Bank of America
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Alastair Borthwick – Bank of America, CFO
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Glenn Schorr – Evercore ISI
John McDonald – Autonomous Research
Mike Mayo – Wells Fargo Securities
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Matt O’Connor – Deutsche Bank
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Steven Chubak – Wolfe Research
Gerard Cassidy – RBC Capital Markets

Presentation
Operator
Good day, everyone, and welcome to the Fourth Quarter Bank of America Earnings Announcement Call. (Operator Instructions) Please note, this call may be recorded. (Operator Instructions) It is now my pleasure to turn today's conference over to Lee McEntire. Please go ahead.

Lee McEntire
Thank you, operator. Thank you for joining our quarterly earnings call. Good morning to everybody. I'm sure by now, you've all had a chance to review the earnings that were released before 7 this morning. As usual, they're available, including our earnings presentation that we will refer to during the call on the Investor Relations section of the bankofamerica.com website.

I'm going to first turn the call over to our CEO, Brian Moynihan, for some opening comments; and then we will hear from Alastair Borthwick, our CFO, who will cover the details of the quarter.

Before I turn the call over to Brian and Alastair, let me just remind you that we may make some forward-looking statements and refer you to the non-GAAP financial measures during the call regarding various elements of our financial results. Our forward-looking statements that may be made are based on management's current expectations and the assumptions therein and are subject to risks and uncertainties.

Factors that may cause our actual results to materially differ from expectations are detailed in our earnings materials and the SEC filings that are available on the website. Information about the non-GAAP financial measures, including reconciliations to those, can also be found in our earnings materials that are available on the website.

So with that, let me turn it over to Brian, take it away.

Brian Moynihan
Thank you, Lee, and good morning to everyone, and thank you for joining us again. I hope all of you continue to manage safely through the new variant.
First, I’d like to start this call by recognizing that Paul, our CFO for many years, has now moved on to help us with our efforts helping our customers make a just transition to a low carbon footprint, and I want to thank him for his many years of service. And welcome, Alastair, to the call. Our new CFO has been in that role since November 1, and he’s off to a great start, and you’re going to hear from him in a minute.

So just stepping back on the cover slide. Today, we reported $7 billion in after-tax net income or $0.82 per diluted share. That’s up significantly from the year-ago period. This quarter was a repeat of the themes we discussed with you in the last few quarters, the pre-pandemic organic growth engine that is Bank of America is fully back in place and producing success. We had strong organic and responsible growth across all our businesses. We grew revenue and produced positive operating leverage. We continue to see very strong asset quality metrics. We support our clients and our need for capital, and we made further progress in support of local community efforts across all our markets.

I want to congratulate you -- congratulate importantly and thank our 200,000 teammates around the globe for all the great work they did in 2021 that enabled us to deliver for our clients, our team, our shareholders and our communities.

Let’s go to start on Slide 2 and a few comments about our full year results. This quarter capped a record year of $32 billion in earnings for 2021 and represented significant growth in net income over 2020. We even saw a more significant growth in EPS as share count dropped. We generated more than $7 billion of earnings in every quarter in 2021.

Revenue grew 4% year-over-year and activity gained momentum throughout the year. NII grew well in the second half of the year, which complemented fee growth, especially in our markets-related businesses. Wealth Management, investment banking and sales and trading revenues were all strong in ’21.

Pausing on NII, recall that in the first quarter 2021, we noted at the time that our expectation is that quarterly NII could progress up by $1 billion per quarter as we entered the fourth quarter. And in fact, we have recorded fourth quarter NII that is $1.2 billion or 12% better than first quarter ’21. Our teams managed well through the rate volatility, and we grew loans and deposits with our customers as the year progressed. That sets us up nicely for 2022, and Alastair is going to talk about that in a minute.

Expense was well managed, but expense did go up as we continue to invest for growth. That’s axiomatic. Our COVID-related costs remained elevated and revenue-related costs grew. So while we do not see full year operating leverage, we did, however, return to strong operating leverage in each of the last 2 quarters of the year, restarting our streak that we had before the pandemic.

Credit remains stellar through 2021. Charge-offs consistently improved each quarter. Our commitment to responsible growth remains well placed. We are growing faster than the market and keeping credit costs in check. The economic improvement and our strong credit allowed us to release much of the reserves we built in 2020.

When you look at the balance sheet, we grew deposits $270 billion in 2021. That was on top of the $360 billion of growth we had in 2020. Our loan growth accelerated throughout the year. Fourth quarter represented the strongest quarter of organic loan growth we have experienced at Bank of America. Now of course, that’s absent the first quarter of 2020 at the start of COVID, which had $70 billion of panic drawdowns in a few weeks.

At the end of the day, we produced strong ROA and a 17% ROTCE for you, our shareholders, and we returned $32 billion in capital during the year.

Let’s go to Slide 3. The best way to highlight the drivers behind the earnings success is to look at the momentum in client activity across the businesses. This shows organic growth engine is running hard. More and more of this client activity is powered by our digital transformation, which is foundational to everything we do. We are proud of our digital stats and continue to spotlight our results later in the materials as usual, see Pages 24 to 28.
But some key stats on this page. Consumers logged into our digital channels more than 2.7 billion times in the fourth quarter alone. Erica, our digital financial assistant, completed more than 400 million requests from our clients in the year 2021. Half our consumer sales were digital in the fourth quarter. 86% of all the check deposit transactions are now digital. Customers used Zelle to transfer $65 billion in the most recent quarter. The number of Zelle transactions now surpasses the checks written by our consumers.

Cash flow approvals by our commercial and corporate clients to move money grew 240% since the pandemic. So the digital journey continues, and that supercharge is our relationship manager-driven model. And together, that has driven the growth in loans and deposits and fees.

Net new checking accounts have grown in each of the past 12 quarters. This contributes to the continued growth in our core deposits. This also demonstrates the extent of our leadership position with U.S. consumers and deposits. We have $1.4 trillion in deposits from all American consumers.

On credit cards at roughly 1 million new accounts in the fourth quarter alone, that’s now operating at the same level of new card production as it was pre-pandemic. We’re going to continue to drive that opportunity.

When you think about consumer investments, Merrill Edge, as we call it, we opened 525,000 new accounts in the year 2021. Those accounts carried when they were new at opening, $70,000 in balances for each of those accounts. This demonstrates the deep penetration of the mass affluent customer base of America.

Sales of bank products in both Merrill and our Private Bank teams have remained strong. Now when you combine Merrill, the Private Bank and consumer investments, they produced more than $170 billion in net client flows in 2021. In Global Banking, we had record years of investment banking fees combined with strong GTS results. In Global Markets, we saw record equity sales and trading revenue. These are just a few examples of the types of client activity that are driving market share gains for our company.

As I’ve done in the past, I want to spend a few minutes on the broader economy, and I’ll use our own customer data to make a few points. Let’s go to Slide 4. First, on consumer spending, I’d offer a few thoughts. We are a provider of choice for individuals and businesses when paying for goods and services. Our award winning and easy-use capabilities across all forms, help clients budget, save, spend and borrow carefully and confidently. We look at all forms of consumer spending, including ACH wires, bill pay, P2P cash and checks.

Many firms and many people discuss credit and debit spending, but as you look at the chart on the lower left-hand side of Page 4, you can see that 80% of the money moves in other form. So what happened in 2021? Well, consumers spent record amounts in context on comparing ‘21 against the pre-pandemic period of ‘19. And you can see that in the upper chart on both sides of the page.

Bank of America’s 67 million clients made $3.8 trillion in total payments during 2021. That was an increase of 24% over pre-pandemic levels, an all-time high. Fourth quarter in December payments also reached record highs. Fourth quarter payments were up 28% over 2019. The December payments were up 30% over 2019. These are the dollar volume payments, but likewise, the numbers of payments were up double digits also and showing more and more activity.

Just focused on debit and credit spending for the holiday period of November and December, spending was up 26% over 2019. This data confirms that consumers continue to spend into the holiday season. And so far this year, that strength continues. For all the spending of all types through January 17, 2022, we have seen it up over 11% versus the start of ‘21, which is well up over ‘20 and ‘19. That bodes well for the rest of the year and quarter.

Focusing on the channels of payment in the lower right-hand chart, that you’d expect cash and check volumes are down 24% for 2021 compared to ‘19. This simply means more and more customers are using our digital capabilities to achieve their goals each year. Now importantly, though, this allows us to grow our
consumer business with lower cost. We believe there’s lots of potential spending capacity left as average deposit balances continue to move up to the end of the year despite the heavy spending you see.

We had one segment, one cohort of deposits that dipped for 1 month out of the last part of the year. In November, we had a small dip in customers who had $2,000 or less in their balances pre-pandemic. They dipped by 1%. Other than that every cohort from June, July, August, September, October, November and December all grew every month. And what’s striking is that the balances for people had less than $2,000 average balances before the pandemic, they’re now sitting with 5x the balances they had pre-pandemic. For those customers at $10,000 in accounts before the pandemic, they’re now sitting with 2x in their accounts. The teams track this data carefully and it shows the spending power left in the American consumer.

Another economic signpost worth noting with our customer activity was acceleration of loan growth in the fourth quarter. Earlier this year, we -- earlier last year, we talked about the green shoots of loan growth we saw in the first quarter, and we saw that turn into growth as we move through the quarters, culminating with $50 billion in record loan growth this quarter. We note these borrowers, both consumer and commercial, have strong capacity to continue to borrow if they so desire as lines across the border in low-usage status.

We provide Slide 5 to show you the daily outstanding loans again this quarter, which gives you a sense of progression across time. Every loan category saw improvement this quarter except for home equity. But I would draw your attention to on Slide 5 is the addition of the pre-pandemic starting point to give you some reference.

With some of the growth this quarter was in Global Markets, and that business ebbs and flows with the market activity. $35 billion of that $50 billion was in the core consumer and commercial books. So far in January, the business other than global markets continue to show growth over the end of the year.

So let’s start and talk about the commercial portfolio where we have moved above the pre-pandemic level for the most recent growth. Commercial loans, excluding PPP, grew $43 billion or 9% linked quarter. Compared to quarter 3, growth this quarter was broad-based across all segments of commercial lending. We saw improvement in both new loans as well as improving utilization from existing clients. This reflects the intense relationship manager effort our teams have done and -- across the last couple of years and adding more and more relationship managers.

Commercial loans of wealth management clients extended their growth trend this quarter as these customers barred for various liquidity needs for asset purchases. In small business lending, the all-important small business segment, lending activity is running consistently above pre-pandemic levels. And especially in our Practice Solutions Group that supports medical dental and veterinary practices, we continue to see continued momentum and finished one of the best years across all small business with our Business Advantage Rewards cards.

Turning to consumer loans. Card loans grew $4.6 billion or 6% from quarter 3 levels. This occurred as spending increase and even occurred as payment rates paying off the card completely trended higher for the quarter. Card balances still remain well below the pre-pandemic levels of $95 billion, and we continue to push that opportunity. Mortgage loan levels grew 2% linked quarter as origination remained at high levels and paydown slowed down.

On the next, Slide 6, I would like -- I would say that while we deliver capital back to our shareholders, $32 billion, and we invested in our teammates, we also continue to invest in our communities through our local teams across the country focused on our markets. I call out the reference in the bottom of the slide, middle -- bottom middle of Slide 6 to the sweeping changes we announced last week in our NSF policies. These updates continue the work we began over a decade ago to simplify our product set and allow a great experience for our clients and an efficient capability for our operations. Eliminating NSF fees and reducing the overdraft charge per occurrence from $35 to $10 and the other changes we’re making is a big win for our clients. It's going to have an obvious impact on those fees, which have fallen dramatically since 2009
and 2010, but currently run about $1 billion in ’21, and we’d expect them to drop by 75% over the next year or so.

With that, let me turn it over to Alastair.

Alastair Borthwick
Thank you, Brian, and good morning, everyone. I’m going to take us to our fourth quarter results on Slide 7, focusing on comparisons against the prior year quarter. And I’ll also talk through the high-level commentary on Slide 8.

As Brian noted, we produced $7 billion in net income, which grew 28% from fourth quarter ’20, while earnings per share of $0.82 improved at a faster 39% pace due to our share repurchases. Looking at our top line improvement on a year-over-year basis, revenue rose 10%. The improvement was driven by a $1.2 billion increase in NII and a little more than $800 million increase in noninterest income. Each business segment produced strong noninterest income results. And as you look at significant components of revenue, it was pretty consistent through the quarters in 2021.

One important aspect of responsible growth has been to grow consistently and sustainably. And I think we executed on that in 2021 with investment banking over $2 billion each quarter; sales and trading near or above $3 billion each quarter; investment and brokerage services revenue over $4 billion each quarter.

With regard to expenses, our revenue-related costs increased and we continue to make investments in our people and our capabilities to grow the franchise. At the same time, lower COVID costs and further digital engagement have helped to offset some of those increases. In the fourth quarter, revenue growth outpaced expense growth on a year-over-year basis, which produced operating leverage of 400 basis points and a 19% year-over-year improvement in pretax pre-provision income to $7.3 billion. With regard to returns, our ROTCE was 15%, ROA was 88 basis points, both of which improved nicely over the year.

Moving to Slide 9. During the quarter, the balance sheet grew $85 billion to a little less than $3.2 trillion, and this reflected the $100 billion of growth in deposits. These deposits funded $51 billion of loans growth. And we also added $14 billion in securities and so our cash increased by $68 billion. Partially offsetting these increases were typical year-end moves in our Global Markets balance sheet.

Our liquidity portfolio grew to $1.2 trillion or a little more than 1/3 of our balance sheet and shareholders’ equity declined $2.4 billion from Q3 driven by the $8.9 billion of capital distributions, which once again outweighed earnings in the fourth quarter as it did in Q3.

With regard to our regulatory ratios, CET1 under the standardized approach was 10.6% and remains well above our 9.5% minimum requirement. The CET1 ratio declined 50 basis points from Q3, driven by excess capital reduction as well as an increase in our RWA due to the strong loans growth. And we’re happy to see that capital usage increasingly needed to support customers and to fuel their growth, while still producing plenty of capital to return to our shareholders.

Earnings alone in the most recent quarter contributed 45 basis points to our CET1 ratio before the other capital impacts of share repurchase. Given our deposit growth, our supplemental leverage ratio declined to 5.5% versus a minimum requirement of 5%, which still leaves plenty of capacity for balance sheet growth. And our TLAC ratio remained comfortably above our requirements.

Turning to Slide 10. We included the schedule on average loan balances, but in the interest of time, I don’t have anything to add beyond what Brian noted earlier.

Moving to deposits on Slide 11. We continue to see significant growth across the client base as we deepened relationships and added net new accounts across our deposit-taking businesses. Combining both consumer and Wealth Management customer balances, I would highlight that retail deposits grew $48 billion from Q3. Our retail deposits have now grown to nearly $1.4 trillion, and we lead all competitors.
We also saw continued strong growth with our commercial clients. And remember, the deposits we’re focused on and are gathering are the operational deposits of our customers in both consumer and wholesale.

Turning to Slide 12 and net interest income. On a GAAP non-FTE basis, NII in Q3 was $11.4 billion. But I know, as investors, you tend to focus on the FTE NII number, which was $11.5 billion. So focusing on the change on an FTE basis, net interest income increased $1.2 billion from Q4 ‘20 and or 11%, driven by deposit growth and related investing of liquidity.

NII versus Q3 of ‘21 was up $319 million, driven by deposit growth and then higher securities levels as well as loans growth. Premium amortization declined roughly $100 million to $1.3 billion in Q4, and the positive NII impact of lower premium amortization offset lower PPP fees.

Given continued deposit growth and low rates, our asset sensitivity to rising rates remains significant. It’s modestly lower quarter-over-quarter as long-end rates moved higher, and we recognized some of that sensitivity in our now higher reported level of NII.

So I’d like to give you a couple of thoughts on NII expectations for 2022. First, I want to start by reiterating Paul’s comment last quarter that we expect to see robust NII growth in 2022 compared to 2021. That assumes we see continued loans growth and the rising rate expectations embedded in the forward curve.

And in the first quarter specifically, we expect 2 headwinds. First, there are 2 less interest accrual days in the quarter. And as a reminder, we picked those back up in the subsequent 2 quarters. Second, we expect less PPP fee benefits. Combined, those 2 headwinds add to about $250 million. Despite those headwinds, we would still expect Q1 to be up about a couple of hundred million from Q4 and should grow nicely each subsequent quarter in 2022. Again, that’s, of course, dependent upon the realization of the forward curve and some loans growth.

Lastly, we see the forward curve now expecting a new rate hiking cycle to begin, we added Slide 13, as we thought it might be helpful from a historical context to see the trend of NII across the years since the last rate hike cycle. And what I draw your attention to is the stark difference in the size of our balance sheet today. And because of that balance sheet differential, today’s NII is already at the NII level we saw when we were well into the middle of the last rate cycle. And importantly, our short-end asset sensitivity today is twice what it was in the third quarter of 2015 as that cycle began.

Okay. Let’s turn to costs, and we’ll use Slide 14 for that discussion. Our Q4 expenses were $14.7 billion, an increase of $291 million from Q3. Higher revenue-related costs, and to a lesser degree, seasonally higher marketing costs drove the increase. As Brian noted at a mid-quarter conference, our Q4 expenses were a bit higher than we anticipated when we ended the last quarter. Revenue continued to hold up well, and the company had a good year, both resulting then in higher incentive costs. Compared to the year-ago period, expense growth was driven by incentive costs associated with all of our markets-related improvements.

As we look forward, we continue to invest in technology and people at a high rate across our businesses, and we continue to add new financial centers in expansion and growth markets. So let me say 2 things about 2022 expenses. First, relative to Q4 expense, we expect Q1 to include 2 elements of seasonality. We typically experience seasonally higher payroll tax expense, and that was about $400 million in 2021. Also, Q1 is typically our best period of sales and trading revenue which results in modestly higher associated costs.

Second, with regard to full year 2022, our best expectation currently is we can hold expenses flat compared to 2021, which finished just below $60 billion. This guidance incorporates our expected continuing investments, strong revenue performance and the inflationary costs we experienced in the second half of 2021. It also relies upon our continued expense discipline, operational excellence improvements and the benefits of digital transformation to deliver the operating leverage we seek.

Turning to asset quality on Slide 15. The asset quality of our customers remains very healthy and net charge-offs this quarter fell to a historical low of $362 million or 15 basis points of average loans. They
continued a steady decline through the quarters of 2021, with Q4 down $100 million from Q3 and down more than $500 million from Q4 last year.

Our credit card loss rate was 1.42%, and that's less than half of the pre-pandemic rate. It improved each quarter during the year. Several other loan product categories have been in recovery positions throughout the year. Provision was a $489 million net benefit in Q4, driven primarily by asset quality, and macroeconomic improvement and was partially offset by loans growth. This included a reserve release of $850 million, primarily in our commercial portfolio. And on Slide 16, we highlight the credit quality metrics for both our consumer and commercial portfolios.

Turning to the business segments. Let's start with Consumer Banking on Slide 17. I'll start by acknowledging what a strong year the Consumer Bank has had as they generated nearly $12 billion of earnings, which is 37% of record year results for the company. Consumer opened over 900,000 net new checking accounts. And in fact, this quarter represents their 12th consecutive quarter of net new consumer checking account growth.

And in turn, consumer grew deposits by more than $140 billion. They opened 3.6 million credit cards and grew card accounts in 2021 by more than any of the past 4 years. This helped card balances grow in Q4 despite payments remaining high.

They also opened 525,000 new consumer investment accounts. And that helped us to reach a new record for investment balances of $369 billion, growing 20% year-over-year as customers continue to recognize the value of our online offering. Yes, market valuations grew balances, and we also saw $23 billion of client flows since Q4 ’20.

So Q4 was a strong finish to these results. And in the quarter, the business produced $3.1 billion of earnings off $8.9 billion of revenue and manage costs well. Our 8% revenue growth was led by NII improvement as we continue to recognize more of the value of our deposit book. And while revenue grew, expense declined by 1% year-over-year, generating over 900 basis points of operating leverage. Lower COVID costs and increased digital adoption by clients more than offset our continued investments in people and our franchise. This expense discipline has now driven our cost of deposits to an industry-leading 111 basis points.

Net charge-offs declined and we had $380 million of reserve release in the quarter. And as you can see, and as I already noted, deposits continued to grow strongly both year-over-year as well as linked quarter. Importantly, our rate paid remained low and stable.

Turning to the Wealth Management business. Bank of America continued to deliver wealth management at scale across a full range of client segments. The continued economic progress, strong market conditions and the efforts of our advisers contributed to strong client flows and net new household growth. This allowed Wealth Management to generate more than $4 billion in earnings in 2021, up more than 40% from 2020.

In Q4, this powerful combination of Merrill Lynch and our Private Bank produced records for revenue, earnings, investment balances and asset management fees as well as record levels of loans and deposits. In fact, with regard to loans, this is the 47th consecutive quarter of average loans growth in the business. It's consistent and it's sustained.

Q4 net income was $1.2 billion, improving 47% year-over-year and driven by strong revenue growth, good expense controls and lower credit costs. Revenue growth of 16% was led by strong improvements in both AUM and brokerage fees as well as higher NII on the back of solid loan and deposit increases.

Expenses increased 8% in alignment with the higher revenue and resulted in 800 basis points of operating leverage. Client balances of $3.8 trillion rose $491 billion, up 15% year-over-year, driven by higher market levels as well as very strong net client flows of $149 billion. Within these flows, deposits grew $68 billion year-over-year to $390 billion, and loans grew $21 billion year-over-year to $212 billion. And that loan and
Deposit growth is further evidence that more and more Merrill and Private Bank clients are using the bank’s products broadly.

Net new household generation is getting closer to pre-pandemic levels as advisers are meeting in person more with clients and are building their pipelines back following the shutdown during the pandemic. This quarter, Merrill Lynch’s net new households of 6,700 and Private Banking relationships net new of 500 were both up more than 30% from the year-ago period. The clients of this business continue to lead our franchise in digital adoption, utilizing digital tools to access their investments and also for other banking needs like mobile check deposits and lending. The evolution is forming a modern Merrill, which is adviser-led and powered by digital.

Moving to Global Banking on Slide 19. The business momentum through the back half of the year was strong. Net interest income grew on the back of accelerating loans growth. Investment banking fees reached record levels and deposits continued to grow as clients navigated the pandemic. We also saw strong demand from our clients around ESG investments driving improvements in bottom line results. Net income for the full year was a record $9.8 billion or 31% of the company’s overall net income.

The business earned $2.7 billion in Q4, improving nearly $1 billion year-over-year, driven by higher revenue and lower provision costs, partially offset by higher expenses. Revenue improvement of 24% year-over-year reflected more than 30% growth in investment banking fees in this segment, and net interest income increased 18%.

This investment banking performance allowed us to gain market share and record #3 ranking in overall fees in what was a very strong Q4 market. We ranked #1 in investment grade and #2 in leverage finance with market share improvement compared to the year-ago period. And we also saw another record M&A period. And most importantly, our investment banking pipeline remains quite healthy.

Provision expense reflected a reserve release of $435 million, compared to a $266 million release in the year-ago period. And what I draw your attention to here is the reduction in net charge-offs year-over-year from $314 million in Q4 of ’20 to small recoveries in Q4 ’21. That year-ago period included some losses from clients in those industries that were heavily impacted by COVID. Finally, given the strength of revenue we saw expenses increase by 12%, which is still only half of our increase in revenue.

Switching to Global Markets on Slide 20. Full year net income of $4.6 billion reflects another solid year of sales and trading revenue. This included a record year for equities, up 19% versus 2020. Investments made in this part of the business are seeing good results as our financing clients are doing more business with our company.

As we usually do, I’ll talk about the segment results, excluding DVA, even though net DVA was negligible in both Q4 ’21 and Q4 ’20. In Q4, Global Markets produced $667 million in earnings, $167 million lower than the year-ago quarter. Focusing on year-over-year, revenue was modestly down, driven by sales and trading. Sales and trading contributed $2.9 billion to revenue, a decline of 4% year-over-year.

FICC, down 10% and while equities improved 3%. FICC results reflect a weaker credit trading environment in Q4 ‘20, and the strength in equities was driven by growth in client financing activities and the multiplier effect. The year-over-year expense move was driven by investments in revenue-related sales and trading costs, partially offset by the absence of costs associated with the realignment of a liquidating business activity to the all other unit in Q4.

Finally, on Slide 21, we show All Other, which reported a loss of $673 million, which declined a little more than $250 million from the year-ago period. Revenue declined as a result of higher volume of deals, particularly solar, and partnership losses on ESG investments. That’s offset by the tax impact in this reporting unit.

Expense increased as a result of costs now recorded here after the fourth quarter realignment out of Global Markets, which was partially offset by a decrease in various other expenses in the segment. That
realignment obviously had no bottom line impact on our company overall. As a reminder, for the financial statement presentation in this release, the business segments are all taxed on the standard fully taxable equivalent basis. And in All Other, we incorporate the impact of our ESG tax credits and any other unusual items.

For the full year, the effective tax rate was 6%. And excluding the second quarter ’21 positive tax adjustment triggered by the U.K. tax law change, and other discrete items, the tax rate would have been 14%. Further adjusting for ESG tax credits, our tax rate would have been 25%. And looking forward, we would expect our effective tax rate in 2022 to be between 10% and 12%, absent any tax law changes or unusual items.

And with that, I think I’ll stop and we’ll open it up for Q&A.

Q&A

Operator
(Operator Instructions) Our first question today comes from Glenn Schorr with Evercore.

Glenn Schorr
Okay. I’ll try to ask this as easy as possible, but in the wave of a couple of other companies in the space talking a lot about comp inflation and stepped-up investments, I think a lot of shareholders love to see and hear your comments about, all else equal, flattish expenses in ’22. And so the simple enough question is what -- how do people take comfort to know that you’re making all the right investments to continue to compete and take share and migrate digitally, like you have been doing but we’re seeing so much competition across all your business lines. So just looking for some warm fuzzy blanket words of encouragement.

Alastair Borthwick
Well, I’ll just start, Glenn, by reiterating what you just said. You said we’re taking market share. So I’d say we’ve sustained our technology investments all the way through the pandemic. We’ve sustained our financial center renovations. We’ve sustained our marketing. We’ve sustained our investment in relationship managers. And the result of that is, in many cases, record client experience.

And you can see, I think, in our numbers that we’re doing more business with our existing clients. We’re adding net new clients and we’re growing market share, and we’re getting to third-party recognition as well. So I think its results is how you will judge us on the technology, but we’re obviously very competitive in that regard.

Brian Moynihan
So Glenn, let me just throw a couple of things. One, obviously, it’s axiomatic that revenue from markets-related business, whether it’s in wealth manager or investment banking teammates or it’s in the markets business. So Jimmy DeMare and Matthew Koder and Andy and Katie have done great jobs and that’s just -- that’s a given, they’re going to go up. And you see that those numbers are up dramatically over the last couple of years as markets have raised, but you invest a lot of ways.

So we’ll never have the temerity to say that we know every possible competitive thing could happen over the next decade in this company. But you look across history, which is what Alastair’s referring to, we’ve invested new technology development, $3 billion to $3.5 billion year after year after year, and we tend to invest in things that work and then drive them and scale them.

And so you see that if you look at Pages 24, 25, 26, 27 and just start to think about what we said earlier, Zelle is more transaction count than checks written. Think about that change. Think about the change in the
branches that basically in our expense guidance, we'll open 100 new branches this year on top of the 200 and some of what we've opened in the last 3 years. But importantly, we shifted from other places in that we brought branch count overall down as we've been doing that. That means we're opening up new markets, gaining market share, as Alastair said, and using the expense base and others.

So whether -- and then in our broad-based teammates, we basically have gone to $21 an hour. Our attrition rates are similar to where they were in '19, which was a 10-year low. So think about -- we've invested heavily. We've invested broad-based, but you're seeing the activities going. And if you start to think about the retail deposits per branch are multiples of other people's. So you think about the -- we have 4,100 branches, we have $1 trillion in consumer deposits and $400 billion of wealth management deposits.

So that operating leverage is what we do. So we're an operating leverage company. We're not a cost takeout company anymore, we haven't been. And -- but we we see the path forward of flat expenses next year. And frankly, there was a lot of onetime stuff that went through the last couple of years that is coming to an end and that we'll reposition that to help pay for the types of things, revenue-related growth and investments that we think are important. But just look at those stats and see what we've done, and I think that that's where we get the confidence.

Operator
The next question comes from John McDonald with Autonomous Research.

John McDonald
Alastair, I was wondering if you could unpack the outlook for robust net interest income growth in '22. Kind of wondering what kind of loan growth assumptions are you building in for the year? And how do liquidity deployment and premium amortization assumptions also factor into your outlook?

Alastair Borthwick
Okay. So let's start with loans growth. We're pretty optimistic on loan growth. You can see on Slide 5, just the consistency, that's daily. You can see the consistency of the growth, it's broad-based across all the businesses, as Brian noted. And obviously, it's accelerated recently.

The thing I find interesting about Slide 5 is you've really got to adjust for the size of the economy today relative to where our loans were in 2019 pre-pandemic. So we know there's some potential for catch-up there. And we can see that in our data, too, John. Our revolver utilization rates are still lower than historic levels, so we feel like there's some potential there.

And in things like card, payment rates are still elevated. So there's a variety of things there that make us feel good about loans growth, certainly more bullish than we might have been in a pre-pandemic GDP-type 2% to 3% kind of an environment. So we're pretty optimistic on loans. I think you need to think about that in the sort of high single digits. And then when it comes to -- you can see when we put forth our asset sensitivity numbers, that $6.5 billion for a parallel shock is meant to give you an idea of how we believe we're levered to rates. I'd say about 75% of that is probably the short term, probably 25% is the long end with things like premium amortization, and that's probably how we break it down.

John McDonald
Okay. And then as a follow-up, can you talk a little bit about how you're managing to your capital minimums? What kind of cushion do you want to keep to the SLR? Just remind us the target on CET1 and how do buybacks, which seems like you've accelerated in the back half of '21, how does that factor into the overall calculation of managing growth and capital?

Brian Moynihan
Sure, John. We -- if you go back, John, for many years in our discussions, we've had excess capital despite the many ways that the capital process increased the capital requirements for large companies like ours, including the introduction of the G-SIFI buffer, et cetera, et cetera, and then the stress testing and SLR, et
cetera. So we've always said we'd maintain 50 basis points to 100 basis points of cushion. We're now getting closer to that.

But the reality is that we are seeing the kind of organic growth that is what you want us to see investing in the client franchise, whether it's in the markets business, having 20%-25% more balance sheet deployed and seeing that pick up and having a record amount of revenues, whether it's the deposit growth that we're now $2 trillion deposits and $1 trillion in loans and that's growing well.

So expect us to have a different equation, which is we'll still pay out dividends around up to 30%, like we said. We used to say the other 70% would come back to you. Now there'll be some organic growth if, in fact, we get down to the 10.5% levels and the rest will be repurchased on a quarterly basis. But at an earnings rate of $7 billion, there's a lot of capital deployment even embedded

Operator
We'll go next to Mike Mayo with Wells Fargo.

Mike Mayo
I guess, first, Brian and then Alastair. You talked about the benefit of higher rates. But I think for you and the industry, it's the benefit of better relationships to the extent that relationships are sticky as rates increase. So if you can just give some metrics around retention? And then specifically, as -- last year, you gave an NII guide of $1 billion higher. Can you give us some sense where you expect NII to be from 4Q '21 to 4Q '22?

Brian Moynihan
I think on your very last point, Alastair gave you the starting point and gave you a robust as strong enough because it depend a little bit on the path forward. We're $6.5 billion of rate sensitivity to 100 basis point increase, as we said. So we'll let you figure out when those rate changes to come through.

But backing up to your broader point, Mike, at the end of the day, in the consumer business, what drives our capabilities there is the preferred group of customers that are 80% plus of the balances and retention rate through preferred rewards and the millions of people we have in it is 99% plus. And those customers have tremendous relationship with us. And we invest across whether it's the -- preferred rewards, as you know, go across the whole business and not just by products. So those customers get rewards in credit card that they pay for by giving us deposits.

You go to the wealth management, you can see if you look at the stats, you can see the strong growth, not only what you'd expect in the AUM side, but the client flows and deposits and other products as the -- we continue to drive the core deep relationship across in the Private Bank, but importantly, Merrill, across all the different segments. And even as we enter new markets where we didn't have banking capabilities, Columbus, Ohio, for example, there was robust Merrill capabilities we're building underneath. So that relationship.

And then if you move to the commercial side, it's the same thing. So our deposits in commercial are strong. They are all operating deposits, the lion's share of them. They're part of what we core do, but they build off the back of that great relationship management practice and the GTS capabilities, of which we invested billions of dollars in across the last things. And what seals that altogether is not that these are resilient group of enterprises that all go off and operate is the common things that they have together, which are things like the digital capabilities, which we give you the capabilities that, that backbone goes across all our customer sets, and that enables us to drive it and also how they work together in the markets.

We will set a record -- in '21, we ended up getting back to where we were in referrals from one business to the other in every market. And those are important ways that we cement the relationship. Our Commercial Banking Investments group, as we call it, has millions of customers through our corporate relationships that have priority access. So it is about how you build the franchise and concentrating on 8 lines of business and how they work together. Our merchant sales are back way over where they were when we had the joint
venture, our 401(k) engagements are way up. And again, that’s going through the franchise. So we feel good about the relationship side of it to your point.

Mike Mayo
Well, Brian, aren’t you tempted to take some of the -- assuming you get $6.5 billion of benefits, aren’t you tempted to take some of that and spend more because it seems like you’re letting that fall to the bottom line. What are your considerations when you say, we’ll let that fall the bottom line instead of making additional investments? And also, what do you think about expenses, say, in 2023?

Brian Moynihan
Well, I think when we -- we're flat next year, we -- Mike, if you remember back leading into the pandemic, I think, 20 quarters of operating leverage in a row. We are -- but we are starting to make the turn from expenses going down and then flattening that we’re going to have to start growing again to allow for the rate of investments in compensating our teammates well, et cetera. And so we feel that, that rate of investment is embedded in the run rate. And would we start to grow expenses at some point? I think that will be based on really some of the market-related revenue and incentives that drive it.

But we still have a lot of room to go on a day-to-day basis and cost takeout in this company from -- and then reinvesting that in OpEx and stuff. It is -- think about that check, 2 years, 24% less checks going through the system. That’s by driving those capabilities allows us to be more efficient. So it will go to the bottom line because, frankly, most of that value comes off the consumer franchise, which has been investing heavily in whether it’s Merrill Edge, whether it’s the card business, whether it’s the rewards, which are a huge investment in our client base, meaning that the charges go up and the revenue doesn't go up as much, that's actually investment. And whether it's the branches and the new branches in new markets and then -- but they're -- Dean and the team have been experts in repositioning the expense base to more efficient execution.

Mike Mayo
So do we start counting again the number of quarters in a row that you achieve positive operating leverage, you're at 2. You try to break that a 20-quarter record or...

Brian Moynihan
Well, we're at 2. So we've got some room to go. So we're working on it, Mike, and we'll keep plugging away. But you know us, we know how to manage expenses in this company. I wouldn't be here if we didn't think we could do it the right way and invest. And so I think people should be confident that we count heads, we're down 4,000 people in the quarter, in the year from 212 to 208. And all those people are going to make more money because they've had a fabulous year, but the reality is we keep managing the overall human count down, which is our biggest cost.

Operator
We'll go now to Jim Mitchell with Seaport Global.

Jim Mitchell
Maybe a question on credit. I think we're all sort of ignoring that now, but you've seen your all-time low net charge-offs, particularly in the card business. I think the consensus is that we'll see a normalization process in the back half of this year and into '23. But we're not seeing any change really in delinquencies. Are you in the camp that we're going to see normalization? What are the drivers of that? Or is there some sort of behavior mix change among customers that maybe we can be a little bit more optimistic on charge-offs over the next 18 months?

Alastair Borthwick
Well, Jim, we're seeing the same thing you are. So when we're looking at our 30 days past or 60 days past or 90 days past, they're staying at those same low levels you talked about. When Brian talked about customer balances being elevated in some cases, up 5x where they were pre-pandemic, that's probably what's
accounting for a lot of the consumer credit quality improvement. We're anticipating at some point, it will go back towards more normal historical levels. We just think it’s going to bump around here for a little while. So we don't see -- we don't have a particular timeline on that at this point, but I'm not sure we'd be betting on behavioral change.

Jim Mitchell
Okay. And then just as a follow-up on the Wealth Management business. There's a nice acceleration in new households and deposit growth and net flows. But even as FA headcount kind of trickles down, I guess, how are you improving productivity there? And do you see a time where you start to see net FA headcount grow to kind of accelerate that growth?

Brian Moynihan
Yes, Jim, if you look at the quarter-by-quarter progression on that in the supplement or something, you could see it’s starting to flatten out. A lot of that adjustment in the recent past has been due to the work that Dean and Andy did with Aaron Levine and others on the combined training program. So we’re training -- we had 2 training programs running and et cetera. We combine all that. And so that now has sort of stabilized. And so you'd expect us to see slow growth out.

For the Merrill Edge customer, it's largely a digital execution, and that's where the real growth comes in that's sort of infinitely leverageable. That deposit -- that balance is there, $300-plus billion. 500,000 new customers growing well. And for Merrill, in the Private Bank, it is people, and you'll see that flat out come up. But that had largely due to the repositioning of the training program that the team has accomplished. And so now we train 1 set of advisers. They have different career paths in our company, but it makes us more efficient going to the ability to keep managing expenses.

And so you're seeing good household formation, the marginal productivity of our advisers is through the roof, and you can see that. But the reality is you want to have the growth in flows and that $170 billion for the year is a pretty substantial increase over any year past. I think it’s either twice or almost 3x. So we feel good about it. And in year when -- remember, we still couldn't meet face-to-face with our clients a lot. It's not the easiest year to develop business too. So the team did a great job.

Operator
We'll go now to Erika Najarian with UBS.

Erika Najarian
I just wanted to ask Alastair a follow-up question on NII. In that $6.5 billion number, what kind of deposit repricing is embedded in your sensitivity? And as you look at potential actual performance for the year as opposed to the sensitivity, how should we expect total deposits to trend in terms of growth or attrition and also repricing?

Alastair Borthwick
Okay. So obviously, it feels like right now, we're at the beginning of a new rate hike cycle. And so we're looking back towards 2015 to 2019 as the most recent rate hike cycle. During that period, Erika, we had deposit beta probably between 20% and 25%, somewhere in the middle of that. We’d like to think this time around, it will be something similar, hopefully a little bit better based on what we've learned and based on the value we add to our customers.

And then in terms of deposit growth, we have deposit growth moderating back towards more normal growth over time, just recognizing we're coming off of 2 years of extraordinary monetary and fiscal stimulus.

Erika Najarian
Just to confirm, given the deposit growth that you're seeing, you mentioned that most of your growth is concentrated in operating accounts. You don't expect declines in deposits as rates rise?
Brian Moynihan
We didn't see it last time. From '17 to '19, we saw our -- we continued to grow deposits better than the industry and they grew throughout that period of time. And so because of the nature of what they are, we get the economists to go through all the withdrawing of the things and because of some of the off-balance sheet financing the Fed has put together. But as a strict matter, the last time we did not see deposits go down as the Fed's balance sheet shrank by -- from 8 trillion or whatever the peak was down to around 4.

Erika Najarian
Got it. And just taking a step back -- this question is for Brian. Brian, one of your closest peers, JPMorgan, sort of gave a medium-term ROTCE target of about 17%. And as you think about BofA over the next few years, when you think about normalizing rates, your comment about self-funding the investments, a much bigger balance sheet, I don't think we've seen high single-digit growth in quite some time. As you put all of that together, what would you tell your investors with your ROTCE medium-term target would be in a normalized rate environment?

Brian Moynihan
We've always said that our job is to keep that well in excess of our cost of capital, and we've done it. And I think, again, because of the leverage and rate increases, instantaneous impact to business like the consumer business, which doesn't need any more capital to grow. We feel good about it. But we have focused people on that we'll continue to grow the earnings at returns that are used -- we to say 10% to 12%, now I'd say, 15%, and we'll continue to do that. But we need to balance the broad nominal returns of growth. And last year, we had good ROTCE, and we expect to maintain that.

Operator
The next question comes from Matt O'Connor with Deutsche Bank.

Matt O'Connor
You made some significant announcements on overdraft NSF, and I think you framed the drop versus 2010, if I remember correctly. But just how much should we be modeling if that goes down in the next couple of years, say, versus the '21 level? And then also remind us what else is in service charges. I think you have a bunch of commercial fees and there's always some confusion in terms of what that is.

Alastair Borthwick
So let's start with NSF/OD, what Brian outlined is we think it’s about $1 billion in there will come down over time, probably around 75% of that this year, just to give you some idea. Obviously, we're making those changes as we update systems and processes, et cetera. So that's some in February, some in May. I think Lee and his team can help you with timing, but that gives you a ballpark for how to think about that. And then just ask me the service charges, just explain that one more time.

Matt O'Connor
Yes. I think a lot of investors look at service charges and think it's all consumer, but I think there's a lot of commercial fees in there, too? And just what exactly are those? And remind us like how those react as interest rates go up?

Brian Moynihan
Yes, so those are the GTS fees, so global transaction services. So people can pay us cash fees or they can pay us with balances at which we get the earnings rate and we get them a credit, as you all know. So generally, when rates go up, the dollar value of the earnings credit goes up and therefore, people shift a little bit to that. So I -- Lee can take you through some of the dynamics. But yes, there'll be pressure on that fee line, but we'll be earning money a different way. Believe me, all in, you make a lot of money, and it's different for largest companies versus small businesses and things like that. So it's a complex thing. And it also comes back to how you -- the deposit betas in the commercial business that Alastair referenced earlier.
Also in that fee line is monthly maintenance fees for accounts on both the commercial, small business and consumer side. There’s other things in there. But the NSF is the one that we -- and OD we wanted to focus on, which we gave you about $1 billion change and it’s down 75%. That other than that, it ought to bounce around and kind of go up or down a little bit, but I wouldn’t be too overly worried about the other pieces.

Matt O’Connor
Okay. That’s helpful. And then just a quick clarification question. Alastair, you mentioned about high single-digit loan growth in ‘22. Was that on a full year kind of average basis or a period end? Or what how would you frame that?

Alastair Borthwick
Yes, I’d say that’s kind of a full year kind of a growth rate average. And I would just say it’s early in the year, but we’re -- I guess what we’re trying to impress upon you is we’re pretty optimistic based on everything we’ve seen.

Operator
We’ll take our next question from Ken Usdin with Jefferies.

Ken Usdin
Just wanted to follow up on the rate sensitivity in the NII outlook, obviously, what you give us in the $6.5 billion is the banking book. Can you help us just understand the rest of the balance sheet, the institutional part that’s I think, historically more liability-sensitive, what’s the best way of us trying to understand like how that nets out in terms of the true underlying benefit from rates as we move higher overall for the balance sheet?

Alastair Borthwick
Yes. So we’d say our markets business, generally speaking, is pretty liability-sensitive. So the short end will have a modest impact negatively on us. And then it’s liability -- it works in our favor on the long end. So obviously, when we’re carrying things short, longer assets, we end up making some money there. So it’s probably a few hundred million negative at the short end over a 12-month period. It’s probably a couple of hundred million positive at the long end over a 12-month period, but that’s ballpark how to think about it.

Ken Usdin
So it’s really not a meaningful net down impact then?

Alastair Borthwick
No, not compared to our asset sensitivity. The part of the franchise is liability price insensitive deposits.

Ken Usdin
Yes. Yes. Okay. And on that second point about the deposit growth is just outstanding. And you mentioned earlier that it’s good to see the good stuff growing, but you are getting tighter on your SLR and your CET1 versus your targets. So as you go forward, would you consider issuing more prefs to keep that buffer-free? Or is it more that you just let the balance sheet grow and take the RWAs at the trade-off of lower buyback?

Alastair Borthwick
So I’ll talk about the SLR, I think Brian talked about CET and buyback earlier. But obviously, with SLR, we’ve got a couple of different levers there. One is prefs. As you saw in fourth quarter, we issued $1.3 billion in prefs, which obviously gets some more balance sheet flexibility where we need it and when we need it. And look, I’d just say, when we have customers coming in here about to establish a relationship with us for the course of the next 50 years or in the case of commercial clients for the next decades, we’re going to make sure that we’re in a position to take their deposits and establish that relationship for the long term.

Ken Usdin
Yes, that’s exactly why I asked. Okay.
Operator
We'll take our next question from Betsy Graseck with Morgan Stanley.

Betsy Graseck
Alastair, a question, just as we think about securities reinvestment in this rising rate environment, should we think about you trying to keep pace with where the yields are today and shortening the duration of the book, which reduces potential AOCI risk? Or should we anticipate that you would be more likely to keep duration where it is and benefit from a yield pickup as rates rose?

Alastair Borthwick
So I'd say with respect to our securities reinvestment, right now, we're finding that we're -- we've got the kind of loans growth that we want to see, generally speaking. It's obviously -- we've come off a period where we didn't see that loans growth. So with the excess liquidity, we were in a position where we were looking primarily in first securities. Now we're moving more towards loans. So if you looked at our last -- this last quarter, we added $51 billion in loans. We added $14 billion in securities.

Now we're obviously going to be careful with respect to the OCI impact. And when you look at our balance sheet, you'll see most of the securities in available for sale, our treasuries swapped to floating that's going to have obviously a pretty substantial offsetting effect to anything that happens with higher rates. And then I'm not sure we're going to necessarily change our duration profile around the securities portfolio. Remember, we have a lot of that rolling off every quarter, and then we tend to just book more back in the stack over time. So with any luck, we'll continue to see the loans growth. That will be our primary focus.

Betsy Graseck
Okay. No, that's great. Very helpful. And then, Brian, I know we talked a lot about reinvestment in the franchise and the platform, I wanted to ask that question from a slightly different angle. We get -- obviously, we're all very well aware of fintech competition and what's going on technologically speaking, that enables not only competitors in the banking space, but nonbanking space to be more active in finance.

When you think about your current platform, is it at the end state that you want? Or is there more to do with regard to leveraging cloud and AI to enhance the efficiency of the organization overall? Or maybe that's not even a potential outcome of shifting the technology? Maybe there's something else I'm not thinking about?

Brian Moynihan
I don't -- I think cloud is different. The cloud -- our internal cloud is what we do with external has largely do with cost, flexibility, security, who -- what program -- what apps, applications that we're running and how do we do that. But security and the ability to integrate it and ability to be never down and things like that are high on our minds. So I put that aside, the ability to continue to improve our platform is infinite.

And you see it. I mean, you could have asked me this question 2 quarters ago, and you would have had -- if you look at the pages in 24 to 27, look at the statistics from 2 quarters ago. And what drives these changes is things like Erica going from 17 million users to 24 million users and 30 million interactions to 120 million fourth quarter last year to fourth quarter this year is because of the feature functionality and capabilities of it go up. Our life plans, 7 million people, I think, are using them. They have 20%, 25% more balances because of what they're doing.

So we'll never be at end state. I mean -- and that's where we continue to drive investment. Digital sales capabilities. We're only starting to be able to take full advantage of it, frankly, across the platform because you had to get end to end, you had to get it all knocked together and then -- and it's kind of interesting because it's growing quickly now. So small business capabilities to -- merchant services. We finally got a new platform out of a cost of $300 million. It's now being sold. Those are major investments.

So the question is do we appeal? And but -- we open twice the population rate for young -- for people between the ages of 18 and 24 in terms of new accounts. We seem to be gaining share in that segment and
the usage by that segment is high. And so we feel very good that our platforms appeal to -- obviously appeal to every cohort of age and experience, and that's what we're driving that. And then -- look at Merrill Edge, 500,000 new accounts, $70,000 average balance. Those are deep clients with real money put into work.

And so are we satisfied? Yes, we can look at and look at all the awards and the growth and feel good and feel spectacularly good about it. But you can be satisfied that way, but that would be dangerous. So we continue to invest, and you can see the numbers of patents we get everything, we will continue to invest heavily in this platform. And what it takes us to is still ahead of us.

Betsy Graseck
Okay. And when you think about where you are leveraging the technology in the consumer and wealth versus maybe the high net worth piece of your business versus the institutional piece, are you -- do you feel like you're running apace at each of those? Or is there more -- significantly more to do in one of the sleeves?

Brian Moynihan
I think the investment in the commercial cash management side is -- just as we continue to drive global business continues to be high. And I'd say -- Faiz Ahmad and the team there continue to challenge themselves to how much more we could do with the investment. We've invested in merchants. Now we've got to sell it and Mark Monaco and the team are driving that.

And so there's I think there's a different -- again, this is a group of businesses that have commonalities and differences and the investment in markets, technologies and stuff is critically important, but we built the data capabilities, I think, called courts over the years at $1.5 billion cost that enables us to build on that platform for risk and finance in markets. And then now we're continuing to enhance that.

So I'd say each one is a different story. But all will be better and all -- we're investing heavily in, and we make choices about -- the biggest constraint is doability, how much stuff can you get done. It's not the money. It's really a question you got to make sure you do it right and don't screw it up in and that it's going to really stick to the ribs when you start driving.

Operator
We'll go now to Steven Chubak with Wolfe Research.

Steven Chubak
So I wanted to start off with just a clarifying question on some of the ESG investments. I know you provided the guidance on the tax rate of 10% to 12%, which includes that benefit from those investments. Versus 2021, is there any incremental drag to other income that we should be thinking about as the pace of those investments steadily builds?

Alastair Borthwick
Yes. So Steven, I think we're continuing to do more with our clients in terms of the ESG side. So I think when you're modeling, I'd use say, $400 million to $500 million for Q1 to Q3 and then I'd use just a few hundred million higher for Q4.

Steven Chubak
Great. And just a question on -- a follow-up on capital. I was hoping you could just provide some early insights or perspective into how you're handicapping the impact of Basel IV adoption in the U.S.? How you think you're positioned relative to peers given lots of significant changes to the regime, some positive, but also quite a few negative?

Brian Moynihan
Like any other regulatory change when it comes, we'll deal with it. But these things have impact or, like you said, plus and minus and life will go on. It's -- it may cause us to have to adjust a little here and there, but
we still have optimization ahead of -- the optimization ahead of us in the balance sheet that we can continue to work. But when they develop a real -- when the set rules get developed and put in front of us and become final, we'll implement them. But my guess is it won't be anything that we -- it won't be as dramatic as going from $60 billion of required capital, $175 billion in tangible common equity over the last decade, believe me.

**Steven Chubak**

Fair enough. And if I could just squeeze in one more follow-up. Just a clarifying question on the NII guidance. Just to help with benchmarking versus peers have all guided on '22 NII based on the forward curve. I was hoping you could provide just more explicit guidance for full year '22 NII if, in fact, the forward curve materializes.

**Alastair Borthwick**

Yes. So look, one of the reasons we don't provide full year is because we don't control what the Fed does in terms of number of hikes nor the size of each nor the timing. And those things we can control like expenses, we're quite comfortable with. So I think beyond any guidance we've given today, Steven, I would just follow up with Lee probably.

**Operator**

We'll take our final question today from Gerard Cassidy with RBC.

**Gerard Cassidy**

Brian, can you share with us your thoughts -- you guys have committed to, I think, it's $1.5 trillion in sustainable finance commitments out to 2030. I'm not asking so much on the climate change in that type of risk. I think we all understand that. But can you share with us what the financial risk is? When you think about your credit card receivable delinquencies, obviously, if the unemployment rate was to double or triple those delinquencies, obviously, would go up. So we could kind of measure where we think delinquencies could go based on economic activity. But what should we be looking at when it comes to sustainable finance, just some of the risks that we should be aware of out there. Again, not the climate part. I'm thinking more of the financial part.

**Brian Moynihan**

Well, at the end of the day, these are companies and projects that have to be underwritten. And so some of them don't go well, some of the renewable things don't work the way people want them to. So it's a good -- and you got Bruce Thompson, the team in credit and Jeff Greener and his team in risk, I think our track record of underwriting credit is strong. And so there's a business plan and our investments are to help our clients make the transition. We already invest $80 billion to $100 billion, and this is a step-up from that as we move forward and 2021 was a step-up.

So it's not some, we've got to go out and do things we haven't been doing. We have to just do more of what we've been doing. Each individual deal is underwritten. So what's the risk? The risk on the renewable side doesn't work and the risk on the other side is the value of assets comes down because the cash flows start to get impaired by regulation, customer change and things like that.

And so as we go forward, an additional consideration of the business plan of a heavily emitting industry, will be -- will its business model sustain in a change in customer behavior and use of things. In the near term, demand for all energy is going up. And the challenge for society is how we meet the needs to have a just transition occur for everyone while changing the emissions structure. But over time, business plans of both the emitter side and the renewable side will come cleaner based on customer behavior.

People like ourselves, reducing our demand for energy, it impacts our power companies and how they supply and our demands of our power companies do more renewables, that's going to reverberate to our 30,000 middle market clients and our millions of small businesses piece by piece by piece. So I don't know if that's entirely where you're going, Gerard, but it's going to come down to good core underwriting given the
circumstances of the individual company, its business and its plans and what its transition plans are and the
disclosures they make to us in the underwriting process. But we've done a great job in commercial
underwriting. You'd have to agree with that over the decade. So I think we'll adjust each deal and each
quarter, each deal and each company in each portfolio as we move along.

Gerard Cassidy
No, no, that is helpful. And you have done a good job with the underwriting, absolutely. The follow-up
question, Brian, you've expanded into some new markets. I think you mentioned on the call today, maybe
Columbus, Ohio, if I recall, was a relatively new market and Minneapolis, Minnesota. Are there other markets
that you intend to expand into like you've done in those 2 markets? Or are you all set, you're satisfied with
the expansion physically into new areas of the country?

Brian Moynihan
Yes. So a couple of things. One, to why we expand these markets. We first -- this is a prioritization. We first
looked at the largest markets that we weren't and said, why aren't we there? Because we're a nationwide
brand and capabilities. And by the way, in a lot of those markets, we had wealth management clients. So we
started in '14, it's been a long effort. So we did Denver starting in '14, and Minneapolis, Indianapolis,
Pittsburgh, Salt Lake, Columbus, Cincinnati, Cleveland, now Lexington. So there's a list of other markets that
we continue to go down, largely starting -- originally -- the key was to close the top 30 markets, which we
weren't in 7, if I remember right, Gerard, at the time, and we're now in all those.

So there's really -- think of the next several years as being -- going down to the top 50 markets, which
starts to cover a substantial part of the population where you aren't. But also even within those markets,
take Grand Rapids, Michigan, we're not to the level we want to be there. And by the way, in a place like
Columbus, we're now #5 in the market. We grew at 9%. We only have 12 financial centers, the end state will
be another 8, 10 type of number. And so we're still building out in these markets, and it's working. I mean, it
works because of the way we do it.

So that will all be a move, but expect us to keep working down by population markets, but think about 2
dimensions. One is more markets. And the second is also making sure every market -- what we do is we look
at the -- we look at like markets and compare them, same size, capabilities. And we expect every market will
get to the fifth percentile of Bank of America business comparative. So why is that? So that means like
even in Los Angeles, we're a 4% or 5% wealth management share, if I remember right, versus D.C., where
we have equal representation in consumer, D.C. we're 15%, 20% market share in wealth management. That
means we should be 15% in L.A. That's a heck of a lot of work that Andy and Katy and team have to do.

So we look at this that way in terms of trying to drive our market share by market. Sometimes it's people,
sometimes it's branches, sometimes it's advertising, sometimes it's charitable work, sometimes community
work, all the above. But think of us as trying to close out most of the U.S. population centers over the next
several years.

Okay. I think that's all our questions, operator. So let me just close by saying, as I said earlier, the #1 point
to remember is the organic growth engine that we had before the pandemic is fully back in gear and driving.
We've had good expense discipline. We continue -- we're now up to 2 quarters of operating leverage, and
we're working towards driving our streak again.

The client activity across the board was strong, loan growth, deposit growth, net new households of wealth
management, commercial GTS fees, capital markets activity, investment banking activity. And so those
investments across the last several years continue to drive our strong growth in core market share. And in
the end of the day, last year was a record year of earnings, and we returned $32 billion of capital to you, our
shareholders.

Thank you for your support, and we look forward to talking to you next time.
Operator
This does conclude today's program. Thank you for your participation. You may disconnect at any time, and have a wonderful day.

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