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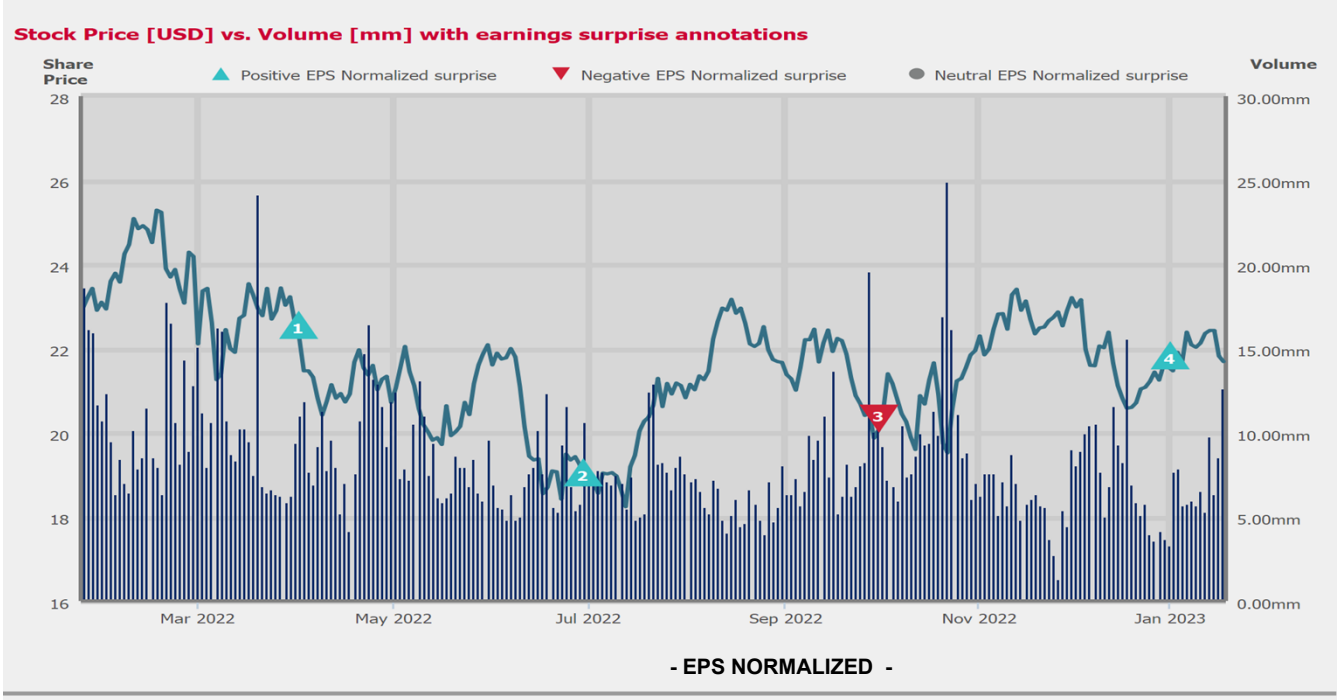
FQ4 2022 Earnings Call Transcripts

Friday, January 20, 2023 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2022-			-FQ1 2023-	-FY 2022-			-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.65	0.67	3.08	0.65	2.37	2.37	0.00	2.55
Revenue (mm)	1953.17	2014.00	3.11	1939.29	7185.70	7262.00	1.06	7805.49

Currency: USD
Consensus as of Jan-20-2023 2:05 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2022	0.47	0.55	1 17.02 %
FQ2 2022	0.53	0.59	2 11.32 %
FQ3 2022	0.59	0.56	3 (5.08 %)
FQ4 2022	0.65	0.67	4 3.08 %

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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 & Director

ANALYSTS

Betsy Lynn Graseck
Morgan Stanley, Research Division

Bill Carcache
Wolfe Research, LLC

David Patrick Rochester
Compass Point Research & Trading, LLC, Research Division

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Jennifer Haskew Demba
Truist Securities, Inc., Research Division

John G. Pancari
Evercore ISI Institutional Equities, Research Division

Kenneth Michael Usdin
Jefferies LLC, Research Division

Matthew Derek O'Connor
Deutsche Bank AG, Research Division

Stephen Kendall Scouten
Piper Sandler & Co., Research Division

Terence James McEvoy
Stephens Inc., Research Division

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Presentation

Operator

Good morning, and welcome to the Regions Financial Corporation Quarterly Earnings Call. My name is Christine, 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, Christine. Welcome to Regions Fourth Quarter 2022 Earnings Call. John and David will provide high-level commentary regarding the quarter. Earnings documents, which include our forward-looking statement disclaimer and non-GAAP information, are available in the Investor Relations section of our website. These disclosures cover our presentation materials, prepared comments and Q&A.

With that, I'll now turn the call over to John.

John M. Turner
President, CEO & Director

Thank you, Dana, and good morning, everyone. We appreciate you joining our call today. Let me begin by saying that we're very pleased with our fourth quarter and full year results. Earlier this morning, we reported full year earnings of $2.1 billion reflecting record pretax pre-provision income of $3.1 billion, adjusted positive operating leverage of 7% and industry-leading returns on both average tangible common equity and total shareholder return. Our results speak to and underscore the comprehensive work that's taken place over the past decade to position the company to generate consistent sustainable long-term performance. We have enhanced our credit, interest rate and operational risk management processes and platforms while sharpening our focus on risk-adjusted returns and capital allocation.

We made investments in markets, technology, talent and capabilities to diversify our revenue base and enhance our offerings to customers. For example, investments in our treasury management products and services led to record revenue this year. Similarly, our Wealth Management segment also generated record revenue despite volatile market conditions. And now we're seeing positive results of our comprehensive strategy. Over the course of the year, we grew revenue and average loans while prudently managing expenses, further illustrating the successful execution of our strategic plan.

So as we enter 2023, it is from a position of strength. Our business customers have strong balance sheets. They have benefited from population migration and many continue to carry more liquidity than in the past. Our consumer customer base remains healthy. Deposit balances remain strong and credit card payments remain elevated. The job market continues to be solid with approximately 2 open jobs available for each unemployed person across the Region's footprint. We have a robust credit risk management framework in a disciplined and dynamic approach to managing concentration risk. Our portfolios are more balanced and diverse than at any point in the past. We have a strong balance sheet that's well positioned to perform an array of economic conditions. We have solid capital and liquidity position to support balance sheet growth and strategic investments. And most importantly, we have a solid strategic plan, an outstanding team and a proven track record of successful execution. So as we look ahead, although there is uncertainty, we feel good about how we're positioned.

Now Dave will provide some highlights regarding the quarter.

David Jackson Turner
Senior EVP & CFO

Thank you, John. Let's start with the balance sheet. Average loans increased 1% sequentially or 9% year-over-year. Average business loans increased 2% compared to the prior quarter, reflecting high-quality broad-based growth. Average consumer loans declined 1% as growth in mortgage, interbank and credit card was offset by the strategic sale of consumer loans late in the third quarter and continued runoff of exit portfolios.

Looking forward, we expect 2023 ending loan growth of approximately 4%. From a deposit standpoint, as expected, deposits continued to normalize during the quarter, consistent with a rapidly rising rate environment. Average total consumer balances were modestly lower primarily driven by higher balance customers seeking marginal investment alternatives. Meanwhile, the median consumer balance remains relatively stable, still about 50% above pre-pandemic levels.

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Normalization was more pronounced than average corporate and commercial deposits, which were down 2% during the quarter. As anticipated, our business clients continue to optimize the level and structure of their liquidity position. We experienced remixing away from noninterest-bearing deposits to other options, both on and off-balance sheet, including those offered through our treasury management platform. Ending deposit balances have declined approximately $7 billion year-over-year, in line with our previously provided 2022 expectations.

Looking forward, we do anticipate further deposit declines of approximately $3 billion to $5 billion in the first half of 2023, reflecting continued Federal Reserve balance sheet normalization, seasonal trends and late-cycle rate-seeking behavior. We expect to experience stabilization of deposit balances midyear with the potential for modest growth in the second half of the year. Our deliberate approach to managing liquidity allows for deposit normalization and growth in the balance sheet without the need for material wholesale borrowings in the near term.

So let's shift to net interest income and margin. Reflecting our asset-sensitive profile, net interest income grew to a record $1.4 billion this quarter, representing an 11% increase while reported net interest margin increased 46 basis points to 3.99%, its highest level in the last 15 years. While deposit repricing continues to accelerate, the cycle-to-date beta remains low at 14%. Importantly, our guidance for 2023 assumes a 35% full-cycle beta by year-end. There is uncertainty regarding full cycle deposit betas for the industry. However, we remain confident that our deposit composition will provide a meaningful competitive advantage. Growth in net interest income is expected to continue until the Federal Reserve reaches the end of its tightening cycle. Once the Fed pauses, we would expect deposit costs to continue increasing for a couple of more quarters. This equates to 1% to 3% net interest income growth in the first quarter and 13% to 15% growth in 2023, assuming the December 31 forward rate curve.

Earlier in 2022, we added a meaningful amount of hedges focused on protecting 2024 and 2025. The swaps become effective in the latter half of 2023 and 2024 and generally have a term of 3 years. Activity in the fourth quarter focused on extending that protection beyond 2025. We will look for attractive opportunities to continue to expand this protection. We have constructed the balance sheet to support a net interest margin range of 3.6% to 4% over the coming years, even if interest rates move back towards 1%. if rates remain elevated, our reported net interest margin is projected to surpass the high end of the range until deposits fully reprice.

So let's take a look at fee revenue and expense. Reported noninterest income includes $50 million of insurance proceeds related to a third quarter regulatory settlement. Excluding that, adjusted noninterest income declined 9% from the prior quarter as stability in Wealth Management income and a modest increase in card and ATM fees were offset by declines in other categories, mainly mortgage and capital markets.

Service charges declined 3% due primarily to 3 fewer days in the fourth quarter versus the third. We expect to offer a grace period feature to cover overdrafts around midyear 2023 and when combined with our previously implemented enhancements, will result in full year service charges of approximately $550 million. Within capital markets, increases in M&A fees were offset by declines in all other categories, including a negative $11 million CVA and DVA adjustment.

Despite an increase in servicing income, elevated interest rates and seasonally lower production drove total mortgage income lower during the quarter. With respect to outlook, we expect full year 2023 adjusted total revenue to be up 8% to 10% compared to 2022.

Let's move on to noninterest expense. Reported professional and legal expenses declined significantly driven by charges related to the settlement of a regulatory matter in the third quarter. Excluding this and other adjusted items, adjusted noninterest expenses increased 2% compared to the prior quarter. Salaries and benefits increased 2%, primarily due to an increase in associate head count during the fourth quarter and higher benefits expense.

Equipment and software expenses increased 4% reflecting increased technology investments. The fourth quarter level does provide a reasonable quarterly run rate for 2023. We expect full year 2023 adjusted noninterest expenses to be up 4.5% to 5.5%, and we expect to generate positive adjusted operating leverage of approximately 4%. From an asset and quality standpoint, overall credit performance remains broadly stable while experiencing expected normalization. Net charge-offs were 29 basis points in the quarter. Excluding the impact of the third quarter consumer loan sales, adjusted full year net charge-offs were 22 basis points.

Nonperforming loans remained relatively stable quarter-over-quarter and were below pre-pandemic levels. Provision expense was $112 million this quarter, while the allowance for credit loss ratio remained unchanged at 1.63%, the increase to the allowance was due primarily to economic conditions, normalizing credit from historically low levels and loan growth. These increases were partially offset by the elimination of the hurricane-related reserves established last quarter.

Just to remind you, we believe our normalized charge-offs based on our current book of business should range from 35 to 45 basis points on an annual basis. However, due to the strength of the consumer and to businesses, we expect our full year 2023 net charge-off

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ratio to be in the range of 25 to 35 basis points. From a capital standpoint, we ended the quarter with a common equity Tier 1 ratio at an estimated 9.6%, reflecting solid capital generation through earnings, partially offset by continued loan growth.

Given the uncertain economic outlook, we plan to manage capital levels near the upper end of our 9.25% to 9.75% operating range over the near term. So in closing, we delivered strong results in 2022 despite volatile economic conditions. We are in some of the strongest markets in the country, and while we remain vigilant to indicators of potential market contraction, we will continue to be a source of stability to our customers.

Pretax pre-provision income remained strong. Expenses are well controlled. Credit remains broadly stable, and capital and liquidity are solid.
And with that, we'll move to the Q&A portion of the call.

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Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of John Pancari with Evercore ISI.

John G. Pancari
Evercore ISI Institutional Equities, Research Division

In terms of your deposit beta, regarding that 35% beta assumption by year-end '23, what is your -- maybe help us think about what your assumption is around noninterest-bearing mix as a percentage of total deposits. How do you see that trending through the year? What's underlying that assumption?

David Jackson Turner
Senior EVP & CFO

Yes, John, this is David. So what we did, we're at 39% noninterest bearing right now. We've always had more noninterest-bearing than most everybody. It's just the nature of our deposit base. We said we would continue to see deposit runoff this year somewhere in the $3 billion to $5 billion range. And for our guidance, we've taken all of that out of NIB. So you should expect that percentage of NIB to decline somewhat during the year. Now that's just what we put in the guide. We could see some mix changes from that NIB and maybe not, that's the most harsh it could be. So that's why we put it in the guide. So I don't know if there's a follow-up there but...

John G. Pancari
Evercore ISI Institutional Equities, Research Division

Okay. No, that's helpful. And I think to add color on the beta provides some of the additional detail. But just separately, if I could just hop over to credit for my follow-up. Can you give us a little bit of color around what drove the increase in charge-offs in the quarter. It looks like that may have been in C&I, but I want to get a little bit of color around what you're seeing there? Are you seeing any stresses in certain pockets of your loan categories that you're watching that are starting to generate some losses? And then also what drove the 14% increase in the credit card loans?

John M. Turner
President, CEO & Director

Yes, John, this is John. So we did see a little uptick in business services charge-offs in the quarter related to a handful of credits. We've identified couple areas or a couple of segments of the portfolio where we see elevated stress at the office, healthcare, consumer discretionary, senior housing and transportation on the small end of trucking in particular. We're seeing elevated levels of -- or elevating levels, I should say, of classified loans, in particular, so to the second part of your question, we are seeing some normalization in the portfolio. Classified loans are increasing toward levels that we would expect to be more "normalized" and the categories in which that -- we're seeing that change are the 5 identified, but there are some odds and ends in the portfolio as well as inflationary impacts and rising rates affect isolated customers.

In general, we still feel very good about credit quality. And as David said, we're guiding to 25 to 35 basis points of charge-offs in 2023.

David Jackson Turner
Senior EVP & CFO

And John, I'll add. If you look at Page 19, we tried to help you with the areas that John just mentioned in terms of the higher risk segments. And you can see on that page, the strength of the allowance to cover those increases in the criticized level that we have listed in the supplement, and we don't necessarily have a loss in every one of those that migrated into credit size. But what we do see, we have already embedded in the reserve and it's factored in, as John mentioned, in our guidance of 25 to 35 in charge-offs for 2023.

John G. Pancari
Evercore ISI Institutional Equities, Research Division

Yes, David, I appreciate that. If I could just ask one more on that. On the reserve, you pretty much kept it stable this quarter. Could you maybe discuss the likelihood of incremental builds here? Or do you think it fairly represents the scenarios of outlook that you're looking at there?

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David Jackson Turner
Senior EVP & CFO

Well, we certainly believe that it represents what we think is the loss content that exists today. Obviously, every quarter, we have to reassess the economy, the quality of the portfolio at those times. So we think we have it covered. The only bill that you would see from this standpoint that we know of would be related to new loan growth. And we're going to have some of that. We said we would grow loans about 4% in the end during the year. So we'll need to provide for that. But we think at 1.63% is a good coverage ratio for the risk that we have in the portfolio.

John M. Turner
President, CEO & Director

Based on our current economic assumptions.

Operator

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

Kenneth Michael Usdin
Jefferies LLC, Research Division

I just want to follow up on the funding side of the balance sheet. Can you talk a little bit about -- you guys have had the ability to just keep your loan-to-deposit ratio in a good spot. And I'm just wondering if you could kind of help us understand what you expect to do over time in terms of your wholesale debt footprint, including long-term debt? And what that would imply then for what you expect to do with the securities book over time as well?

David Jackson Turner
Senior EVP & CFO

Yes. So we continue to have one of the lowest loan deposit ratios. I think you were leading to that. We're in great markets. We continue to work on growing accounts, whether it be checking accounts or operating accounts. That's the hallmark of our whole franchise. This is the strength of that deposit base. So we will continue to leverage that deposit base in terms of our funding mix, at least for the first half of the year, we don't see the need to go into any wholesale borrowings. We have plenty of access to that should we need it.

Most of our peers, I think, have all tapped wholesale funding already. So we're being able to leverage that, and that's where we give you the pretty strong guide in terms of our NII growth for the year of 13% to 15%. So we'll see what the deposit flows are as we mentioned to John earlier, the deposit outflows we see that we put in our guide is $3 billion to $5 billion.

Now remember, we said $5 billion to $10 billion this past year, we were at $7 billion. So we've been estimating it pretty well, and we're taking to offer our guide all of that out of NIB. So we'll see what happens during the year, but you don't expect us to be looking for wholesale funding until at least the second half of the year.

Kenneth Michael Usdin
Jefferies LLC, Research Division

Okay. And then just a follow-up. You're going to do that grace period, and we saw you reiterate the $550 million of service charges. Can you just kind of just give us give an update on the state of the consumer there and behavioral changes and any other learnings and findings that kind of continue to make you confident in upholding that $550 million zone of service charges.

John M. Turner
President, CEO & Director

Yes. Well, can we continue to see consumers maintaining good deposit balance levels, spending is up modestly, but we think being managed very carefully by our consumer-customer base. We feel good about the health of the consumer overall. With respect to overdrafts and the changes that we've made to benefit customers, we've seen about a 20% decline in the number of customers who are overdrawing their accounts on a month-to-month basis, which we are happy about. That's -- ultimately, the objective is to help customers better manage their finances. And so I would say, all in all, we feel good about our guide and good about the impact of the changes that we've made have had on our consumer customer base.

David Jackson Turner
Senior EVP & CFO

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Yes, Ken, let me add to that. Embedded in the service charges is Treasury Management and Treasury Management has had a fantastic year. If you look at the fourth quarter for Treasury Management, we were up 7% fourth quarter of '22 to fourth quarter '21. If you look at the entire year, we were up 9% in TM. So that's been a positive to us, that's helped bolster that downward trend of service charges due to all the account changes that we've made and will be a strength for us going into 2023 and gives us confidence, as John mentioned, that we can meet the $550 million in service charges for the year.

Operator

Our next question comes from the line of Matt O'Connor with Deutsche Bank.

Matthew Derek O'Connor
Deutsche Bank AG, Research Division

Just a big picture, a strategic question. Obviously, you've done an amazing job growing the interest income and getting the rate call right. It seems like 3 for 3 here. But I guess the flip side is the kind of revenue mix has become more dependent on rates and the balance sheet, right, as we think about the fee composition. So long story short, the question is what strategic opportunities do you have to grow the fee revenues and maybe something that's more from an acquisition point of view to accelerate that.

John M. Turner
President, CEO & Director

Well, we've been, as you know, active making nonbank acquisitions, particularly adding to our capital markets capabilities. And we're pleased with -- despite the fact that we had a bit of a soft quarter in the fourth quarter, really pleased with the contribution that those capital markets investments are making to help us continue to strengthen relationships with customers and grow noninterest revenues up pretty dramatically over the last 6 or 7 years. Likewise, we are excited about the investments we've made on the consumer side whether it be the acquisition of Ascentium Capital, which is part of our Corporate Banking group; interbank, which gives us a chance to grow loans to homeowners, mortgage servicing rights that we've acquired, which have been helpful. And then in the Wealth space, we've made some acquisitions that have been modestly incremental helpful to us, and we continue to look for opportunities there as well. So we are, I think, positioning ourselves as we continue to accrete capital to making additional investments as we see those opportunities arise.

We're consistently looking and I think you can look for us to continue to try to build on the investments that we've already made.

David Jackson Turner
Senior EVP & CFO

Yes. Matt, let me add that. So the fact that we've been able to grow NII is actually a positive thing. We recognize it does lower the percentage of noninterest revenue as a total. But we're very proud of the fact that we've been able to manage our balance sheet in this manner. More importantly, we're trying to take the volatility out of that line item. And so if you look at our ability to hedge, we're locking in what we believe to be a very strong margin range of 3.60% to 3.90% over time, regardless of what the rate environment does. And so that gives us a lot of stability there. And if that means we have higher NII and the percentage of NIR is a bit lower than it historically have been, we're okay with that.

To John's point, we are going to look to use our capital for some nonbank acquisitions like you have seen us do, nothing too big, but just to bolster the NIR strength to make us more resilient in just about any environment that we have.

Matthew Derek O'Connor
Deutsche Bank AG, Research Division

Understood. That's helpful. And then just somewhat related, I've been asking a lot of your peers the same question, but you all seem to be building capital kind of well beyond what I would have thought that you would need. And you talked about kind of the upper end to 9.25% to 9.75% CET1, and that's not new. But I guess the question is, why are you and others potentially all building what seems to be well in excess of what you need for CCAR. Are you anticipating something from CCAR changing? Is there kind of pressure behind the scenes from rating agencies, regulators or are just all the banks deciding on their own to be a little more conservative given the cycle where we are.

John M. Turner
President, CEO & Director

Yes. Well, Matt, we can't speak for the other banks. I would say for us, it is a bit of an uncertain time. We think there potentially are opportunities to continue to make nonbank acquisitions will arise. We were fortunate enough to make 3 in a short period of time at the

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end of 2021 and just operating at the upper end of our range gives us some flexibility, and we'd like to continue to maintain that given the uncertain environment that we're operating in.

David Jackson Turner
Senior EVP & CFO

And if you look a CCAR degradation in capital was one of the lowest of the peer group. So we don't need capital to take care of the risk embedded in our balance sheet, it is really opportunistic -- opportunities we're looking for. And frankly, having a little bit more capital doesn't hurt us from a return standpoint. We generated over 30% return on tangible common equity. And so having upper end of the 9.75% won't impact any meaningful way.

Operator

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

Betsy Lynn Graseck
Morgan Stanley, Research Division

A couple of questions. One, just on the loan growth outlook, I know you indicated you expect ending balance just to be about 4% up year-on-year. Could you give us a sense as to how you're thinking through the dynamics of which pieces of the loan growth are likely to accelerate be on the high side, lower side? And then how much longer that runoff portfolio is going to impact the numbers?

David Jackson Turner
Senior EVP & CFO

Yes. So we expect loan growth to slow just with general economy slowing. I think our growth opportunities will manifest itself in the corporate banking group, commercial and corporate banking as line utilization likely goes up a bit. I think there will be some opportunities in the real estate. We did have some growth of real estate, primarily multifamily, still happy with that. We do have one of the lowest concentrations of investor real estate compared to the peer group. But we look at utilizing our capital selectively with the right customers, doing the right things, in particular, like I said, multifamily.

On the consumer side, our interbank acquisition we had in the end of '21, as John mentioned, is doing well for us. We look for that to have opportunities to continue to grow. And mortgage, while it's going to be challenging again in '23 because of the rate environment, although it's settled back a bit, it will give us some opportunity to grow a bit in the consumer side. As you mentioned, we do have some runoff portfolios. Our last one -- by the time we get to the end of this year, we're probably not having a discussion about exit portfolios anymore.

John M. Turner
President, CEO & Director

Yes, I would just add, despite the fact that we expect a small business customer to be under some pressure in more challenged economy, we're seeing real opportunity through the Ascentium Capital platform, making loans to businesses on business essential equipment. We're able to leverage that platform, which is very specialized in nature through our branch system into our existing customer base and over 35%-plus of our branches in 2022 originated a loan through the Ascentium Capital. We'll see more of that grow, I think, and again, another opportunity to leverage an acquisition into our existing customer base.

Betsy Lynn Graseck
Morgan Stanley, Research Division

Yes, that was going to be one of my follow-ups, just trying to understand Ascentium and the dynamic and the driver that it is for you. And I guess the underlying question here is, is it -- what's the average size of this loan, an Ascension loan? Is it more of a small business side or medium? Or maybe you can give us some color around that.

John M. Turner
President, CEO & Director

Yes. It is a small business. It's loans originated on equipment that is, as I said, business essential. So the thesis is that, that business owner is likely to pay that loan first because he has to -- he or she has to have the equipment to operate the business. The average size of the loan is about $75,000 and the term would be 3 to 4 years on average.

Betsy Lynn Graseck
Morgan Stanley, Research Division

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Okay. Great. And then just lastly, a follow-up on the funding question that came up earlier. I mean, we're hearing from others that borrowing from Federal Home Loan Banks is interesting, even though the base rate sticker price might look a little higher. You obviously get some dividend back from the slot you also get the fact that you don't have to pay the FDIC. So I'm just wondering, is it at all attractive to you at some point to lean in more there or not?

David Jackson Turner
Senior EVP & CFO

Well, I think we'll need to evaluate with that closer when we get to the point where we need it. We still have opportunities. We've had a $2 billion to $3 billion worth of corporate deposits that have moved off our balance sheet to seek higher rates that we weren't willing to pay. Those are our customers. We own their -- still have their operating account. They just moved their excess cash elsewhere. So there's an opportunity to go back to those customers first before we need to seek other wholesale funding. But I think we have all avenues. We have term debt to that can help us with the FDIC as well. We'll just have to evaluate the total cost of all of our opportunities at that time, which I said earlier is really going to be in the second half of the year.

Betsy Lynn Graseck
Morgan Stanley, Research Division

Right. You haven't needed that at this stage. Got it.

Operator

Our next question comes from the line of Stephen Scouten with Piper Sandler.

Stephen Kendall Scouten
Piper Sandler & Co., Research Division

So it's hard to pick apart anything in this quarter, results were fantastic. I guess the 1 question I get from people is, as we start to see maybe some normalization in credit is, how do you really highlight for folks, how much different your franchise is today versus pre-cycle? I know you've laid some of that out in mid-quarter presentations. The shift to investment grade and so forth. But how would you combat that pushback from some folks?

John M. Turner
President, CEO & Director

Yes. I think balance and diversity is the first thing I would point to when you look at pre great recession our balance sheet, whether it be on the right side or the left side, assets or liabilities. We had concentrations in certain asset classes, and we were very dependent on interest-bearing deposits for funding. If you look at the reshaping of our balance sheet over time, our -- liability side of our balance sheet, I think, is really strong and provides as we've talked about to this point, the foundation for our outperformance and we expect that will continue.

On the asset side of the balance sheet, we have only -- less than 10% of our outstanding are in investor real estate. That's down significantly from precrisis levels. And we also, I think, have been very, very committed to concentration in risk management. We have a very active and ongoing credit risk management process, which we believe will produce much better results than we had previously delivered. We're committed to consistent sustainable long-term performance, and that requires that we manage credit risk well. At the end of the day, I know we've got to deliver, and we intend to do that, but we think we're well positioned.

David Jackson Turner
Senior EVP & CFO

I would add that we also developed, not too long ago, a new tool. We call it [Our Click], which didn't mean anything to you. But what it does is it analyzes the cash flows of each of our customers. And we've built that developed that tool to give us an idea of product concerns that a customer may need from us that they don't have. What we found is it gave us such good information on cash flows every month that it gave us an earlier indicator of potential credit stress. And that's part of what you're seeing when you see us move things into criticized categories we can be more proactive because we have better information to manage credit risk management through that tool.

Stephen Kendall Scouten
Piper Sandler & Co., Research Division

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Got it. That's extremely helpful. And maybe just 1 other question for me there is loan growth, the 4% guide. I completely respect all the shifts and concerns in the environment that may take that down there. But you put up 11% growth this quarter, utilizations continue to increase. Where could you outperform that 4%, I guess, if the environment maybe wasn't as bad as we might fear? And -- how do you think about that shift you've talked about in the capital markets? And what could really drive that pushing some of those customers back into that space?

John M. Turner
President, CEO & Director

So we're currently modeling about $2 billion, I think, in current outstanding that could move back. It could move off the balance sheet if capital markets open. That's a rough number, but that's give you some indication of a "headwind" if the capital markets do open. So that could be a plus or minus to answer your question, and I think would be the one area where we probably would see more growth than we anticipated if that did not happen.

David Jackson Turner
Senior EVP & CFO

Our line utilization is still below historical levels. Every 1-point increases about $600 million in outstanding. So we get people drawn on their lines, perhaps that could be helpful. We'll see what the rate environment looks like with regards to mortgage. We'll see what the economy looks like for consumers to improve their home and leverage interbank. So there are some opportunities for us to outperform those numbers if the economy kind of continues along its current path. It's still fairly healthy, and inflation is coming down. So I think we have some opportunity to outperform there.

Operator

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

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Can you guys share with us, you gave an interesting slide in your deck about how your deposit customers have more deposits than your accounts than pre-pandemic, I think, at Slide 17. Have you reached out and what's driving these numbers? Because obviously, you hear about the savings rate nationally is down, but you and your peers are showing numbers like this. And I was just wondering if you could share with us what your -- some of the trends that you're seeing here that keeps these balances the way they are?

David Jackson Turner
Senior EVP & CFO

Yes. The specific page on 17 on the right-hand side, we're talking about those customers that had less than $1,000 in their account. And that -- compared to the end of '19, they have 6x the balances. A big driver is that cohort was the recipient of a lot of stimulus that stimulus could have come in the form of absolute transfer payments, that could have come in the form of minimum wage increases. Those are permanent. So what we've seen is our customers actually are making more money, and they're keeping it -- they're keeping their spending under control even though we have inflationary pressures.

So that cohort has had more wage growth than most everybody else and we don't see it going away. We're a bit surprised and we're watching it every month to see if there's a change, but I think the slide was fairly consistent with what we showed you last quarter as well. So from a -- you're really talking about just the consumer on Page 17, but business customers continue to have more liquidity as well.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

I got it. So the wage growth -- they're having better wage growth than most people on this call then, right, David?

David Jackson Turner
Senior EVP & CFO

Yes, sir.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

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Moving on to Slide 19. In the high-risk industry segments, a couple of questions. One, can you share with us -- and maybe you addressed this already in the earlier comments on this slide. But in the office space, is it mostly the Class B and C that or Class B that you're more focused on than Class A? And then second, could there be other industry segments that could show up in the slide 6 months from now or 12 months from now?

John M. Turner
President, CEO & Director

Yes. Gerard, I'd say with respect to your question about office, that would be accurate. We're focused on, let's say, the non-Class, 82% of our portfolio is Class A, 63% is in the Sunbelt. About 36% of our portfolio is single tenant. So the portion that we are concerned about would be Class B space, a good percentage of it is also in suburban markets of 74%, I think, in suburban markets. In terms of industries or segments that we have some concern about, I would say that we're still watching senior housing closely. I think it's performed okay, post-pandemic, but it's an area that we had some concern about rising cost, availability of labor, things that impact that particular segment and then consumer discretionary as people continue to feel the pressure of rising costs and/or the uncertainty in the environment, we think that -- and as unemployment begins to moderate a bit, we think that consumer discretionary is an area that could be impacted.

Operator

Our next question comes from the line of Terry McEvoy with Stephens.

Terence James McEvoy
Stephens Inc., Research Division

Maybe first one, I was hoping you can provide a little bit more details on, I guess, it's Slide 7 in one of those footnotes, specifically how the $40 million security hedge benefit in the fourth quarter will, and I'll put in quotes here, "migrate to loan yields" as those hedges on loans mature. And I guess from a high-level trend to make sure I understand the impact of that $6-plus billion hedge on securities that matured last quarter?

David Jackson Turner
Senior EVP & CFO

Yes, sure. So what we did at the end of December of '21 is we wanted to add some more sensitivity to the fourth quarter. We had some hedges that were maturing in that fourth quarter that we received fixed swaps. But we wanted to move that and have those effectively terminate a quarter earlier. We could have torn those up, but it would have taken a lot of effort to do so because there are a bunch of small notionals in there and the cost and time to do that. Really, there's an easier way to do it, which is we purchased a pay fixed swap for that quarter. And so when that sensitivity came back, it generated about $40 million in the quarter. Now our sensitivity naturally comes back in the first quarter because we have received fixed swaps that are maturing right at the end of the year. So that sensitivity came back naturally in the first quarter, and that's why you won't see a decline due to this $40 million that we had in the fourth quarter.

That is also why we've been able to give you guidance that we're going to grow NII in the first quarter somewhere between 1% and 3%. So it's not a cliff. You don't need to worry about having a cliff effect for it. That makes sense.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

It does, yes. Then as a follow-up, and I don't mean to be 2Q, but I've had a few people ask me. If I look at your 1Q and full year '23 NII guide, does -- is the -- the fourth quarter appears lower than the first quarter. So maybe could you just talk about kind of the trajectory of NII as you think about it today?

David Jackson Turner
Senior EVP & CFO

Well, we've given you a guide for the year of 13% to 15% up. We've also given you a guide from the fourth quarter to the first quarter growth of 1% to 3%. Now obviously, there's more pressure as after the Fed stops raising rates for a quarter or two, you're going to see deposit costs continue -- they lag. So you're going to continue to see pressure after that. It's going to affect everybody in the industry that way. And so you'll see that decline at some point quarter-over-quarter during the year. So that's why it's harder just to extrapolate the fourth quarter, but we'll see where the Fed goes. Our guidance is predicated on the December 4, if that changes, then we'll come back and update our outlook, but that gives you enough information to be able to model and do your sensitivities. But yes, there will be some declines in NII based on the forwards sometime during 2023.

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Operator

Our next question comes from the line of Dave Rochester with Compass Point.

David Patrick Rochester
Compass Point Research & Trading, LLC, Research Division

A follow-up on capital. You guys had a nice bump up in ratios this quarter. And just given the loan growth outlook you're talking about; it seems like you'll be at the top end of that target range for CET1 by the end of 1Q. I know the buyback hasn't been a big priority for you recently. But at what point do you think that it might make sense to turn back on?

David Jackson Turner
Senior EVP & CFO

Yes. So as we think of capital allocation, before I get there, let me point out one thing. We do have the impact of the regulatory change that will hit us in this first quarter as everybody. That's about 10 basis points working the other way. So -- but your question is broader, how do we think about capital allocation, including repurchases. So first off, we want to use our capital to support our loan growth. We want to pay a dividend in the 35% to 45% range. We've been at the low end of that. So we would like to operate over time, at least in the middle of that. We want to use some of our capital for nonbank acquisitions, in particular, to bolster our noninterest revenue as we discussed. I forgot who asked that question. And then the kind of we use the share repurchase as the toggle will keep our capital where we want it to be, which we said would be at the upper end of our range of $9.75. We just think that's prudent with uncertainty overly negatively affect our return. So if we go meaningfully over that, we could turn on share repurchases and we'll just have to see how that -- the capital generation should be very strong in 2023. And we should have enough to do all things I mentioned and if we can't put our capital to work doing a nonbank acquisition, then we'll give it back to the shareholders.

David Patrick Rochester
Compass Point Research & Trading, LLC, Research Division

Okay. I appreciate the color there. And then back on the $3 billion to $5 billion deposit one-off outlook you talked about earlier. I was glad to hear you seem to be conservative with assuming all of that runoff was in noninterest-bearing deposits, was curious regarding the big picture, what you're seeing in the book that gets you to the $3 billion to $5 billion range? And how sensitive is that just a stronger move up in Fed funds, if we end up seeing that and then how are you thinking about funding that runoff where that's going to come from the securities book, which is lower rate or if you're assuming some of that or most of that comes out of cash at this point in your NII book.

David Jackson Turner
Senior EVP & CFO

Yes. We have plenty of cash right now to take care of that runoff. So that's not a big deal. That $3 billion to $5 billion or -- there's some corporate changes in there that will be seeking rates. There's some consumer changes that are seeking rates. Historically, movements like this happen late cycle. So we're getting there. We all think that we're getting towards the end of the cycle and so people will look to capture that upside so they can lock in the best rate before rates start going the other way. So how much conservatism we have in there, we'll see. We had a pretty big run-up in deposits, $40 billion during the pandemic, and we're holding on to quite a bit of that more so than we originally thought, but I think it would be prudent to -- we think it's prudent to put in this runoff of $3 billion to $5 billion and again, conservatively all in NIB.

Operator

Our next question comes from the line of Bill Carcache with Wolfe Research.

Bill Carcache
Wolfe Research, LLC

Could you speak to concerns that we could see the mix of time deposits and noninterest-bearing deposits return, potentially not just the pre-COVID levels, but back to pre-GST levels in this environment. You've given a lot of great detail on the strength of your deposit size, but it would be great to hear your thoughts on sort of that risk, both broadly at the industry level and more specifically for reasons as we look ahead from here.

David Jackson Turner
Senior EVP & CFO

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Yes. You're breaking up a little bit, but I think what your question was, how do we think about time deposits versus noninterest-bearing deposits and where will we settle out over time? So we're sitting here today at 39% noninterest-bearing. There have been some movements out of that to -- because we were over 40% into CDs. So we do believe there's going to be some remixing that's built into our beta assumption of 35% through the end of the year. We still think we'll have more NIB than most everybody because that's the nature of our deposit book. Very granular deposits, in particular on the consumer side where we have leading primacy that makes a difference. So money goes in, money goes out. They're not seeking rate, they use it as there, that's their operating account. And so we believe that we will continue to see some decline in the NIB. Again, we conservatively put $4 billion out of that. We think there's probably a chance that there'll be -- it won't all come out of NIB, but we thought that was the best thing to do from a guidance standpoint.

Bill Carcache
Wolfe Research, LLC

That's very helpful. And then separately, I wanted to follow up on your comments around the NIM protection that you put in place, how would you respond to the view that the downside protection that banks are putting on in this environment doesn't make a lot of sense because of the negative carry associated with it since the forward curve discount everything that we see in the current environment, you're effectively just investing at whatever the yield curve is -- whatever the yield curve is at the moment.

David Jackson Turner
Senior EVP & CFO

Well, the most important thing to remember is our hedging strategy is not meant to generate increases in NII. It is a risk reduction measure. It's a hedge, is to protect us in low rates. When you have a deposit franchise like we do that has lower costs than our peers, and that's the way it's been historically. As rates come down, we don't have a mechanism to protect our net interest margin because we can't lower deposit costs much as low as our peers can. Therefore, we have to do it synthetically. And that's what the hedge program does. And we set these up generally forward starting. So we don't have negative carry until they start or the risk of negative carry until they start.

And frankly, if we do at that time, that means rates are higher, and the rest of our book is earning that much more, and we're okay with that. What it means is, yes, it cost us a little bit in NII, but we have a leading margin. So we're okay. You can't think of it as a trade as some people talk about it as being a trade. That's not what it is. it's a hedge to protect us in a low rate.

Operator

Your final question comes from the line of Jennifer Demba with Truist Securities.

Jennifer Haskew Demba
Truist Securities, Inc., Research Division

A question on loan growth. I'm just curious how much competitive retrenchment you're seeing from the banks you compete with most often? And how offensive are you willing to get for credits that look really attractive right now to you?

John M. Turner
President, CEO & Director

Well, I would say, first of all, plenty of competition out there, and we don't -- while there are certain segments, particularly real estate, where there are some competitors who are not as active today for a variety of reasons, in general, the market is very competitive, whether it be large banks, regional banks, smaller banks that we compete with. And so we've got to be actively calling on our customers and our prospects and being very diligent in our activities, making sure that we're in the market in front of customers. When we're doing that, we get opportunities.

With respect to how aggressive we want to be, we don't change our approach to how we think about credit risk management, how we think about pricing and structure. We want to win because we have expertise because we provide really good ideas and solutions to customers, and we think that, that resonates. And as a result, has helped us continue to build on growth in our portfolio.

Okay. That's all the calls, I think. I'd just end by saying we're awfully proud of our 2022 results and the momentum that we're carrying into 2023. We've worked hard over the last 10 years to remake our business and to build a balance sheet and income statement and importantly, a culture of risk management that will allow us to deliver consistent, sustainable performance. And we think we're seeing that now. We're going to continue to focus on organic growth and investing in our business, and we believe we'll continue to deliver the kinds of results that you've seen in 2022.

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So thank you for your interest in our company, and have a great weekend.

Operator
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