying to do that right now and we're putting in a new deposit system would probably cause us to have to push out cost saves 6 months. And market probably wouldn't like that, but that's just the reality. And so we need to stay focused on our business, execute our plan, get our deposit system in, and then we're going to have a competitive advantage, we believe, to go to the market after that. And that will be sometime in '27.

Ebrahim Huseini Poonawala
BofA Securities, Research Division

Got it. That was helpful. I guess maybe I'm not sure what the jobs data looked like, but maybe on credit quality -- it's good, I guess. Okay. That's good. The green on my screen generally makes me feel better. It should not, but it does. But just talk to us about credit quality, right? I think we've had -- we've argued that there are parts of the economy that have been in some version of a recession over the last few years. When you look at your portfolio, are there aspects to that where you're like, I think trucking and shipping has been one, obviously, over the last few years. As we look forward, are there areas where you do think there's a little bit more vulnerability in terms of credit losses and delinquencies picking up?

Brian R. Willman
Senior Executive VP & Head of Corporate Banking Group

Yes. From our perspective, on the wholesale side, we don't really see any other concerns outside of those previously identified portfolios of interest that we're having continued resolutions for. I will tell you, as we look at our overall book from a risk rating perspective, we're seeing upgrades outpace downgrades by a factor of 1.75. We continue to see reductions in criticized, classifieds and NPLs. And so from our perspective, because we've done a lot of the heavy lifting last year and the previous year, as I alluded to, derisking our leveraged lending book, our NDFI portfolio is really pretty stagnant. It's primarily 70% investment grade, mostly large unsecured REITs. And so we don't feel like there's any big potential clouds forming for us as we look at our portfolio.

We have a very granular base of clients. And we're shifting even probably more so in terms of our small business, SBA, Ascentium that are secured. Obviously, we have syndications. We have things that we're going to drive capital markets fees, but you have to be very targeted client selectivity. Just like we saw some of the fraud last year that we were not a part of, it just underscores how important your credit quality, asset management, being curious in terms of who you're putting on your balance sheet, and that's just basic banking 101. So from our perspective, regardless of what the macroeconomic forces feel in our markets, population growth is

outpacing the national average, business formation, we feel pretty good. The sins of the past, so to speak, that we've kind of resolved, that's largely behind us.

Anil D. Chadha

Head of Corporate Finance & Controller

And I'd just say, on the consumer side, the part of the sector that we lend to is performing very well. So we don't see any real risk there. And all this is kind of embedded in how we think about the allowance from here. And we've talked before about continuing to bring that down closer to the 1.64% that we kind of have. So all that's aligned with our current thoughts of what we're seeing from a credit standpoint.

Ebrahim Huseini Poonawala

BofA Securities, Research Division

And just very quickly, and again, there's been a lot of noise in the market. When we think about AI disruption risk to businesses, how do you think about that within your sort of portfolio companies who you lend to?

Brian R. Willman

Senior Executive VP & Head of Corporate Banking Group

Obviously, there's been headline risk around the software companies with Anthropic's announcement. That's not a business that we have a lot of exposure to. That's typically enterprise value lending. I think our total exposure that we accounted in that space is less than \$200 million. And so it's not something for us. Even with the change in the leverage lending guidelines, we look at our policy that doesn't change how we underwrite and our go-to-market strategy. So for us, we -- even though we have technology expertise within our industry verticals, we really pulled back from that many years ago.

Ebrahim Huseini Poonawala

BofA Securities, Research Division

I guess I know we have only 30 seconds left. David, any final words of wisdom for us?

David Jackson Turner

Senior EVP & CFO

Wisdom, no. I think great team, looking forward to what Regions is going to do moving forward. I'm still an investor, still counting on the dividend. And so that's going to be protected. But listen, the industry -- financial services industry is probably going to have a really good '26. Everybody is set up. You're going to start seeing loan growth a little stronger this year. And I think this whole AI and technology is really interesting and exciting stuff. There's a lot to be learned. So I think we're just scratching the surface on what this could do for our industry. And to your point, you're making [indiscernible] to our clients in terms of what that looks like. So I guess we just have to stay tuned. But thank you for what you do. And for all of you, investors, it's been a great run.

Ebrahim Huseini Poonawala

BofA Securities, Research Division

Thank you very much.

Anil D. Chadha

Head of Corporate Finance & Controller

Thank you.

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