

Regions Financial Corporation NYSE:RF

FQ2 2025 Earnings Call Transcripts

Friday, July 18, 2025 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2025-			-FQ3 2025-	-FY 2025-	-FY 2026-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.56	0.60	<div><div></div>7.14</div>	0.57	2.18	NA
Revenue (mm)	1860.53	1917.00	<div><div></div>3.04</div>	1906.85	7492.00	NA

Currency: USD

Consensus as of Jul-18-2025 4:50 PM GMT

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- EPS NORMALIZED -			
	CONSENSUS	ACTUAL	SURPRISE
FQ3 2024	0.53	0.57	<div><div></div>7.55 %</div>
FQ4 2024	0.55	0.59	<div><div></div>7.27 %</div>
FQ1 2025	0.51	0.54	<div><div></div>5.88 %</div>
FQ2 2025	0.56	0.60	<div><div></div>7.14 %</div>

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Call Participants

EXECUTIVES

Dana Nolan

EVP & Head of Investor Relations

David Jackson Turner

Senior EVP & CFO

John M. Turner

President, CEO & Chairman

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Robert Scott Siefers

Piper Sandler & Co., Research Division

Steven A. Alexopoulos

TD Cowen, Research Division

Presentation

Operator

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

I will now turn the call over to Dana Nolan to begin.

Dana Nolan

EVP & Head of Investor Relations

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

I will now turn the call over to John.

John M. Turner

President, CEO & Chairman

Thank you, Dana, and good morning, everyone. We appreciate you joining our call today.

Earlier this morning, we reported strong quarterly earnings of \$534 million, resulting in earnings per share of \$0.59. On an adjusted basis, earnings were \$538 million, or \$0.60 per share. We delivered pretax pre-provision income of \$832 million, a 14% increase year-over-year, and we generated a return on tangible common equity of 19%.

We are very proud of our second quarter performance as we continue to reap the benefits of the investments we've made across our businesses and the successful execution of our strategic plans. We continue to grow average deposits during the second quarter and are growing accounts across consumer checking, small business and wealth management. In fact, we grew consumer deposits across every 1 of our 8 priority markets. Our focus on growing consumer checking accounts and the core operating accounts of a business has driven more than 30% organic growth in total average deposits over the last 5 years, among the most in our peer set.

While average loans remained stable during the quarter, we grew ending loans in both the consumer and corporate bank. Corporate client sentiment has improved since the first part of April. And notably, consistent with the execution of our strategic plans, we've added over 300 new commercial relationships across our wholesale business year-to-date. Pipelines within our small and middle market businesses, in particular, continue to grow.

Our consumers also remain healthy. Debit and credit spend continue to increase modestly versus the prior year. During the quarter, we generated modest growth in average consumer credit card and home equity lines of credit balances. Importantly, consumer credit quality remains strong. Asset quality metrics are improving and payment rates on our consumer credit card remain above pre-pandemic levels.

We also had a lot of success growing and diversifying our fee revenue. Treasury management revenue is up 8% year-to-date, while the total number of clients served has increased 10%. We see continued opportunity to grow clients within our existing customer base especially as we focus on our priority markets and further expansion of our treasury management services into the small business sector.

Wealth management continues to be a good story for us, generating another quarter of record fee income, while representing a steady source of revenue attributable to both strong client acquisition and good revenue diversification. Since 2018, wealth management revenue has grown at more than an 8% compounded annual growth rate. Further, Regions was recently recognized in Global Private Bankers 2025 innovation awards as the best trust services by a private bank and best wealth planning execution.

Since 2019, capital markets revenue has grown to 14% compounded annual growth rate driven by a combination of organic activities and strategic acquisitions. We continue to make progress on investments to modernize our core technology platforms. We've begun rolling out a new native mobile app in just the past few weeks, and we're planning to upgrade our commercial loan system to a new cloud platform in the coming months. We plan to begin running pilots on our new cloud-based deposit system beginning in late 2026

with full conversion anticipated in 2027. Once completed, we expect to be one of the first regional banks in the country on a truly modern core platform.

So as you can see, we continue to focus on growth across our businesses as evidenced by our overall financial performance. Our dedication to driving shareholder value has resulted in the highest returns on tangible common equity over the last 4 years compared to our peer group, and we're on track to make it a fifth year in a row. We have also delivered top quartile EPS growth over the last 5- and 10-year periods. And importantly, over the last 6 years, we've increased our dividend at a 10-plus percent compounded annual growth rate, the highest among our peers. We announced another 6% increase in the common dividend earlier this week. And notably, over the last 10 years, we have bought back more stock on a relative basis than any of our peers. All of this has contributed to top quartile total shareholder returns over the last 3, 5 and 10 years.

Finally, we think the ability to grow tangible book value plus dividends should be closely correlated to stock price. We've delivered top quartile performance on this metric over the last 3- and 5-year periods.

In conclusion, we're very proud of our second quarter results. Our strong performance is attributable to our 20,000-plus associates and their commitment to keep our customers at the center of everything we do and their focus on executing our plan. As a result, we expect this momentum to carry into the second half of 2025 and beyond, providing a real opportunity to continue to grow and deliver the same kind of results that we've delivered in recent years.

With that, I'll hand over to David to provide some highlights regarding the quarter.

David Jackson Turner
Senior EVP & CFO

Thank you, John. Let's start with the balance sheet. Ending loans grew 1%, while average loans remained stable. Growth in ending business loans was driven by C&I, and to a lesser extent, real estate. Specifically, within C&I, growth was driven primarily within structured products and manufacturing. Within real estate, growth primarily resulted from previously approved multifamily projects continuing to fund up.

Overall, pipelines are up 17% over last year and line commitments are up 1%. So we believe we are well positioned as the macro backdrop improves. Average and ending consumer loans remained relatively stable as growth in average credit card and home equity was offset by modest declines in other categories. We now expect full year 2025 average loans to be stable to up modestly versus 2024.

Building upon John's remarks on our multiyear successes with respect to deposits, we continue to observe positive trends in both core and priority markets. Targeted acquisition strategies have had good traction in the second quarter, reflecting positive consumer growth in every priority market. In fact, overall consumer deposits and priority markets grew 20% more than core markets during the quarter. Additionally, 60% of the consumer deposit dollars resulting from our most recent money market campaign were in priority markets, and 85% of the campaign dollars represented new money.

In the Corporate Banking group, relationship management and new customer focus has led to average quarterly balance growth of more than 2%. The Corporate Banking group has traction in priority markets as well with momentum there helping the overall growth picture. Average deposit balances grew over 1% sequentially, while ending balances remained relatively stable. Interest-bearing deposit costs continued to decline as expected to 1.39% despite higher marginal acquisition costs. Additionally, our noninterest-bearing proportion remains in the low 30% range reflective of our strong operating deposit base. Looking forward, we now expect full year average balances to be up modestly versus the prior year.

Let's shift to net interest income. Net interest income rebounded increasing by 5% linked quarter. As expected, the negative impacts from day count and other nonrecurring items in the first quarter did not repeat. In addition to some modest nonrecurring positive items during the second quarter, deposit pricing performance and the benefit from fixed rate asset turnover exceeded our initial estimates and are expected to continue to support net interest income going forward.

Although Fed funds remained stable in the quarter, we were able to manage deposit costs lower, while also supporting growth initiatives. The ability to grow deposits while achieving our mid-30s falling rate beta target and best-in-class funding costs further exemplifies Regions funding advantage. During the quarter, approximately \$3 billion of new fixed rate loan and securities production was added at approximately 140 basis points above the yield on maturing and amortizing balances.

With approximately 50% of the runoff coming from longer-duration mortgage collateral, we expect these tailwinds to persist for multiple years, assuming middle and long-term rates remain near current levels. Next, we took advantage of spread levels in April by

adding \$1 billion of AUC mortgage-backed securities. The securities will serve to store liquidity, insulate rate exposure and optimize returns and can easily be deployed back into loans in the future as necessary.

The higher interest rate environment supports balance sheet repricing dynamics. Net interest income is expected to be stable to modestly higher in the third quarter as the benefits from fixed rate asset turnover and one additional day are offset by fewer nonrecurring positives and higher hedging notional amounts. We now expect full year 2025 net interest income to grow between 3% and 5%. Finally, assuming market forward interest rates, the net interest margin is expected to remain in the low to mid-3.60s for the remainder of the year with the ability to resume its upward trajectory as we move into 2026.

Now let's take a look at fee revenue performance during the quarter. Adjusted noninterest income increased 5% linked quarter, driven primarily by growth in mortgage, seasonally elevated card and ATM fees and another record quarter in wealth management income. Additionally, market value adjustments on HR assets increased \$19 million during the quarter. These market value adjustments are offset primarily in salaries and benefits expense. Mortgage income increased 20% linked quarter driven primarily by a \$13 million net favorable adjustment associated with changes to the company's MSR valuation model assumptions.

Capital Markets income, excluding CVA, increased 5% compared to the prior quarter driven by elevated M&A advisory and real estate capital markets activity. With respect to the third quarter, we currently expect a modest increase in the \$85 million to \$95 million range for capital markets income. Service charges decreased 6% during the quarter, driven primarily by a seasonal decline in treasury management income. With respect to the full year 2025, we now expect adjusted noninterest income to grow between 2.5% and 3.5% versus 2024.

Let's move on to noninterest expense. Adjusted noninterest expense increased 4% compared to the prior quarter, driven primarily by an expected 5% increase in salaries and benefits, which included 1 additional workday, the impact of a full quarter of merit, higher revenue-based incentives and the offset to increased HR asset valuations. Full-time equivalent headcount also increased during the quarter by just over 100 associates. We now expect full year 2025 adjusted noninterest expense to be up 1% to 2% and we anticipate generating full year positive operating leverage in the 150 to 250 basis point range.

Regarding asset quality, provision expense was \$13 million over net charge-offs during the quarter. The increase in the allowance was driven primarily by loan growth with some offset from improving underlying credit metrics. The resulting allowance for credit loss ratio declined 1 basis point to 1.80%. Annualized net charge-offs as a percentage of average loans decreased 5 basis points to 47 basis points. Nonperforming loans as a percent of total loans improved 8 basis points to 80 basis points. Business services criticized loans improved by 6% and total delinquencies also improved. Our through-the-cycle net charge-off expectations are unchanged and remain between 40 and 50 basis points.

We continue to expect full year net charge-offs to be towards the higher end of the range attributable primarily to loans within our previously identified portfolios of interest. We expect third quarter losses to be generally in line with the second quarter and then decline in the fourth quarter. Importantly, we have reserved for remaining anticipated losses associated with these portfolios.

Let's turn to capital and liquidity. We ended the quarter with an estimated common equity Tier 1 ratio of 10.7%, while executing \$144 million in share repurchases and paying \$224 million in common dividends during the quarter. When adjusted to include AOCI common equity Tier 1 increased from 9.1% to an estimated 9.2% from the first to the second quarter attributable to strong capital generation and a reduction in long-term interest rates.

In the near term, we continue to manage common equity Tier 1, inclusive of AOCI closer to the lower end of our 9.25% to 9.75% operating range. This should provide meaningful capital flexibility to meet proposed and evolving regulatory changes, while supporting strategic growth objectives and allowing us to continue to increase the dividend and repurchase shares commensurate with earnings.

As John indicated, we are really pleased with our quarterly performance particularly given uncertain market dynamics, and we believe we are well positioned regardless of market conditions. This covers our prepared remarks. We will now move to the Q&A portion of the call.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Ebrahim Poonawala with Bank of America.

Ebrahim Huseini Poonawala
BofA Securities, Research Division

Just maybe just first, big picture, John, if you can talk to the tax bill, what implication does that have? And maybe tie in like the customer sentiment may be, but what are the implications of the tax bill, the bonus depreciation? What does all of that mean as we think about loan growth and spending from your customers?

And then on the other side, from a consumer standpoint, any of the tax rates, no taxes and tips, et cetera. Is any of that meaningful in terms of shoring up some of the consumer sort of balance sheet at the lower income level?

John M. Turner
President, CEO & Chairman

So maybe I'll talk about sentiment first, Ebrahim. I think amongst our wholesale bank, our business customers, continue to see some improvement in sentiment. I would say, in general, sentiment hasn't changed much since we were last together 90 days ago. The passage of the big beautiful bill and tax package does create some certainty, which is quite helpful, I think, to businesses and to consumers.

On the consumer side, our customers are still in very good shape. They maintain good liquidity much like our business customers do. They're managing their debt levels well. We're not seeing any real deterioration at all. I do think consumers are spending a little less, being a little more careful, particularly on luxury items and things of that nature just because of some volatility and uncertainty. But all in all, businesses and consumers are in a pretty good place.

There remains some, I think, uncertainty about the path of interest rates and generally whether or not we're going to experience any increase in prices, there's more clarity around tariffs. It does appear that the administration's focus is on fair trade, I would say. So most businesses have had now a couple of months to think through the impact on their business, on their supply chains and other things. And so I think they are gaining confidence.

With respect to your particular question about the tax package, bonus depreciation is -- has historically been very helpful, and we believe it will be again in talking to customers who sell as an example, heavy equipment, construction-related equipment. There has been a real uptick in inquiries and we expect there will be an uptick in activity with respect to that category. And I think consumers just appreciate the clarity and the confirmation that the tax package and the 2017 tax package will be extended. And so they know what to expect. So all those things, I think, pretend for positive momentum in the second half of 2025 and 2026.

Ebrahim Huseini Poonawala
BofA Securities, Research Division

Got it. And I guess maybe just as a follow-up. We -- obviously we're seeing some pickup in bank M&A activity, the regulatory window seems to be open. Now both you and David have know all the good, bad and the ugly of bank M&A. So give us a sense of your perspective, like you have a decent stock currency, you've done a good job in terms of where the franchise is today? And how should we think about the inorganic growth, how you would think about and assess bank deals?

John M. Turner
President, CEO & Chairman

Our point of view on this hasn't changed. I think we've been very consistent that we are not interested in depository M&A. We think we have a really good plan. We continue to execute the plan. We're able to deliver top quartile results. M&A is disruptive, it's challenging. It takes your focus off what you're doing every day. And we think we have a plan and a path to continue to deliver top quartile results for our shareholders. And as a consequence, we are not today interested in bank M&A.

We also have a substantial technology project underway. We've talked about to modernize our core deposit platform and our commercial loan system. That's the other area of focus for us. And once we get that complete and have what will be, we think, the most contemporary cloud-based core platform amongst our peers, then we can reassess where we are. But in the meantime, we're just

going to keep doing what we do. We'll look for some nonbank opportunities. Those have been good to us. We haven't seen anything recently that has interested us, but we'll continue to look.

Operator

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

Robert Scott Siefers

Piper Sandler & Co., Research Division

David, I was hoping maybe with regard to the margin. If you could spend a little more time unpacking exactly where things are coming in better than you had expected. I know you touched on fixed asset turnover in your prepared remarks. But just given -- I think you had sort of previously teased the possibility of getting to 3.60% sooner than the end of the year, but now it's both higher and sooner. So just curious how things are playing out from your perspective.

David Jackson Turner

Senior EVP & CFO

Sure. Just to level set, we had talked about getting to 3.60%. We changed our guidance to get there a little sooner than the end of the year, we did have a nice growth in the margin this quarter. But let me give you a couple of things that aren't going to repeat. We did -- we had some notional -- hedge notional that matured at the beginning of the quarter that had been serving as a negative to NII and margin that went away. And so that helped us call that \$5 million, \$6 million. We'll have new notional going on in the third quarter that will replace that.

And just to remind everybody, we put these swaps on 3 years in advance. So the timing isn't exactly perfect. So that's \$5 million or \$6 million that won't repeat. And then we had a little bit more recoveries on some credit that we received. Normally, that number is about \$5 million a quarter. It was about \$10 million this quarter. So we had \$5 million extra there, so call it, \$10 million or 3 basis points that won't repeat. So you got to take your 3.65% margin and really start at 3.62%.

As we think about next quarter -- this past quarter and next quarter is we really had the front book, back book. We told you 140 basis points of pickup, but we've also been controlling our deposit cost. We had a pretty big CD maturity month in the month of May, so this quarter. We don't have that type of change in the third quarter, but we do in the fourth quarter. So the third quarter is going to be a little bit more muted growth. We had nice loan growth at the end of the quarter, continuing to control our cost, and the front book/back book will continue at about the same level this quarter. As I said in the prepared comments, that front book, back book lasts for about 3 years, albeit diminishing over time, but it's a nice tailwind for us. And with the recent loan growth that gives us pretty good confidence of having growth in the third quarter and beyond.

Robert Scott Siefers

Piper Sandler & Co., Research Division

Perfect. Okay. And then actually, David, I wanted to ask you, can you sort of discuss kind of the tail of deposit cost leverage from here? I always think of Regions is having a little bit of a longer trend given the retail focus. How are you thinking about overall the deposit pricing from here?

David Jackson Turner

Senior EVP & CFO

Yes. So first off, as you noted, we had our deposit -- our interest-bearing deposit costs came down and we continue to grow deposits in all of our priority markets, which are 8 of them. So we're very excited about that. In terms of our beta, as you recall, on the up cycle, we had the lowest beta at about 43%. We've said for kind of guidance purposes, we're using the mid-30s. So we're at 35% as a cumulative beta thus far. We expect over time to get back to that 43%. But just for planning purposes in that mid-30s we think is important. And our focus on continuing to grow checking accounts and operating accounts of businesses helps us have and sustain a pretty high level of noninterest-bearing deposits, which is a little over 30%.

So I think that we have the ability to get that beta that 35% down or up even more as the Fed starts its cutting cycle, which we can debate when that would be. We don't see a cut in July, but maybe there's a cut later on in the year.

Operator

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

John G. Pancari*Evercore ISI Institutional Equities, Research Division*

Just wanted to see if you could kind of walk through the loan growth dynamics a little bit more. What's in your -- underneath that stable to up guidance, what are you seeing in terms of line utilization trends? And what are the biggest drivers on the commercial side from here in terms of either your markets or product areas? And then, I guess, similarly on the consumer side, where do you see the greatest drivers to asset growth?

John M. Turner*President, CEO & Chairman*

Yes, John, so we've had, I think, particularly over the last couple of quarters, we've seen a nice uptick in our pipelines. They're improving. Pipelines are up 17% year-over-year and 30% over the first quarter. That's in our wholesale business in the corporate bank. Production is up 19% versus the quarter and 15% year-over-year. So we're about half of that funded. So we're seeing some good growth as we benefit from just our day-to-day blocking and tackling, and we benefit from the good markets we're in and some improving sentiment, I would say.

We're experiencing growth in our energy portfolio and asset-based lending and some in the manufacturing sector, within our structured finance portfolio, also all areas where we're seeing some nice growth, our REIT business. And we have previously committed to some multifamily projects that are continuing to fund up, which is a catalyst for growth. All that's offset by our continued discipline to remix our portfolio.

So we've exited over the last 12 months, almost \$1 billion in leverage lending, enterprise value lending, relationships, much of which was in the technology portfolio that we just felt it was appropriate to exit. We weren't getting the returns on that risk that we thought we should. And that's again, I think, a discipline that we've developed now over a number of years. And so that offsets some of the growth that we're experiencing, which is not why we're not projecting a lot. But we're seeing good activity amongst particularly our commercial middle market customers, pipelines are also improving in our larger corporate business and real estate has been stable. So all that is positive.

On the consumer side, again, we've seen some improvement in home equity lending activity, and we expect customers to continue to borrow there. We're continuing to hire mortgage bankers. We believe in that business, and while it's a little challenged today, there are some green shoots, we think, and we'd expect to see some positive activity there.

And then our home improvement finance business is also one that we have a lot of optimism for over the longer term with respect to consumer credit card growing a bit. And that's a important relationship-oriented business with us. All of our credit card customers also have other products with Regions, and that's growing nicely.

John G. Pancari*Evercore ISI Institutional Equities, Research Division*

Okay. John, I appreciate it. And just secondly, it probably sounds like a broken record asking this on the various calls, but on -- particularly in the Southeast, I think it's relevant. But on competition and the competitive backdrop, certainly, heavy focus around the Southeast markets, hearing some pretty clear commentary around a step-up in both loan pricing competition as well on the deposit side. Your yields are still pretty good this quarter, both on the loan side and on the deposit pricing cost. So what are you seeing on competitive dynamics? And are there considerations you're making, whether you participate where you do see that intensification happening around the -- on the loan pricing side or deposits?

John M. Turner*President, CEO & Chairman*

Well, we -- I mean, to your point, we are experiencing competition. We're in great markets. And so we have to expect that other banks and nonbanks, frankly, are going to continue to want to compete in the markets that we serve. As I've said a number of times, we've been in a lot of these markets for over 170 years. We have a strong brand, a real strong reputation. We're building our business around people. We take advantage of the great places that we're in. We think our teams partner well together, focused on delivering great products and services to customers.

And so it's really about how we execute every day, how we execute our plans and recognize that it is a competitive environment. There are going to be people coming into our markets every day. We want to take our customers. We want to make sure that we're protecting the relationships we have. And at the same time, calling on new prospects to establish broader relationships. And in fact, in our -- within our commercial banking business, we've already grown relationships this year that equate to about 5% growth in total

relationships on an annualized basis. So we are not only protecting the business we have, but we're continuing to grow in markets that are important to us.

Operator

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

Kenneth Michael Usdin
Bernstein Autonomous LLP

John, I wanted to follow up on one of your prepared remarks where you talked about like now that we've got that line of sight on the systems being closer to being done. I'm just wondering what we should be thinking about in terms of when we get to that moment, do we start to see just an incremental amount of efficiency that come out of the system? Does it free up some legacy costs when we get there? And also, does it change anything in your mind about like the strategic push forward for Regions?

John M. Turner
President, CEO & Chairman

Yes. Maybe I'll let David talk about the efficiency and cost part of this. But I do think it positions us really well with respect to our strategy. We believe just if nothing else, we have the benefit of continuing to offer more products, more services to our customers and to do it more quickly, more efficiently. And so we think because we'll have a single deposit platform operating across our footprint, it will be cloud-based and contemporary in form that we really will have a competitive advantage with respect to technology and our ability to bring products and services to our customers and to our bankers much more efficiently and effectively. And that then might change some of the aspects of our strategy. But today, we're focused on just delivering that project.

David Jackson Turner
Senior EVP & CFO

Yes. I think from an efficiency standpoint, that really is both sides of the equation. John mentioned the revenue efficiencies, getting the market quicker, being able to have an offer in one area versus another area based on the dynamics of a given market. From a total cost standpoint, we do expect over time that technology costs will increase. Software as a Service, just broad-based, is going to cause that across the industry, we would believe. And so the issue is, as we leverage that technology, including artificial intelligence and generative AI is how can we use those tools and over time, we will have attrition in our workforce that we won't have to replace because we have technology that can do a particular job.

So I think that the key is how does all that happen in tandem. And we don't have that clear answer just yet. But in theory, that's what the expectation should be with these new technologies that we're going to be implementing. And it includes a commercial loan system and deposit system and a new general ledger. So there's a lot going on there over the next couple, 2, 3 years, actually.

Kenneth Michael Usdin
Bernstein Autonomous LLP

Got it. And as a follow-up to what you've been building, you just mentioned the commercial system, like how run rated are the bankers that you've hired so far in terms of their production potential? And how are you doing in terms of your pacing in terms of the competitive ability to add more people like you've talked about over the last few years, looking at like, what, upwards of 150 plus over the next couple of years?

John M. Turner
President, CEO & Chairman

Yes. I think we're on track. We should have hired about half of the bankers that we expect to hire by the end of the third quarter. We began building around support staff first, because we want to make sure we have the teams in place to support our bankers when they join our teams. I think our recruiting has been good. We talk often about the importance of recruiting every day expect our leaders to know who are the best bankers are in the markets that they're operating in. And as a result, we should have a leg up on recruiting because we're actively doing that all the time. And we're pretty confident in our ability to complete our recruiting of the bankers we anticipate hiring. As I say, about half of them by the end of the third quarter, which is on pace with our expectations and the balance midway through 2026 probably.

Operator

Our next question comes from the line of Steven Alexopoulos with TD Cowen.

Steven A. Alexopoulos
TD Cowen, Research Division

I wanted to start. So the short interest is fairly high in your stock and part of the thesis on those more negative is that it's going to be tough for you to maintain this high mix of noninterest-bearing, right? And tied to that, your net interest margin might be at a peak. Now in the slides, you do say you expect to hold that noninterest very mix stable. Could you unpack this for us? How do you expect to maintain that stable means you have to grow it if you're growing, total deposits to fund loan growth? And then ultimately, that will lead to what environment do we need to see for you to see NIM expansion beyond the second half?

David Jackson Turner
Senior EVP & CFO

Yes. So a couple of things there. Our whole business model is predicated on when we think of a customer, we think of a checking account of a consumer and an operating account of a business, noninterest-bearing deposits. From that, we can leverage all the other products and services that those customers need and value. And so when we're growing, if we want to have a money market, especially in one of our growth markets, we're going to bring an expected checking account to come with that. So continuing to grow new clients, John had mentioned 300 new clients. So operating accounts, that we think we can continue to maintain that low 30% noninterest-bearing deposit account.

I mean, again, a lot of those -- 2/3 of those are consumer checking accounts with \$5,000 on average in them. Those aren't going anywhere. And if you're in markets and making investments where there's a lot of growth in people and businesses, we should expect as we grow total deposits that we can continue to grow noninterest-bearing. Relative to the margin, we had talked about trying to get our margin more stable and less volatile. And we've said we could be, depending on where the interest rate environment is somewhere between 3.50% and 4%. And we still believe that.

So I think that at the end of the day, we have some more room to grow the margin, and it really depends on what absolute rates are, but also the shape of the yield curve. And so if we can have a normal yield curve, you call it, in the 4% range, maybe a tad over that on 10% and 3% on the short end, that's a pretty good environment for us to continue to grow net interest income and the resulting margin.

John M. Turner
President, CEO & Chairman

Yes. And I would just add, if I can, we have almost 4.5 million consumer checking account customers. Average balance, as David suggested, is about \$5,500. So we have a very loyal, low-cost and granular, importantly, customer base who are actively using their accounts for 39 or 40 quarters. Visa recognizes the bank whose debit card base is -- most utilizes their cards and is most active. And we've been at the top of that group, which means our customers are actually operating out of their accounts, and we believe that, that will continue. We have 400,000 small business customers, and they have an average balance of about \$15,000. So again, really core granular customers, and we're growing consumer checking accounts. We're growing small business checking accounts in the markets that we're in, and we believe that we can continue to do that.

The final thing is amongst our core commercial customer base, we have about a 64%, 65% penetration rate for treasury management products and services. So there's some upside there as we continue to broaden and deepen relationships, which should solidify and help us grow noninterest-bearing deposits.

Steven A. Alexopoulos
TD Cowen, Research Division

Got it. That's helpful. For a follow-up question, which goes back to your answer to John Pancari's question, when we listen to other banks, if you read the PNC call, as an example, I talk about good loan growth coming from your markets and its share gain. So there's also a view that region has a bit on defense with all these other banks coming into your market. Can you just give us a sense, when you think about whatever loan growth is for the industry, do you guys have an expectation that you'll be at that level or better, which is partially to do with appetite to grow?

John M. Turner
President, CEO & Chairman

Yes. I mean we have -- and I think I was trying to make the point just a few minutes ago. We have, over the last 7, 8 years, been really focused on capital allocation, risk-adjusted returns. We've been remixing our portfolio, and that's a real disciplined process we continue to go through. It's not been so much about growth for us as it has been to position our portfolio for soundness, for profitability and then ultimately for growth. There will be periods of time when we just don't grow. And now is one where we're

growing modestly. But as I pointed out, we've had \$1 billion in force runoff related to our leverage lending and enterprise value lending portfolios, primarily within the technology sector. We just decided to exit that space.

So -- and all the while, we're continuing to improve our profitability and returns for our customers, that's what we're focused on, consistent, sustainable performance. We will continue to grow and I believe and have said consistently, we should grow with the economy plus a little in the markets that we operate in. But that assumes that we're not also trying to exit some other part of our business to continue to reshape the portfolio.

The other thing I'd say about growth, and I love Slide 4 in our deck, we're continuing to grow core deposits. And when you look at deposit growth, in our markets over the last 5 years, we're growing at a rate faster than virtually all of our peers and doing it at a cost that is significantly less than our peers. That is ultimately -- that's, in my mind, anyway, the real proxy for do we have a business that's growing? Is it sustainable? And will it create long-term value for our shareholders. And I think the answer is yes.

David Jackson Turner

Senior EVP & CFO

And I'll add one thing, Steven, to that. On the loan side, if you look at our loan yields relative to peers, loan yields have come down over an extended period of time. Ours have come down less so than everybody else's, because we are trying to use rate to growth. We will grow when we get paid for the risk that we take with an appropriate return on the capital that our shareholders have given us to use. And if that means we grew a little bit slower than everybody else, so be it. But we're going to be focused on risk-adjusted returns. We think that's really what our shareholders want us to do.

Operator

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

Gerard Sean Cassidy

RBC Capital Markets, Research Division

Can you guys share with us -- your credit quality is very good, improved this quarter, but many of the banks this quarter had really good improvement. And it's interesting because the backdrop that we have of the economic uncertainty brought on by the Trump administration's tariff policies potentially causing increased inflation, predictions 3 months ago of recession probabilities going up and credit across the board this quarter was really good. Can you give any color on what you guys are seeing?

And then second, John or David, if those 2 portfolios that you have identified that you keep extra scrutiny on transportation and office commercial real estate, any color on those portfolios as well?

John M. Turner

President, CEO & Chairman

Yes. I think in general, Gerard, businesses have had a number of good years in a row. And so they have generally strong -- much stronger balance sheets, a lot of liquidity, true of the consumer as well, while they may have more debt-to-income ratios are actually improve better. They have more liquidity. So all in all, I think customers have been more prudent in how they manage their business, so to speak. At the same time, I think the industry has done a much better job of managing risk exposure concentrations, et cetera, all of which has manifested itself in better outcomes.

With respect to the 2 portfolios, you mentioned, we're continuing to work through a handful of credits in the office space. And while we're guiding to 40 to 50 basis points of charge-offs and potentially to the higher end of the range during the next quarter, that contemplates that we resolve a large issue, which may not get resolved in the third quarter. As you know, working through large credits, sometimes is -- the timing of the resolution is unpredictable. So -- but we just got a couple, and we've identified those now over a number of quarters and we have plans to work through them.

On the transportation side, that sector continues to be stressed in part because of conversations, uncertainty about tariffs, but again, we think that is manageable and customers have reacted to what has been a long period of recession in that sector and are doing okay.

David Jackson Turner

Senior EVP & CFO

From the consumer side, Gerard, consumers are in pretty good shape, too. Now there is some pressure on the lower FICO individuals, but we don't -- that's not where we bank. We bank homeowners generally speaking on the consumer side. And so we don't see that risk

as consumers that we're banking from a loan standpoint are actually in good shape where their income is outpacing inflation. And they have quite a bit of net worth because of housing prices continue to stay as strong as they are.

So if you look at our losses in our supplement on the consumer side, you don't see anything in that related to mortgage or home equity to speak of because any time we have -- may have a foreclosure, there's equity in the home that we have from a collateral standpoint. So all in all, businesses and consumers are in pretty good shape, and we just have to work through a couple of these portfolios, which is why we'll be at the higher end of our 40 to 50 charge-off range. In time, we'll expect that to go down to the lower end.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Very good. And then just a more broad question for either of you. Can you share with us your thoughts on the coin legislation passed yesterday in Congress and stablecoins are probably going to be part of the payment system as we go forward and also deposits. How are you guys approaching adopting some sort of stablecoin solution? And do you think there could be a consortium of banks getting together for a single stablecoin kind of like what you guys do with Zelle?

John M. Turner
President, CEO & Chairman

Yes, I think we do believe that there will be a consortium of banks getting together, and we would intend to participate with them. We're typically a follower and when big changes like this occur within the industry and more specifically within the payment space, we've been actively engaged with the clearinghouse and with early warning systems around Zelle and real-time payments at the clearing house, et cetera. We'll also, like in those instances, be engaged with other peers and the larger banks in the industry to find a solution around stablecoin and the impact on the payment system.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Very good. I'd also add, John, to your Slide 4, Slide 17 and 18 are very impressive, too.

Operator

Our next question comes from the line of Betsy Graseck with Morgan Stanley.

Betsy Lynn Graseck
Morgan Stanley, Research Division

So the question I have just is on the operating leverage, which you identified in the 150 to 250 range this year, is that right?

David Jackson Turner
Senior EVP & CFO

That's correct.

Betsy Lynn Graseck
Morgan Stanley, Research Division

So as I reflect on all the conversation around the technology investments, I guess, I'd say maturing, right? And the systems being in place in the not-too-distant future. How should we be thinking about operating leverage? Is this run rate of 150 to 250 is something that you think that you should be able to continue to deliver over time. And I'm not asking for a '26 outlook or anything. But I mean, what I'm really just trying to get at is with the technology stack you have and is about to be fully deployed with the AI that you identified in the presentation, discussed a little bit, and with -- coupled with the new banker headcount, should we be thinking here that this is a go-forward range? Or is operating leverage this year, unusually high to what you think you can generate over time?

John M. Turner
President, CEO & Chairman

Betsy, I would just say, we're committed to delivering positive operating leverage over time. There will be periods of time where that's more challenging to do, but we are committed to delivering positive operating leverage over time.

David Jackson Turner
Senior EVP & CFO

Yes. I think the key here is we don't want to force operating -- positive operating leverage when we need to make investments. That being said, we expect to generate it. We're working on our 3-year strategic plan. We're asking all the businesses when they submit their original budgets that they need to have positive operating leverage built into it, and we need to control the back office spend. We need to make the investments we need to make, but we also need to go find savings and everything else that we're doing. And we've done a really good job of controlling our expense base, as you can see, I'm not sure what slide it is.

And so you'll see that focus on what exactly operating leverage will be in '26, we're not going to sign off on that just yet. But we're making investments this year outside of technology. We're making them in all 3 of our business segments on the consumer side, wealth side and the corporate banking group. And we expect those investments will generate more revenue. Now it will take time and somebody forgotten to ask a question about that, it will take time for those new hires to generate revenue. But we just have to continue to look for ways to become more efficient, and we've got to do -- I think we and the industry has to do a better job of leveraging all the new technologies that are coming at us pretty rapidly and like I said, led our attrition, which is about 6% to 7% of our workforce every year, help pay for some of this technology spend.

Betsy Lynn Graseck
Morgan Stanley, Research Division

Got it. Okay. And then my follow-up is just on the net interest margin where you indicated. You mentioned 4% at one point. I wanted to understand the -- and I understand that a normalized yield curve and you indicated front end at 3%, long end at 10%. But -- I'm sorry, long end of 4%, right? Not 10%, 4%. I hope you're not laughing. I guess the question is, what other factors besides a normalized yield curve with the front end of 3 would be?

David Jackson Turner
Senior EVP & CFO

I think...

Betsy Lynn Graseck
Morgan Stanley, Research Division

The backdrop for that type of outcome.

David Jackson Turner
Senior EVP & CFO

Yes. So a number of factors, obviously, about big ones a yield curve. That one is continuing to grow customers, noninterest-bearing accounts, checking accounts and operating accounts, as we've mentioned, controlling our deposit costs as rates are cut, we've got to be timely with, but when we can to make sure we're cutting rates. We have to be fair to our customers and fair to the market, but we would need to also be fair to our shareholders and make sure we get an appropriate margin. The mix of what we put on the books also matters. And so we have a couple of high interest portfolios, our Ascentium portfolio, our HIFi portfolio, those make a lot of money for us because they're a high fixed rate and the input cost as Fed funds get cut creates a much bigger margin quickly. And so that's through all those is how we could get to 4% at some point.

Operator

Your final question comes from the line of Matt O'Connor with Deutsche Bank.

Matthew Derek O'Connor
Deutsche Bank AG, Research Division

You mentioned a couple of times about \$1 billion of runoff in the past year within the commercial book. And I was just wondering if you could size how much runoff there's still to do and the timing of that on the commercial side? And then I think there's some consumer stuff that you've been running off as well and to size that the same.

John M. Turner
President, CEO & Chairman

Yes. About \$400 million to \$500 million probably is our target. We expect the balance of the year in terms of runoff today. That's targeted and focused. I'm sorry, I missed maybe the second part of your question.

Matthew Derek O'Connor
Deutsche Bank AG, Research Division

Yes. So the -- actually, just to clarify, the \$400 million to \$500 million, that's further commercial runoff by the end of the year?

John M. Turner
President, CEO & Chairman

Yes.

Matthew Derek O'Connor
Deutsche Bank AG, Research Division

And how much in total is that coming to an end?

John M. Turner
President, CEO & Chairman

It is as of now, we may change our mind. But yes, that's our current target. I don't mean to be flip about that. But what I mean is, from time to time, we take a view of a particular portfolio or a relationship and the profitability of that relationship relative to the risk or profitability of the portfolio. And so we could make some decisions that cause us to focus on something else. But today, based upon what we know you can expect it to be \$400 million to \$500 million.

Matthew Derek O'Connor
Deutsche Bank AG, Research Division

Okay. And then the second part of the question was just on the consumer side. I think you might saw from like indirect auto. Just remind us like how much is left to run off in the pace of that?

David Jackson Turner
Senior EVP & CFO

Nothing material there, Matt. That's negligible.

John M. Turner
President, CEO & Chairman

Yes.

Matthew Derek O'Connor
Deutsche Bank AG, Research Division

Okay. Great. So I guess the point is like on loans, the drag from runoff should be a lot less, especially going into next year, and then the production is obviously increasing. So...

John M. Turner
President, CEO & Chairman

That's the way we see it.

Well, I appreciate your interest in Regions, participation in the call this morning, really proud of the quarter, proud of the effort of our team and excited about the momentum we think we have as we focus on the balance of the year and into 2026. So thank you all, and have a good weekend.

Operator

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

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