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U.S. Regional Banks: 4Q 2024 Update

Earnings To Remain Resilient in 2025 Amid Changing Environment

March 3, 2025

This report does not constitute a rating action

Key Forecast

Regional banks are well-positioned as we see deposit pricing pressures easing and potential loan growth, but uncertainty remains regarding U.S. policy implementation and tariffs.

Revenue & Profitability

We expect a modestly higher net interest income (NII) aided by loan growth and declines in deposit pricing, despite some uncertainty regarding the trajectory of short-term interest rates.

Fee income should benefit from continued growth in wealth management, insurance brokerage, treasury management, and capital markets activity, particularly for the larger regional banks.

Profitability should remain solid as loan loss provisions remain relatively stable.

Capital Ratios

Capital ratios have increased modestly on conservative capital returns and tepid loan growth.

Capital ratios may rise somewhat further as we expect solid earnings. However, we think increased comfort with current capital levels and asset quality trends will likely limit the potential for further improvement.

We also expect tangible capital ratios to rise as unrealized losses in securities portfolios likely continue to decline.

Asset Quality

We expect delinquencies and charge-offs to somewhat rise, driven by commercial real estate (CRE) (notably office), commercial and industrial (C&I), and credit cards.

While CRE remains a risk, we believe the likelihood for meaningfully higher CRE loan losses has declined.

Overall, we believe asset quality pressure will increase gradually but remain manageable.

Funding & Liquidity

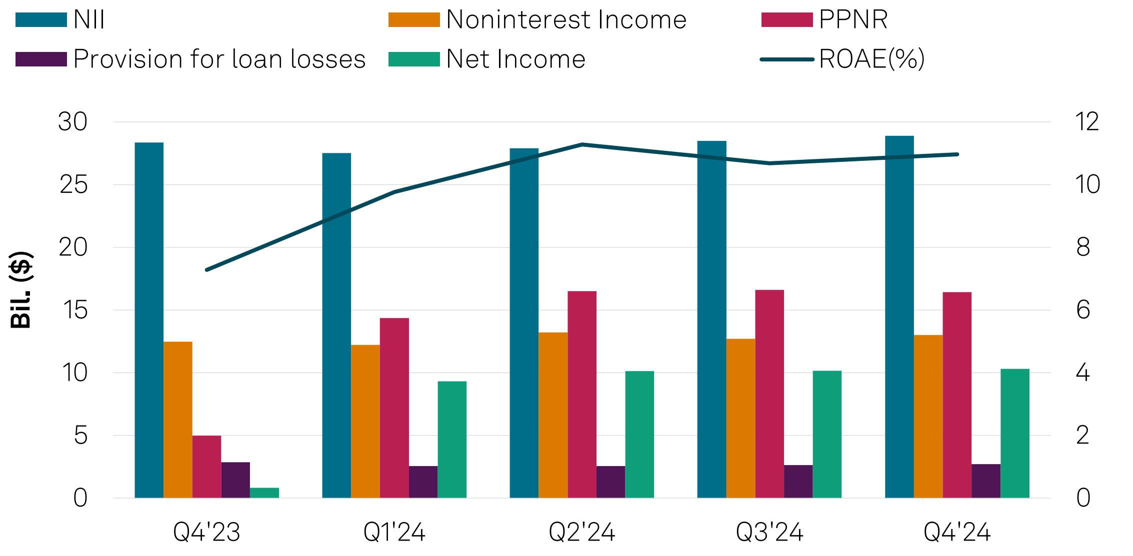
We would expect some improvement in deposit growth if the Federal Reserve further slowed or halted quantitative tightening, which should support liquidity. However, while banks have good contingent liquidity, many still have relatively low cash balances.

We expect the Trump administration's regulatory appointments to limit tighter regulations, while maintaining prudential standards for regional banks.

Earnings Were Resilient in 2024, And Could Improve Modestly in 2025

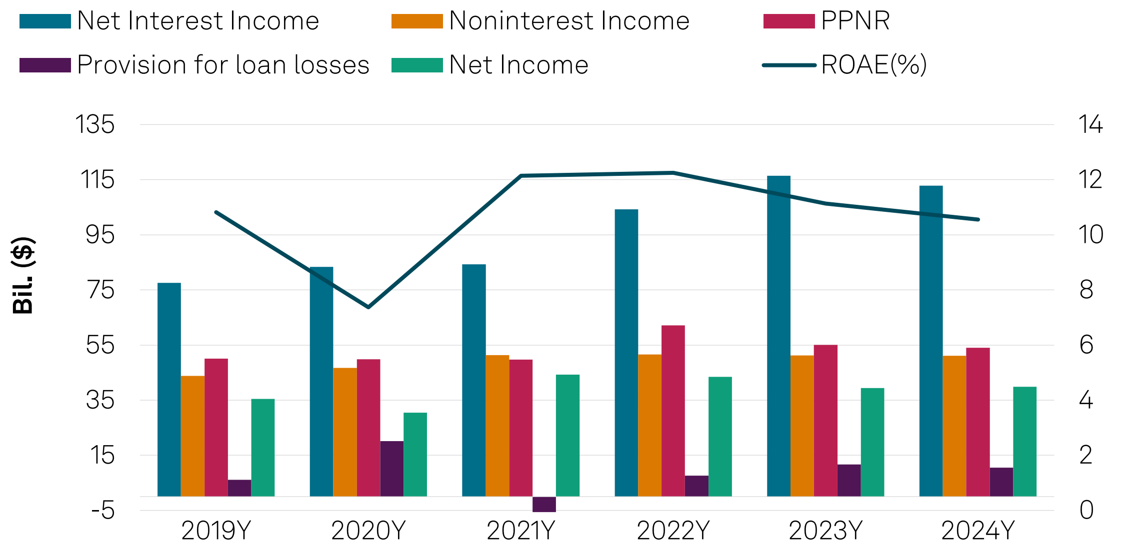
- Fourth quarter net income benefitted from easing net interest margin (NIM) pressures and higher fee income, while full year 2024 net income benefitted from lower provisions and flat fee income, though partly hurt by NIM pressure.
- Overall earnings remained adequate with a 10.6% median return on equity (ROE) in 2024, and we expect returns to remain around this level in 2025, assuming continued economic growth.
- We expect slightly higher earnings in 2025, aided by potentially higher NIMs and a modest acceleration in loan growth.

U.S. regional banks: quarterly earnings performance



The data is aggregate of the U.S. Regional Banks. NII--Net interest income. PPNR—Pre-provision net revenue. ROAE--Return on average equity, Sources: Company filings, S&P Global Ratings, and S&P Cap IQ Pro.

U.S. regional banks: Yearly earnings performance



The data is aggregate of the U.S. Regional Banks. NII--Net interest income. PPNR—Pre-provision net revenue. ROAE--Return on average equity, Sources: Company filings, S&P Global Ratings, and S&P Cap IQ Pro.

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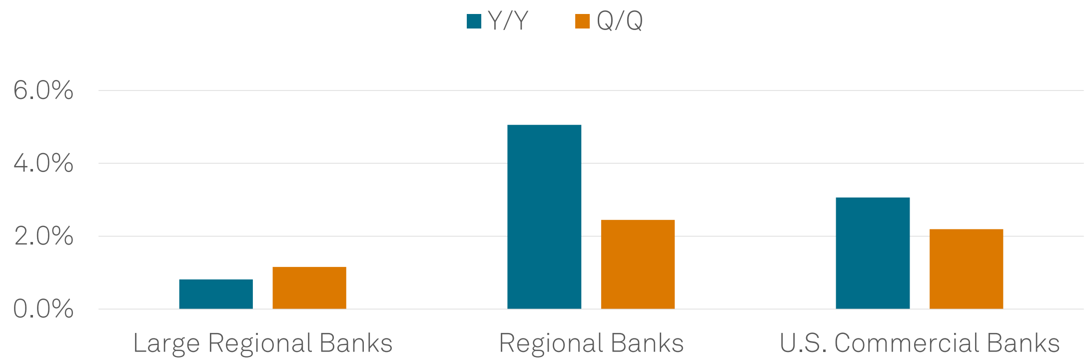
Net Interest Margin Could Rise Amid Further Declines In Funding Costs

Net interest income



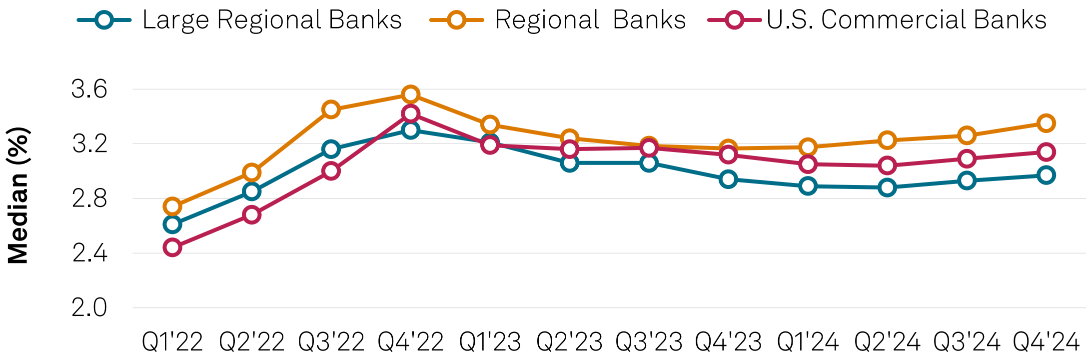
- Regional banks reported another sequential rise in NII, aided by tepid loan growth and higher NIM. However, full year 2024 NII was pressured.
- NIMs expanded sequentially at the median by 5 bps in Q4, 2024, to 3.14% as lower deposit costs more than offset lower loan yields and asset repricing.
- We expect NIMs to expand in 2025 on lower funding costs; however, the pace of additional Fed rate cuts create some uncertainty.

U.S. regional banks: Net interest income drivers, 4Q 2024

	Cost of Int bearing deposits (bps)		**Cost of Int bearing Liabilities (bps)**		**Yield on Earning assets (bps)**		**NIM (bps)**	
	Q/Q	Y/Y	Q/Q	Y/Y	Q/Q	Y/Y	Q/Q	Y/Y
Large regional banks	-26	-7	-29	-13	-21	-5	2	-2
Regional banks	-28	-7	-32	-17	-18	3	4	13
U.S. commercial banks	-27	-5	-33	-12	-21	-5	5	2

Sources: Company filings, S&P Global Ratings, and S&P Cap IQ Pro.

U.S. regional banks: NIM Median trend



U.S. commercial banks represent aggregate of all the commercial banks in the U.S.
Sources: Company filings, S&P Global Ratings, and S&P Cap IQ Pro.

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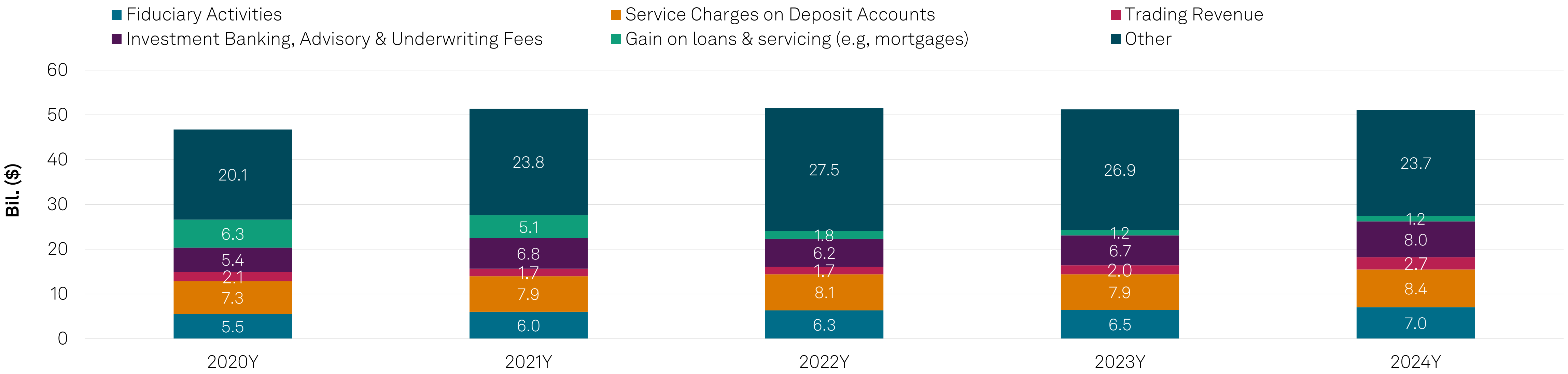
Strong Broad Based Growth Support Noninterest Income

- Non-interest income was supported by robust capital markets activity at larger regional banks. Higher service charges on deposit accounts and strength in fiduciary services also contributed to the growth in non-interest income in 2024.
- Mortgage banking declined, particularly at the larger regional banks, due to lower servicing fees and still higher interest rates. Some regional banks also incurred losses on the sale of available for sale securities as they repositioned their portfolios.
- We anticipate that non-interest income will be bolstered by strong wealth and asset management revenues driven by higher asset valuations. However, mortgage banking is expected to remain subdued and will depend on the path of interest rates.

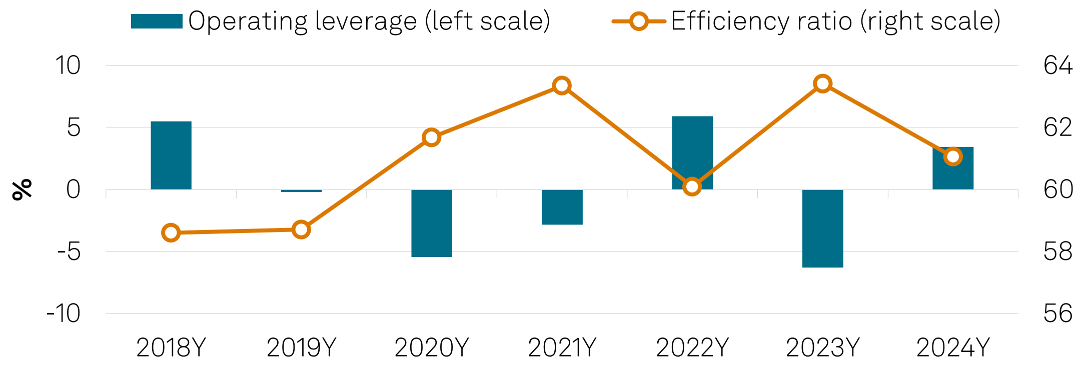
U.S. regional banks: noninterest revenue mix excluding others



The data is aggregate of the U.S. regional banks.
Sources: Company filings, S&P Global Ratings, and S&P Cap IQ Pro.

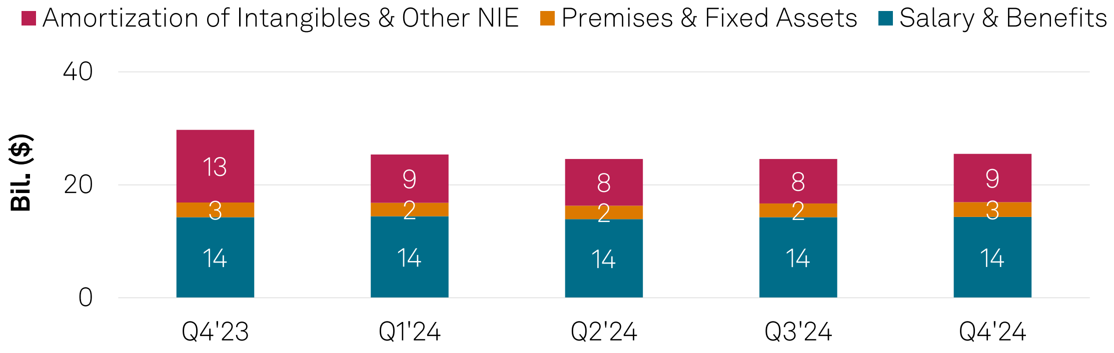
Operating Leverage And Efficiency Improved, Driven By Larger Banks

U.S. regional banks: operating leverage and efficiency trend



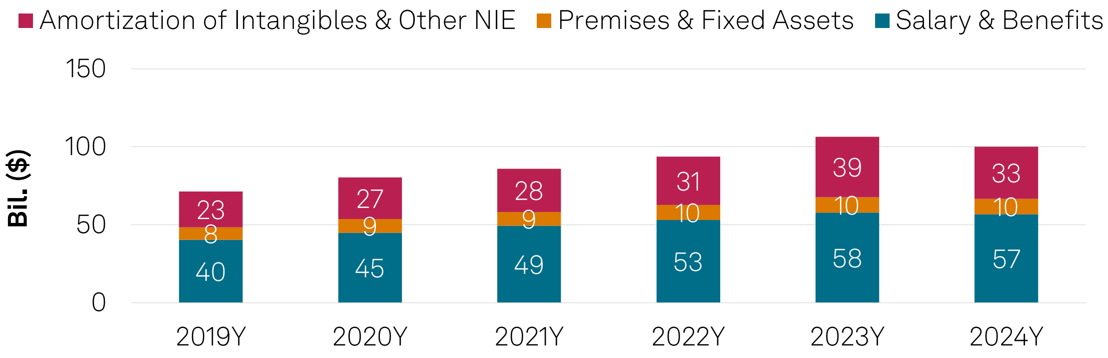
- Noninterest expenses decreased by 6% year-over-year in 2024, primarily due to large FDIC special assessments in fourth quarter 2023.
- Most banks generally witnessed rising technology cost, regulatory cost, securities portfolio repositioning charges, and restructuring expenses.
- Operating leverage turned positive in 2024, due to a steeper decline in expenses than in revenue at larger banks. (improved after Q2)
- We think material improvement in efficiency ratios and operating leverage will be difficult without NII growing meaningfully.

U.S. regional banks: quarterly noninterest expense trends



The data is aggregate of the U.S. regional banks. Adjusted for one-time Goodwill Impairment from Q4,2023 for Truist
Sources: Company filings, S&P Global Ratings, and S&P Cap IQ Pro.

U.S. regional banks: yearly noninterest expense trends



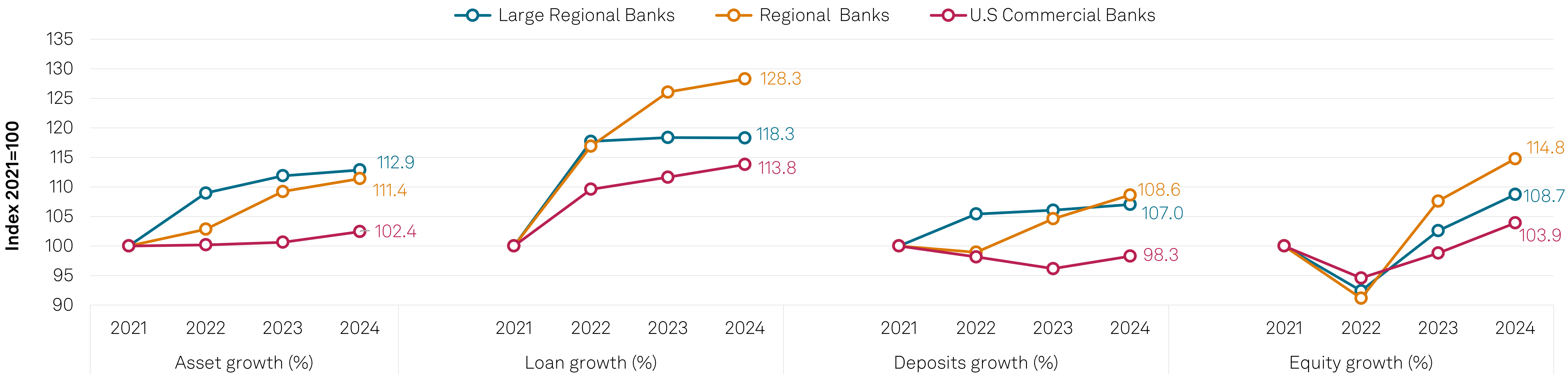
* Adjusted for one-time Goodwill Impairment from Q4,2023 for Truist
Sources: Company filings, S&P Global Ratings, and S&P Cap IQ Pro.

Balance-Sheet Trends

Deposit Growth And Securities Roll-Off To Strengthen Balance Sheets

- Balance sheets remain in good shape, with most banks reporting deposit growth. Deposit balances grew especially at the small regional banks, with some banks benefiting from re-pricing of deposits.
- Several banks have also benefited from balance sheet optimization efforts, including paying down of higher-cost borrowings, reducing lower-yielding loans, and restructuring securities portfolios including through the use of Synthetic Risk Transfers (SRT).
- Increase in equity capital largely resulted from solid earnings coupled with conservative shareholder returns.

U.S. regional banks: balance-sheet trends



*Not adjusted for acquisitions
U.S. Commercial Banks represents aggregate of all the commercial banks in the U.S
Sources: Company filings, S&P Global Ratings, and S&P Cap IQ Pro.

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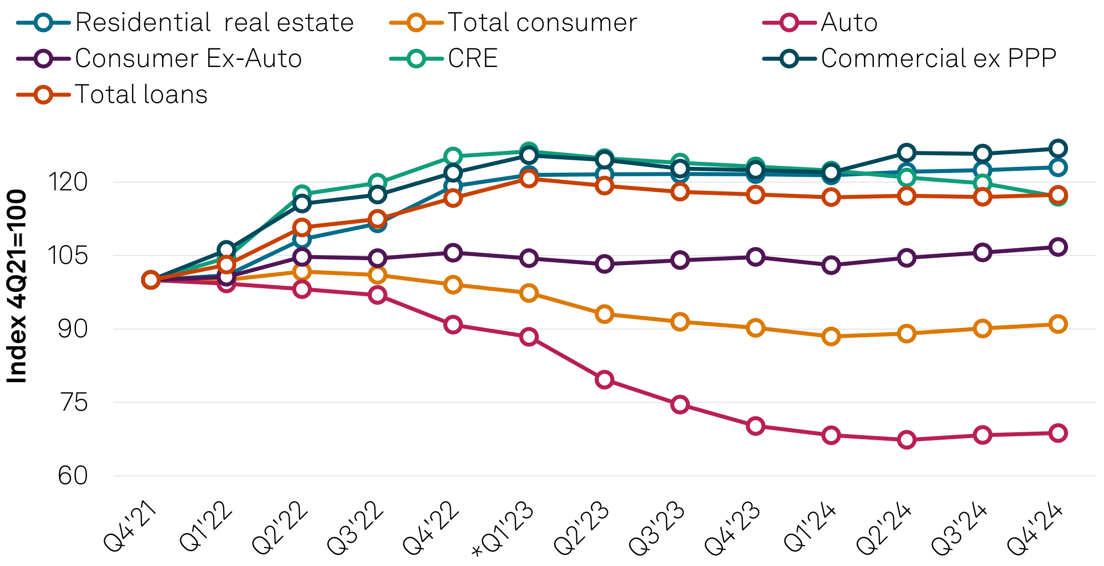
Modest Loan Growth Amid Balanced Demand And Tight Lending Standards

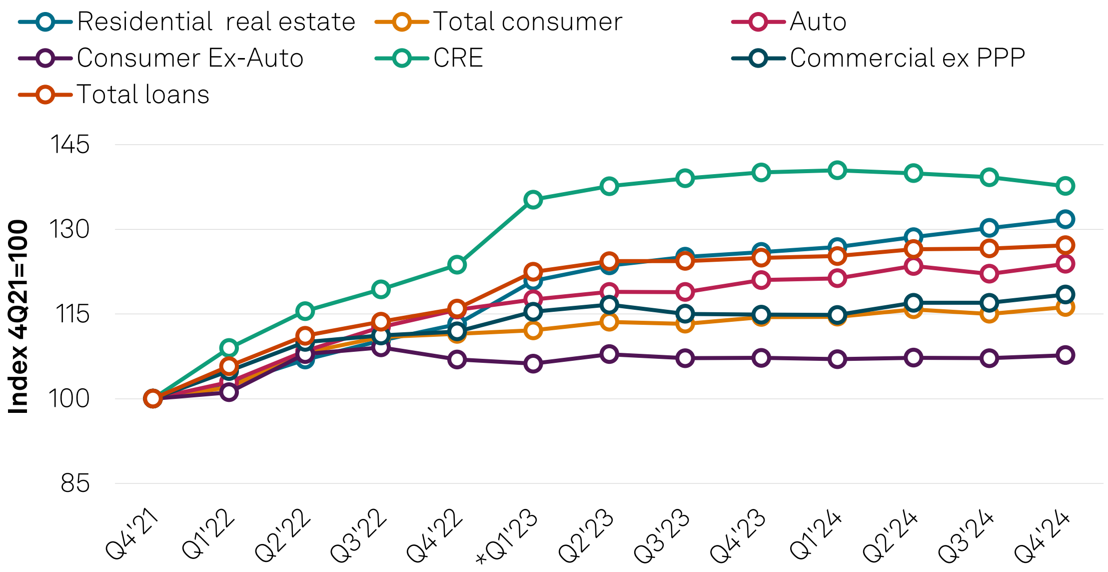
- Loan growth was more pronounced at small regional banks and commercial banks led by C&I, consumers (particularly credit card and autos) and mortgage, while CRE loans declined.
- We expect low single-digit loan growth in 2025, on uncertain borrower demand, uncertainty in tariffs, taxes, and the federal budget. However, it may accelerate as the year progresses depending on economic trends, deregulatory agenda, increased M&A activity, and lower rates.
- Most regional banks did not materially change lending standards in recent months, though more banks reported tightening on C&I, CRE, and credit cards than loosening.

Large regional banks: quarterly loan growth



Sources: Company filings, S&P Global Ratings, and S&P Cap IQ Pro.

Regional banks: quarterly loan growth

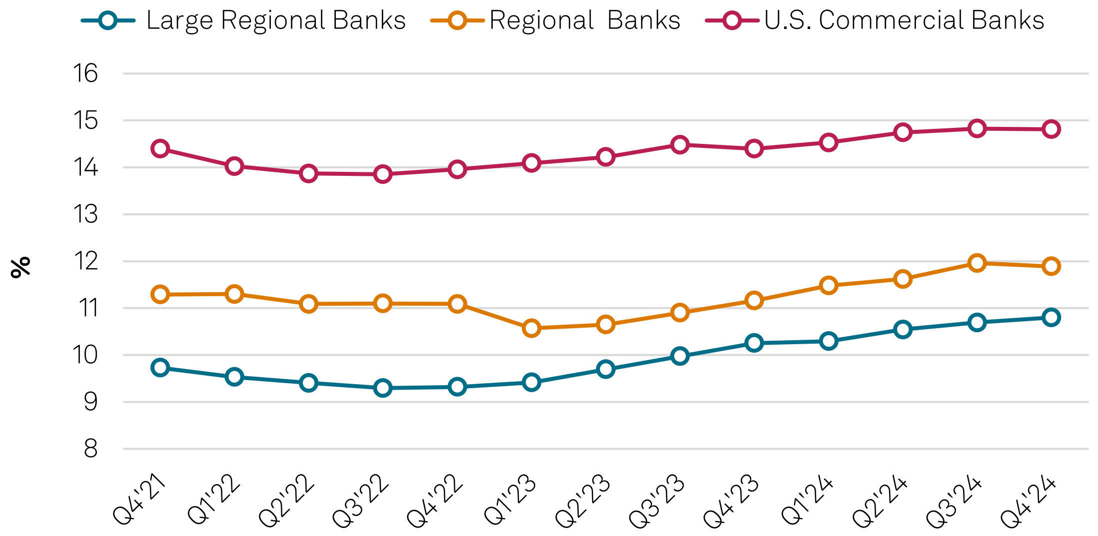


Sources: Company filings, S&P Global Ratings, and S&P Cap IQ Pro.

Regional Banks Repositioned Balance Sheets To Build Capital through 2024

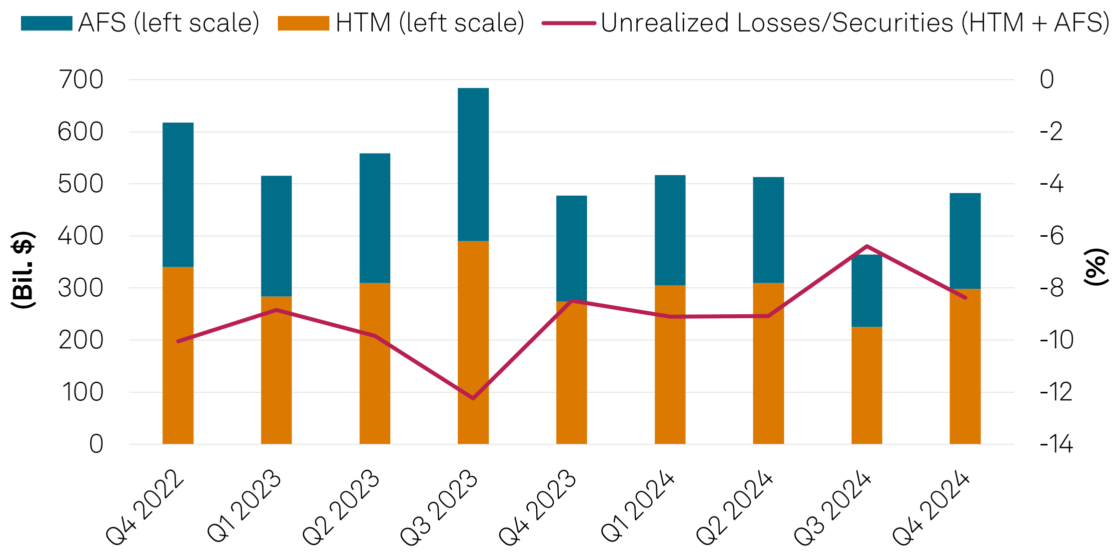
- Capital ratios continued to rise for most banks, in anticipation of stricter regulatory requirements, and was largely driven by tepid loan growth, steady earnings, conservative shareholder returns, and balance sheet optimization.
- With solid CET1 ratios, some regional banks resumed share repurchases, leading to a sequential decline in regional banks median CET1 .
- Although unrealized losses rose sequentially in the fourth quarter due to the increase in the long end of the yield curve, they are down sharply from their peak. We anticipate that unrealized losses will decline over time as securities mature, thereby helping tangible capital ratios.

U.S. regional banks: median CET1 ratio trends



CET1—Common equity tier 1. U.S. commercial banks represent aggregate of all the commercial banks in the U.S.
Sources: Company filings, S&P Global Ratings, and S&P Cap IQ Pro.

All FDIC-insured banks: unrealized losses on securities



Sources: Company filings, S&P Global Ratings, the Federal Reserve Board, and S&P Cap IQ Pro.

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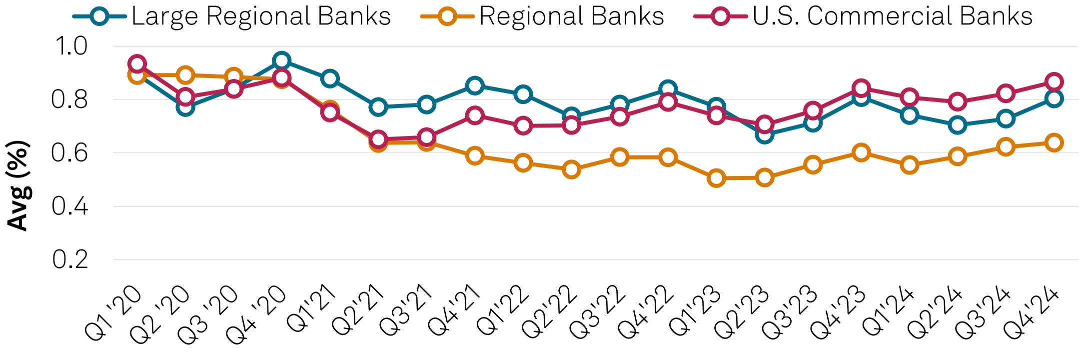
Asset Quality

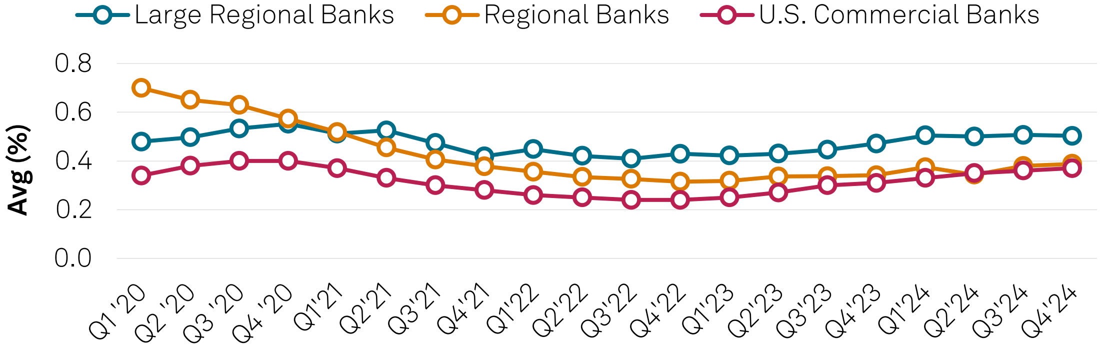
Asset Quality Incrementally Deteriorated, But Will Remain Manageable

U.S. regional banks: 30-90+ days delinquency trend



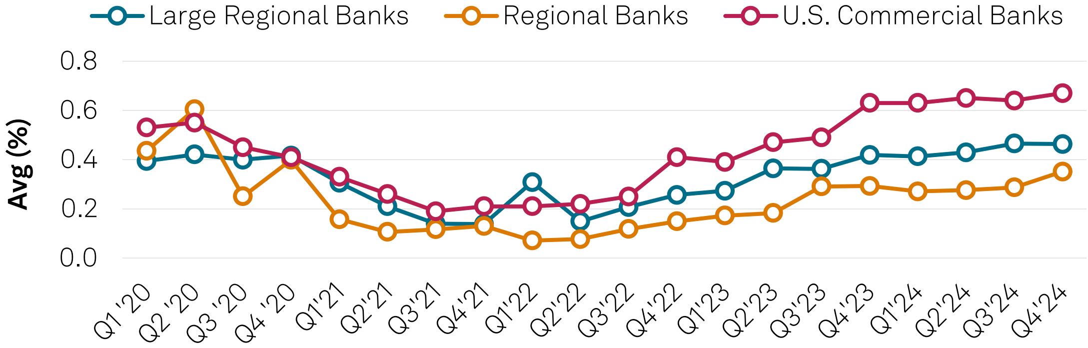
- Although nonperforming assets (NPAs) and delinquent loans are below historical levels, net charge-offs (NCOs) are moving up from low levels and we expect further loan losses amid high inflation and tight interest rates.
- NCOs were sequentially higher in the fourth quarter, driven by CRE, C&I and consumer loans, particularly credit cards.
- We expect credit quality to slightly deteriorate before stabilizing, given lagged effect of rate cuts on borrowing cost.

U.S. regional banks: NPAs/assets trend



NPAs/assets--Nonperforming assets excluding restructured loans as a percent of total assets.
Sources: Company filings, S&P Global Ratings, and S&P Cap IQ Pro.

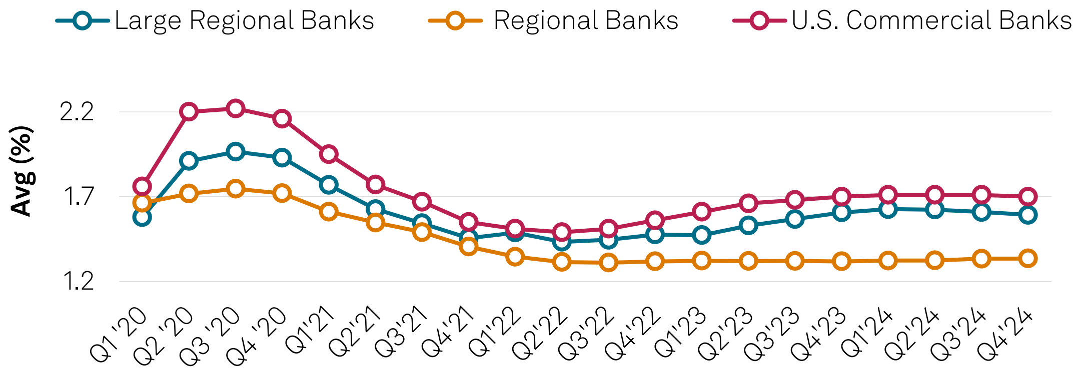
U.S. regional banks: NCO/average loans trend



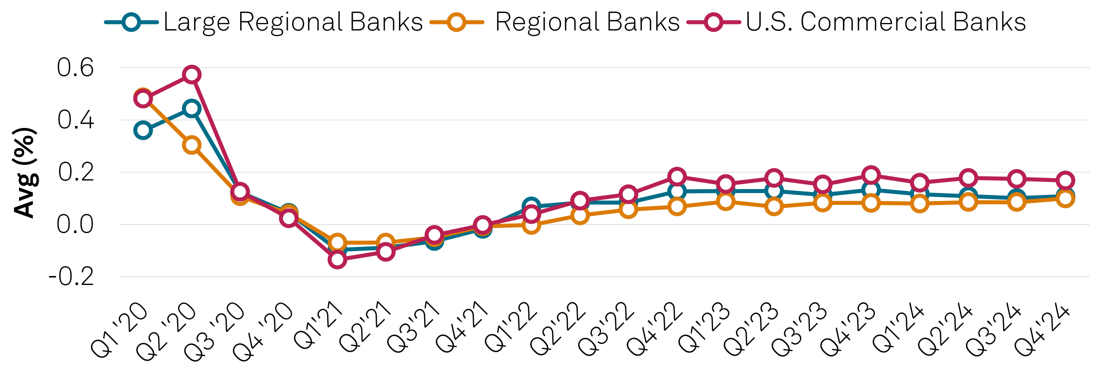
U.S. commercial banks represent aggregate of all the commercial banks in the U.S.
Sources: Company filings, S&P Global Ratings, and S&P Cap IQ Pro.

Banks Maintains Adequate Reserves As Credit Quality Gradually Worsens

U.S. regional banks: reserves/total loans trend



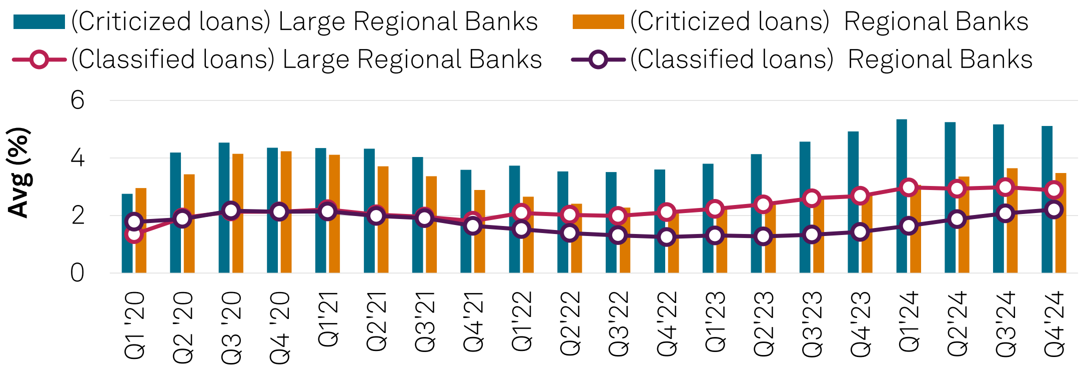
U.S. regional banks: provisions/total loans trend



U.S. commercial banks represent aggregate of all the commercial banks in the U.S.
Sources: Company filings, S&P Global Ratings, and S&P Cap IQ Pro.

- Reserves were relatively flat in 2024, as provisions matched net charge-Offs.
- We expect reserves to loans to be relatively flat in 2025, barring any unforeseen economic developments.
- After peaking in the first quarter of 2024, criticized and classified loans have started declining; however, at a slow pace.

U.S. regional banks: criticized loans/average loans & classified loans /average loans trend

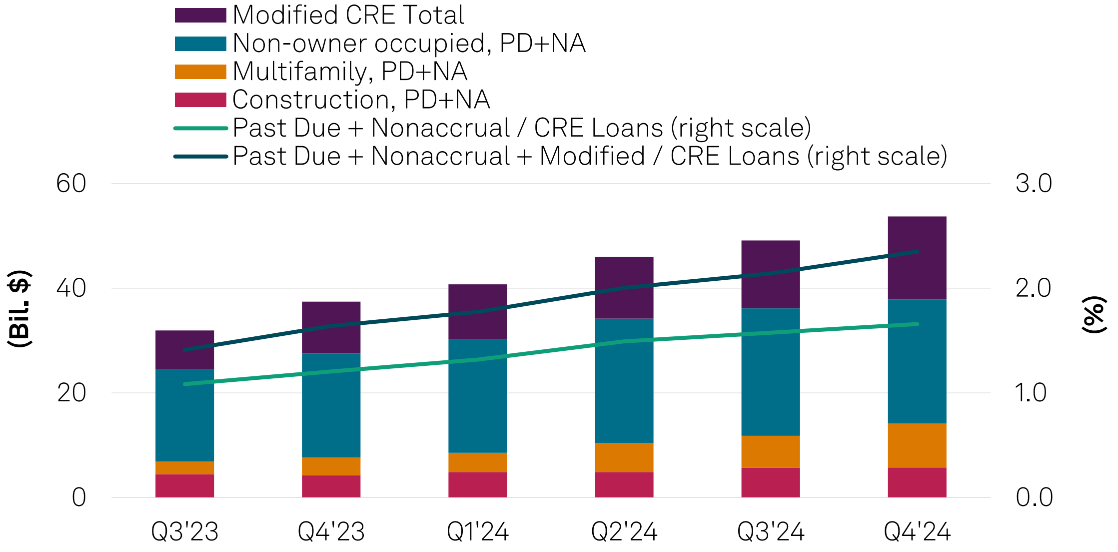


Sources: Company filings, S&P Global Ratings, and S&P Cap IQ Pro.

Despite Decline In CRE Asset Quality, Banks Will Maintain Solid Financial Strength

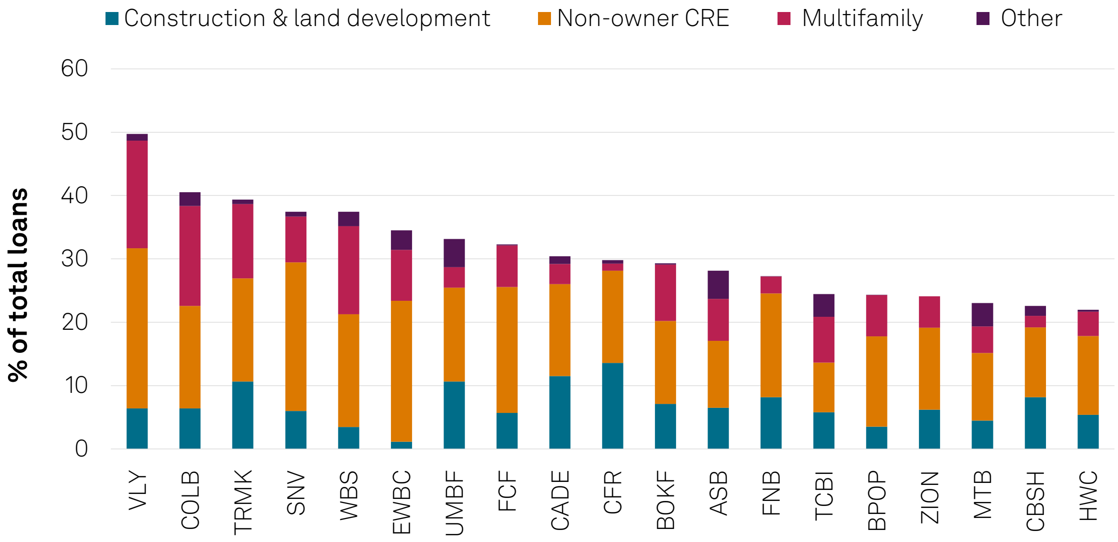
- CRE loan concentration remains elevated at certain banks, albeit lower than the previous quarters.
- Delinquent, non-performing, and modified CRE loans have continued to inch higher, especially on office and multifamily properties. However, we do not expect meaningfully higher CRE loan losses, in part due to still conservative loan to value ratios, guarantees, and sponsor support.
- Improving financial metrics including rising capital ratios, falling CRE loan exposures, increasing CRE allowances, recent deposit inflows, and declining unrealized losses on securities should place many regional banks in a better position to absorb potentially higher CRE loan losses.

CRE past-due and nonaccrual loans: All FDIC-insured banks



Average past-due loans of large regional and regional banks
CRE--Commercial real estate. Sources: FDIC data and S&P Global Ratings.

Top CRE loan exposure of rated regional banks



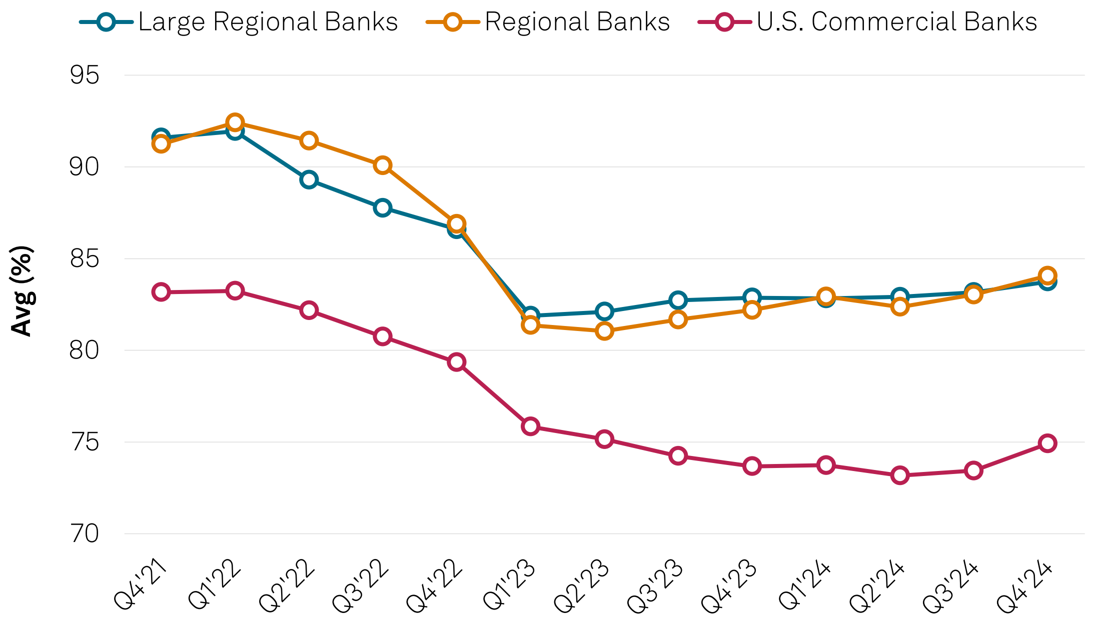
Data as of December 31, 2024. CRE--Commercial real estate. Sources: FDIC data and S&P Global Ratings.

Funding And Liquidity

Modest Deposit Growth Continued To Support Funding and Liquidity

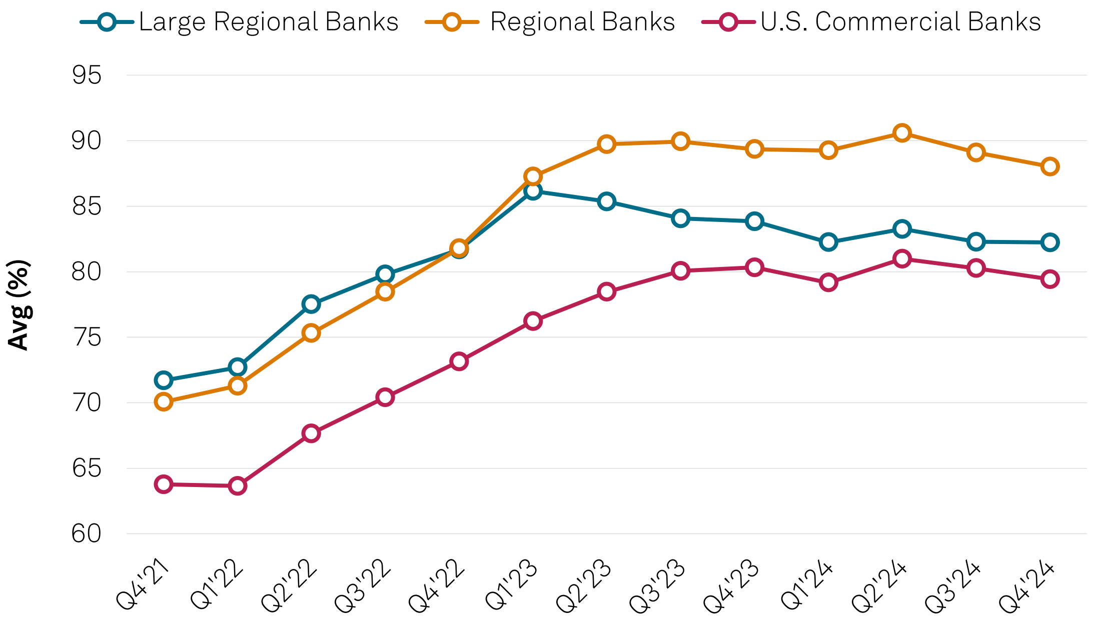
- Deposits increased sequentially in the fourth quarter, as migration to higher-yielding products slowed.
- We expect commercial deposits to reprice downward faster than consumer deposits.
- With modest loan growth and deposit growth, we expect loans to core deposits to stabilize at current levels.

U.S regional banks: core deposits/funding trend



U.S. commercial banks represent aggregate of all the commercial banks in the U.S.
Sources: Company filings, S&P Global Ratings, and S&P Cap IQ Pro.

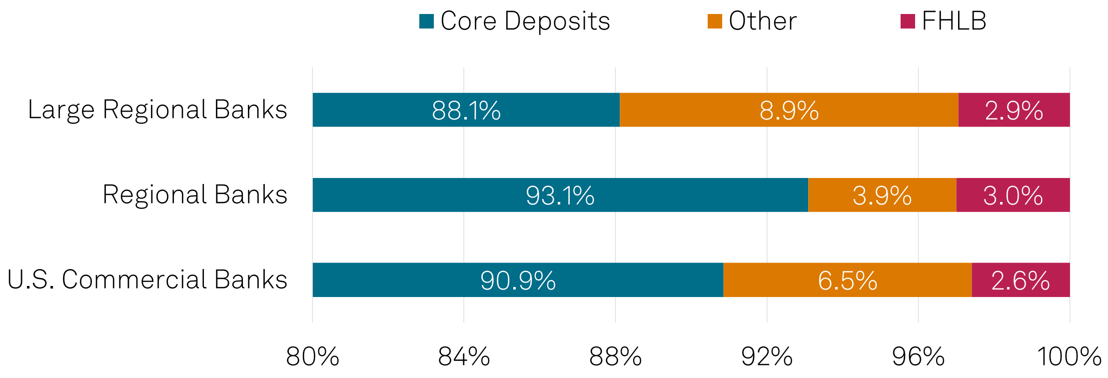
U.S regional banks: loans/core deposits trend



Core deposits--Total deposits less brokered, jumbo, and foreign deposits.
Sources: Company filings, S&P Global Ratings, and S&P Cap IQ Pro.

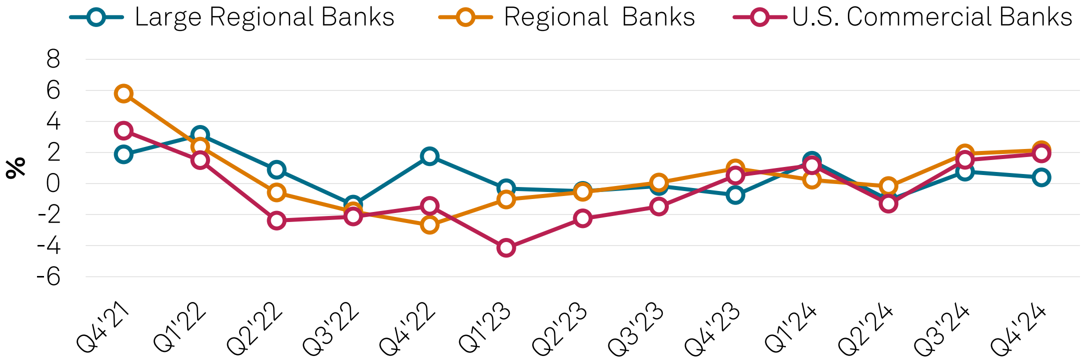
Shift In Deposit Mix to Continue, Amid Falling Interest Rates

U.S. regional banks: funding mix, Q4 2024



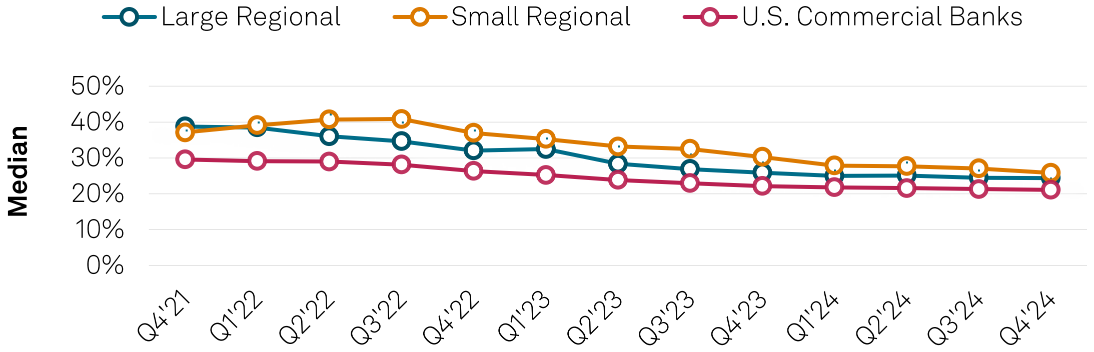
- Many banks lessened their reliance on brokered deposits and wholesale funding.
- The proportion of noninterest-bearing deposits to total deposits decreased over the last two quarters of 2024 as depositors sought higher-yielding alternatives. However, we expect this ratio to stabilize around current levels.

U.S. regional banks: Q/Q core deposit growth rate



FHLB -- Federal Home Loan Bank. Core deposits=Total deposits less brokered, jumbo, and foreign deposits.
Sources: Company filings, S&P Global Ratings, and S&P Cap IQ Pro.

U.S. regional banks: noninterest deposits/deposits trend



U.S. commercial banks represent aggregate of all the commercial banks in the U.S.
Sources: Company filings, S&P Global Ratings, and S&P Cap IQ Pro.

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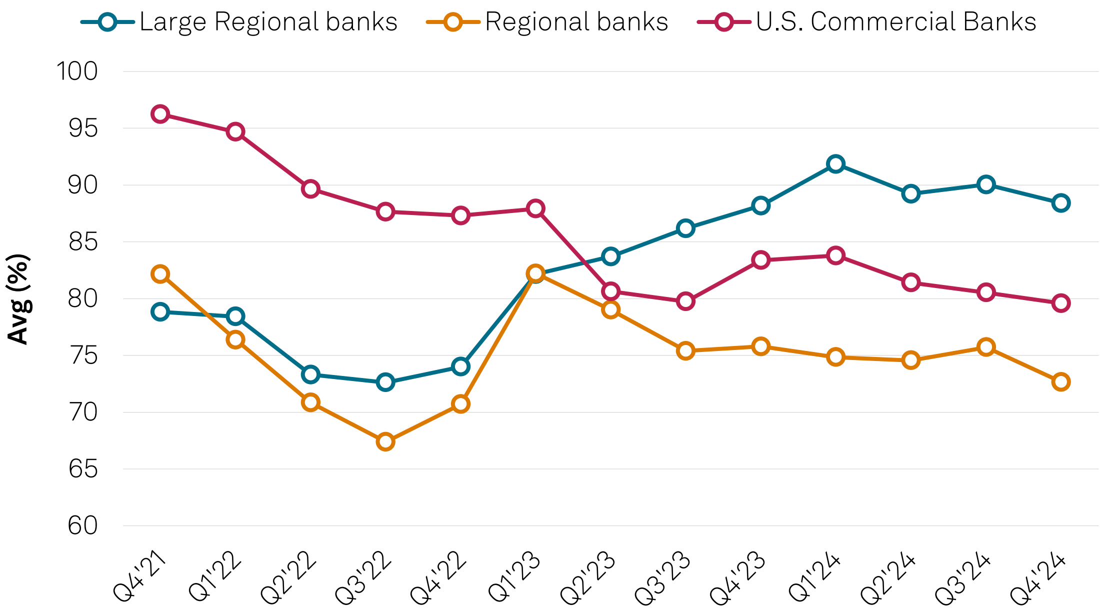
Liquidity Ratios Could Decline Amid Increased Comfort With Recent Trends

- Regional banks reduced on-balance-sheet liquidity in the fourth quarter, driven by an uptick in loan growth and the repayment of wholesale borrowings.
- Liquid assets amply cover uninsured deposits for large regional banks, although the cushion declined amid an uptick in uninsured deposits in recent quarters.
- We think banks could further reduce on-balance sheet liquidity given improving deposit trends and increased comfort with contingent liquidity sources.

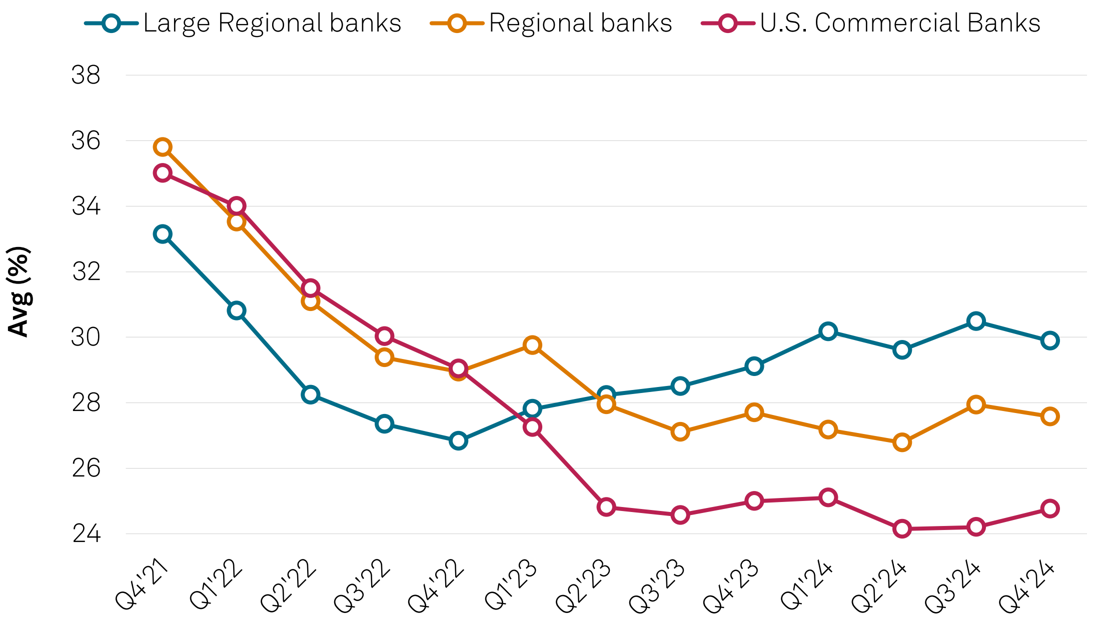
U.S. regional banks: cash and securities/uninsured deposits



U.S. commercial banks represent aggregate of all the commercial banks in the U.S.

Sources: Company filings, S&P Global Ratings, and S&P Cap IQ Pro.

U.S. regional banks: cash and securities/assets



Cash and securities: Cash + securities + fed funds sold.

Sources: Company filings, S&P Global Ratings, and S&P Cap IQ Pro.

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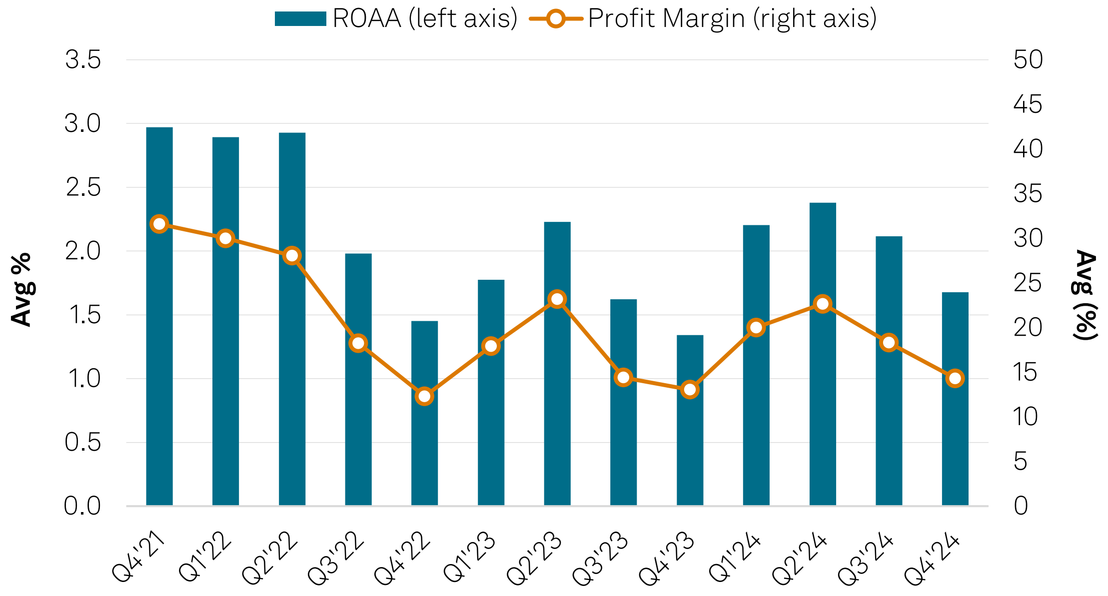
Consumer-Focused Banks

Declining Profitability Amid Stabilizing Credit Quality

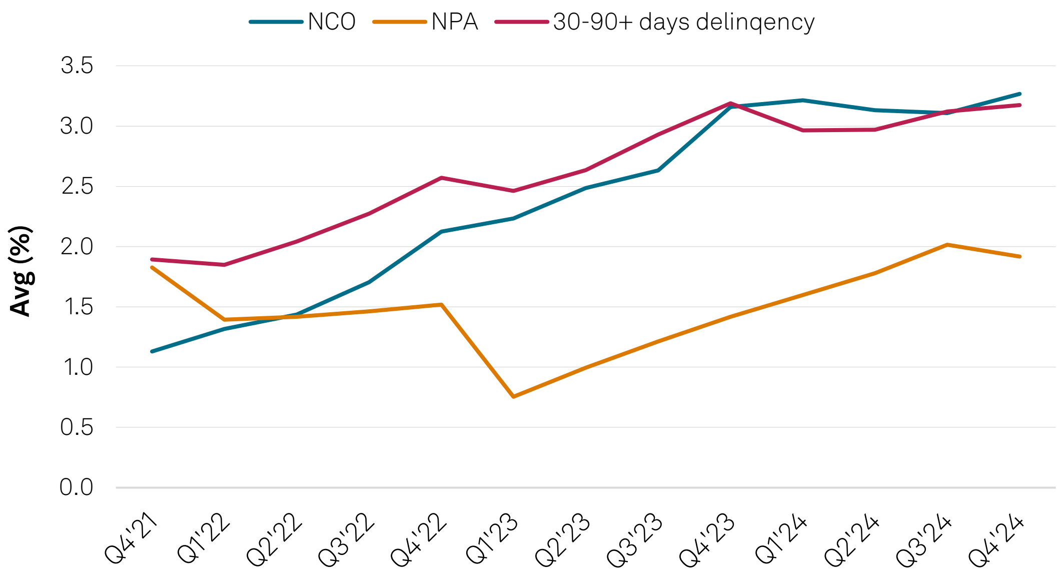
- Profit margins at consumer lenders deteriorated primarily due to an increase in provisioning, which resulted from weakening asset quality metrics.
- Most issuers tightened credit policies, which should help credit quality in 2025, despite continuing challenges. For example, Synchrony reported delinquencies declined in the fourth quarter, while other issuers also noted a deceleration in delinquencies.
- We anticipate that the Consumer Financial Protection Bureau's (CFPB) cap on credit card late fees will initially reduce profitability for lenders targeting nonprime borrowers. However, we believe the Trump administration may review the policy or revisit the implementation timeline.

Consumer-focused banks: profitability metrics



Profit margin--Net income/operating revenue. ROAA--Return on average assets.
Sources: Company filings, S&P Global Ratings, and S&P Cap IQ Pro.

Consumer-focused banks: asset quality trend

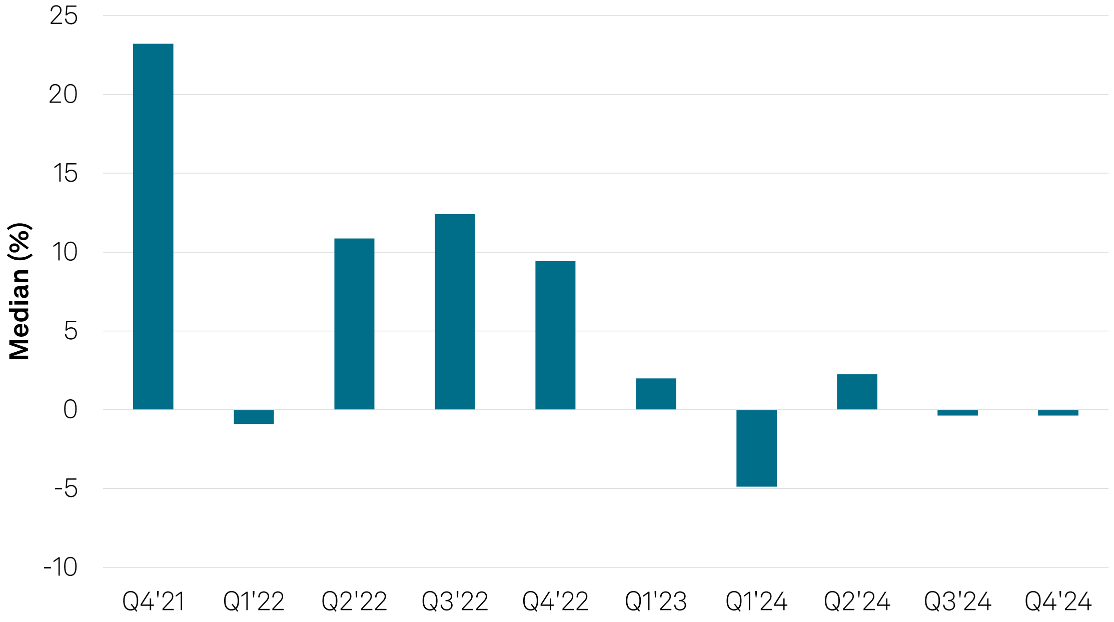


NPAs/assets--Nonperforming assets excluding restructured loans as a percent of total assets.
Sources: Company filings, S&P Global Ratings, and S&P Cap IQ Pro.

Loan Growth Declined As Banks Tightened Credit And Spending Slowed

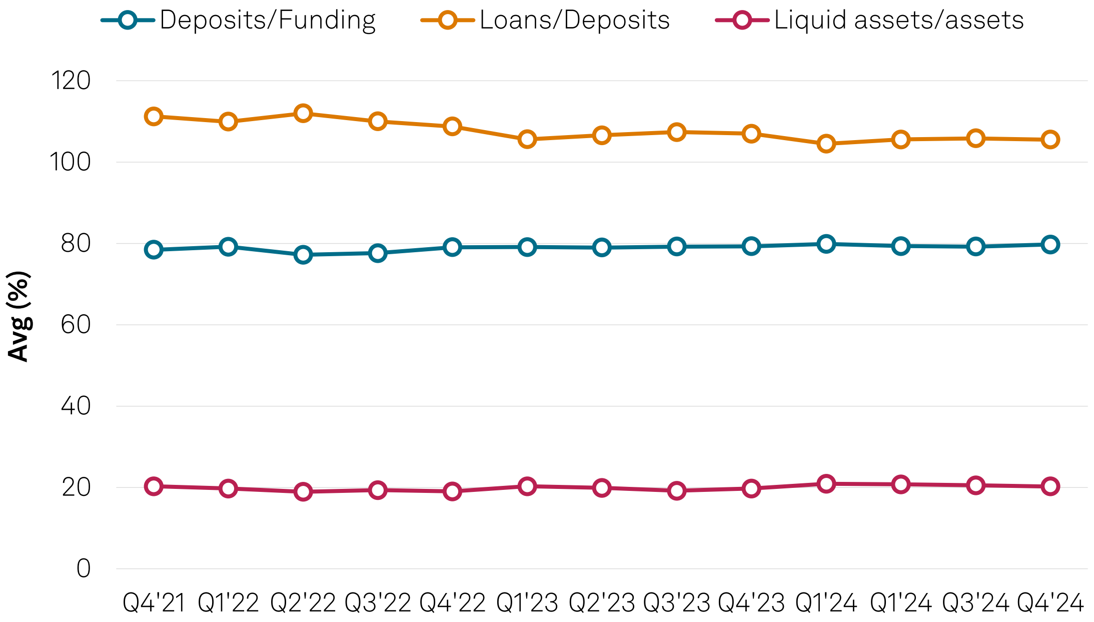
- Loans declined 0.4% sequentially at the median in fourth quarter 2024, we think due to credit tightening and a slowdown in consumer spending.
- Deposits--consisting mostly of high-yield digital deposits– are expected to remain stable as a proportion of the funding mix, and deposit costs could decline in 2025 with rates.
- We expect loan growth to remain muted in 2025, driven by continued conservative lending standards for card and auto loans; but possibly accelerate in 2026.

Consumer-focused banks: loan growth trend



Sources: Company filings, S&P Global Ratings, and S&P Cap IQ Pro.

Consumer-focused banks: funding and liquidity trend



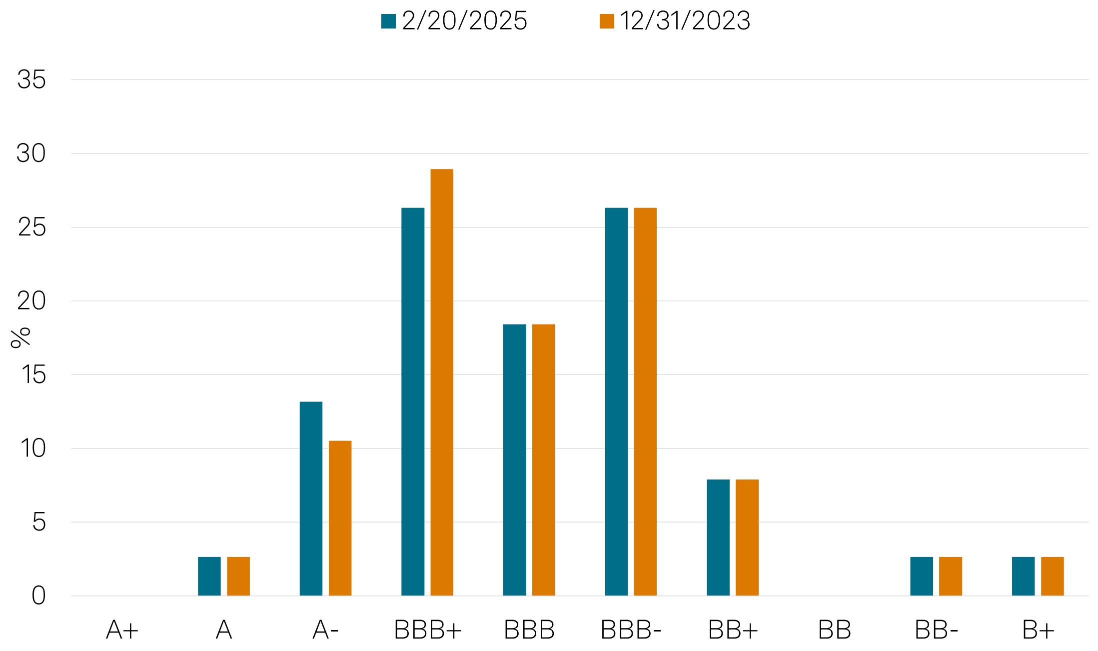
Sources: Company filings, S&P Global Ratings, and S&P Cap IQ Pro.

Appendix

U.S. Regional Bank Rating Outlooks Remain Largely Stable

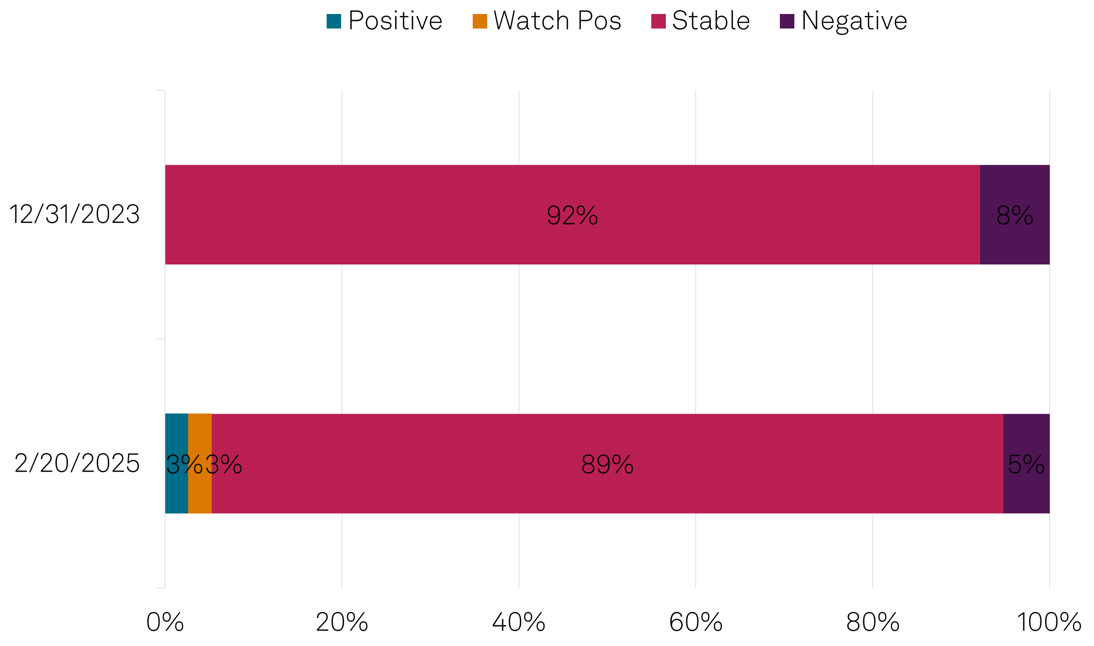
- The current outlook reflects our expectations of continued good performance following improvement in balance sheet strength recorded last year

Holding company rating distribution



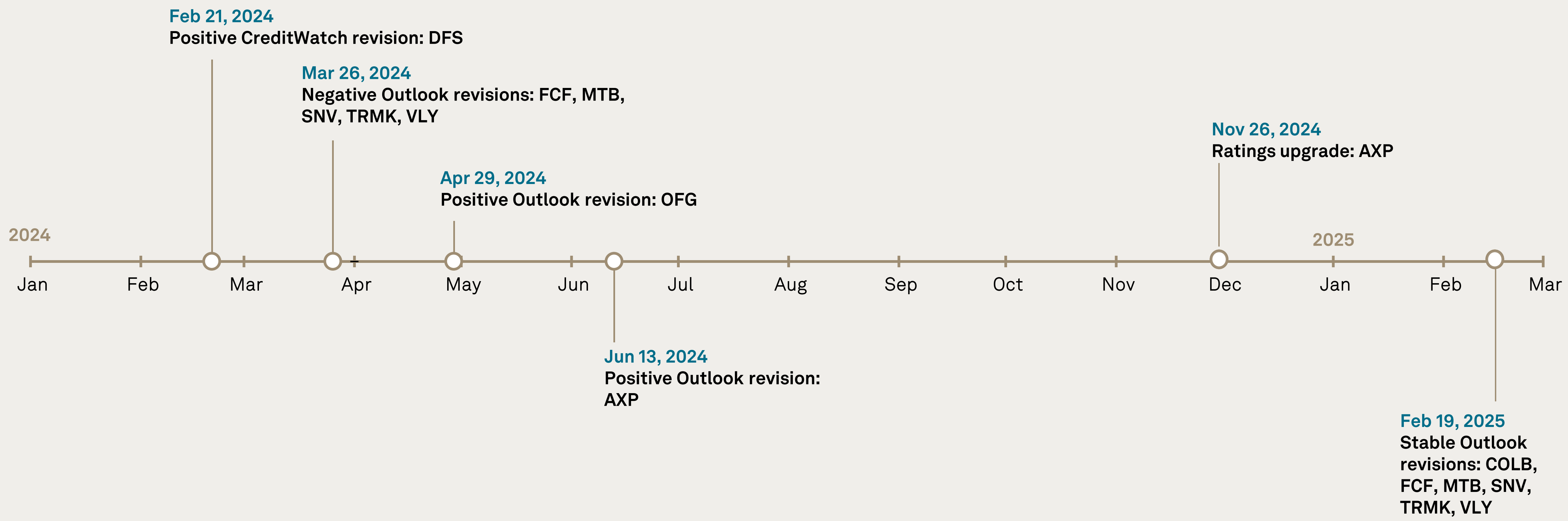
Data as of February 20, 2025.
Sources: S&P Global Ratings, and S&P Cap IQ Pro.

Holding company outlook distribution



Data as of February 20, 2025
Sources: S&P Global Ratings, and S&P Cap IQ Pro.

Timeline Of Rating Actions



Long-term issuer credit ratings. *Source: S&P Global Ratings.

Subgroups Of Rated U.S. Regional Banks

Large Regional Banks

Citizens Financial Group Inc.

Fifth Third Bancorp

First Citizens Bancshares Inc.

Huntington Bancshares Inc.

KeyCorp

M&T Bank Corp.

Regions Financial Corp.

The PNC Financial Services Group Inc.

Truist Financial Corp.

U.S. Bancorp

Regional Banks

Associated Banc-Corp

BOK Financial Corp.

Cadence Bank

Columbia Banking System

Comerica Inc.

Commerce Bancshares Inc.

Cullen/Frost Bankers Inc.

East West Bancorp Inc.

F.N.B. Corp.

First Commonwealth Financial Corp.

FirstBank Puerto Rico

Hancock Whitney Corp.

OFG Bancorp

Popular Inc.

Synovus Financial Corp.

Texas Capital Bancshares Inc.

Trustmark Corp.

UMB Financial Corp.

Valley National Bancorp

Webster Financial Corp.

Zions Bancorporation N.A.

Consumer-Focused Banks

Ally Financial Inc.

American Express Co.

Bread Financial Holdings Inc.*

Capital One Financial Corp.

Discover Financial Services

SLM Corp

Synchrony Financial

Santander Holdings USA Inc

Large regional banks (Asset size> $100 billion), Regional banks (Asset size=$0 to $100 billion). *Data in presentation may exclude banks that do not file Y-9Cs.

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