**Jim Herbert**

Thank you, Mike, very much, and good morning, everyone.

It was a very strong year for First Republic. Our time-tested business model and service culture continued to perform really well. In fact, it was our best year ever in many ways. Our new 2022 Net Promoter Score, which was announced this morning, is our highest ever client satisfaction level. It’s actually extraordinarily strong. Our non-performing assets at year-end were just 5 basis points. This is low even for First Republic.

Exceptional client service and our strong focus lending led to safe organic growth during the year. In 2022, total loans grew $32 billion, a record and we had record earnings for the year. In uncertain times like these, and ability to continue to grow safely is quite viable and very rare.

Let me take a moment to provide some perspective on the current rate environment and the Fed tightening cycle as we see it. Since our last call about 90 days ago, the Fed has raised rates another 125 basis points. At the same time, the 10-year Treasury has declined 50 basis points. The resulting increased rate inversion has begun to put some pressure on our net interest margin and net interest income. However, history and experience has shown that this type of inverted yield curve has a limited duration. Cycles are just that they are cycles.

During First Republic's 37-year history, there have been five tightening cycle. We've continued to grow and prosper through them and especially after each one. On average, over the last 40 years, the Fed has started to cut rates less than a year after the 10-year yield has peaked. The market currently expects the Fed to start cutting rates during the back half of this year, which will be consistent with prior tightening cycles and is also our current assumption.

We're staying focused on executing our model and we remain very committed to delivering solid results through all market conditions. The bedrock of our performance is providing truly exceptional differentiated service, maintaining very strong credit, delivering safe, organic growth and the results follow.

Now let me turn the call over to Mike Roffler, CEO and President.

**Mike Roffler**

Thanks, Jim. 2022 was a terrific year with record loan growth, record loan origination volume, record revenue and record earnings per share. Let me begin by covering some key results for the year.

Total loans outstanding were up 24%, total deposits have grown 13%, wealth management assets were down only 3%, while the S&P 500 was down more than 19% over the same period. This strong growth in turn has led to strong financial performance. Year-over-year, total revenues have grown 17%, net interest income has grown 17%, earnings per share has grown 7%. And importantly, tangible book value per share has increased 11% during the year.

As we look to a more challenging year ahead, we remain well positioned to deliver safe, strong growth through the consistent execution of our service focused culture and business model. We remain very well capitalized as a result of raising capital methodically and opportunistically over time.

Our Tier-1 leverage ratio was 851 at quarter-end, credit quality remains excellent. Net charge-offs for the fourth quarter were less than $1 million. For the entire year, net-charge offs were less than 3 million or less than 1/5 of a single basis point of average loans. Non-performing assets ended the year at only 5 basis points of total assets. As Jim mentioned, this is one of our best levels ever. We do not stretch on credit quality to deliver loan growth. Our growth is driven by consistent execution of exceptional client service, one client at a time each and every day.

Today, we released the results of our 2022 Net Promoter Score survey, our client satisfaction scorecard. We're pleased to have achieved a record high score of 80. This is an increase from last year's score, which was also a record at the time. At the same time, client satisfaction is declined for the overall banking industry.

In 2022, the Net Promoter Score for the U.S. banking industry declined to only 31. Our service focused model is truly differentiated, even more so during challenging and disruptive environments.

During 2022, we also continued to make thoughtful investments that support service excellence and growth. We expanded into the Seattle area by opening our first banking location in the market. We brought on 13 new wealth manager teams, one of our best recruiting years ever. And we successfully upgraded our core banking system, the largest technology project we've ever undertaken. As Jim mentioned, since mid-November, we have been operating with a challenging yield curve.

To help us navigate the margin pressure in the near term, we continue to moderate our expense growth. At the same time, we remain focused on the long-term and continue to leverage our reputation of exceptional service to drive new business and grow total households. Our focus on service drives our growth as clients stay with us, do more with us and refer their friends and colleagues.

In fact, during 2022 and driven by our highest ever level of client satisfaction, total households increased a very strong 15%. This is nearly double the growth rate of the prior year. Over time, this growth compounds continuing to deliver shareholder value and consistent profitability as it has for 37 years since our founding. Overall, 2022 was a very strong year for First Republic.

Now I'd like to turn the call over to Mike Selfridge, Chief Banking Officer.

**Mike Selfridge**

Thank you, Mike. Let me provide an update on lending and deposits across our business. Loan origination volume was a record for the year at $73 billion. Our real estate secured lending remained well diversified. Both single family residential and multifamily achieved record volumes for the year. Purchase activity accounted for 54% of single-family residential volume during the year and 64% during the fourth quarter.

As refinance activity has slowed, so have the repayment rates. This provides a strong base for loan growth. We continue to expect to deliver mid-teens loan growth for 2023. I would note that loan originations have some seasonality with the first quarter typically being somewhat slower. In terms of credit, we continue to maintain our conservative underwriting standards. The average loan to value ratio for all real estate loans originated during the year was just 57%.

Turning to business banking, we continue to deepen our relationships by following clients to the businesses they own or influence. Our relationship-based model also leads to a strong level of referrals to new business clients. In 2022, our business client base grew by 18%. Business loans and line commitments were up 14% year-over-year. The utilization rate on capital call lines of credit increased slightly to approximately 33% during the fourth quarter. Our capital call line commitments grew 16% during the year as we continue to acquire new clients.

Turning to deposits, we are pleased that total deposits were up 13% year-over-year, and 2.4% quarter-over-quarter. We continue to see a shift in deposit product mix as a result of rising rates. Checking represented 59% of total deposits at year end down from 64% in September, and CDs accounted for 14% of total deposits at year end up from 9% in September.

Preferred banking offices continue to provide an important service channel for our clients and drive deposit gathering. Over the next year, we expect to selectively open new offices to deepen our presence in our existing footprint. Our programs for acquiring and growing our next generation of client relationships, which began more than a decade ago, continue to deliver strong results.

In 2022, millennial households grew 17%. These younger households are the same high-quality clients that we have always attracted and are part of our strategy to see the long-term growth of First Republic.

As Mike and Jim noted, our exceptional Net Promoter Score continues to demonstrate our ability to deliver differentiated client service. Let me take a moment to provide some additional detail.

For clients who identify us as lead bank, our net promoter score is 87 even higher than our overall score. And importantly, nearly two thirds of our clients now consider us as lead bank. Remarkably, our net promoter score increased in each of the past three years, as we have dealt with a pandemic, and rising levels of economic uncertainty. And as we implemented a new core banking system in early 2022.

And during this time, our consistently high scores also increased across every region, every line of business and every generation of clients. Our high client satisfaction remains the driver of our long-term growth.

Now let me turn the call over to Bob Thornton, President, Private Wealth Management.

**Bob Thornton**

Thank you, Mike. It was a very successful year for our wealth management business. During the year, total assets under management were down only 3%, while the S&P 500 was down more than 19%. Investment management assets actually increased during the year driven by strong net Client inflow. Wealth management fee revenue was up more than 15% from the prior year. This includes strong growth in fees from brokerage trust, insurance and foreign exchange services. The combined fees from these services increased 29% year-over-year and the strong growth in these products is also further diversified our wealth management fee revenue.

As we've noted before, our exceptional client service is even more highly valued by clients during times of market volatility. We take these opportunities to engage our clients and understand their needs as market conditions change.

In fact, a key strength of our business model is our holistic approach to meeting our clients banking and wealth management needs. This benefits clients and is driven growth through a strong level of internal referrals, and a deepening of client relationships. In this regard, 2022 was a particularly strong year, our bankers referred over $11.5 billion of AUM to wealth management, and deposit balances from new relationships referred by our wealth management colleagues during the year totaled more than $3 billion. Wealth management referred deposits and sweep balances now represent over 13% of the bank's total deposits.

Our integrated banking and wealth management model also continues to make First Republic a very attractive destination for successful wealth professionals. In 2022, we welcomed 30 new wealth manager teams to First Republic, and one of our strongest years ever. This included five teams in the fourth quarter alone. So far in 2023, we've already welcomed two new wealth management teams to First Republic, reflecting our continued investment in the long-term success of this business.

Overall, our team continues to execute very well. I'm excited, these are a great opportunity to demonstrate our exceptional service, deepen existing relationships and acquire new households.

Now I'd like to turn the call over to Olga Tsokova, Chief Accounting Officer and Deputy Chief Financial Officer.

**Olga Tsokova**

Thank you, Bob. I will briefly discuss our strength and stability. Our capital position remains strong. During 2022, we added over $400 million of net new Tier-1 capital through a successful common stock offering. At year end Tier-1 leverage ratio was 8.51%. Liquidity also remains strong, high quality liquid assets for 13% of average total assets in the fourth quarter. Our credit quality remains excellent.

Net charges off for the year were only $3 million. Over the same period, our provision for credit losses was $107 million, which was driven by our strong loan growth. This is a multiple of nearly 40x. Heading into 2023, our balance sheet remains strong. And now I'll turn the call over to Neal Holland, Chief Financial Officer.

**Neal Holland**

Thank you, Olga. It was a very strong year. Our exceptional client service and strong credit powered our safe growth. Our 2022 results were in line with or better than the expectations communicated at the start of the year. Let me take a moment to talk about the year ahead. With the rapid rise in rates in the current inverted yield curve, we continue to experience margin pressure. We currently expect the Fed funds rate to peak at 5% and then the gradually decline in the second half of the year.

As a result for the full year 2023, our expected net interest margin to be approximately 25 to 30 basis points lower than the fourth quarter. As a growth bank, we create value by consistently compounding our asset base, a direct result of the exceptional service we provide. Therefore, net interest income is a key metric for our differentiated business model.

Despite the current margin pressure, we expect net interest income for the full year of 2023 to be down only 2% to 5% given our continued strong growth in loans, and investments. As we look to 2024, we expect continued strong loan growth in a more normalized rate environment. As a result, we expect to deliver strong double-digit net interest income growth in line with our past performance. As Jim mentioned, the years following tightening cycles have historically been strong for the bank.

Turning to expenses for 2023, we expect expense growth in the high single digits. As a reminder, expenses are typically higher in the first quarter due to the seasonal impact of payroll taxes and benefits. As we discussed at Investor Day, we continued to prioritize our expenses in a way that will not sacrifice client service, growth or safety and soundness. We have identified $150 million and planned expenses that we will not incur in 2023. This is already having a positive impact on our expense base and helped us keep expenses flat from the third to fourth quarter.

With respect to income taxes. The full year tax rate is expected to be around 24%. While the current rate environment is challenging, our model is strong. We will continue to deliver exceptional client service, grow new households and provide safe growth in 2023 and beyond.

Now, let me turn the call back to Mike Roffler.

**Mike Roffler**

Thank you, Neal. It was a strong year with record client service levels, record loan growth, and record credit performance. Our time-tested service model remains solid. Our entire team remains focused on executing our client service strategy, one client at a time.

Now, we'd be happy to take your questions.

**Question-and-Answer Session**

**Operator**

Thank you. [Operator Instructions] And we'll take our first question from Steven Alexopoulos with JPMorgan. Please go ahead.

**Steven Alexopoulos**

So from a big picture view, if we look at the NIM outlook, it's a bit worse than what you had guided to it at the Investor Day. And before I get into my deeper questions, what's changed since the Investor Day, which is driving the lower NIM outlook for the year?

**Mike Roffler**

Yes, Steve, thanks. I think if you look at Investor Day, what's happened since then, and I think we highlighted this a bit in the prepared remarks, the 10-year has gone down 50, 60 basis points. And so the inversion of the yield curve has a pretty significant impact on just rates in general. And obviously, the macro environment is the thing that we can't control. The things we can control are our service levels and how we acquire households. And so with that inversion, which, as we noted, won't last a very long time and we are now partway through it. And so I think that is the biggest driver for the change in outlook relative to about 65 days ago.

**Steven Alexopoulos**

Got you. Okay. Mike, it sounds like you're upping the expectations for expense management. And I think you guided to about a 65% efficiency ratio for 2023. Is that still intact when you put these pieces together?

**Mike Roffler**

Because of the margin outlook, it will be a little bit higher. But we have identified incremental expenses that will be deferred, not planned for the current year.

**Steven Alexopoulos**

Are you willing to share a new range with us?

**Mike Roffler**

Yes. I mean, just because of the revenue side of the equation, it's just doing the math of 2% to 5% decline with net interest income, it's about 66% to 68%, with that guideposts with high single-digit growth rates of expenses.

**Steven Alexopoulos**

Got you. Okay. And then, just to dive into the deposit side a little deeper. So it's pretty remarkable to see that with the rate being paid on checking balances more than doubled from the prior quarter, but average balances still came down about 9 billion. Can you take us behind the scenes in the quarter? What's the typical conversation you had with customers? And maybe underlying the NIM assumptions, where do you see the rate paid on checking moving to and maybe where does that mix stabilize? Thanks.

**Mike Roffler**

Well, importantly, I think there's still about 67 billion, I think, of zero cost checking, which is operating balances and costs. Obviously, as rates have gone to 4.5%, the conversations between our client facing people and clients have talked about, where might they be able to achieve a bit better yield. And as a service organization, that's what we continue to focus on is that relationship with our clients to ensure they're leaving the right balance of in checking for their operating needs, and their other yield alternatives either in wealth management, money market, certificates of deposit, different alternatives. I think we communicated a low 30s data on overall deposits in the past. And we feel like sort of 30 to 35 is about the right range still at this point, and that's consistent with what we said before at Investor Day.

**Steven Alexopoulos**

O kay. And then, if I could just squeeze one more, Mike, going back to the new NIM outlook. I know Jim said in his commentary that you guys expect rates of decline more in line with the market in the second half of 2023. If rates were to move to say, by 5%, 5.5% rates and stay there and not come down in the second half, how would that change your NIM outlook for 2023? Thanks.

**Mike Roffler**

Once it stabilizes, you sort of stabilized from there, but I don't think it changes that a whole lot. I think the pace of change is what has happened this year that led to the increase, or the increase in funding costs. And the real impact if you think about it is, in the future, if you leap forward to ‘24 and you're stable, is when you'll start to see the inflection where net interest income starts to grow. Right now that that looks like the back half of the year on a linked quarter basis. If the Fed delays that might delay that a quarter. But then you start to see the inflection higher thereafter.

**Steven Alexopoulos**

Okay. Great. Thanks for taking my questions.

**Operator**

We will take the next question from Dave Rochester with Compass Point. Please go ahead.

**Dave Rochester**

Just starting on NIM guide a real quick, are you assuming for the funding of earning asset growth, primarily CDs and borrowings at this point? Maybe you just talk about the mix there and the growth of deposits that you're thinking about. And then you did have a decent amount of one off and non-interest bearing, which a lot of banks are experiencing at this point. Was just curious, how should we expect this type of pace to continue? Or do you see a level at which you'd expect the trend to sort of subside and then get down to more of a sticky base that's remaining? Where do you see that sort of trailing off? Thanks.

**Mike Roffler**

Yes. Maybe on the -- what you're getting on is, the average balance size, it has come down. So our average balances per account peaked, probably at the end of last year, they have come down closer to their pre-pandemic levels. And then obviously, as I mentioned earlier, there's a level of operating needs that clients have to have to operate with. I think that the outlook, we're going to largely fund loan growth with deposits, and then there'll be a mix of borrowings that is also utilized just like we have in the past. And the growth rate will probably be greater in CDs than it will be in checking given where the rates are this year and that's reflected in our outlook.

**Dave Rochester**

Okay, great. And then maybe just on capital, Tier-1 leverage looks good. Notice the CET1 ratio did down a little bit below 9%. Is that an issue at all? And just how are you thinking about that level going forward? Thanks.

**Mike Roffler**

No issue with our capital currently. As always, we remained opportunistic and methodical relative to capital won't be a preferred or common.

**Dave Rochester**

Great. And then maybe one last one on loan production rates. Maybe if you could just kind of go through the key products and talk about where your pricing was today. That'd be great. Thanks.

**Mike Selfridge**

Sure. Dave, it's Mike Selfridge, I will give you a couple of indicators here and look more -- rather look more at the locked pipeline as of today. So single family or locked pipeline, these are deals that are in the queue. And due to close soon, single family mortgages about 5.80, multifamily, about 5.4%, commercial, about 5.6% and the whole locked real estate loans right now are little over 5%, maybe 5.10.

The business banking side, nothing's changed their capital call lines tend to be the larger part of the pipeline, and that still remains in the prime minus 75 to prime minus 100 basis point range.

**Dave Rochester**

Great. Thanks for the color, guys.

**Operator**

We'll take the next question from [indiscernible] with Bank of America. Please go ahead.

**Unidentified Analyst**

I just wanted to follow up on the margin, on two things. One, I think Mike you mentioned, still expect the 30% to 35% deposit beta. In the world where rates don't actually get caught and the forward curve doesn't play out. Just handicap the risk. I think the concern on the margin outlook generally has been the deposit costs mix shift we've heard from some of the other big banks today could be much worse than we've seen just given that we've not tested for this in a long, long time, what's your comfort level on the 30 to 35 beta holding?

**Mike Roffler**

So that -- is our best perspective at this point in time, given our outlook. And as Jim mentioned this doesn't last forever given history of 40 plus years. And so the 10 year is also telling you something where it's jumped to 344, as of yesterday, as to where the market feels, rates are moving. And so the beta could be a little bit higher if they hold an extra quarter or two. But the fact that the pace is slowing, there'll be a little bit of what I call a catch up, that always is at the end of a cycle. But the pace slows, because the time just passes. And so I would say that we feel pretty confident where we are. And it'll be depending upon macro-outlook, which is the one thing that you all know, we don't control and nor does anyone know anyone else.

**Unidentified Analyst**

Understood. And just -- so if I missed it, did you talk about like in terms of the margin? I'm assuming there's some benefit in the back half, as you assume rate cuts in your NIM guidance of down 25 to 30 bps? How should we think about the NIM trajectory? Like does it fall closer to 2%, by the middle of the year by the second or third quarter before rebounding in the back half.

**Mike Roffler**

No, I wouldn't go to 2%. It's sort of stabilizes that the middle part of the year. And importantly, after you have a little bit of a dip in net interest income here in the first half, then you start to see it increase towards the back half of the year and starts to have a real positive trajectory into 24.

**Unidentified Analyst**

Understood. And just one last question around growth. I know. Jim, you've talked about market share environments like this, just give us a sense of, is this environment any different in terms of gaining market share and how your customers -- it's been a ton of wealth destruction? How was that factoring in, in terms of just the appetite to buy homes and in terms of mortgage loan growth today versus the last 10 or 15 years?

**Mike Selfridge**

Well, this disruptive moment, and we all know that mortgage market is being disrupted a little bit is an extraordinary opportunity for us to take share. The moments like this are very special. The volume of demand is lower. We all know that. Although my guess is, it will pick up in the spring quite a lot. But the disruptive nature, the disruption that's going on in the mortgage market, people pulling back, et cetera is just hanging us up. It's on a silver platter.

**Unidentified Analyst**

And does that create some pricing power like as the yield curve, Mike, you mentioned earlier dropped -- did the spreads widen on this product?

**Mike Selfridge**

It's not a pricing issue. It's a service issue and availability issue.

**Unidentified Analyst**

But I'm just wondering, are you able to see better spreads when the yield curve? Or is the pricing on these like the 5.80 Mike mentioned? Will that send more or less with whatever happened with the yield curve?

**Mike Selfridge**

Let me turn this to Mike. But the pricing on the acquisition of a new well-off household on a short-term asset like a four- or five-year mortgage, is [semi] [p] irrelevant. You take it into a household like this. They stay with you for life.

**Mike Roffler**

Yes. And Abraham, I want to clarify on Dave Rochester's comment at the lock production on the single families -- a little under 5% is what I meant to say about 4.80. But these are still as we've said, in the past, eight plus clients and they get very good pricing for full relationship and full service at first Republican.

**Unidentified Analyst**

That helps with the clarification. Thank you so much, and thanks for taking my questions.

**Operator**

The next question comes from Casey Haire with Jefferies. Please go ahead.

**Casey Haire**

Operating leverage question for 24. Appreciate that the guide on NII up low double digits next year. Just wondering, just given that you guys are doing a good job on the expense front and deferring. I think you bumped it up to 150 million. Just wondering, do we see a catch-up next year on all this expense deferral? Or is there an opportunity to improve the efficiency ratio from that 66, 68 when NIM starts going in the right way?

**Mike Roffler**

Yes. There's a strong opportunity in 24 to see a very strong improvement in our efficiency ratio as we're really looking for ways to optimize prioritize make the company even more efficient than we are today. We expect strong operating leverage into the future.

**Casey Haire**

Okay, very good. On the switching gears to the loan growth, can we get a sense for how the pipeline is doing at year end versus 9/30?

**Mike Selfridge**

Hi, Casey. Mike Selfridge. I would say -- I would characterize it as healthy, it's down from the last quarter, but it's up year-over-year. And obviously, there's been headwinds on the refinance side. And that's been more difficult. But there's other parts of the pipeline, I would note that are doing very well. Business Banking, for example, is at a high, other avenues PLP, PLOC, securities lending. So again, healthy pipeline going into the quarter.

**Casey Haire**

Okay, thanks, Mike. And just following up on

**Mike Selfridge**

I was just going to say, the loan growth itself. I'll also note that CPR are down. And so that gives us a good base from which to grow.

**Casey Haire**

Yes. And then the capital call that came in a little bit stronger than certainly what you were sort of experiencing in November, just any color on? Does that business picking up?

**Mike Roffler**

I would say, well, a little bit of improvement from 32% to 33% utilization That's down from a year ago, which was just over 40%. So that industry is still seeing, it's challenged in the sense of slower velocity of deals just like last quarter slower pace of fundraising, but cautious, but still active investors. And there was a slight hiccup in private equity activity overall for the industry. And that drove a little bit of the utilization for us.

**Casey Haire**

Okay, great. And just one more -- the spot deposit costs at 12.31 versus 99 bps in the quarter, and also the spot CD costs, if you can provide that given that's a critical driver here.

**Mike Roffler**

Yes. We ended the quarter with an average of 99 basis points. And looking at where we ended spot at 1231. We were up about 30 basis points from there.

**Casey Haire**

Okay. Any color on the CDs versus that 279 level on the quarter?

**Mike Roffler**

It just tends to move around, depending on where we're trying to position. So I don't think it's a meaningful, I think the 129 spots the right place to be.

**Casey Haire**

Okay, thank you.

**Operator**

We'll take the next question from the Manan Gosalia with Morgan Stanley. Please go ahead.

**Manan Gosalia**

I had a question on the duration of the CD book. Some of the promo CD durations that you were offering or some of the promo CDs you were offering in the past are closer to four months. So my question is, what do you think clients doing there? Are they just rolling those CDs over for the same term? Or perhaps maybe extending the term a little bit given that you're also offering an eight-month promo rate right now? Then, if you have any comments on what the duration of the CD book is, and what percentage will likely reprice over the course of the next couple of quarters?

**Mike Roffler**

Currently I'd say clients are a little more inclined on the eight and 10 month versus shorter. Usually every rollover opportunity presents an opportunity for us to demonstrate our extraordinary client service. And so our bankers in the offices and are engaging with clients to talk about their needs? And maybe do they want to be shorter? Do they want to lock in a little bit more? Do they have other cash needs? And so I think what's important is the role of opportunity drives a conversation with the client most importantly.

Given what we talked about with the cycles earlier. Staying in sort of what I'll call a four-to-seven-month range for us has made a lot of sense, if you believe that the cycle does rollover, sort of mid-year. And so that's been our -- duration has been pretty much in that range.

**Manan Gosalia**

Got it. So should we assume a majority of CDs are going to reprice over the course next -- three to six months?

**Mike Roffler**

Yes, that's assumption.

**Manan Gosalia**

Okay, great. And then maybe just related to that, you've said in the past that you like CDs over FHLB funding, given that CDs are a good customer acquisition tool. Is there anything you can share there on -- maybe the number of new customers that are you bringing in through the promo CD offerings and so they typically come with some checking account openings as well? And is there a rate you have in mind in which it might make more sense to pivot to FHLB over CDs? Thanks.

**Mike Roffler**

So I think we'd always choose the client first, on the first part there. And typically, the CD pricing actually a little bit more attractive than the FHLB, especially right now. And so those are two benefits, but the first being the client, first and foremost. And absolutely, when they come into an office, they experience something different, versus other offices. And so our service level is meant to -- one bring them in, but second developer relationship where we have their checking and their primary banking. And so typically, we're able to get checking accounts on a very good percentage of those and build the relationship over time, which is the most important because we're playing for the long-term client relationship, not just the rate offering in the current moment.

**Manan Gosalia**

Appreciate it, thanks for taking my questions.

**Operator**

Let's take our next question from Jared Shaw with Wells Fargo. Please go ahead.

**Jared Shaw**

Let me just circling back on the expenses and the deferred expenses. Could you maybe separate those out on how much of that is coming from maybe deferred hiring versus systems or technology spending versus overall, marketing and general spending?

**Mike Roffler**

So Jared, it's a good question. I think it's really broad base. Um, some of it is we've hired a lot of people in the last couple of years. So we have efficiencies from the new core system, maybe we will hire a little bit less in certain areas. As Mike Selfridge said, in like any gym mortgage volume, there's less refinance, so you need less growth in headcount there. And so some of it is, if we had projected to grow headcount, we're going to grow a little bit less, Olga, I think, and Neil had mentioned this at Investor Day, there's some natural adjustment to our compensation levels, given the mix of business we're doing that's also factored in. And then everywhere else is a team approach in marketing it everywhere, where the team really bands together and think about where's the best dollars to spend for client service, and to make sure we continue to be safe and sound to grow. And that's how we're focused.

For example, we've hired already announced two teams this year and wealth management, as Bob mentioned, that's a great opportunity for us to hire terrific people, bring them over and have new clients come into bank at the same time. And so it's a little bit more of prioritizing and optimizing our spend to continue to drive safe, stable growth over time.

**Jared Shaw**

Okay, great. Thanks. And then, just finally, for me, I guess on the securities portfolio, can you give an update on reinvestment rates and what we should expect as maybe a target securities in cash to total assets as we go to the next few quarters.

**Olga Tsokova**

Hi, Jared, this is Olga Tsokova, look at our purchases in the fourth quarter. The yields on HQLA as a lower end low five, and the munis came higher and low six like 6.1, 6.3. And if we look at the yields today, with just a quarter and a subsequent to quarter end and HQLA remained relatively similar levels at 5, 5.25 in a quarter. And munis, yields lowered slightly from what we've seen during the quarter there at 5. 5.5.

**Jared Shaw**

Can we expect to keep cash at the same level of the total assets through the next year. Great, thank you.

**Operator**

Next question comes from John Pancari with Evercore. Please go ahead.

**John Pancari**

On the loan growth on the mid-teens growth expectation, could you perhaps going to break it out by loan category, what you're thinking is a reasonable expectation for growth? particularly on the on the mortgage side, given where we're, we're looking at rates as well as purchase activity if you can give us a breakdown of that mid-teens and the key drivers that would be really helpful. Thanks,

**Mike Selfridge**

John, it's Mike. Yes, mid-teens loan growth we're comfortable with that. I would say the mix is going to be consistent as it has been in years previous. So nothing unusual there and where it's coming from, as Jim mentioned, the disruption going on, it's never been a better time to acquire clients at First Republican. That's true for the lending side as well. We were pleasantly surprised that even refi mix was 36%. And keep in mind, those are new households, as well, the majority those reviser other banks clients that we acquire, so nothing unusual in terms of the mix.

**John Pancari**

Okay. All right. And then separately on the C-side, just wondering what non-interest income growth expectation, do you have baked into that 66% to 68% efficiency range? And then more specifically, can you kind of give us some color on how you're thinking about growth that is likely in investment management and brokerage and investment fees, curious what type of upside you see there, and maybe what your base case assumption is for the S&P and how it could impact their wealth management revenue.

**Bob Thornton**

This is Bob, maybe I'll start. So we're looking -- the first quarter, we're looking at investment management fees, somewhere in the range of $150 million. In that reflection part, we had a number of team hires late in the year that we hadn't seen fully reflect, but we got some of the benefits. S&P is up since September 30. In new team hires, so we look for this year to be a pretty strong year in terms of our overall growth and investment management fees and total wealth management fees.

**Mike Selfridge**

Yes, John. And if I just stand back for total non-interest income, we'd expect it to be in double digits, which is inclusive of wealth management is a big part of that. And then the other items that we also have had, loan fees, deposit fees, et cetera.

**John Pancari**

Okay, got it. Thanks, Mike. And then my last question is just around the LTV comment and you mentioned 57% loan to value on all your real estate loans in the produced, I guess that was, I think over the year, but maybe if you can give us a little more color on commercial real estate was the -- what is the LTV at origination in your commercial real estate portfolio? And more importantly, what is -- do you have an indication of what the refreshed LTV is in that portfolio.

**Mike Roffler**

John, it's Mike. The last two years and that would go for today the median LTV on commercial real estate origination has been about just under 50%, about 46% to be precise, median size about $2 million.

**John Pancari**

Okay. Do you have a refreshed LTV for your commercial real estate book to try to give us an idea of how the how that book is positioned here as you start to see pressure in office and other areas?

**Mike Roffler**

Yes, no, change from our conservative underwriting standards. We have always been conservative and cautious, even more cautious, and I even think our clients are more cautious. So just expect very conservative underwriting.

**John Pancari**

Okay. Thanks, Mike. Appreciate it.

**Operator**

We'll take the next question from Bill Carcache with Wolfe Research. Please go ahead.

**Bill Carcache**

I wanted to follow up on the NIM commentary, your net interest spread is down to 174 basis points versus your NIM at 245 basis points, how would you address the growing divergence across those metrics, including concerns that the net interest margin will eventually converge with the spread?

**Mike Roffler**

Well, Bill, I think the big thing that, difference between those two items is the spread doesn't factor in the nearly $67 billion of non-interest. So we're much more focused on as we talked about earlier, net interest income, versus what the, the margin will be and so the divergence doesn't really concern us at all.

**Bill Carcache**

Okay. And then on that topic is we sort of think about like remixing, the CD mix, you move back closer to pre-COVID levels, but there's growing concern that we could see CD Max revert to pre GFC levels. In this rate environment, your mix of CDs was just over 30% of deposits back in 2010. Now, are you thinking about like the remixing of non-interest-bearing deposits, essentially the mix of non-interest-bearing deposits coming lower and CDs remixing higher? Any thoughts on that would be helpful.

**Mike Selfridge**

Yes. There is a level of operating accounts that our business clients and consumers do need. And as we mentioned earlier, average balances are approaching and starting to close in on pre-pandemic. We have run CDs higher in the past. And some of our outlook that we provided earlier does reflect that we expect that to continue here into 2023. And, as we mentioned earlier, it's a terrific way to get trial with new households and continue to deepen relationships with clients. And so it's a tool the bank has used for 37 years. In some periods, you just use it a lot less than others. And now it was one of those periods we are using it more.

**Bill Carcache**

Understood. If I may, with a final question on, you guys have historically done very little with derivative financial instruments with the yield that you're earning on cash now roughly in line with your loan yields. Does that dynamic influence in any way? Whether you consider putting on swaps or at all, change how you thought about the use of derivatives?

**Mike Roffler**

It does not.

**Bill Carcache**

Okay. Helpful. Thank you for taking my questions.

**Operator**

Next question will come from Erika Najarian with UBS. Please go ahead.

**Erika Najarian**

My first question is for Mike Roffler. I think that, how the market is responding to, your guidance today is a clear indication that they expected difficulty in 2023 and, are looking ahead to 24. And to that end, could you share with us what you envisioned to be the natural efficiency ratio for First Republic, as we think as we put more volatile rate moves behind us, we think about a more normal investment cycle, and also contemplate the impact of HQLA bill to a modified LCR, goal.

**Mike Roffler**

Thank you, Erika, I think you're right to look forward to 2024. And I think when you get through this period, where the margin and net interest income is a bit under pressure, and then you go forward, when after we stabilize, when the cycle turns, you'd come back to sort of a 62 to 64 range, which is where we've been, for many years.

**Erika Najarian**

Thank you. And as a follow up there, obviously, in 2024, the investors are starting to think about cuts to Fed funds. And to that end, right, it's been a while since we've seen a terminal rate above zero. How should we think about where your deposits would settle to deposit costs would settle to relative to the terminal rate, right, we're just we've been so used to, where deposits have troughs relative to zero. And when we've looked at other points, historically, deposit costs tend to trough above, where Fed Funds troughs. So perhaps give us a sense of how you how much you think you can cut deposit costs, as the Fed starts easing?

**Mike Roffler**

Erika, thanks for the question. It'll be very mixed, driven, right. And so one of the things that we've talked about is that through 2023, checking ends up about 50% of our deposits by the end of the year, which continues to be extremely valuable. From a relative cost perspective to wherever the terminal rate ends up. And that's reflective of the client relationships and the growth and the business banking. And then money market and CDs will again depend on client appetite, and where do they want to walk in possibly for CD versus money market. And it's hard to project what that will be just because the mixed shift from time-to-time like it has now. But I think the most important thing is the value of the checking. We have the terminal rates above zero continues to be very strong relative to going forward.

**Jim Herbert**

Erika, it’s Jim, I might add for a little bit of -- of little historical perspective. The long-term as Mike said the long-term checking if you go back many years even when we bought the bank back but even before that, tends to be in the 50%, 55% range and the CDs range between sort of 10% and 20% of total. It is a mix issue and in between that is the money market. What rate they land, it's hard to predict. But the mix is actually the driver. We got it was an abnormal mix when checking went up into the high 60s.

**Erika Najarian**

Got it. And it's good to hear from you, Jim.

**Operator**

I'll take our next question from Chris McGratty with kB W. Please go ahead.

**Chris McGratty**

Just a quick modeling question. Most of the margin questions, I think have been addressed. The bolly run rate any, any help there. And I know you lowered the tax rate a bit. But any help. I know there's some seasonality quarter to quarter but kind of a full year comment on bullying coming. Great. Thanks.

**Olga Tsokova**

Hi, Chris. So in the fourth quarter, we have a couple of items that contributed to increase from the third quarter of the year. One, we had a benefit from the life insurance policy which we realized in the fourth quarter. And also, we had a positive impact for mark-to-market on some of our insurance contracts. And just to remind you, I think we brought it up on the last spot the loss goals that we use to offset some of the increases and changes from our benefit costs. So those two components contributed to the change from the third quarter. And yes, if you think about the run rate for the quarter, removing those two items, I would say still within 2022 fill in the quarter.

**Chris McGratty**

Okay, thanks.

**Operator**

We'll take our next question from Terry McEvoy with Stephens. Please go ahead.

**Terry McEvoy**

I was wondering if you could add some more color on the new offices and in 2023, certain markets that you think present the best opportunities and strategically is the near-term focus on deposits, and/or kind of capturing some of the market disruption that Jim mentioned earlier on the call.

**Mike Roffler**

Terry, the answer is yes. We are capturing a lot in terms of the disruption that Jim mentioned. But we're focused on relationships and with relationships comes the full breadth of what we offer. We probably expect maybe around six offices over the next year or so existing footprint. And then as Mike mentioned in his remarks, we're delighted to have expanded into Bellevue, Seattle. And we expect good things out of that region.

**Terry McEvoy**

One last question, checking account attrition in 2022, did that differ at all from that? I think it's at 1% longer term average you guys put in the investor presentation?

**Mike Roffler**

No, it did not.

**Terry McEvoy**

That's good to hear. Thanks for taking my questions.

**Operator**

We'll take the next question from Andrew Liesch with Piper Sandler. Please go ahead.

**Andrew Liesch**

Just a question on credit. Everything else been asked and answered. Are you seeing anything concerning out there? And when you do expect credit return, what areas of the portfolio would you expect to see the most stressed?

**Mike Selfridge**

Andrew, it's Mike, we feel very good about our positioning right now in credit. We don't expect any issues going forward. So the answer is, it's business as usual, from our perspective. And Mike noted the credit quality in his remarks and look at the three basis points of net charge offs over a 23-year period. So sticking to our knitting, being cautious, selective focusing on relationships.

**Andrew Liesch**

Great. You cleared everything else. Thanks so much.

**Operator**

And the next question comes from David Smith with Autonomous. Please go ahead.

**David Smith**

I had a question about the wealth management team profitability. You've been having a lot of the teams there lately, both last year and even in the first few weeks of this year, historically, how long is it before you start tend to see these teams reach the runway profitability? How long does it kind of take to wrap up there?

**Mike Selfridge**

Yes. It's actually relatively quick, usually within a year to 18 months. And that's really a function of fact that the teams we hired generally have a lot of traction with their clients. And then also we're getting the deposit benefit from those teams as well, which has been quite successful.