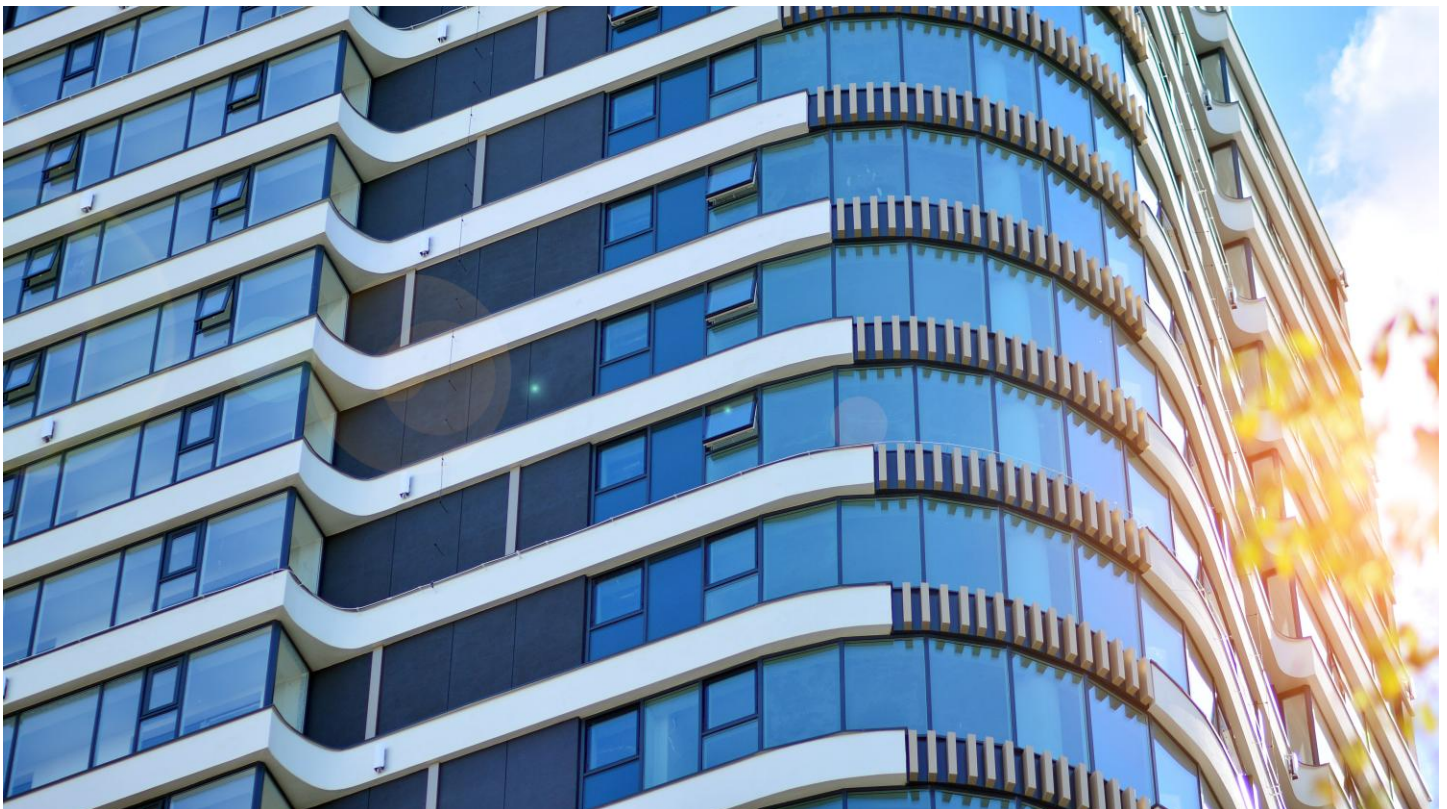


# Structural reset time for US regional banks

Data-backed visibility on mix, cost, liquidity  
and capital pathways key in the road ahead

Point of view

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## Entering the repositioning phase

Entering 2026, United States (US) regional banks are starting with stable credit performance and healthy balance sheets. However, several structural forces are reshaping how these banks run their businesses. Ongoing consolidation across the sector, with more than 120<sup>1</sup> bank mergers and acquisitions (M&As) announced in recent years, evolving regulatory expectations, and shifts in deposit behavior are prompting banks to rethink balance sheets and operating models well before stress appears in traditional credit metrics.

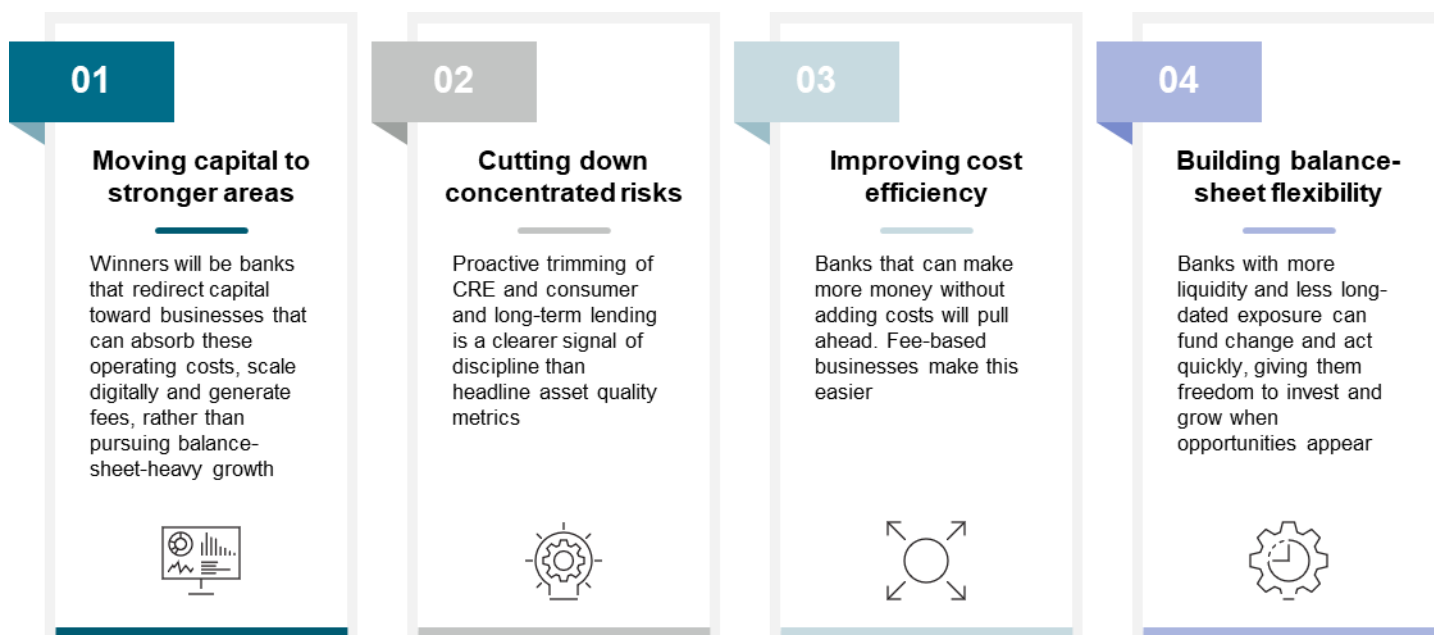
Many institutions are increasing investments in artificial intelligence (AI) and related technology as a central part of how they work. In some cases, this is accompanied by broader capability builds, including global capability centers (GCCs) that complement their investments—the latest examples being Citizens Financial Group and Truist Financial expanding presence in India to support engineering analytics and digital delivery.

These developments suggest that early balance-sheet and cost signals—such as portfolio mix, technology spend and liquidity positioning—are becoming more informative than headline non-performing loan (NPL) ratios when assessing how banks are repositioning for the future.

Against this backdrop, we analyzed a **curated sample of 35 regional banks** to understand how balance sheets, cost structures and risk postures are evolving. The sample was a mixed bag across small, mid and upper-mid tiers, covering a broad mix of balance-sheet profiles—from commercial real estate (CRE)-heavy and community-focused lenders to diversified, fee-generating franchises. We tested tech and AI spend, fee mix, risk-weighted assets (RWAs) and cost architecture, and concentration discipline and liquidity.

*The data showed an early map of who would cope better with the next shock.*

**Looking ahead in 2026, balance-sheet redesign is taking shape across four distinct dimensions, where banks are:**



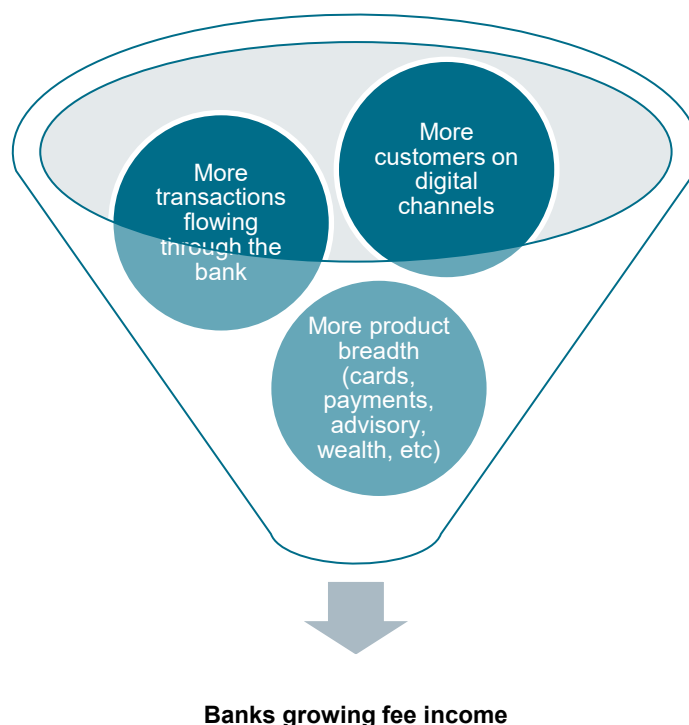
<sup>1</sup> More than 120 M&As announced by US regional banks since 2023 (source: S&P Global Market Intelligence)

**Our analysis of 35 regional banks in the US revealed the following key trends:**

**1. AI absorption is rewriting portfolio choices—an operating model signal**

AI absorption is no longer theoretical—it is visible in the data. Of the 35 banks we tested, **24 increased their tech and AI spend** as a share of operating expenditure (opex) over the past three quarters, signaling that investments are moving well beyond proofs of concept into full-scale modernization. This aligns with broader industry momentum: Banks are rapidly scaling up automation, digital decisioning, and model redevelopment across the front, middle and back offices, with several already reporting early productivity gains.

And we see the business mix responding. Investments in digital channels and automation are driving higher customer activity, more transactions, and broader use of fee-based products such as payments, cards and advisory services. As a result, most banks (**24 of the 35 banks**) in our sample have shown a higher share of fee income, clearly linking technological investments to changes in business mix.



The balance-sheet impact is starting to show. As a larger share of revenue is generated through digital and fee-based activities, banks are depending less on capital-intensive lending to grow. Consistent with this, **18 of the 35 banks** in our sample reported a decline in RWA density, indicating that digital-scalable portfolios are becoming easier to support from a capital standpoint. While uneven across the sector, the trend clearly points toward lighter, more efficient balance sheets.

**Together, the data tells a consistent story.** Banks are investing more in technology/AI, earning more through fee-based activity, and needing less balance-sheet intensity to grow. In simple terms, tech spend is reshaping business mix, and business mix is reshaping balance sheets.

## 2. Rising energy and overhead costs are emerging as binding constraints, alongside capital and liquidity

Energy, utilities and occupancy inflation remain sticky across our sample. In our dataset, 22 of the 35 banks increased occupancy- and utilities-related expenses as a share of opex over the past nine months, despite flat branch counts and only marginal property rationalization activity. This shows that **cost pressures are structural, not temporary**—linked to higher energy use from data centers, ongoing technology costs, and limited scope to quickly reduce real estate expenses.

This trend is accelerating the shift toward cloud migration, digital servicing and workflow automation, aimed at improving operating leverage without expanding the physical footprint. From a portfolio perspective, the operating-model economics are increasingly being reflected in credit choices, with capital gravitating toward businesses that deliver higher return per unit of RWA and overhead—such as payments, transaction services, digital consumer, wealth, and other capital-light, fee-rich lines.

## 3. Credit mix and concentration are emerging as leading indicators, not lagging outcomes

Portfolio shifts are visible. As many as **20 of the 35 banks** in our sample reduced CRE exposure as a share of total loans over the past nine months (a modest but deliberate reduction of ~2.0% on average), signaling calibration rather than retrenchment. At the same time, 22 of the 35 banks reduced consumer loans as a share of total loans, reflecting more conservative positioning around sensitivity, capital usage and household credit quality.

Meanwhile, 20 of the 35 banks posted lower net charge-off (NCO) rates in the first nine months of fiscal 2025 compared with fiscal 2024, reinforcing that these portfolio shifts **are proactive, not reactive**—occurring before any visible deterioration in asset quality.

## 4. Beyond credit mix: Banks are building balance-sheet flexibility

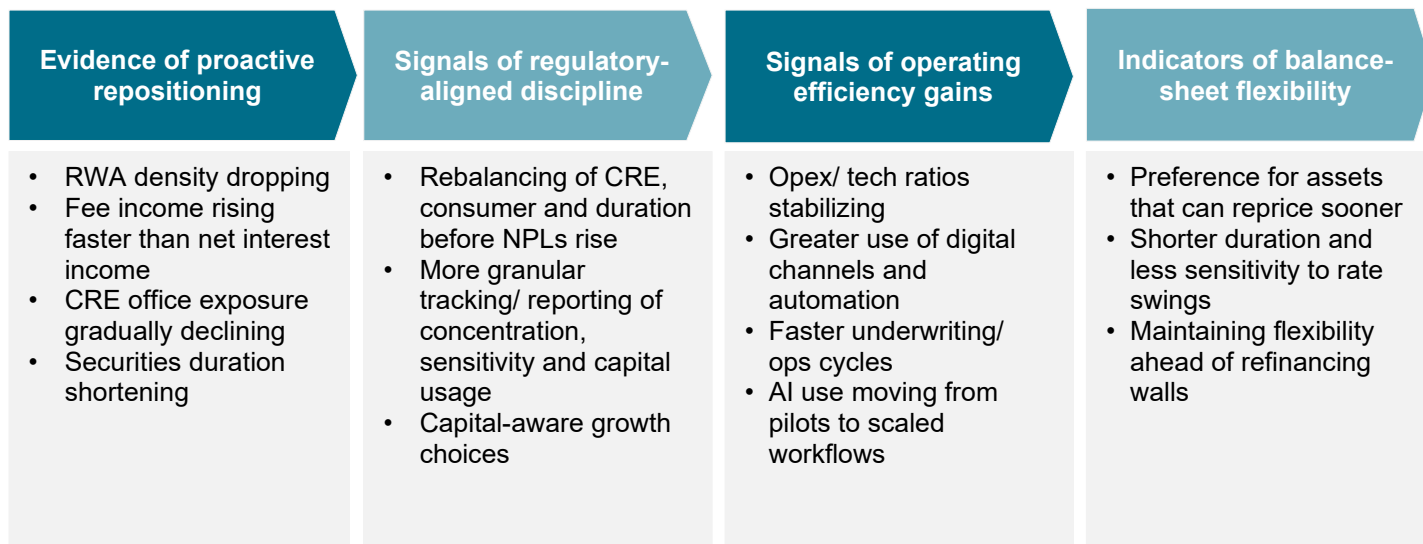
Many banks appear to be reducing balance-sheet sensitivity ahead of potential funding or refinancing pressures. One visible sign is a gradual shift toward shorter-duration securities and more flexible balance-sheet positioning, which lowers exposure to rate volatility and refinancing risk.

Among regional banks that disclose portfolio duration metrics, the average duration of available-for-sale securities has shortened over the past year, indicating a preference for assets that can reprice or be rebalanced more quickly. While disclosures remain uneven across the sector, this directional shift suggests banks are prioritizing balance-sheet flexibility over yield maximization as they prepare for 2026-27 operating and funding conditions.







Liquidity choices support this interpretation: High-quality liquid assets (HQLA) as a share of total assets increased in 21 of the 35 banks, albeit slightly, indicating early positioning for refinancing and funding volatility.

## Gradual reset in how regional banks run their businesses

From our vantage point, institutions pulling ahead are those that can connect these dots early—before outcomes show up in reported credit metrics. The framework below highlights what to watch for in the coming months to identify which banks are leading and which are lagging.



To ground this framework in observable behavior, we applied these four pillars to our sample of 35 US regional banks using publicly reported financials, examining directional movements, and further dividing the sample into large (>\$100 billion), mid-sized (\$40-\$100 billion) and smaller (<\$40 billion) regional banks.

 Pillar	 Tested KPI	 Observed direction	 Breadth of signal	 Size cohort where most visible	 What this reflects
<b>Evidence of proactive repositioning</b>	RWA density	Decreasing ▼	18 of 35 banks	Mid-sized and large	Shift toward assets requiring less capital per unit of growth
	CRE exposure / total loans	Decreasing ▼	20 of 35 banks	Broad-based	Gradual exposure trimming rather than reactive retrenchment
	Consumer loans / total loans	Decreasing ▼	22 of 35 banks	Small and mid-sized	Tighter positioning around rate and household credit sensitivity
<b>Signals of regulatory-aligned discipline</b>	LLP / NCO coverage	Mixed, skewing higher ▲/▼	~50% increasing	Larger banks	Conservative loan buffers maintained despite stable credit
	NCOs (absolute)	Lower ▼	25 of 35 banks	Broad-based	Portfolio actions preceding visible credit deterioration
<b>Signals of operating efficiency gains</b>	Tech and data spend / opex	Increasing ▲	24 of 35 banks	Large and mid-sized	Continued investment in automation and digital scale
	Occupancy + utilities / total opex	Increasing ▲	22 of 35 banks	Smaller banks	Structural cost pressure tied to physical footprint
	Branch count	Net increase ▲	22 branches added	Select banks	Targeted footprint optimization
<b>Indicators of balance-sheet flexibility</b>	HQLA / total assets	Increasing ▲	21 of 35 banks	Large and mid-sized	Liquidity buffers being rebuilt to improve funding resilience
	Securities duration	Shortening ▼	Directional	Larger banks	Reduced sensitivity to rate volatility and refinancing timing
	NCOs / average loans	Decreasing ▼	20 of 35 banks	Broad-based	Loss intensity stabilizing alongside balance-sheet adjustments

Note: Bank size classification is based on total asset size as of the latest publicly available filings and is used solely for analytical comparability. The categorization is indicative and does not imply uniform business models, risk profiles or performance within each group.

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