

Regions Financial Corporation NYSE:RF

Company Conference Presentation

Tuesday, September 15, 2026 2:00 PM GMT

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Call Participants

EXECUTIVES

Anil D. Chadha
Senior Executive VP & CFO

John M. Turner
President, CEO & Chairman

ANALYSTS

Jason Michael Goldberg
Barclays Bank PLC, Research Division

Presentation

Jason Michael Goldberg

Barclays Bank PLC, Research Division

Moving right along, I'm very pleased to have Regions Financial with us. From the company, returning John Turner, Chief Executive Officer, and making his debut at least as CFO, Anil Chadha. So guys, thank you for being with us.

John M. Turner

President, CEO & Chairman

Great to be here having us.

Question and Answer

Jason Michael Goldberg

Barclays Bank PLC, Research Division

Maybe the best place to start is to just talk to the overall operating environment. It's, kind of, I think, been constructive so far, despite a lot of uncertainties on various topics. We're just talking about rates. And just maybe just tell us what you're hearing, seeing for your commercial customers, consumer customers, what your data is telling you?

John M. Turner

President, CEO & Chairman

I think the operating environment is good. I've been in a number of markets over the last 6 or 8 weeks across our footprint. We operate in 15 states. So Southeast, Texas and the Midwest. And across those markets, customers are investing. Consumers are optimistic in spending. We're seeing credit card spending up 8%, debit card spending up 7%, deposit balances are still really good. And customers are -- they're mindful of all the things that are going on around the world and across the country, but focused on their businesses and their particular balance sheets. And I think it's very constructive.

Jason Michael Goldberg

Barclays Bank PLC, Research Division

Maybe just talk to the competitiveness in those markets. One of the things that we've heard, particularly in the Southeast and Texas, where you are is, right? You've had a lot of new banks opening double branches, a lot of bigger banks trying to get bigger. Wells Fargo just talked about how they're outgrowing because of their asset cap coming off. And just maybe talk about the competitive landscape today maybe versus a couple of years ago? And just what Regions is doing to, kind of, differentiate itself, defend itself?

John M. Turner

President, CEO & Chairman

If it weren't for competition, it would be a great business. We are experiencing, I'd say, increased competition, banks coming into our markets that haven't been there. And our focus is just continuing to execute our plan. We know those banks are coming. We know what they do well. We know how they do it generally. We have a lot of data and analytics about our own customers. We're focused on retaining those customers, at the same time, growing new relationships. And that's about recruiting bankers. So we're adding bankers across our footprint. It's about investing in our markets. We're going to build between 130 and 150 branches over the next 3 to 4 years. It's about investing in technology to enable our bankers to better serve their customers and to enable our customers to better serve themselves and have a better experience. And I think we're doing those things. And as a result of that, we are competing very effectively in all the markets we're in.

Many of our markets we've been in for 100 to 150 and some almost 200 years. And so we have a strong brand. We have bankers that are well known. We have a reputation, and we have a very loyal customer base, and we intend to protect that and grow off that base. And I think so far, that's working well.

Anil D. Chadha

Senior Executive VP & CFO

And I'll just add to that when it comes to the data we have about our customers. We know our customers very well. When we look at the deposit side of our balance sheet, being able to really understand between our noninterest-bearing and interest-bearing deposits, how we expect them to perform through different rate cycles has been a really key benefit for us. And so having a very strong good noninterest-bearing deposit base has paid off for us meaningfully and really understanding what we expect from our interest-bearing deposit base as well, both in terms of how we react to competition, but also how we react to the rate environment, has been how we've been able to protect our deposit costs through some pretty good competition in our markets.

Jason Michael Goldberg

Barclays Bank PLC, Research Division

And I guess maybe before we, kind of, delve into some of the financials. On the July call, you kind of -- you guys gave us a good outlook slide and then throughout the slide deck, kind of, a good tidbits in terms of how the quarter is expected to shape up. With 2 weeks to go in the quarter, just maybe any updates to, kind of, some of the guidance for the quarter or the year or just things playing out as expected?

Anil D. Chadha

Senior Executive VP & CFO

Yes, I think you're playing out as we expect them to. So we continue to see, as John mentioned, good underlying growth in our markets. We had pointed to as we looked at our loan guide and our deposit guide that the pace of loan growth that we saw in the first half of the year, we thought that would moderate a bit in the second half of the year. If you look at the H.8 data and kind of zoom into where we are, that's what you're seeing, and so we're seeing that as well. We had guided to 2% NII increase quarter-over-quarter. That's what we're seeing in terms of what's coming on the balance sheet. And so depending upon where loans go for the balance of the quarter, we feel good about that guide.

When we look at noninterest revenue, expenses, everything is, kind of, coming in as we'd expect. So no updates to our guidance.

Jason Michael Goldberg

Barclays Bank PLC, Research Division

Okay. Maybe just if we could anyway unpack some of the drivers, starting with loan growth in the July call, you talked about pipeline is up 15% year-over-year. Line utilization was up almost 100 basis points, I thought, during the quarter. Yes, just maybe talk to, kind of, moderating expectations, but maybe, kind of, go through the key drivers of the portfolio and moderate, but still good growth where you, kind of, see it from here?

Anil D. Chadha

Senior Executive VP & CFO

Yes. So if you look at our balance sheet, where we saw a lot of good growth the first half of the year was particularly in C&I. And if you zoom back to the first quarter, we saw a nice bit of growth late in the quarter when you saw line draws as Iran conflict picked up. We did not expect that to continue into the second half of the year, which is why we kept our loan guide as is and that's what we're seeing. So seeing just continued good growth in C&I and CRE.

On the consumer side, where we participate, not a lot of growth there. We've pointed out that a lot of our growth has been in investment-grade credits, which has been a deliberate path for us. We like the risk-adjusted returns on that business. We continue to see that in the third quarter. So that's all been positive. And so that's what we've seen, kind of, through the first several months of the quarter in terms of where the loan growth's come from.

John M. Turner

President, CEO & Chairman

Yes. And I'd just add, and these sectors won't surprise you, but energy, financial services, power and utilities, health care and defense related -- defense- and technology-related spending, all areas where we're seeing nice growth within our industry verticals.

Jason Michael Goldberg

Barclays Bank PLC, Research Division

I guess one of the things, kind of, being debated is, kind of, just the impact of AI investments, kind of, spilling over into the broader economy. I think people mentioned HVAC and concrete and some of these tangential industries. Just, kind of, given your footprint, are you seeing, kind of, just any opportunities there as that cycle plays?

John M. Turner

President, CEO & Chairman

Yes. I think we have opportunities to support growth in data centers. We have opportunities to bank power utility companies, and we're seeing some of that. Any, kind of, infrastructure-related spending, many of our customers are benefiting from. So I think on the one hand, it's a very positive thing. On the other hand, we want to always consider the connectivity between all that economic growth and understand where we have potential concentration risk. And so we're focused on both the positive aspects of AI and the impact it's having on our local economies, but also what the potential risks are in that, always being mindful of what the impact could be.

Jason Michael Goldberg

Barclays Bank PLC, Research Division

Got it. And just on the deposit side, you talked to low single-digit type growth this year. Maybe provide us an update on trends quarter-to-date. A lot of discussion on mix, on rate? And just maybe talk to just how you think about deposit costs in a potential likely rising rate backdrop.

Anil D. Chadha

Senior Executive VP & CFO

Sure. So just top of company overall deposits, we expect the third quarter typically from a seasonal standpoint, will be, kind of, flattish. That's what we've seen year in and year out, and that's what we'd expect to see this quarter. When you zoom in a level below that, the key for us is to continue to grow noninterest-bearing deposits. And so that's both on the consumer side and on the small business side.

And so quarter-to-date and year-to-date, we've seen really good growth according to third-party data services. We are growing faster than our peers in those 2 metrics, which we really like. It's a deliberate area of investment for us. And so that matters because if we can grow and protect that deposit base, that's a source of good, stable funding for us.

When it comes to interest-bearing deposits, again, we know how they behave. When we look at the balance of the year and see a potential rate hike tomorrow, we still expect, as we guided to, to see flattish interest-bearing deposit cost in the third quarter.

And we assume, given the timing of when rate cuts would happen, we'd expect to see, kind of, a mid-30s beta on those deposit repricing into the second half of the -- into the remaining part of the year. That's, kind of, what we expect in terms of overall deposit cost, so in line with what we had guided to for the third quarter.

Jason Michael Goldberg

Barclays Bank PLC, Research Division

Got it. You, kind of, reiterated the 2% NII guide for Q3. I think for the full year, you're talking 2.5% to 4%. Maybe talk to some of the key drivers, kind of, supporting the second half trajectory and just how do we start to begin to think about, kind of, NII as we forecast next year?

Anil D. Chadha

Senior Executive VP & CFO

Sure. So for the third quarter, we'll pick up an extra day, which will benefit NII. We'll pick up fixed asset repricing. So as a reminder, we have about \$3 billion to \$4 billion of fixed assets that reprice each quarter. Given where rates have moved this quarter, we've, kind of, guided towards a 75 to 100 basis point range. We're towards the upper end of that range given just where rates are right now. We also have a swap benefit that will benefit this quarter from an NII and margin standpoint. Then the balance really to get to the 2% of loan growth.

And so again, a good start to the quarter. I like the path we're on right now. We'll see, kind of, where that comes in for the full quarter and the mix of it. So I alluded to a good investment-grade originations this quarter. So that comes with slightly lower spreads as we've seen over the balance of the year, but again, a positive from an overall return standpoint.

So that's the third quarter, extending into the fourth quarter especially when you think about the margin, you lose the impact of the day count in the fourth quarter, so that would drive the margin up closer to the 3.70s that we had guided towards. We think that trajectory can extend into 2027. We won't give guidance just yet. But clearly, looking at the pace of rate increases, the reaction to that will be important as we look into 2027. But those are the key drivers of the trajectory for us for the balance of the year.

Jason Michael Goldberg

Barclays Bank PLC, Research Division

So I guess to exit the year at 3.70s, you feel good about. So I guess you, kind of, talked that figure down on both the April and July calls. Now it feels like you're in a good spot. Maybe just talk to, kind of, what knocked it down versus, kind of, initial expectations and then how to think about potential expansion from there? And is there a normalized NIM to think about as the Fed hikes a little bit and yield curve gets some steepness back?

Anil D. Chadha

Senior Executive VP & CFO

Yes. The main reason that we brought that down a bit was, one, what we're putting on the balance sheet being slightly more investment grade than we initially thought. And then also just from a macro standpoint, just continued tightness in credit spreads, started off the year pretty tight. We expected they would relax at some point. But we see it today in the bond market, seeing in the lending market as well, just credit spreads remain quite tight. And so we expect that to persist for the balance of the year. So that was the real driver of bringing down the NIM guide.

Looking out into '27, where those factors play out, that will be an important consideration. Controlling deposit costs, making sure loans and deposits grow in tandem with each other, it will be a critical point for us to drive home. And then also just understanding, kind of, the repricing of fixed assets as you see, kind of, elevated rates. Those will be the key drivers that really set the stage for all ahead in 2027.

Jason Michael Goldberg

Barclays Bank PLC, Research Division

Got it. And on the fee side, I think you're talking 3% to 5% growth for the year, although maybe at the lower end of the range. Just maybe talk to, kind of, what's driving that outlook and kind of what businesses you see some opportunities?

Anil D. Chadha

Senior Executive VP & CFO

Sure. Really strong start to the year, both in Wealth Management and in service charges with treasury management continue to having great quarters. Slow start for capital markets for us, specifically the businesses that we're in, just had a slower start to the year. We had talked about that picking up in second half of the year into that \$90 million to \$105 million range a quarter, and that's what we're seeing so far in the third quarter.

So we feel good about that. And so we expect that to continue to grow into the second half of the year. Mortgage has just been tougher given where rates are. So that's, kind of, been depressed from our initial expectations given where the 10-year is and the impact on overall mortgage growth. But those are the drivers. And the reason to be on the low end of the range was just looking, kind of, midway through the year where capital markets was and what we thought was reasonable for the balance of the year.

Jason Michael Goldberg

Barclays Bank PLC, Research Division

Do you feel good about the range for capital markets despite the fact rates stay elevated?

Anil D. Chadha

Senior Executive VP & CFO

We do. So clearly, that puts pressure on the real estate business. But in terms of what we see in the pipeline, what's kind of closed already for the quarter, we feel good about the second half of the year.

Jason Michael Goldberg

Barclays Bank PLC, Research Division

That's good. On the expense side, I think you've talked to, kind of, 1.5% to 3.5% growth for the year, definitely a positive operating leverage. As you begin planning for next year, just how do you balance, kind of, continued investments back in the franchise versus operating leverage? And I think this year, if you, kind of, pencil out the midpoint of what you said, it's sub-100 basis points of operating leverage. You aspire to do higher than that. Is that the right number? And just how do you think about that?

Anil D. Chadha

Senior Executive VP & CFO

Sure. So most importantly, we think delivering positive operating leverage through time is critically important. That's, kind of, how our business is set up. That's what we should be delivering. In any one given year, you have to look at, kind of, what your key investment areas are and just, kind of, run the math, if you will. But for us, we talk a lot about our ability to grow our business and the profitability that we generate, we're very interested in investing back in our business and people and technology.

And of course, to do that the right way, it takes upfront cost. And so those are the investments that we're willing to make to grow our business, especially given the markets that we operate in. Now it's incumbent upon us to find ways to fund that growth. So that's something that we focus on day in and day out.

Every once in a while, you get a curve ball thrown at you like Frontier AI, which takes investment, right, for all of us to make sure we're attacking the right way. So we'll, of course, invest in those critical needs, but again, the key thing for us is whether it's going back several years when risk management was a significant source of investment. Today, it's technology, cybersecurity, we'll make all those investments to continue to grow our business in a safe and sound way, and we have to find ways to fund that through time. So delivering positive operating leverage through time is critically important for us to continue to do, and you should expect to see that from us.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

I guess you've talked about this deposit systems transformation. We're talking about it for a while. But I feel like we're maybe getting close.

John M. Turner
President, CEO & Chairman

Getting close.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

Just update us in terms of what you've done, what's left to do and kind of how this makes Regions a better company?

John M. Turner
President, CEO & Chairman

We've reached the testing phase, and we'll actually begin a pilot next month with 100 or so, kind of, friends and family pilot, which will run through the end of the year, assuming that goes well, we'll begin a customer pilot in the first quarter with 8,000 to 10,000 customers. And assuming that goes well, we'll begin to transition customers onto the new system. So there's no big bank conversion approach, it will be incremental as we go. We're excited about it. We think that once the system is implemented, we obviously have a contemporary cloud-based platform. It will give us the ability to bring products to market more quickly to update our systems much more quickly and easily, which provides better protection, cybersecurity, protections and other things.

We think it's going to make us -- give us the ability to get to market with products much more quickly. It gives better insights because we've been able to organize and cleanse our data in order to transition to the new system, it gives us confidence.

If we decided we want to participate in depository M&A, we will have converted ourselves onto a new system that gives us a lot of flexibility. So there are just a lot of very positive things that come from our conversion. It will have been about 7 years from the planning of this to the end. And we've gotten to the point now where everyone is focused on that critical point just before conversion where everyone is focused on success. And so it's been a significant undertaking, it super complex, but we think we have a good plan, and we'll execute it well and are excited about what it means to the company when we're finished.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

Interesting. We'll come back to something you said in a moment. But maybe just talk about AI, certainly been one of the themes of the conference. Maybe talk to just where Regions is seeing the biggest benefit from that maybe at the moment? And just where you see, kind of, some of the greater opportunities looking out?

Anil D. Chadha
Senior Executive VP & CFO

Yes, for us, where we see the best benefit is when we couple AI with other process improvement opportunities. So AI by itself and trying to get a big bang benefit, it's just not an area we've been focused. Clearly, there's some low-hanging fruit, if you will. We've been developing or deploying GitHub Copilot across our developer community all year long. I want to say we're about 80% deployed across our developers and see about a 30% lift in co-development. So that allows us to not have to add as many developers as we otherwise would have.

Other places where we've deployed it would be an intelligent document processing, or just processing documents. It's how we analyze information for next product offerings for our customers. These are some things that we've been doing for years, but generative AI is allowing us to amplify that. So for us, we're not looking at it as just a singular approach to drive meaningful cost efficiencies but more what can we use AI for to enable our bankers to have more productive conversations with customers to drive business. And for our back office personnel to be able to do their business in more efficient ways.

There's some broader company-wide initiatives that we think we can continue to invest in with better data in terms of how we onboard customers, how we enable our bankers to service customers. There's some big enterprise projects that we think we can deploy through time. But for us, this hasn't been a, kind of, massive AI across all use cases.

We're really taking a step back and saying, how can we use it in a productive way to be more efficient, but not on the singular use case standpoint. And from our perspective, it's helped us, as you think about some of the variable costs that have become more prevalent here of late with cost of tokens and things of that nature by taking a more deliberate approach. We haven't had any types of surprises that you've seen other stuff.

Jason Michael Goldberg

Barclays Bank PLC, Research Division

Got it. And then maybe shifting gears to credit quality metrics have been improving for several quarters in now. The environment has certainly been favorable. Just as you, kind of, look at your portfolio, any emerging areas of potential concern? Does the Fed potentially or likely raising rates add things to your portfolio of interest watch list and just how you're thinking about the backdrop there?

John M. Turner

President, CEO & Chairman

Yes. Credit quality has continued to improve quarter-over-quarter. We had several quarters ago, identified a couple we defined as portfolios of interest, office, transportation, particularly being two. And we've worked through a few problems in those portfolios. We've seen the level of criticized and classified loans come down, non-accruals have come down, charge-offs have come down and we expect those trends to continue. So credit quality is improving still. And we don't particularly see any areas of concern do think as rates go up, there will be things to watch. But we've been focused on continuing to work through any areas of our portfolio where we thought we had maybe a little more risk than we were comfortable with, importantly focused on balance and diversity, ensuring that we don't have any concentration risk that we're uncomfortable with.

And as a result, we expect our portfolio to perform very consistently as the economy evolves and feel good about credit quality, very good about credit quality.

Jason Michael Goldberg

Barclays Bank PLC, Research Division

Okay. I guess for several years at this conference, you always used to say our CECL reserve level -- or reserve levels are going to go back to CECL Day 1, and they now have. So now we're there. So just how do we think about, kind of, the reserve level from here. Is that the floor? Could it go lower? And just you're growing loans or how does that impact?

Anil D. Chadha

Senior Executive VP & CFO

Yes. So I think at this point -- to your point, we've gotten back to that Day 1 measurement. From here, you're really going to start looking at the construct of the balance sheet, right? And so back to my earlier comments, when you're growing investment-grade credits, you'd expect everything else equal, the math would push that reserve ratio lower. And so I'd say, really looking at where growth is coming from, we provide some disclosure where we have ACL ratios by product type. I think that can be helpful. But also, we still have some uncertainty embedded in our allowance today.

Clearly, where we're sitting today with the prospective rates, it's probably good to have that in there. So that would be another area where through time, that could increase or decrease. But I really think at this point, you really got to look at where we're growing the balance sheet. To John's point, credit quality remains really strong. And so that's not going to be a big driver. But I think from here, the math will result in ratios based upon what we're putting on the balance sheet.

And so it could go up or down from here. But right now, we feel really good about the levels. And we continue to put on investment-grade credits, you should expect that it could come down.

Jason Michael Goldberg

Barclays Bank PLC, Research Division

Got it. And then on capital, on a marked basis, I think you were 9.5% in the second quarter, smack in the middle of 9.25%, 9.75% range you guys have talked about. I guess this quarter, there could be some AOCI pressure. I know share repurchases moderated a bit in the second quarter. You talked about it getting a little bit better in the third. Just how should we think about the overall pace of buyback and capital return.

Anil D. Chadha

Senior Executive VP & CFO

Yes. I think -- so we'll continue to manage inclusive of AOCI as we have. And so to your point, we're kind of right at 9.4%, 9.5% in the second quarter. We'll generate, call it, 40 to 50 basis points of capital every quarter, pay a dividend, that will take about half of that put in your whatever loan growth we're going to have. And then from there, it's just -- it's share repurchases, given what AOCI does.

And so clearly, this quarter, it's going to stress AOCI given where rates are, but it really just becomes a bit of a math exercise at that point because we generate so much capital every quarter, we don't feel like we need to storehouse capital. And so really, our approach to share repurchases is trying to have as good a forecast as we can for loan growth and the impact of rates, which is incredibly difficult to do. And then we'll fill in with share buybacks when we can do so. We'll manage within that 9.25% to 9.75% range. It's really just, kind of, where rates end up really being the governor there.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

And then if we look at the kind of Basel III proposals, I think you get like a 100 basis point potential pickup. How do you just think about that? You don't have it today, you'll likely get it in the future when you do -- if when you do get it, just how do you play with that?

Anil D. Chadha
Senior Executive VP & CFO

Yes. So I always like to remind everyone the net impact of Basel III Endgame is a negative to us just because we're managing to the AOCI every day. So it will take us from, call it, reported 10.7, probably down to 10.4, 10.5. So a modest negative impact of the proposal overall. But to your point, the RWA benefit pushes you back up there.

Yes. So for us, we'll look at that capital is capital that we can deploy either into our business as we have before or we'll buy back shares with it. Again, we'll understand the right range for us to manage to. We still think the 9.25 to 9.75 range is important. Others will manage their capital through time to levels they feel appropriate, and that will be important for us to consider. But for us, it's a great opportunity to continue to invest in our business, and we'll treat that additional capital that's freed up just like we do today.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

As we speak about the uses of capital, John, it wasn't lost on me when you were talking about the deposit systems, how you said it positions you to depository acquisitions. If you want, I guess, do you want to? Clearly, this is a scale business, there's some big players in your market and your company is a product of 2 very, very sizable acquisitions and a bunch of smaller ones. Just how are you thinking about M&A in the backdrop and the regulatory environment that feels very favorable at the moment.

John M. Turner
President, CEO & Chairman

Yes. Today, we're not interested in depository M&A. Our position's unchanged.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

But tomorrow?

John M. Turner
President, CEO & Chairman

Tomorrow, either. We get through depository system conversion. We have some more flexibility. We're always thinking about how we're positioned and what's going on in the market, and it's something we are observing, we're considering. But the answer today is no, we don't have interest. It's really for the reasons we've said before, which is we have a plan that says we just execute our plan. We continue to deliver top quartile or top decile results in terms of return on tangible common equity, which is what we've been managing to. And we believe that's really important.

There's a lot of risk of execution associated with M&A, and we think just executing our plan gets us to a very good place. So that's number one. Two, we are very focused on getting this deposit system conversion completed. Our resources are focused there. And so anything that would distract those teams from the work they're doing, I think, brings risk to the company and risk to anyone we were potentially acquiring. So again, our position is unchanged. But we'll consider what's going on in the market. And this time next year,

we may have a different conversation, but I don't know that, that will be true. We just have options then that we don't have today, let's say.

Anil D. Chadha

Senior Executive VP & CFO

I know small deals aren't glamorous, the bolt-on deals that we've been doing before. But when we step back and look at the number of deals that we've done over the past several years, they have diversified our revenue streams. And just going back to capital for a minute, the latest Fed stress test, our PPNR covered charge-offs about 101%. And that's not by accident, it's by adding additional revenue streams.

So in and of themselves, none of these, I know, are glamorous, but it does provide additional revenue diversification for us that allows us to be better positioned to manage capital through different environments. And so we like those. We'll continue to do those. I think they're great uses of capital and allow us to scale in certain parts of our business to much higher levels.

This Frazer Lanier acquisition we did in July, again, a small acquisition, but really a great scale opportunity for our government and institutional banking business. And so we think we can take that business from what it is today in Alabama and scale it across our footprint and provide a real good growth opportunity for us.

John M. Turner

President, CEO & Chairman

I'll just make another point there. If you go back to 2011 come forward, we've given up about \$600 million in noninterest revenue. \$300 million was to Reg E and the Durbin Amendment interchange and another \$300 million to changes in our overdraft NSF policies and practices. At the same time, over that period of time, we've grown noninterest revenue by \$600 million. So we've produced about \$1.2 billion in growth off of what was about a \$2 billion run rate. Over that 15-year period, much of that has come from the investments we've made in things like capital markets and wealth banking in the mortgage business.

So I think there's a lot of power in the non-depository acquisitions that we've made, and we'll continue to make to build -- to add to our business.

Jason Michael Goldberg

Barclays Bank PLC, Research Division

These are, I guess, mergers, consolidations, integrations going on within your footprint. You have Huntington-Cadence, Synovus-Pinnacle and there's certainly some others. Maybe just talk to your ability to capitalize on potential disruption of others. I feel some deals aren't going as smoothly as others, just the ability to hire talent, pick up customers.

John M. Turner

President, CEO & Chairman

Well, we ask our bankers every day to stay in front of the customers to know who the other good bankers are in the market. That's just the way we should be doing business. And I think in periods of disruption where there is -- where there are acquisitions, does create periods of disruption, that creates opportunity. If you're out prospecting in your markets, if you're calling on other bankers in your markets, and on a regular basis. So we've been able to add 75 or 80 bankers to our commercial banking teams, our wealth banking teams, our treasury management teams across our footprint. We're adding customers, talked about growth in consumer checking account growth in small business checking accounts.

Some of that is because of the disruption is being created in our markets. But it is the result of just consistently doing our business well. It's not because we're focused on one specific institution or one transaction, it's because there is a little disruption in the market, and we're out trying to take advantage of the opportunities the market provides.

Jason Michael Goldberg

Barclays Bank PLC, Research Division

Got it. And you talked about your strong profitability metrics driven by organic growth. I think you think 20% ROTCE in the second quarter. You talked to 16% to 18%, kind of, longer term. I don't know how do you, kind of, think about the current environment in terms of just cyclical benefits versus, kind of, structural changes talked about potential regulatory improvements. Talk about the fee income job you've done there. Just what is, kind of, the right profitability range to think about? And how do you just balance growth versus profitability?

John M. Turner

President, CEO & Chairman

Well, our focus has been soundness first. We want to create a consistently performing resilient, sustainable business with some investors, go back 15-plus years, we might have a reputation for being more volatile in the way that we operate or in the markets that we operate in. And we want to build a business that is the [antis] of that. We want to be, again, consistently performing, resilient, sustainable. So that starts with soundness. Then focus on profitability and then growth. There are going to be periods of time when you really can't grow profitably and soundly. And so if you look back on the last number of years, there have been periods when we haven't grown as much as maybe some of our peers. And that's because of our focus on soundness first, profitability second and then growth.

And I think we'll -- that will continue to be our -- the way that we operate. We'll continue to make investments in our business. We think that we can through different periods in the economy, consistently generate that 16% to 18% return on tangible common equity. We had a 20% quarter last quarter. A lot of things came together. Credit quality continues to improve. So I think we're going to be a top quartile performer, and that's going to kind of be the range that we operate in.

Anil D. Chadha

Senior Executive VP & CFO

I think when you just look at the range, you normalize for different rate environments. And so including AOCI, definitely uses a denominator. So that's just some math pieces of it. But through time, investing in noninterest revenue businesses. So the more we can deepen treasury management customers that adds to profitability. The more we can sell ancillary business to our core lending customers that increases profitability. So all these investments are intentional to help couple with lending to boost profitability when you think through time, I would say just be mindful: one, to John's point, just how good credit is right now, shouldn't always assume that; and then two, the inclusion of AOCI and the return metric does, kind of, boost it a little bit today in terms of what it could be in different rate environments.

Jason Michael Goldberg

Barclays Bank PLC, Research Division

Good point. I guess maybe for you, Anil, I guess, Regions had a CFO before you for a very long period of time. You get to come in and replace Dave. Just any areas of financial strategy or capital allocation philosophy where you see an opportunity to evolve, kind of, Regions approach?

Anil D. Chadha

Senior Executive VP & CFO

Yes. So I joined Regions 15 years ago when David hired me into the bank and been working with Deron the entire period of time. So a lot of the capital management philosophies David and -- architected them, I was behind the scenes, maybe plugging in wires and things of that nature. But I'm fortunate to step into a very well-performing bank. And we've been successful for deliberate reasons. So being thoughtful of how we allocate capital, understanding the returns we get off of that capital, making certain we understand the construct of our balance sheet, the liquidity of our balance sheet, making tough decisions deciding not to invest X what we thought -- or some people thought was excess cash into securities when we knew that was much shorter duration. So it's been a product of making very tough decisions, understanding the nature of our customers, understanding our balance sheet.

And so for me, incredibly blessed to walk into a great situation, a very high-performing bank. But what guide us here isn't going to get us where we want to be. And so making sure we stay disciplined in times like now, when there are opportunities to grow and making sure we stay disciplined to maintaining good profitable growth, sound profitable growth is critically important. And so it's my responsibility to work with 20,000 people every day to make sure we're making the right decisions, not just for today for the bank that we want in 5 years from now. And so blessed to walk in, in a very strong situation. And it's our job to make sure it stays that way.

Jason Michael Goldberg

Barclays Bank PLC, Research Division

I guess what would you say is the biggest surprise as you, kind of, step into the new role? I know you've been behind the scenes for many years but here at the forefront?

Anil D. Chadha

Senior Executive VP & CFO

Well, I was thinking about this and just go back to where we're sitting in January. And we were contemplating a world where the 10-year was going to be below 4% in that last -- in a couple of weeks.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

And the week 2 Fed cut.

Anil D. Chadha
Senior Executive VP & CFO

Exactly, yes. So just think about what's happened this year. First, AI is going to be a great enabler. Next thing AI is going to disintermediate all our deposits. Now AI may kill us all. I mean it's been a very dynamic first 6 to 9 months in the role, but making sure you, kind of, focus on the things you can control surrounding yourself with good people, but there's been a lot of curveballs thrown at us this year when you think about where we're sitting in January, where we're sitting today.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

I guess one of the other things we thought at the start of the year was just more bank consolidation. I think we put it out to -- every year, we put out a top 10 list of things going to happen. The only thing you see year-to-date we're wrong on is the lack of bank M&A. And I guess, John, to your point, you're tied up with the deposit conversion to go on or interrupt that, which makes sense. But I guess why do you think there hasn't been just more consolidation. You're a top 30 bank, but there's 4,000 banks more than you at a scale business. This regulatory window is open. What do you think the holdup is?

John M. Turner
President, CEO & Chairman

It felt like initially when the regulatory environment improved that all of a sudden, everyone thought they were a buyer when a lot of people thought they were going to be sellers. And so I don't think there was much interest, frankly, as everyone anticipated. And then there were a couple of our peers who indicated very directly that they wanted to be a acquisitive and they have been. And as you observed, it takes a little while to integrate those acquisitions. And so I anticipate they may be back in the marketplace again. We'll see. But I think there just weren't as many -- as I said, weren't as many sellers as people thought they'd be now as we approach the end of President Trump's term may be people begin to rethink their positioning, but I don't really have any insight into that.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

That's fair. Great. On that note, please join me in thanking John and Anil for their time today.

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