

# **Regions Financial Corporation NYSE:RF**

# **Company Conference Presentation**

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# Call Participants

## EXECUTIVES

**Anil D. Chadha**  
*Senior Executive VP & CFO*

**John M. Turner**  
*President, CEO & Chairman*

## ANALYSTS

**Manan A Gosalia**  
*Morgan Stanley, Research Division*

# Presentation

**Manan A Gosalia**

*Morgan Stanley, Research Division*

Okay. Up next, we have Regions Financial, and I'm delighted to have with us today John Turner, Chairman, President and CEO; Anil Chadha, CFO of Regions Financial. Thanks so much for joining us.

**John M. Turner**

*President, CEO & Chairman*

Thank you for having us.

**Manan A Gosalia**

*Morgan Stanley, Research Division*

Okay. So I've been starting a lot of these conversations with an update on the environment. What are you guys seeing in your Southeastern footprint? Are you seeing any impact maybe on the negative side or on the positive side as we think about higher energy prices here.

# Question and Answer

**John M. Turner**

*President, CEO & Chairman*

So you're aware, I guess we operate in 15 states, but the bulk of our business is in 7 Southeastern states and Texas and 90-plus of our deposits. As I've gotten across our markets, talking to customers, the topic of oil prices and the war really doesn't come up unless I bring it up. I think businesses generally are well positioned. Their balance sheets are strong. They have good liquidity. And they've been through so much over the last 5, 6 years with just uncertainty changes, dealing with COVID and the things that followed that, that most of them are just focused on how they operate their business and operate it well.

So I'd characterize businesses is positive. They're making investments. we're seeing job growth either through new job announcements, new investments or extensions of existing projects and things. Unemployment rates are fairly low in our markets. the consumer is very healthy. We see consumers -- consumer spending transaction, debit transaction is up about 4%. Dollar value spend up 6% on credit cards, up 6 transactions and spend up about 8%. So customers -- consumers are spending, they feel confident. And generally, I'd say the economy is good.

**Manan A Gosalia**

*Morgan Stanley, Research Division*

And that translates well in the corporate and small business side as well?

**John M. Turner**

*President, CEO & Chairman*

It does. Yes, it does. We're seeing good stability across the wholesale sector generally.

**Manan A Gosalia**

*Morgan Stanley, Research Division*

And I think that feeds nicely in the loan growth. We've seen a clear positive inflection on loan growth over the last couple of quarters. You had some noncore runoff previously that's now largely behind you. Talk about where you're seeing the strongest growth on the commercial side right now?

**John M. Turner**

*President, CEO & Chairman*

So we had nice growth in the first quarter, and it was split between -- about half of it was increases in line utilization. The other half was new originations to support capital investments of different kinds. It also was bifurcated, about half between our middle market commercial banking business and half between -- in our corporate banking group, some of our specialized industries functions.

So specifically, we saw a growth in the energy sector, power and utilities, health care, our asset-based lending business, our REIT business, all demonstrated nice growth during the quarter.

**Manan A Gosalia**

*Morgan Stanley, Research Division*

And as we think about what's been happening since the end of last quarter as you think about the line utilization on the middle market side and the corporate side. Is that continued? Has that held up?

**John M. Turner**

*President, CEO & Chairman*

Line utilization is stable and pipelines continue to grow. And so I'd say, yes, the momentum is holding up.

**Manan A Gosalia**

*Morgan Stanley, Research Division*

Okay. That's it. And the other side of that is, increasingly, we're hearing anecdotes of maybe loan spread tightening in geographies. Are you seeing any of that? Is there any risk of any of that right now?

**Anil D. Chadha**

*Senior Executive VP & CFO*

Yes. We saw some loan spread tightening in the first quarter. I'd say, one, it's been broad across the markets. We've seen it in credit markets broadly. We also, within our portfolio, have had some mix shifts as well, which has contributed to lower loan yields. It's better credit quality but lower yields as a result. But credit spreads being tight, has been kind of a theme throughout this year.

We actually took advantage on that and capitalize when issuing some unsecured debt over the past couple of weeks, which helps us from an overall funding standpoint. We think credit spreads will remain tight probably for the next few months, but maybe in the latter part of the year, you'll see some relief on that.

**Manan A Gosalia**

*Morgan Stanley, Research Division*

So tighter credit spreads, but I guess, better credit risk-adjusted return are the same.

**Anil D. Chadha**

*Senior Executive VP & CFO*

Profitability looks good.

**Manan A Gosalia**

*Morgan Stanley, Research Division*

Got it. Okay. And one of the other areas is as loan spreads tighten, maybe a little bit of that is competition. You're seeing some competition on the deposit side as well across the industry. How are you thinking about -- especially as you're in the Southeast, it's a highly competitive market. It's a highly sought after market as well. How are you thinking about defending and even maybe growing market share in that region?

**John M. Turner**

*President, CEO & Chairman*

Well, first of all, we enjoy the benefit of good liquidity. So we're operating at about a 74% loan-to-deposit ratio today. Our customer base is generally a mass market customer. If you kind of bifurcate our deposits between the wholesale bank. Our commercial banking business built around primarily middle market companies that we've been doing business with for a long time in markets that we know well, 67% of our commercial banking relationships, have treasury management relationships with us.

And so there's a real stability in that deposit base, which we enjoy. On the consumer side, the average customer deposits about \$5,400. The average checking account balance is about \$3,200. And the mean balances \$900. So we have I would say, again, a sort of a blue collar mass market deposit base. 47% of our chain account customers have a savings account with us, only 8% have a money market account. So it's -- it's -- these are people that are working class that don't have a lot of investable dollars.

And so what we're competing for is the operating accounts of small businesses and mid-sized business and the household accounts of consumers. Day in and day out, if we're winning those opportunities, we believe we can continue to grow our business, not only to defend the business we have, but grow the business in the markets that we serve, when we need to compete on rate, we can, but that's not something that we choose to do that we have to do, and we've built our business around just trying to manage that core deposit base really well.

**Anil D. Chadha**

*Senior Executive VP & CFO*

I'd add that competition in the Southeast has been fierce for years. Now there's new entrants coming in. And so we have a well-established playbook, if you will, how to be proactive when we anticipate competition coming in. We know where they're going to open branch locations. We know our customers in those locations, we can be proactive in terms of reaching out to them. But to John's point, we win when we grow household accounts and operating accounts. So the key to us is to make sure we're making investments in those platforms such that our customers want to stay on that, and we can bring more customers on the platform, that's where we win.

**Manan A Gosalia**

*Morgan Stanley, Research Division*

And I think you mentioned, was it \$5,400? Was the average deposit post \$900 was the median. So fairly low deposit balances per account. I think one of the areas where there is a debate going on right now is whether eventually, maybe not right now, but eventually a genetic AI, stable coins, maybe tokenized money market funds might drive even more yield-seeking behavior with some of the smaller balance accounts as well. Is that something that you're thinking about right now? How do you think it's...

**John M. Turner**  
*President, CEO & Chairman*

Well, we're thinking about it because we keep getting asked about it. But I think, generally, when you think about our customers, they maintain in their account about 1.6x what they spend every month. So they have very little investable excess balances. Most have -- if they have savings, it's for an emergency and that's it. And so I don't think that -- I do believe there may come a time when agents do help people search for best rate and move money around and people have confidence in that capability and they're willing to let a bot move their money around.

I don't think that's going to impact our customer base anytime soon. One, I don't know that our customer base would be willing to accept that sort of innovation; two, more importantly, just don't have the excess liquidity to rely on that service. And just as a gauge for our customer, even across our wealth space, we opened up a couple of crypto ETFs a few months back for our wealth customers. And we've seen less than \$200,000 of investment into it. So it's just not new our customer base is right now.

**Manan A Gosalia**  
*Morgan Stanley, Research Division*

Got it. And anything on the corporate side there? I guess some of these deposits are already fully optimized, but any concerns there or anything you're thinking through there?

**John M. Turner**  
*President, CEO & Chairman*

Not me.

**Anil D. Chadha**  
*Senior Executive VP & CFO*

Okay. John mentioned earlier, treasury management is key. I mean, having that relationship is really important to that customer. And so we think we have to continue to invest in that. That's what they're looking for is efficiency of payments, and that's where our focus is.

**Manan A Gosalia**  
*Morgan Stanley, Research Division*

Got it. Okay. So maybe we can bring this a little bit more Anil, are there any updates that you'd like to share on the second quarter and what you're seeing so far?

**Anil D. Chadha**  
*Senior Executive VP & CFO*

Yes. We're pleased with how the year is progressing. So I'll start kind of our longer-term guidance is unchanged across each of the areas we expect to see low single-digit loan and deposit growth. Fee revenue NII, all expected to perform full year as we'd expect. With respect to short-term guidance, we guided NII to be up 2% quarter-over-quarter. That looks to be intact. With respect to capital markets, we've given a range of 90 to 105 we pointed to the low end of the range. as we look at the businesses within our capital markets, real estate capital markets is a rate dependent business.

And with rates being a bit elevated here, we're seeing a little bit of a slowdown in activity in that part of the business. I'd say second quarter probably look more like the first quarter when it comes to capital markets, but we think that will rebound into the second half of the year.

**Manan A Gosalia**  
*Morgan Stanley, Research Division*

Got it. And any impact specifically as we think about the belly of the curve being higher, the long end of the of being higher on NIM and NII?

**Anil D. Chadha**

*Senior Executive VP & CFO*

Yes. So we benefit -- we're neutral to short-term rates, but longer-term rates as they tick up, we'll benefit from that. Our margin was 3.67% in the first quarter. We expect to be in the mid-3.60s in the second quarter and grow into the balance of the year, exit kind of in the low 3.70s. For us, with higher rates, we benefit with fixed asset repricing turnover. Deposit competition remaining kind of steady as it has been and maintaining that will be key. But we feel good about the path of the NIM and where we're positioned relative to what we're seeing in the yield curve.

**Manan A Gosalia**

*Morgan Stanley, Research Division*

So you still feel good about that low to mid-3.70s number by the end of this year?

**Anil D. Chadha**

*Senior Executive VP & CFO*

Yes.

**Manan A Gosalia**

*Morgan Stanley, Research Division*

Okay. Perfect. We -- maybe we'll touch on the capital markets side because that's another aspect you mentioned. To your point, it is a more difficult environment as rates move higher. But as you look across the business today, and as you think about where the rebound will eventually come from, where do you see areas where you're seeing the strongest momentum?

**John M. Turner**

*President, CEO & Chairman*

Well, in our business sort of breaks down each park making almost equal contribution where we have, I'd say, stalled out a lot or we don't have as much momentum as we would like is in the M&A advisory space where we've we think we'd like to have some more capabilities, frankly. That business has not been growing over the last 24 months as much as we would like.

And then separately, in the real estate capital markets business, we've made really good investments there. It's a nice business. It has been impacted some by rising rates as we see customers tend to want to extend and renew rather than access the permanent placement market in this rate environment. That could change if rates stabilize for a longer period of time.

But with the anticipation rates may come back down, we expect there'll be a little delay there in terms of that business regenerating gaining momentum, I guess, I'd say. But all in all, happy with the capital markets business. I was making the point earlier today, in 2014, we generated \$64 million of capital markets revenue. Last year, it was \$360 million. So we've made investments. We've seen the business grow and we're ready to grow it to \$400 million and beyond, we see a few things to fall into place.

**Manan A Gosalia**

*Morgan Stanley, Research Division*

So there's other fee businesses where you've talked about an opportunity, whether it's wealth management, treasury management, mortgage banking, you've continued to see momentum and continue to grow your scale there. which businesses do you think have the potential to become structurally more important as we think about the earnings profile over the next few years?

**John M. Turner**

*President, CEO & Chairman*

Treasury management is super important to us. That's the core of all the relationships we have across our commercial wholesale bank, and we have an opportunity, we think, to continue to grow that. It's been growing at 7% to 8% and should continue on that pace, we believe. Wealth management in the markets we're in with the migration of people, the opportunities that we have across our commercial banking business to deliver more products and services to customers.

Another part of the business now growing at 8% to 9%. We expect that trend to continue as well. So both would be really important. We like the mortgage business a lot. We have mortgage servicing capabilities that we think are differentiated. We like banking, people that own their own homes. They tend to have more deposit balances, they help to generate more revenue. So we'll stay invested in the mortgage business as well. I think treasury management and wealth management likely have the opportunity to be a little more differentiated in terms of contribution.

**Manan A Gosalia**

*Morgan Stanley, Research Division*

I'm sure we'll get into Basel Endgame and the changes there a little bit later, but as I think about the mortgage banking business and the changes that are coming with mortgage risk weights and potentially around even mortgage servicing, does that change your appetite or change the economics of that business over time?

**Anil D. Chadha**

*Senior Executive VP & CFO*

Yes. I think our appetite remains strong. To your point, it's been a highly credit space right now where prices have really kind of not really met our return thresholds. With a potential improvement in the risk weights from the 250 to maybe closer to 100% risk weight, that would help in and of itself. I think the one thing to keep in mind, as many banks exited the space when you saw an increase in risk weights. And so who we're competing against today tends to be nonbank players who won't necessarily benefit from that risk weight change. So it's our hope that, that can kind of move in our favor a bit. But to John's point, we really like that business. It's a business we've stayed invested in, and we think we'll continue to grow through time.

**Manan A Gosalia**

*Morgan Stanley, Research Division*

And would you, I guess, accelerate ahead of time? Or would you need to wait for the Basel Endgame rules...

**Anil D. Chadha**

*Senior Executive VP & CFO*

We're still competitive now with where we're pricing. We won't get too far ahead in terms of what could happen, but we'll stay diligent in terms of deals that come our way now in terms of how we're pricing them.

**Manan A Gosalia**

*Morgan Stanley, Research Division*

Got it. Maybe let's pivot over to expenses. Your guide for this year is expense growth between about 1.5%, 3.5%. How should we think about operating leverage and the right level of operating leverage for regions over time just given the amount of investment spend that's underway in the company.

**Anil D. Chadha**

*Senior Executive VP & CFO*

Yes. Look, we think, over time, we should continue to deliver positive operating leverage. Any one given year, the math could present a difficulty. But through time, we think our business in such a way that we should be able to consistently deliver positive operating leverage. When it comes to investments in technology, those are things that should at their core either make us more efficient or provide opportunities to deepen relationships and grow revenue. And so there could always be a timing mismatch of investment ahead of revenue or cost benefit recognition.

But we think all those investments through time, even solidify our ability to generate positive operating leverage, and that's kind of how we make investment decisions in that area.

**Manan A Gosalia**

*Morgan Stanley, Research Division*

So one of the areas where you've been spending investment dollars is on your multiyear core systems modernization effort. Another -- I take that a lot of banks have spoken about at this conference is AI and how that impacts the overall operating spend of the business. Does that new system help you unlock more of an opportunity on the AI side?

**Anil D. Chadha**

*Senior Executive VP & CFO*

I think on the deposit side, when you talk AI, you start with data, right? And so one of the most important benefits we're getting out of this deposit platform is we had to really clean up our data, and so that will naturally provide us opportunities to consider how Gen AI can be deployed off of that data. The platform in and of itself is not really a thing that we'd say would be a Gen AI enabler. But I think the data will clearly help us better leverage advanced analytics on a go-forward basis.

**Manan A Gosalia**

*Morgan Stanley, Research Division*

So what are you doing on the AI side in terms of the investment spend? And like are you seeing any productivity gains already?

**Anil D. Chadha**

*Senior Executive VP & CFO*

Yes. So I'd remind everyone, go back 7 years, we've been deploying traditional AI across many parts of our business, we call it IQ products. And we've done it across small business, commercial and wealth. And structurally, what we've been doing is putting AI tools on top of our customers' data and having that inform bankers as the best ways to interact with the customer in terms of products or services they may want or potential areas of risk that might be emerging. And so we think that continues even as you move into generative AI, we're doing some of that in our retail banking banker Assist product.

And so we think that continues. But at the core, it's investments in AI to better help our employees be more productive in meeting our customers' needs. That's kind of one place I'd point you to. The other place we've talked about before is on GitHub Copilot across our developer community. So we've deployed it through the end of the first quarter across about 50% of our developers. We're seeing about a 30% lift in co-development. And so for us, that equates to about 6,000 to 7,000 additional coding hours per month.

And so that's a real benefit that we're seeing right now that as you look to future investments in technology, it allows us to reduce that marginal cost of kind of technology development and code writing.

**Manan A Gosalia**

*Morgan Stanley, Research Division*

So when we think about the tech spend, you've also spoken about how that's gone from like 9% to 11% of revenues historically, and that's gone up by at least a percentage point or so going forward. How much of that investment has changed the bank versus run-the-bank?

**Anil D. Chadha**

*Senior Executive VP & CFO*

Yes. We don't split the two. Historically, we think we had a pie chart that maybe bifurcated it a bit. But I'd say on a go-forward basis, the two are a bit interchangeable. Just going back to my example that I gave on the Temenos system. When you invest in data cleanup, you're naturally making an investment to change the bank in terms of how you can use that data. So I think that differentiation will probably abate through time. We think about it in terms of total investment and making sure that we have the right platforms and systems and processes to be efficient as a bank and meet our customers' needs in the most efficient way.

**Manan A Gosalia**

*Morgan Stanley, Research Division*

Got it. Maybe let's dig in on some of the newer priority markets that you're growing deposits in. I think Houston and Dallas are 2 of your key priority markets. What are you seeing in those markets today in terms of, I guess, pricing dynamics or deposit competition or anything else there?

**John M. Turner**

*President, CEO & Chairman*

Well, first of all, the great markets and a lot of competition. I wouldn't say it's necessarily any more competitive than it always is because they are just big dynamic markets. But plenty of opportunity focused on the right markets -- submarkets for us. We are enjoying continuing to grow our business out there. And I think you'll see more people focus on Texas as a place to do business because it's very pro-business oriented, very growth-oriented. No income tax. That probably -- so the growth profile will continue. And I think you'll see more -- again, more people investing there.

**Manan A Gosalia**

*Morgan Stanley, Research Division*

And as you think about small business opportunity, whether it's in those new markets or even in your existing markets? I think you've initially called out that, that's an area where you have an opportunity to do much more. What specifically do you think is the opportunity today? And are there any investments that you need to make to capture that opportunity?

**John M. Turner**

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*President, CEO & Chairman*

So across our footprint, I think there are 12 million small businesses. We bank about 450,000 of them. So there's plenty of opportunity. Our focus has been more recently around understanding the composition of our branch markets. And where we have concentrations of small businesses, we've been dedicating additional resources, people to focus on calling on those small businesses. small business owners, they need help. They need advice, just like consumers do.

And so we're dedicating about 300 additional resources in our branches dedicated specifically to small businesses. We'll roll out a new digital platform for small businesses later this year, which we think will also be helpful. But at the end of the day, I still think it's about people. It's about bankers connecting with business owners. And we believe that is a recipe for having success, particularly in areas where we have concentrated opportunities.

**Manan A Gosalia**

*Morgan Stanley, Research Division*

Got it. Well, maybe let's pivot over to credit. You spoke about the environment, you spoke about there. You're not really seeing anything major there. But as we think about any portfolios of interest, or anything else that you might be seeing in the credit environment today where are you most concerned? Where you're most focused on?

**John M. Turner**

*President, CEO & Chairman*

Yes. I mean primary areas of concern have been office and transportation, we called out. We watch multifamily. It seems to have worked through some of the softness that we're in was in the portfolio and specifically in some markets. So we're actually seeing nice momentum in multifamily originations, again, which is good. Office, we've worked through generally work through the problems that we have. We may have 1 or 2 more credits to resolve.

Same thing with transportation after what was probably a 3-year recession in transportation, it seems to be stabilized. And I've been asked about what about energy prices, what about the cost of fuel, it could have an impact. But I think, by and large, today, for the most part, the weaker transportation operators have been eliminated. And so stronger companies are now in the market and things have rationalized a bit there.

So I feel less concerned -- we've seen a pocket of stress in, let's say, television station in that subsector. Maybe in digital distribution of the Internet on a rural basis. There are a couple of credits related to the build-out of an Internet network in the rural areas. Other than that, I can't really point to anything that I would say where there's been some stress, particularly in our portfolio.

**Anil D. Chadha**

*Senior Executive VP & CFO*

If you look at our allowance coverage ratio, as an example, as we've taken charges that we fully reserve for, you've seen that continue to tick down.

We ended the first quarter at 1.68% based on what we see right now, we still think we're on a path to that day 1 number, call it, 1.62%, dependent upon how the macro environment continues to evolve.

**John M. Turner**

*President, CEO & Chairman*

We continue to see criticized classified come down. NPLs have come down and credit has returned us to a more normal circumstance.

**Manan A Gosalia**

*Morgan Stanley, Research Division*

And is that largely a function of -- we had rates go up to 5% bps since come down at the end of '24, end of '25. Does that help the customer -- the end customer? Is that what's driving the credit improvement? Is it more so just portfolio seasoning over time? What's been driving it?

**John M. Turner**

*President, CEO & Chairman*

I mean I think with the exception of, let's say, office and transportation, those were two discrete portfolios that others across the industry had an issue with. Clearly, everybody had issues with Beyond that, business has been pretty stable for most industry

sectors. And I think that's a variety of things, including managing their businesses well. They're not overly leveraged. The interest rate environment certainly has been helpful.

**Manan A Gosalia**  
*Morgan Stanley, Research Division*

So say energy prices stay where they are right now, does that meaningfully impact the cash flows that trucking and transportation businesses. Is that something that you're focused on?

**John M. Turner**  
*President, CEO & Chairman*

Well, we're watching broadly what the higher energy prices might mean for businesses and for consumers. I can't point to any area that I would call out as being or more potentially impacted than another at this point, but there clearly could be implications if energy prices are sustained for a long period of time. But we're not going to speculate on what those are as much as we just continue to do what we do to monitor and manage potential emerging risk in the business.

**Manan A Gosalia**  
*Morgan Stanley, Research Division*

Got it. Okay. Maybe let's pivot over to M&A. Let's look at this from both aspects. One is there's been an acceleration of M&A across your footprint. That's created some disruption. It's presumably an opportunity for you. What are you seeing there? What's causing disruption out there? And what are you doing to capitalize on it?

**John M. Turner**  
*President, CEO & Chairman*

During merger and acquisition activity, to your point, disruption is created. There's uncertainty on the part of bankers uncertainty on the part of customers. And some number of bankers and/or customers will consider moving their relationship or their place of employment. So we try to identify who those customers potentially are.

Presumably, because we've been in the markets for a long period of time, we've been prospecting on those customers and we just upped our efforts. Sometimes it works out, sometimes it takes longer, maybe it doesn't work out at all, but we have a heightened amount of activity in places where we think there's potential disruption.

On the other side, we have a number of competitors who are doing a great job trying to keep those customers and keep those bankers. So it's not a foregone conclusion that there's going to be a lot of net loss or gain. But our -- we can certainly make a lot of effort in those opportunities. And to your point, there are a number of things going in our market. So maybe that does create some opportunity.

**Anil D. Chadha**  
*Senior Executive VP & CFO*

And it's also important for us to keep what we have today, whether it's customers and associates. And really good to see kind of getting through bonus season. Our attrition rate on the banker side is down north of 100 basis points. And so bankers really like the platform that we have and even in an area of increased competition we're able to retain our good bankers.

**Manan A Gosalia**  
*Morgan Stanley, Research Division*

Are there any verticals or geographies specifically that you're focused on to take advantage of this disruptor?

**John M. Turner**  
*President, CEO & Chairman*

Well, we've called out 8 priority markets. That would be Miami, Orlando, Tampa, Atlanta, Nashville, Huntsville, Dallas and Houston. Those are areas where we think we can make additional investment in people in facilities and have opportunity to grow. So you can -- we highlight those for sure.

**Manan A Gosalia**  
*Morgan Stanley, Research Division*

All right, perfect. So well, I'll ask the other side of the M&A question, and I know you've answered this before, but I sort of have to ask. As we think about the regulatory environment, the window is open right now, we don't know how long that window will be open. You guys have excess capital. How are you thinking about M&A strategically from there?

**John M. Turner**  
*President, CEO & Chairman*

So we remain interested in non-depository M&A. We've made a number of acquisitions over the years that have added to our capital markets capabilities, wealth management, bought mortgage servicing rights, consumer finance business, small business finance business. Those are things we want to continue to do, and none of them have been big investments and none of them have had huge impacts on our business, but they've been helpful.

So we'll keep looking for those opportunities. With respect to depository M&A, we have not been active. We've said we're not interested, and that remains our position. We're generating an 18-plus percent return on tangible common equity. We're growing earnings per share, tangible book value at the top of the peer group.

We think we can continue to do that, just executing our plan over the next few years. And the risk associated with on the other side, execution of a transaction to generate what I would consider marginal benefits from our perspective, just doesn't -- it doesn't make a lot of sense to us. So we think our shareholders want to see consistent performance. We think they want to continue to see top quartile returns on tangible common equity and earnings per share growth, and we're going to continue to work on delivering that through organic growth and management of our business.

**Manan A Gosalia**  
*Morgan Stanley, Research Division*

Fair enough. So then as we think about capital, and we think about the changes with Basel and game, what does that mean for capital deployment? Was that -- what does that mean for the longer-term return profile of the bank? Can you give us some more color there?

**Anil D. Chadha**  
*Senior Executive VP & CFO*

Sure. So just to level set, our common equity Tier 1 on a reported basis was 10.7% in the first quarter. If you could pro forma the two main aspects of the Basel III Endgame inclusion of ASCI and then for us, standard tenderized approach on risk weights. That's about a 10% benefit in RWA for us. That will equate to a pro forma CET1 ratio of 10.4%. So our capital distribution priorities are unchanged. We'll continue to invest in good loan growth on balance sheet. We'll ensure we have good growth in dividend consistent with our earnings profile.

As John alluded to, nonbank M&A is something we'll consistently look for -- and then ultimately, we'll buy back shares after that. We're fortunate we generate between 40 and 45 basis points of capital every quarter. And so we don't need to warehouse capital. And so that's how we'll think about deploying that. you can pro forma what the net effect would be if you got the full benefit just through RWA, it would increase returns by potentially north of 100 basis points. That's just doing math, right? We need to first get a final rule.

We need to understand how the rating agencies think about the RWA through that lens. Once we get clarity around all that, you should see us kind of execute and bring our capital back in line with our targets, which are sold not in quarter to 9.5%.

**Manan A Gosalia**  
*Morgan Stanley, Research Division*

Is there an internal governor on TC to TA ratios? Or I guess, how do you think about capital ratios outside of the CET1 ratio?

**Anil D. Chadha**  
*Senior Executive VP & CFO*

Yes. I think risk-based measures are important. I mean clearly, we track things like leverage ratio when we look at TCE to TA, but not being risk sensitive, I think, is an important factor there. The other thing, just in the weeds on the mass, the inclusion of the mark on derivatives, I think is another kind of negative towards the TCE ratio. It's not like securities, which have liquidity. This is just your mark on this was kind of one side, if you will, of your interest rate risk management. So I think those two factors are reasons why I think TCE to TA something to calculate, but hopefully, we can be more advanced to the system in terms of how we manage capital and use risk-sensitive measures.

**Manan A Gosalia**

*Morgan Stanley, Research Division*

Got it. Okay. So we're almost out of time. Maybe with that, I'll ask a final question. John, as we wrap up, what do you think the market is still missing about the region's financial story here?

**John M. Turner**

*President, CEO & Chairman*

Well, I don't know about missing so much as I think we believe we have the real value in our franchise is our low-cost deposit base. And we're committed to managing and protecting that deposit base and growing. And we believe if we do that, we continue to focus on taking care of our customers, managing the risk in our business. We have built a model that delivers consistent, sustainable results, and we believe those results will be top quartile in terms of returns over the number of years and to do that, and we think our shareholders will be happy with our performance.

**Manan A Gosalia**

*Morgan Stanley, Research Division*

All right. Perfect. With that, please join me in thanking John and Anil. Thanks so much.

**John M. Turner**

*President, CEO & Chairman*

Thank you. Thanks for having us.

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