Bank of America
First Quarter 2022 Earnings Announcement
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Participants

Presenters
Brian Moynihan – Bank of America, Chair and CEO
Alastair Borthwick – Bank of America, CFO
Lee McEntire – Bank of America, Investor Relations & Local Markets Organization Executive

Participants
Glenn Schorr – Evercore ISI
John McDonald – Autonomous Research
Mike Mayo – Wells Fargo Securities
Betsy Graseck – Morgan Stanley
Matt O’Connor – Deutsche Bank
Erika Najarian – UBS
Ken Usdin – Jefferies
Steven Chubak – Wolfe Research
Vivek Juneja – JP Morgan Chase
Gerard Cassidy – RBC Capital Markets
Chris Kotowski – Oppenheimer

Presentation

Operator
Good day, everyone, and welcome to today’s Bank of America earnings announcement. (Operator Instructions) Please note, this call may be recorded. It is now my pleasure to turn today’s program over to Lee McEntire.

Lee McEntire
Good morning. Thank you, Katherine. Welcome. I hope everybody had a nice weekend, and thank you for joining the call to review the first quarter results. I trust everybody has had a chance to review our earnings release documents. As always, they are available, including the earnings presentation that we'll be referring to during this call, on our 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 ask Alastair Borthwick, our CFO, to cover the details of the quarter.

Before I turn the call over to Brian, just let me remind you that we may make forward-looking statements and refer to non-GAAP financial measures during the call. These forward-looking statements are based on management’s current expectations and the assumptions that are subject to risks and uncertainties. Factors that may cause actual results to materially differ from expectations are detailed in our earnings materials and our SEC filings that are available on the website. Information about non-GAAP financial measures, including reconciliations to U.S. GAAP, can also be found in the earnings materials that are available on the website.

So with that, take it away, Brian.

Brian Moynihan
Thank you, Lee, and good morning to all of you, and thank you for joining us. As we open our earnings call this quarter, we want to acknowledge that there’s -- the humanitarian crisis continue to take place in Ukraine and remain watchful and have provided assistance from our company to the Ukrainian citizens and staying ready to help further where we can.
Before we get into some discussion on the current outlook and activity, I want to step back and focus on the big picture about Bank of America this quarter. In a quarter that had a lot of variables show up, we delivered responsible growth again. We reported $7.1 billion in net income or $0.80 per diluted share. We grew revenue, we reduced costs, and we delivered our third straight quarter of operating leverage coming out of pandemic.

Net interest income grew 13% and is expected to grow significantly from here. We saw a strong loan growth. We grew deposits. We saw a strong investment flows. We made trading profits every day during the quarter. We grew pretax pre-provision income by 8%. We had a return on tangible common equity of 15.5%. All this came in that quarter that saw geopolitical conflict, rising interest rates, a pandemic, rising inflation concerns and much, much more. I want to thank our team for delivering on responsible growth once again.

So if you look at the statistics on Slide 2, you can see some of those highlights. You can see the organic growth engine that our company is delivering once again. In our banking business, you can see the strong loan and deposit growth. We grew and expanded customer relationships across every business. In fact, we grew net new checking accounts by more than 220,000 this quarter alone. We opened new financial centers, and we renovated many others. We added more digital capabilities and crossed 50% in digital sales.

In our Wealth Management businesses, you can see over $160 billion of client flows over the year and more than $4 trillion in client balances, including Merrill Edge. We saw both strong investment flow performance in addition to banking flows. Over the past year, we brought on a significant number of net new households, 24,000, Merrill; and another 2,000 in the private bank.

Across the combination of our Consumer and Wealth businesses, we saw more than $90 billion of investment flows. We now have managed client balances, including deposits loan investments of more than $5 trillion with us.

In Global Markets, Jimmy DeMare and his team had a solid quarter of sales and trading results, which included a record quarter for equities. Despite the market turmoil, we had 0 days of trading losses. And while the investment banking fee line was down from the record quarters of the past year, Matthew Koder and his team produced solid results with a strong forward pipeline, and we gained market share in several areas, including moving to #2 in the mid-cap investment banking.

From a broader enterprise perspective, part of managing costs well comes from the drive we have in the company to provide enhanced digital capabilities to our customers, which in turn drives adoption, further digital engagement and lower costs.

If you look at Slide 23 and beyond, you can see we are now selling more digitally than we are in person. It takes both to be successful. What makes them even more impressive is all the financial centers are now open and back to operating at their usual great capacity. So adding the digital capacity clearly increases our total production capabilities.

You can also see our digital sales are now twice the pre-pandemic level just 3 years ago. Even more impressive, look at Zelle and Erica volumes, up more than 4x the pre-pandemic levels. We’re now processing more outgoing Zelle transactions than checks. In our cash pro mobile app with our commercial clients, we’ve seen many $5 billion usage days. There are a lot more stats on the slides showing strong digital growth. I commend them to you to see how a high-touch, high-tech, innovative company drives organic growth.

This quarter, our resilience was tested. And once again, we maintained a focus on what we control and grew responsibly, and earned our way through the turmoil. So as we talked to you during the quarter, many of you expressed questions about the impact of the macro environment and changes on our company, the lingering impact of the pandemic on supply chains and business opportunity, inflation and Fed reduction of monetary accommodation, the impacts of Russian-Ukraine war, both on the first order effect and second order effects. We do remain mindful of all these. So could a slowdown in the economy happen? Perhaps. But right now, the size of the economy is bigger than pre-pandemic levels, consumer spending remains strong, unemployment is low and wages are rising.
Company earnings are also generally strong. Credit is widely available. And our customers’ usage of their lines of credit is still low, i.e., they have capacity to borrow more.

We are all focused on the ability of Fed to use their tools to reduce inflation. We all know that will take interest rates with rate hikes and a reduction in the balance sheet. We predict it will slow the economy from 3% growth in 2022 to a little below 2% in ’24 - ’23, excuse me. That is back to trend. So the interest rate hikes comes better NII. Could the Fed had to push harder to sell inflation? Perhaps. That is why we run stress test each quarters to look at scenarios to see what would happen in a highly inflationary environment.

If move up fast are there implications to capital? Sure, and you saw some in this quarter. But in the context of the capital build, those impacts are manageable. The impact increases earnings also. And then over time, the bonds pull back to par. All that results in a rebuild of the capital quite quickly. But for some short period of time, that capital usage, along with customer usage, might slow share repurchase a little bit, but it will be temporary.

What if we’re wrong and things do get tougher? We already know what that looks like in 2020, as we built significant reserves and also built 90 basis points of capital during the economic shutdown period. Rates moved against us and earnings fell. So we have already proven resilient. We continue to focus on responsive growth and things we control.

If you go to Slide 3, I want to mention to show some of the strengths we see in our U.S. consumer base. Bank of America consumers spent at the highest-ever quarter 1 level, which is a double-digit percentage increase over the 2021 level that you can see in the upper left. From our card spend to data, we have seen a strong recovery in travel, entertain, restaurant spending. In the upper right, you can see that. By the way, even with the fuel costs up 40% or more from last year, fuel represents about 6% of overall debit and credit card spending and a lot less of overall spending as cars, you can see in the lower left, is 21% of all spending.

Importantly, despite March of last year, including stimulus bonus, we saw the spending in the month of March 2022 on a comparable basis to 2021, 13% higher by dollar volume. And we saw a 7.4% increase in the number of transactions. So both dollar volumes and numbers of transactions rose nicely. And as you expect, the method by which people spend continues to shift away from cash and checks to replace with digital alternatives. And you can see that below.

Our data showed continued growth in the average deposit balance across all customer levels, which suggests capacity for strong spending to continue. On an aggregated basis, average deposit balances were up 47% from pre-pandemic levels and 15% higher than 2021. And the momentum continued through quarter 1, particularly in the low balance accounts, which grew in February to March, continuing a streak since mid last year.

Now a couple of examples so you can see how this works. We looked at the pre-pandemic customers who had $1,000 to $2,000 of cleared balances BAC. Today, we have a -- at that time, pre-pandemic had an average balance of 1.4 or -- $1,400. You take that same cohort of customers with -- the same customers in 2022 versus 2019, and they have an average cleared balance of now of $7,400. So they increased from $1,400 to $7,400.

If you go to the next cohort up, those with $2,000 to $5,000 of cleared balances in the pre-pandemic, their average was $3,250. Now those same customers today have an average cleared balance of $12,500. What does that tell us? The consumers are sitting on lots of cash. Why this is true? Well you know, high wage growth, high savings by limited enabled spending. But what it means is a long tail to consumer spend growth. And in April through the first 2 weeks, spending is growing and even faster at 18% over April 2021.

Another economic sign posted a continuation of loan growth. A year ago, we highlighted the green shoots of our loan growth. We then delivered a growth in quarter 2 and quarter 3 and quarter 4 despite PPP runoff and the change in economic conditions. To convey where we are today, we focus on ending loans to give you a progression through the quarter.
If you go to Slide 4, you can see the highlights of that growth in the upper left of the slide. I would remind you that in quarter 4, we highlighted to you that of the $55 billion of growth in that single quarter, $16 billion was Global Markets. So we did not expect that to hold true for quarter 1 of 2022. So as we thought, Global Markets did come down $5 billion this quarter.

Despite that, overall commercial loans grew $13 billion from quarter 4, excluding PPP. That means commercial loans, excluding Global Markets, grew $17 billion. Every single customer group, Global banking, large corporate, middle market, business banking grew as well as commercial loans in Wealth Management.

That improvement came from both new loans as well as improving utilization rates from existing clients. You can see in the top chart, loans have moved back above our pre-pandemic levels on the right-hand side of the slide, and you can see it being led by commercial.

Consumer loans continued to grow linked quarter as well. This is despite typical seasonality and despite the continued suppressed credit card balance, as you can see on the lower left. Mortgage loans grew $4 billion, originations remained at high levels, and paydowns declined.

Card loans declined $2 billion from quarter 4, driven by the transfer of $1.6 billion affinity card loan portfolio to the held-for-sale category. Absent that transfer, card loans would have declined very modestly, whereas the previous quarter 1 quarters, they declined several billion.

On Slide 5, we provide data around consumer clients’ leverage and asset quality as compared to pre-pandemic periods, which further supports our belief that consumers remain in good shape. On the upper left, we looked at our customers that have both a credit card and a deposit account with us.

As you will note, the average card balance of our credit card customers that had deposit relationships are still 8% lower than they were pre-pandemic. They continue to pay down their balances on a monthly basis at a higher rate than pre-pandemic. And as you know, delinquency rates are significantly lower.

Further, as you can see in my earlier point, these borrowing customers have built significant additional savings, and their average deposit balances were up 39%. So a lot of strength or dry powder is it’s called. So what if we went to the modest FICO -- more modest amount of low FICO customers you have at BAC. Looking at that small subset of our base, you can see a similar trend, even stronger on cash balances and lower debt levels. And you see in the bottom charts, we believe this is not just a phenomenon at BAC as industry data points around debt service levels are hovering near historic lows and household deposit and cash levels are $3 trillion higher than we entered the crisis.

Now a word on Russia. This is not an area of material direct exposure for Bank of America. More than a decade ago, we've reduced our exposure in Russia, and it's result in having 90% less before the most recent crisis. Our current very limited activities in Russia are focused on compliance with all sanctions and other legal and regulatory requirements. Our lending and counterparty exposure to companies based in Russia totals approximately $700 million and is limited to 9 Russian-based borrowers. It's largely comprised of top-tier commodity exporters with a history of strong cash flows who continue to make payments. Prior to the Ukrainian invasion, these exposure were mostly investment grade, we report all of them on our reservable criticized.

Our quarter 1 allowance includes increased reserves from this direct exposure. And I just note that even with the addition of these loans to reservable criticized, we still declined $1.7 billion in this category during the first quarter. We continue our daily monitoring with sanctions and interest payments might impact these loans. We also evaluate our portfolios and continue to do so considering second order impact to this crisis. Currently, we believe this to be modest and reflect our international strategy to focus on large multinational clients that have geographically diverse operations.

Our quarter 1 allowance for credit losses reflects all of these things as well. On Russian counterparty risk, our teams have done a tremendous job managing down our exposures. And at the end of the quarter, we have de minimis, meaning less than $20 million counterparty exposures with a single Russian-based
counterparty. And very limited impacts from quarter -- and any of those impacts are in our trading results for this quarter. So responsible growth has served us well here.

And as you might note, after the 2014 Crimea conflict, we intentionally reduced our exposure. And Russia has not been our top 20 country risk exposure table since 2015.

So a few comments on NII. On NII, remember the rate increases came late in the quarter and had little first quarter 2022 NII impact. And there were 2 fewer days of interest in the quarter and decreased PPP fees hurt NII growth, yet we still grew NII by $200 million, in line with our guidance we gave you last quarter. Given the forward curve expectation for higher interest rates and our expectations of further loan growth, we expect significant NII improvement through the next several quarters. Alistair will expand on this point for you.

We have more than $2 trillion of deposits, and $1.4 trillion of those are with our Consumer and Wealth Management clients with more than 40% of those and low to no interest checking. That is a franchise that isn't rivaled. We will benefit as the rates move off the zero floors, allowing us to earn more money on those checking deposits.

Deposits, I know some -- several of you are wondering if deposits can continue to grow as rates begin to rise. So we went back and looked at the last rising cycle in the last decade. We pinpointed the peak rate paid to customers during the quarter reflective of this peak Fed tightening. We then went back and looked at the 12 months preceding growth rate in deposits. And in fact, during that 12 months preceding that peak, deposits grew 5%, driven by organic growth engine, our market share gains and overall economic growth.

If we go to Page -- Slide 6, you can see the common equity -- where we talked about capital. Just to start off, our capital remained strong with 10.4% CET1 ratio well above our 9.5% minimum requirement. As you can see, $7 billion of earnings, net of preferred dividends, generated 41 basis points of capital.

If you look on the right-hand side of the page, you can see that 14 basis points of that capital was used to support our customers' growth. That's a good thing. We also returned $4 billion to shareholders in common dividends and share repurchase, will represent about 27 basis points of use. Despite the Treasury and mortgage-backed securities rates caused the fair value of our AFS debt securities to decrease and lowered our CET1 by 21 basis points. That's the part that goes through the calculation of the capital. While one wouldn't expect this impact every quarter, we're well positioned -- we were well positioned for the spike. As you recall, we invested much of our securities books and held to maturity due to our huge excess and stable deposit base. We have $2 trillion of deposits and less than $1 trillion in loans.

In addition, to be cautious, we hedge a large portion of securities in the AFS portfolio, protecting it from a much larger hit to AOCI. I remind you, as the securities mature, the AOCI reverses and higher rates result in higher NII over a relatively short period of time. That should result in higher earnings that will benefit CET1 ratios on an ongoing basis and more than offset the negative upfront AOCI impact.

Last thing I would note is our balance sheet growth to support our customers means our GSIB buffer will probably move higher by 50 basis points beginning in 2024, i.e., to 10% regulatory minimums. Well, this is nearly 2 years away, we continue to move towards it. Given this new higher minimum over the next couple of years, we'll look to gradually move to target CET1 range of 10.75% towards 11%. Importantly, while we grow into this range, we'll be able to support our clients, we'll be able to continue to increase our dividend, and we'll be able to continue to buy back stock.

With that, let me turn it over to Alastair.

Alastair Borthwick

Thank you, Brian, and I'll start with the summary income statement on Slide 7, where you can see our comparisons illustrating 3% year-over-year operating leverage produced by growing revenue and managing our costs well. That was nearly enough to overcome the change in provision expense, driven by the $2.7 billion reserve release in the year-ago period compared to a $400 million released this quarter.
On asset quality, more broadly, we continue to see very strong metrics. Net charge-offs remained low, and in fact, they're down more than 50% in just the past year. Consumer early and late-stage delinquencies are still below 2019 levels, and reservable criticized moved lower again in Q1.

Looking ahead, we continue to feel good about the asset quality results of our consumer and commercial businesses near term, given our customers' high liquidity, low unemployment and rising wages. We produced good returns again this quarter with an ROTCE of nearly 16%, and we delivered $4.4 billion of capital back to shareholders, driving average shares lower by 6% year-over-year.

Looking forward and with continued expectations of growing NII, combined with strong expense control, we expect to drive operating leverage and see our efficiency ratio work back towards 60%.

So let's turn to Slide 8 and the balance sheet. And you can see during the quarter, our balance sheet grew $69 billion to a little more than $3.2 trillion. This reflected $14 billion of growth in loans and the growth of our Global Markets balance sheet as customers increased their activity with us. Our decline in cash this quarter was associated with that growth in Global Markets.

Our liquidity portfolio was stable compared to year-end. And at $1.1 trillion, it represents roughly 1/3 of the balance sheet. Shareholders’ equity declined $3.4 billion from Q4 with a few different component side of note. Shareholders’ equity benefited from net income after preferred dividends of $6.6 billion as well as issuance of $2.4 billion in preferred stock. So that's $9 billion that flowed into equity in Q1. And we paid out $4.4 billion in common dividends and share repurchases.

AOCI declined as a result of the spike in long rates that Brian referenced, and we saw the impact in 2 ways. First, we had a reduction from a change in the value of our AFS debt securities, that was $3.4 billion. That's the piece that impacts CET1, as Brian noted. And second, rates also drove a $5.2 billion decline in AOCI from derivatives, but does not impact CET1. That reflects cash flow hedges against our variable rate ones, which provides some NII growth and protected CET1 at the same time.

With regard to regulatory capital, since Brian already talked about CET1, I’d simply note that our supplemental leverage ratio was stable at 5.4% versus the minimum requirement of 5%, and still leaves us plenty of capacity for balance sheet growth. And our TLAC ratio remains comfortably above our requirements.

Turning to Slide 9, we included the schedule on average loan balances. And in the interest of time, the only thing I would add to Brian’s earlier comments, and for your perspective, is simply a reminder that PPP loans are down $19 billion year-over-year. There’s just a few billion of those left. And excluding PPP, our total loans grew $89 billion or 10% compared to last year.

Moving to deposits on Slide 10. First, let’s look at year-over-year growth. And across the past 12 months, we saw solid growth across the client base as we deepened relationships and added net new accounts. Our year-over-year average deposits are up $240 billion or 13%. Retail deposits with our Consumer and Wealth Management businesses grew $190 million, and our retail deposits have now grown to more than $1.4 trillion, where we lead all competitors.

Looking at linked-quarter growth from Q4 and combining Consumer and Wealth Management customer balances, our retail deposits grew $53 billion in just the past 90 days. With our commercial clients, they’re up nicely year-over-year, and we simply note the Q1 decline, which is entirely consistent with previous year’s seasonal trends.

Turning to Slide 11 and net interest income. On a GAAP, non-FTE basis, NII in Q1 was $11.6 billion. And the FTE NII number was $11.7 billion. So I'll focus on FTE, where net interest income has now increased $1.4 billion from the first quarter last year. As Brian noted, that’s 13% increase driven by deposits growth and our related investment of liquidity.

NII was up $200 million versus the fourth quarter as the benefits of lower premium amortization and loans growth more than offset the headwinds of 2 less days of interest accruals and lower PPP fees.
So let's pause for a moment to discuss asset sensitivity because I want to make a couple of points as we begin what the Fed has signaled to be a significant rate hike period. Remember, asset sensitivity is our measure of NII for the next 12 months above an expected baseline of NII, given changes in interest rates and other assumptions. In an environment of sharply rising rates each quarter, the baseline of NII -- actual NII increases and, therefore, the future sensitivity declines. Now we typically disclose our asset sensitivity based on a 100 basis point instantaneous parallel shock in rates above the forward curve. And on that basis, asset sensitivity at March 31 was $5.4 billion of expected NII over the next 12 months, and 90% of that sensitivity is driven by short rates. That $5.4 billion is down from $6.5 billion at year-end, largely because higher rates are now factored into and running through our actual or baseline NII.

Now, you asked the question last quarter about the same sensitivity on a spot basis relative to our current curve. And given that the yield curve is projecting 125 basis points of rate hikes over the next 3 meetings, we thought it was appropriate to provide that disclosure.

So in a 100 basis point shock using the forward curve, our sensitivity to that kind of move would be $6.8 billion or $1.4 billion higher than on a forward basis. So assuming rising rates as reflected in today's forward curve and if we see continued loans growth, I would just reiterate what we said last quarter that we expect to see robust NII growth in 2022 compared to 2021. We're not going to provide numerical guidance for the full year because the changes in interest rates have proven quite volatile in just the last 90 days, let alone a year. We do provide that asset sensitivity so that you can use it as guardrails to think about changes as you modify your own assumptions. I do, however, want to provide a near-term expectation and say that if loans grow and rates in the forward curve materialize, we would expect to see NII in Q2 increase by more than $650 million over the Q1 level and then grow again significantly on a sequential basis in each of the following 2 quarters.

Okay. Let's turn to expenses, and we'll use Slide 12 for that discussion. Our Q1 expenses were $15.3 billion, down a couple hundred million from the year-ago period. I'll focus my remarks on the more recent comparison versus Q4 where we're up $600 million. And as expected, and we conveyed to you last quarter, the Q1 increase was driven mostly by seasonality of payroll tax expense of roughly $400 million. We also experienced modestly higher wage and benefit costs.

As we look forward, we continue to invest heavily in technology, people and marketing across our lines of business, and we've continued to add new financial centers in expansion and growth markets. We modestly increased our full year new tech initiative budget for the year to $3.6 billion. And that's on top of -- that's on top of more than $35 billion that we put to work over the past 12 years to help us build powerful, more secure and scalable technology platforms. This is the investment that allowed us to maintain a leadership position in patents among our peers. We had 512 of them granted in 2021, and we're maintaining in a similar pace this year. We think this is one of the things that's helping us to protect our moat around leadership positions in places that matter most to customers.

In addition to modestly higher marketing costs this year, our investments also include adding up to 100 new financial centers. And we also plan to renovate more than 800 more during the year. We will also continue our upward march on minimum hourly wage toward $25 by 2025. So how do we pay for all that? Through continued work on operational excellence and digital engagement. And as we look to Q2, we expect our expenses to be down modestly from Q1, as much of the seasonal payroll tax expense abates and is somewhat offset by investment timing, inflation and the cost of opening up more fully for travel and clone entertainment. Because it feels like we've got a lot of pent-up demand for face-to-face meetings by our clients and our people.

So let's turn to asset quality on Slide 13. And as you can see, asset quality of our customers remains very healthy. Net charge-offs this quarter were better than our expectations once again and remained below $400 million, down 52% compared to Q1 2021. Provision expense was $30 million in Q1 as reserve release of $362 million closely matched net charge-offs in the quarter. And that reserve release was primarily in our Consumer portfolios.
On Slide 14, we highlight the credit quality metrics for both our Consumer and Commercial portfolios. I am happy to answer any questions later, but a couple of things are worth repeating. Consumer delinquencies remain well below pre-pandemic levels. And despite reporting our commercial Russian lending exposure in reservable criticized, those levels still declined $1.7 billion from Q4.

NPLs saw a modest increase, and that simply reflects a small amount of consumer real estate deferrals expiring with the expiration of the CARES Act.

Turning to the business segments. One thing we'd ask you just to keep in mind for each of the businesses is Q1 expense includes the seasonal payroll tax expense, which has negatively impacted efficiency ratios or profit margins in Q1. Also, and as usual, Q1 of every year includes segment capital level evaluation. And you'll note, we put additional capital against each of the businesses due to their growth. And as usual, we've tried to include business trends and digital stats for each segment.

So let's start with Consumer Banking on Slide 15, where you can see the Consumer Bank earned nearly $3 billion. That's 11% up over Q1 2021 as revenue growth more than offset the larger prior period reserve release. It's probably most easily identified by looking at pretax pre-provision earnings, which grew 32% year-over-year.

Revenue grew 9% on NII improvement, and expense declined 4%, creating 13% operating leverage and the fourth consecutive quarter of operating leverage for our Consumer team. Notable customer activity highlights included our 228,000 net new checking accounts opened in Q1, which represents our 13th consecutive quarter of net new consumer checking account growth. Now this occurred as we began to implement our previously announced insufficient funds and overdraft policy changes, which lowered our service charges about $80 million.

So during this time, we saw accounts grow and we saw expenses decline. We also grew investment accounts 7%, and we saw those balances grow 10% from Q1 '21 to $350 billion, and that included $20 billion of client flows. And once again, we opened nearly 1 million credit cards in the quarter and grew average active card accounts and saw growth in combined credit and debit spend of 15%.

Our continued investment in digital capabilities drove activity with our customers as we crossed 50% in digital sales this quarter and we continued investment in our financial centers, opening another 8 in the quarter. It's also worth noting that small business saw continued growth in loans, in deposits and in spending. Small business card spend was up 28% year-over-year. It gives you an idea of how small businesses are reopening for business.

I'd also draw your attention to Slide 22 in the appendix. We've shared this with you previously, and it simply highlights the origination strength and quality of our consumer underwriting. Throughout everything, our underwriting standards have remained consistent.

Moving to Slide 16. Wealth Management produced strong results earning $1.1 billion, and that represented 28% year-over-year growth, driven by strong revenue improvement, good expense management and low credit costs. Bank of America continues to deliver Wealth Management at scale across a full range of our client segments and with the best advisers in the industry according to Barron's rankings. That, coupled with our digital leadership, is delivering a modern Merrill and a modern Private Bank for clients through enterprise relationships, and our clients and advisers have recognized the value in a holistic financial relationship that extends across investments, planning and banking. And that's what helped drive the $150 billion of clients' balance flows that you see here over the past 12 months. Not only did we see strong investment flows of more than $70 billion, but deposits grew $59 billion, up 18%, and we added $22 billion in loans over the same period, marking our 48th consecutive quarter of average loans growth in the business, just consistent and sustained performance from the team.

Revenues grew 10% to a new record and were led by 25% growth in NII on the back of those solid deposit and loans increases as well as a 9% improvement in asset management fees. Expenses increased 4%, driven
by higher revenue-related costs and resulted in over 600 basis points of operating leverage. And we generated nearly 7,000 in net new households in Merrill and more than 800 in the Private Bank this quarter.

Moving to Global Banking on Slide 17. The business momentum with our Commercial clients remained strong in the first quarter. The business earned $1.7 billion in Q1, down $450 million year-over-year, driven by the absence of a large prior period reserve release and lower investment banking revenue. Revenue improvement of 12% year-over-year reflected higher leasing-related revenue and NII growth, partially offset by those lower investment banking fees.

Net interest income grew on the back of strong loans and deposits growth. And the leasing revenue improvement included more ESG-related investments, particularly in solar, as well as the absence of weather-related losses recorded last year. While the company’s overall investment banking fees of $1.5 billion declined 35% year-over-year, we gained market share in some important areas and recorded a #3 ranking in overall fees. And importantly, our investment banking pipeline remains quite healthy.

Provision expense reflected a reserve build of $177 million compared to a $1.2 billion release in the year-ago period, and this quarter’s provision includes reserves taken for Russia exposure and other considerations for loans growth, offset by continued improvement in asset quality metrics.

Finally, we saw expense decline by 4%, driving strong operating leverage.

Switching to Global Markets on Slide 18. And as we usually do, I will talk about the segment results, excluding DVA. Q1 net income of $1.5 billion reflects a solid quarter of sales and trading revenue, and it includes a new record for equities. The business generated a 15% return in Q1 even with a 12% increase in the capital allocated to the business. Our investments in this business saw good results as our financing clients continue to increase their activities with our company.

Focusing on year-over-year, sales and trading contributed $4.7 billion to revenue. Versus Q4, that was a 58% improvement, a little higher than typical seasonality. And versus Q1 ’21, we saw a decline of 8% as the prior year included higher commodities results due to weather-related events.

FICC declined 19%, while equities improved 9%. That FICC decline reflects the higher prior period commodities and a weaker credit trading environment. And it was partially offset by improved performance across our macro products, especially rates and foreign exchange. The strength in equities was driven by strong performance in derivatives.

And year-over-year expense declined, reflecting the absence of costs associated with the realignment of a liquidating business activity to the all other unit as well as some Q1 ’21 accelerated cost for incentive changes. Absent those impacts, expenses were up modestly.

Finally, on Slide 19, we show all other, which reported a loss of $364 million, declining $620 million from the year-ago period. Revenue declined as a result of higher volume of deals, particularly solar, and therefore, higher partnership losses on ESG investments, and this is partially offset by the tax impact in this reporting unit.

Expense increased as a result of costs now recorded here in this segment following the Q4 realignment of that liquidating business out of Global Markets. And as a reminder, for the financial statement presentation in this release, the business segments are all taxed on a standard fully taxable equivalent basis. So in all other, we incorporate the impact of our ESG tax credits and any other unusual items.

For the quarter for the company, our effective tax rate was 10%, benefiting from ESG investment tax credits. And excluding the tax credits, the tax rate would have been roughly 24%. We expect our effective tax rate in 2022 to be between 10% to 12%, absent any tax law changes or any unusual items.

And with that, let’s open it up, please, for Q&A.
Q&A

Operator
(Operator Instructions) We'll go first to Glenn Schorr with Evercore.

Glenn Schorr
Thanks very much. And forgive me if this is a drop long. But I listen to all your comments about the consumer, about spending, about no real stresses in credit, net charge-offs, nonperforming, debt service levels, all that sounds great. And in the past, I think higher rates were designed to pull leverage from the system and cause some recessions. And so the market is trying to assign some percentage chance towards a recession, yet every comment I hear out of your mouth doesn't sound like we're going towards a recession. So I wanted to see if I could get you to comment on your thoughts around today's environment versus history? And then also specifically as what you did with the ins and outs in reserves? And if you changed any macro scenarios as you bake in CECL results?

Alastair Borthwick
Thanks, Glenn. So you're right to pick up on the commentary because Brian's highlighted the strength of the consumer, which remains extraordinary. And at the same time, what we see on the asset quality side of commercial is just continued steady improvement as the economy reopens. So that's what we're seeing. That's contemporaneous.

Now you're asking a question about what does it look like in the future? And we're obviously aware of what the Fed is trying to engineer. So going through this every quarter, as we always do, we have an opportunity to think about how we look at our reserves. And this quarter, we took some of the upside out. We've got a little more weighting towards a baseline and a little more towards downside. So that's one thing we've done.

Second thing we've done is we've upped our forecast for inflation. So we see that playing through. And those scenarios are a little more weighted towards inflationary.

And third, we have adjusted GDP growth down, largely based on blue-chip consensus. So we, like you, are looking at 2 things. Number one, we're looking at what we're seeing in the actual results. And number two, we're thinking about how we balance that going forward with our scenarios.

Brian Moynihan
And I think just generally, Fed has a task to bringing inflation out of the system. And our GDP assumptions, by Candace Browning Platt and team, they are for the economy to slow its growth rate from this year to next year. The question of great debate is a soft landing, hard landing, et cetera. But I think what's unusual this time is how much cash is sitting in the consumers' accounts.

If you are sitting here when they start normalizing rates in the middle of the last decade, late to middle last decade, you wouldn't have seen the consumer balances sitting with those multiples I gave you earlier in their accounts and then having tremendous borrowing capacity left in terms of unused credit lines and the same on the commercial side. Lines are bouncing along just above the low point.

And so we continue to adjust our reserve levels to, as Alastair said, to factor in our base case includes higher inflation through the rest of the year. And next year, our CECL reserves, set by that base case, which is a 40% weighting to adverse, frankly equal maybe 40% of the actual reserves we have, because the rest are judgmental and imprecision and things like that. So we're very strong in reserves.

And we're very mindful that I think it's very different to think about the situation where the consumers unemployment is already so low and the consumers are sitting with money. And I think that puts more
attention on the Fed to how they architect a successful change, and they know that. But on the other hand, it’s a better place to start.

Glenn Schorr
I appreciate all that. One little tiny follow-up is in Global Banking, I noticed $2 billion more allocated capital. Deal activity is down, but you mentioned pipelines are good. So maybe you could just talk about just what’s going on there.

Alastair Borthwick
Well, we don't have a great deal to add there. Obviously, we’re coming off of record quarters last year. And we’re just operating in the market conditions that we’re given. The volatility has obviously been hardest felt in equity capital markets and in high yield. And across the board, we'd say our pipelines look very strong. So I think when I asked Matthew, he said somewhere between strong and very strong. So that should tell you everything you need to know. But obviously, we need market conditions to cooperate.

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

John McDonald
I was wondering if you could talk a little bit about expenses and operating leverage. Are you still thinking that expenses will be flattish this year in the $60 billion ballpark, Brian? And you did mention expectations for the efficiency ratio as our operating leverage improves with NII, maybe that marches down from kind of the mid-60s to low 60s, I think you said?

Brian Moynihan
Yes. And Alastair gave you some detail. But just simply put, John, we expect to be relatively flat for 2022 versus 2021. That’s the guidance we gave you last quarter. We don’t see any different this quarter.

John McDonald
Okay. That’s helpful. And then, Alastair, maybe just a little more fleshing out about the capital and how you’re managing the CET1. Obviously, you’re generating already capital each quarter above what you’re paying out the dividend. It seemed like 30 basis points this quarter, and that probably gets better. At the same time, it sounds like you may be going to manage up to around 11% over the next year. Maybe you could just give us some of the dynamics there and how that plays into the ability to do some buybacks through the rest of the year?

Alastair Borthwick
Yes. So no change to our approach, John, relative to prior years. I think the waterfall that we laid out on Slide 6 is pretty constructive. First priority for us will remain just invest in growth. We’ll support our clients and let them get after -- and the teams get after the loans to help our clients there. Secondly, we’ll make the dividend payments. And then we'll have capital left over for share buyback as we have had in the past. And we'll make those decisions in the context of future rate environments and future capital requirements. I think Brian pointed out to you that we’re going to build capital over the course of the next couple of years by about 50 basis points. We’ve got 7 quarters. So it’s a small amount every quarter that we’ll be doing.

Brian Moynihan
And John, just you said operating leverage. I’m proud of the team. We have 3 straight quarters of operating leverage. PPNR growth was strong. That’s different than what we’ve seen out there generally. But remember, during the -- as the rates rose in the pre-pandemic setting, and Glenn's question about soft landing and hard landing and inherently weighs on everybody's mind, the simple fact is we had 20 straight quarters of operating leverage, and we’re starting to see that come through. And if you look at the consumer efficiency from the first quarter last year, this quarter, your point in efficiency ratio, this has all come
through NII and it all falls to the bottom line. And therefore, you end up with a fairly significant impact in those businesses, which are obviously highly sensitive growth in NII.

**Operator**

Our next question comes from Mike Mayo with Wells Fargo Securities.

**Mike Mayo**

Brian and Alastair, I wonder if you can just make a distinction tree in the economic, regulatory and accounting outlook. So from the economic standpoint, your mark-to-market, your assets and your securities, you saw a swing to AOCI, but you don't mark-to-market that $1.4 billion of deposits. From a regulatory standpoint, AOCI causes you to slow buybacks, I believe, you said. But from an accounting or earnings standpoint, maybe you win in the end, maybe you don't. So I know you're not giving specific guidance for NII. But just at a basic level, is your guys earnings outlook better because of the NII and the higher payment rates and the better efficiency? Or is it worse because you have less buybacks, maybe more provisions due to the potential for a recession?

**Brian Moynihan**

Mike, those are all the pieces. But simply put, I think Alastair said, NII pick up next quarter. So you pick up the $200 million this quarter, you put that in the bank, then you pick up another $600 million plus next quarter and then it grows from there out. So yes, that's tremendous operating leverage. And as we just said to John, expenses are flat. So that flows through the bottom line. All the different vagaries of not only regulatory accounting versus GAAP accounting, but also what cash can account in the capital ratio calculation versus not, at the end of the day, you said $1.4 trillion. It's $2 trillion of deposits, $1.4 trillion just on the consumer for people side of the business. And even on the business side, we only have operational deposits.

And so the end of the day, those are very long deposits. We extract the value through investing, and that's why we put it in held the maturity. And the cash flow off that held to maturity portfolio is $20-odd billion a quarter even in a rate environment changes. So that -- whatever hit we had, the CET1, the growth in NII and the growth in earnings power and hat covers up inside of a year. And so we feel very good about that. So the rate environment where we come off the 0 floors makes us a lot more money. You know that, and we know that.

**Mike Mayo**

Can you elaborate a little bit more on what you mean by operational deposits? I know you've talked about that and the linkages, and I guess that's the reason why you would expect deposits to be more sticky. But can you elaborate a little bit more? You mentioned that Zelle and Erica volumes are up 4x higher than pre-pandemic. So I guess you have a little bit more lock-in, but if you could elaborate more.

**Brian Moynihan**

On the consumer side, the people being Wealth Management consumers and general consumers, the $1.4 trillion we're 40% or more in checking accounts, and that's the money people have in motion in a given day. And what the big volume of comes from, frankly, you have 35 million checking holders, which is a new record for us. And so that's important. And all the feature functionality helps them our retention for our preferred customer base in the consumer segment, which represents 70% or 80% of all deposits is 99-point something. And so those customers stay with us a long time.

What I meant operational accounts on the commercial side, we -- all the cash is money in motion for those commercial customers, meaning it's part of the daily cash flow. So whether it's small business customers, whether it's business banking customers, which are under $50 million revenue companies or even middle market, this money is coming in and out every day. And so it's very stable. It doesn't disappear from the scenes.
And if you look at our GTS revenue, you can see the Global Transaction Services revenue on the Page on Gold Banking, you'll see it's grown nicely year-over-year, and that's due to the stability of that deposit base and what we see. So it's not going to move away from the balance sheet.

That's the point I said about -- in a rate-rising cycle, last rate-rising cycle, as money supply shrank, at the end of the day, we grew deposits 5%. And so we'll see what happens because it's different, but we feel pretty confident.

Alastair Borthwick
Like the only thing I'd add to what Brian -- the only thing I'd add is when Brian talked about operating, it's one of the reasons we highlight that 92%, 93% of our consumer accounts are primary. And we've had 99%-plus retention rate on those accounts. So sticky deposits. That's what we're just trying to make sure everyone understands.

Operator
We'll go next to Betsy Graseck with Morgan Stanley.

Betsy Graseck
Two questions. One on expenses. I know you mentioned this year that you're still anticipating relatively flat and that you would deal with inflation pressures, et cetera, from some of the opportunities you have to get more efficient. Can you give us a sense as to how long you think you can stay flat for? Like is that going to be into '23 as well? And can you unpack some of the things you're doing to get more efficient? I know you did a ton of efficiency pre-COVID, so what’s left?

Brian Moynihan
So Betsy, remember, coming into the pandemic, we had hit the point where we brought expenses down and said we -- now we're an operating leverage company, so we'll get revenue growth faster than expense growth, but we'd start to grow modestly. Then the pandemic had a lot of expenses coming in and out. But -- and so when we say flat year-over-year, basically, meaning ['22 versus '21] (corrected) in that $59 billion to $60 billion range, our view is that our goal is to keep that down to a modest expense growth, if any, and as we move to ['23] (corrected), et cetera. But the key is to have the revenue grow much faster. And that's what we expect to see as NII kicks back up and efficiency ratios, as Mike or John referenced, ought to kick back down pretty nicely.

Betsy Graseck
Got it. And then the other question is just further rate backups. Obviously, 10 years already at 2.8%, it's up 50 bps from March 31 so if it goes to like 3.3%, we have the same kind of hit as this past quarter. Can you just give us a sense as to how you're dealing with that rate backups? Is there anything you would do differently? Would you move any AFS to HTM? Or would you engage this new accounting rule that's been finalized in March 28 that enables you to do last layer hedging on HTM book? I mean does any of that matter to you? And just give us a sense as to how much longer this rate backup is? Or would you change how you're dealing with it?

Brian Moynihan
Yes. So the piece that will matter the most will be the AFS securities. And we've talked before about the fact that we have about $200 billion of Treasuries there, and they're all swapped to floating precisely to insulate us. So I think that's one of the reasons you see our AOCI hit is much smaller than many others.

So then it's just a question of managing around the $50 billion or so of securities that we have there that aren't swapped to floating. And I'd just note that, that number has come down a little bit month after month after month. I think it will keep coming down. We have some ability, obviously, to hedge that if we choose to. And so we'll manage our interest rate exposure as the environment develops from here.
Operator
We'll go now to Matt O'Connor with Deutsche Bank.

Matt O'Connor
I was hoping to get a little more detail on the net interest income trajectory in the back half of the year if we follow the forward curve? And I appreciate you don't want to give explicit guidance because maybe a month from now, the rate environment will change, but it's also the key driver for Bank of America's earnings from here and obviously, a very positive story. So one is again, and maybe I'll start it with next quarter is up more than $600 million. If you follow the forward curve, it seems like that quarter-on-quarter increase could actually accelerate in the back half of the year. So maybe I'll leave it with that for you to run those.

Alastair Borthwick
Yes. So look, I think we, broadly speaking, agree with you. We obviously don't control rates. So that's why we're always reluctant to give guidance over the course of the next 270 days. But we're very levered to rates going up from here. And we said in our remarks that we believe the second quarter will be up at least $650 million in NII.

And I think if you look at the forward curve, yes, you would expect to accelerate over the course of the year. And then we tried to give you the broad outlines around $5.4 billion versus forward $6.8 billion versus spot, it's obviously very meaningful. But we're only prepared to look out over the course of the next 90 days because we feel like we've got pretty good confidence around that.

And I think the other thing just to bear in mind is our next meeting is in May. So you'll see like the Fed meetings and the hikes in the forward curve really do accelerate things in the back half of the year.

Matt O'Connor
And how do you think, if we do get kind of the second 100 basis point rate increase that the market anticipating, what does that kind of look like in terms of your rate sensitivity? And then just kind of squeeze in something similar. At some point, your rate hikes not help net interest income? Or it helps but just to a lesser extent?

Alastair Borthwick
Well, I think just the fact that you've got $5.4 billion compared to $6.8 billion tells you a little bit about successive rate hikes become less valuable. But we're probably a long way from where they stopped having value. So look, we expect, as Brian talked about, we're kind of at a rate floor when rates are at 0. And obviously, we'll get significant benefit over the course of the next 100 basis points. I, like you, would anticipate less from the following 100. But again, we're going to capture a lot of value because our strategy is based around operating accounts in commercial and primary accounts in consumer.

Brian Moynihan
The question always is if the Fed is hiking rates because of inflation that they can't get back under control and look at the stuff out everybody focused on NII, you got to look at what's going on in the economy generally. So that's why we have significant reserves in case it's harder landing than people at the Fed would like to engineer. And that's why we run the company with such a balance. But generally, a higher sustained rate environment will help us earn a lot more money. And you saw that pick up as we picked up through '16, '17, '18, and you'll see it happen. Again, you've already seen it happen. Then we think last year first quarter versus this year first quarter we had $1.4 billion more NII per quarter. So that's -- it's already helped in as loan and deposit growth are matched in some modest rate increases.

Operator
Our next question comes from Erika Najarian with UBS.
Erika Najarian
My first question is a follow-up to what Matt was asking about. Alastair, could you give us a sense of what the deposit repricing assumption is in the plus $6.8 billion in sensitivity for the first 100. And given your focus on primary and operating accounts, contrast that with chunkier rate hikes, how should we expect deposit repricing to behave in the second 100 basis points?

Alastair Borthwick
So we normally take a look at our deposit betas over the course of history. And if you go back to the last rate hike cycle, '15 through '19, on average, you can't -- it's obviously very different by account and line of business and client. But on average, it was somewhere between 20% and 25% for Bank of America. We'd hope to perform a liquid better in this cycle just based on the value we deliver to clients, particularly in things like digital, et cetera. But for now, I think that's a reasonable assumption. It's difficult to project out first 100 versus second 100. I mean I would imagine for the first couple of hundreds, it's going to be pretty -- I would hope, pretty stable. But at some point, when you think deposit basis would drift higher, we'll obviously be able to give you guidance on that in the future based on what we're actually seeing.

Erika Najarian
Got it. And I just wanted to clarify something, Brian, that you said to Betsy. Did you say that you expect 2023 expenses to be between $59 billion and $60 billion and then for modest growth to return in 2024?

Brian Moynihan
No. We said '22 is flat to '21, and then grow modestly then.

Erika Najarian
Got it. Okay. Got it. And then the follow-up question there is, you mentioned your trajectory -- your target for getting back to 60% on the efficiency ratio. What kind of time frame are you thinking in terms of when you can accomplish that relative to the forward curve?

Brian Moynihan
So I think that -- we made progress each quarter basically. We're around 66%, we're down year-over-year. I think if I gave you the specific quarter, we crossed over basically to the earnings projection for the rest of the quarters. So Erika, I think just as you look at the businesses, you're starting to see them drop more in line. Obviously, we always have such a huge Wealth Management business, which at a 27% pretax margin which is industry-leading, it was up 30% last quarter, will impact that because it's a bigger part of our business than others, but you'll see relentless progress, but I can't give the exact quarter.

Erika Najarian
Got it. And just one last question on capital. So today, your current CET1 minimum is 9.5%. And the higher G-SIB surcharge, when is that -- is that effective by January 1, 2023, so therefore, your minimum goes up by 50 basis points? And Brian, what -- how are you thinking of buffers relative to your new minimums? I think one of your counterparts said that he was no longer thinking of buffers upon buffers as he thinks of capital management going forward.

Alastair Borthwick
So Erika, our G-SIB minimum would increase effective January 1, 2024. So we've got 7 quarters to build towards that. Brian talked about operating and managing the company 75 to 100 basis points above our regulatory minimum. That's obviously exactly where we are right now. And so over the course of the next 7 quarters, we just expect to build that 50 basis points of capital.

Operator
We'll go now to Ken Usdin with Jefferies.
Ken Usdin
Just wanted to look at the commercial side of loans. Fourth quarter loan growth ex PPP was great at 10. And this quarter a little slower. Just wanted to ask you about just that end demand question, any supply chain, any changes in line utilization? And just what are you seeing out there on the commercial demand side?

Alastair Borthwick
Well, our clients are definitely seeing supply chain challenges. They're working through admirably. We've also seen inflation, and we're seeing labor and wage pressure. So that, I think we all know. At the same time, the economy is returning more towards normal, and our line utilization is returning more towards normal too. That's a part of what's driving our loans growth.

So revolver utilization in commercial now in banking is 31.7%. Pre-pandemic our normal was around 35%. So that's about 3.3%. Figure that's like $15 billion to $20 billion of loans potential as the accounting continues to heal and as clients begin to take utilization back. So it's one of the reasons we're still comfortable with loans growth, and we see the same momentum that we have over the course of the past 12 months.

Brian Moynihan
Important in the small business area, originations are strong and back past pre-pandemic levels of quarterly originations, and you're seeing home equity come back up even though mortgage will fall off. I think pre-pandemic, we did $3 billion. So we have a room on the consumer side and on the commercial side for further loan growth as the -- as people sort of normalize their behaviors and activities. And now you all read about the car industry, the line usage of car auto dealers is really low, and it's just, as an example, they can't keep enough inventory on the line.

Ken Usdin
Got it. And one follow-up on the fee side. I know investment banking and trading are going to be hard to forecast. But just any thoughts on some of the consumer-related and brokers-weighted fee areas? There's been some underlying moving parts there. Just can you talk about just the growth trajectory of some of those areas? And I guess, we'll just kind of leave the IB and trading to we'll see what happens in the markets.

Brian Moynihan
Yes. Well, I think we're wise to do that. When it comes to the card side, I'd say, flattish. We're managing to the total client relationship there. That remains something that we're focused on total value. So we'll see some growth there. We'll see it in balances. We'll see it in NII mostly, and we'll see it in detail in elsewhere.

On the asset management side, mostly it will be around market levels. So we'll follow that, as you will, closely. And a little bit of net new household growth and flows growth again this year. So that's how we're thinking about it. But I would say across all kind of flattish slightly, maybe slightly up.

The only one thing to bear in mind is just as a reminder, on insufficient funds and overdraft. Just remember that those that started to kick in, in February, and the remainder will pass through in March. So that's probably like -- sorry, May, and that's probably a $750 million hit for the year, if you like, on total fees.

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

Steven Chubak
Wanted to ask a follow-up on the earlier discussion on the 60% efficiency ratio. If we look at what you achieved last cycle, your terminal efficiency trajected closer to the upper 50s once the Fed funds rate eclipse 200 basis points. And want to get a sense whether there's a credible case for delivering a better-than-60% efficiency ratio this cycle? Or are there structural factors supporting a higher terminal efficiency in this coming cycle?
Brian Moynihan
Steven, the dynamic's going to be how big the wealth management business sits as a percentage of the total and just the dynamics of that business. And that's always what constrained it even to the rest of the businesses. If I remember right, peak cycle, both Global Banking went well below 50, Consumer went well below 50 and then between markets and Wealth Management. Now Wealth Management has done a great job of growing its loans and deposits, so that will help it. But that's always going to be the debate, and you should be cheering for strong Wealth Management revenues even if it means a little less efficiency ratio.

Steven Chubak
Okay. We'll certainly be cheering for that, Brian. Maybe just for my follow-up on capital. I know we've spent a lot of time talking about AOCI volatility and the like. What I hoping to get a better sense of given that RWA growth has actually been the biggest source of capital consumption over the last couple of quarters, it's up about 9% year-on-year. Just given the pace of continued strong loan growth that's anticipated, what level of organic RWA growth should we be underwriting as we think about the capital algorithm going forward?

Alastair Borthwick
Well, I think what you're looking to is some of the RWA growth has been coming from a pretty significant loans rebound, particularly in commercial. And I think you're looking at some of the investments we made in our Global Markets business. Some of that's a little seasonal, so it pops up in Q1. And some of it is year-over-year. So going forward, I think our growth, we'll have plenty of capital to support the growth that we expect in terms of RWAs. We manage that pretty closely. Again, the economy is beginning to return now to something more normal after bouncing around a bunch. So this quarter, when you think about those risk-weighted assets, 14 basis points. Brian's talked about 1/3, 1/3, 1/3 for share repurchase, dividend and growth. And that's probably a fair starting point.

Vivek Juneja
A couple. What are you -- I heard the commentary about deposit balances, Brian, from you that they're still very high in the lower-end customers. However, if we start to get a little more granular, more very recently, are you starting to see any drawdown with higher spending because of inflation? Any color on that? I know quarter-over-quarter, they are. But as we start to look forward to see how things are progressing, are we seeing that yet?

Brian Moynihan
It's actually the opposite of that. They grew faster from February to March, and that's probably because of the tax returns that they have. But basically, the broad way to think about it is beginning around May of last year, they grew sort of 1%, not annualized, but 1% per month, pretty consistently 1% to 2% higher at the lower end balances. Only in the month of November, I think we saw a slight down draft in the lower end balances, and that picked back up in December, grew January, February, March, each month. It grew this quarter, and the March month was the strongest.

So we might -- we haven't seen the data for April yet, but it's growing very strong, all the way up into the people who carried pre-pandemic at $10,000 to $20,000 of balances are still growing in very strongly. So we're not seeing that deteriorate at all yet.

Vivek Juneja
A completely different question for you, folks. Securities growth, didn't see that this quarter even if you exclude the mark-to-market stuff. What's your plan for that? Are you planning to grow securities balances? Should we be -- or what are you thinking at this point?
Brian Moynihan
It all comes down to deposits. We keep growing deposits, we got to put it to work. So Alastair can give you more detail. But you remember what drives the size of our balance sheet is our right-hand side, not our left. And so at $2 trillion -- we grew $200 billion -- or $180 billion, $190 billion, $100 billion deposits last year first quarter, this year first quarter. So if we grow our deposits, which you should be cheering for on the core basis, we do, we will then invest those deposits in a careful way.

Alastair Borthwick
And Vivek, if you look at this quarter, we added $8 billion of deposits. We added $14 billion of loans. That’s always going to be our first choice in terms of investment. The securities balances came down a little bit, $13 billion.

And remember, if you go back over the course of the past couple of years, in the pandemic, we didn't see the loans growth. So in many ways, that’s why we purchased some securities at which to replace loans that were coming off. That’s not what we’re seeing there. Now we’re seeing the loans growth. So our first years will always be for loans. And if we keep seeing the same kind of loan growth we’re seeing right now, the securities may decline over time they stay flat, we'll see, depends on deposits.

Vivek Juneja
And how about in terms of liquid assets? What level should we think -- should we expect you would bring that down to? Because those have come down a little bit when you look at them quarter-over-quarter, and they’re also down some year-over-year. Is there room for that to come down further? What sort of a run rate for that assuming, let’s assume deposits were flat and didn't go down, didn't grow much modestly here, where can that be drawn down to?

Alastair Borthwick
Yes. So liquidity is down in the quarter. That’s largely based on funding the Global Markets business with seasonal. If you look year-over-year at our liquidity numbers, you’ll see our global liquidity sources of $1.1 billion. They’re up like a stetch from Q1 of last year. HQLA surplus is up. That’s largely based on things like - - again, Brian talks about our deposits at $2 trillion. We have -- we’re probably more liquid now than we’ve ever been. And we’ve got plenty, I think, as we continue to grow deposits in the future. I hope our liquidity just continues to stay where it is or go higher.

Operator
And we’ll take a follow-up from Mike Mayo with Wells Fargo.

Mike Mayo
I was a little disappointed about the question related to terminal efficiency. I get, if you weight adjust Wealth Management. But with all the technology investments, shouldn’t your incremental pretax margins be greater on your new revenues? And if so, shouldn’t your terminal efficiency, business mix adjusted to be better than it was before? For example, specifically, your pretax margin in 2021 was 38%. Where should your pretax margins be on new revenues that are generated ahead?

Brian Moynihan
The new revenues will generate more margin profit, Mike. And the efficiency ratio, let's always see where we get to, but it will keep coming down, and we are improving every -- all the way through until the pandemic and with operating leverage every quarter. And I think it’s not going back and checking it quarter-by-quarter. I think it improved every quarter. It leaves aside some seasonality. But yes, we will keep driving it down. Headcount, this quarter was down another 100 people, it was down 4,000 last year. We are adding salespeople. We’re opening new branches. We're investing in franchise. We've opened in the 7, 8, 10 markets, and we have $30 billion of new deposits in those branches to give you a sense, and there’s only 140 branches. You know our strategy, Mike. So it’s always going to come down to balancing all that. But at the end of the day, we’re saying expenses are flat this year, and NII improvement is going to flow to the
bottom line. That's a pretty strong impact to efficiency, especially because it's going through the businesses, even the wealth management business.

Mike Mayo
And then one other follow-up. I mean I don't think there's a recession this year, but I've been wrong before. And the stock market is telling us there might be a pretty good chance of a recession. So Brian and Alastair, what do you think the chance of recession is in 2022? You have a lot more people, data, businesses, insight into the U.S. economy, and you need to have a percentage for that for your provision for loan losses. So is this 50% chance? 20% chance? What do you think, Brian, kind of gut feel, and Alastair by the numbers?

Brian Moynihan
I think you're a critic of and observer of banks, Mike, but the reality is we have economists predict recessions and all the adages about them. But the -- and the reality is they always have a prediction for recession that runs around 10%, 20% according to economists that talk to me. But let me flip to what you really said, which is we weighted the adverse scenario factor at a 40% factor in our baseline reserve setting. That produced a formulaic reserve, which is around 40% of our total reserves. And so we have reserves on top of that to brace us for tough times.

So I'm not going to shadow box with you about soft landing, hard landing and all that stuff. But the reality is they've got to take the inflation out of system. They know that. The rising rates do that. But there's tensions against how easy or hard that is going to be, obviously, pandemic war, but also this issue that the massive amount of stimulus is still out there being spent. So we're braced for every scenario. We model every scenario, but we don't -- I don't put a specific percentage. I just -- that's somebody else's job to do that, but our economists do not have a recession predicted in terms of this year, it's around 3% growth, next year, a little over 2%. And even though there may be some quarters that would show modest growth, I think they're all positive, so I got it right.

Operator
Our next question comes from Gerard Cassidy with RBC.

Gerard Cassidy
Alastair, you guys are very well positioned, as you pointed out, for your balance sheet for rising interest rates, which seems very, very likely this year, obviously. And obviously, you guys are not in a PT boat but a battle crews battleship to turn the balance sheet into a position and when the Fed finally succeeds, let's say, in hitting inflation, knocking it down and they stop raising rates, maybe you can have the current rates get the economy going. When do you guys start thinking about after the Fed succeeds at reducing inflation, and you may have to reposition the balance sheet and not being as asset sensitive?

Brian Moynihan
We don't. Just to start, we -- basically you know this as well as anybody having been around this industry for a number of years, let's just say. At the end of the day, the reason why we have securities investments is because we have $2 trillion of deposits and $1 trillion of loans. And so we got to do something with the money. And those deposits are stable. They're core checking accounts. They're your core operating cash for commercial customers. So we put it to work to extract the value for the shareholders. And so it's not that we lean the balance sheet. It's as we do all the work we do in the core franchise to grow the number of customers, 10% or 15% since pre-pandemic, and core consumer checking customers to grow -- the commercial customer base, small business base, et cetera, that results in us having a balance sheet that is positioned to benefit in rising rates because we have so much 0 cost deposits.

And so we don't sit there and say, let's move the balance sheet. What we do is we try to protect in a cautious way all the risks. So we hedge the couple -- a year or so, 1.5 years ago. There were a lot of questions about, oh, my gosh, you're investing and rates are low. And we told people we hedged it, and now you're seeing the benefits of those hedges. That gave up NII from then until now to protect the capital, and that's what we did.
So we're always trying to manage extracting the value deposits, give and then flip to the other side and see the capital constraint question and the impact of capital, see other constraints on us. But it's really -- and we only invest in treasuries and mortgage-backed securities. We don't take any more credit risk and materials in the treasury book for lack of a better term because we take enough of the end company. So I just don't -- we don't sit there and say, "Let's move around." It's just how do we invest this and we may move a little shorter or longer on what we invest in. But frankly, we swapped a lot of it to short just to protect ourselves so that we'd be able to redeploy to higher rates in the future.

Gerard Cassidy

Very good. And then as a follow-up, on the G-SIB buffer that you guys moved out that will take effect, I think you said, in 2024, the 50 basis point increase. Is there any strategies you can employ that could actually reduce that buffer before we get there? Or is it really just retaining more earnings from your for your day-to-day operations?

Brian Moynihan

I think. We're growing through it because it has ways it's calculated that are not sensitive to our size, relative to the economy, stock price, all these kinds of things in it that move it around a little bit, but the reality is I wouldn't -- when we look at the core customer base, we wouldn't constrain core customer growth. We can always make efficiencies and move stuff around, and we saw -- believe it or not, as you can see in the other category of loans, which are not core to our franchise still left over, frankly, from 15, 17 years ago or have that was that we can let run off and stuff like that or sell out and stuff. But the reality is that the GSIB buffer is growing because our customer franchise is getting bigger in a method of calculation does not adjust for business success, size of economy, stock market cap increase, all those things, which I think you have a pretty good favor of, Gerard.

So we're going to have to retain 50 basis points more capital. So divide that 50 basis points by 7 quarters and think about us pulling that through.

The question of buffers to that number, yes, you should expect us to operate closer to that 10.75% just because, frankly, the number is getting so big that we've never had an issue of the size of capital implied by that buffer to the minimum regulatory minimum. And that capital base as the earning style of the franchise generated 15.5% return on tangible common equity this quarter, and we'll continue to go up -- continue to be strong based on NII improvement.

Operator

We'll take our final question from Chris Kotowski with Oppenheimer.

Chris Kotowski

Recognizing that the held-to-maturity portfolio doesn't get marked-to-market. I would think, though, on a kind of underlying core economic basis, it's never fun to have a large bond portfolio that's underwater. And just looking at your year-end disclosures, it looks like the vast majority of that held-to-maturity portfolio is agencies with a more than 10-year maturity. And I guess, how do you look at the extension risk on that portfolio? Again, recognizing it's not marked, but economically, is there any way to protect yourself in kind of a tail environment where rates go up a couple of hundred basis points like they did in '81 or...

Alastair Borthwick

So let me address that one. I think Brian's earlier answer got to the first part of it, which is we're not interest rate traders. We're interest rate managers through a cycle. We got to deliver for our shareholders in low rate environments, and we have to deliver for them in high rate environments. Those mortgages protected us in a low-rate environment. And now what protects us in a rising rate environment is precisely the asset sensitivity we still have left in the company.
And so when you look at that $1.4 billion of growth, and now we're telling you, you should expect NII growth from here successively in each quarter, that's what protects us. It's that balance between capital, earnings and liquidity.

Brian Moynihan

And just the cash flow off the portfolio, even in a very low prepayment rate scenario, you got to remember people pay principal interest, people pass away and then people move irrespective of mortgage rates refinancing. And those numbers, all that cash can be redeployed at the higher rate structure. So it turns a little faster than people think because everybody takes to 0 prepayments, but the cash flow off of it is fairly significant. So we'll redeploy that and walk back up the ladder.

But -- and also remember, economically, if we don't mark the deposits, this is one of the great debates we've all had it not for accounting for banks. But the end of the day, the deposits are growing economically at a much faster rate than the degradation on the mortgage-backed portfolio.

I think that's all our questions. Thank you for joining us again this quarter. It was a strong quarter by the team, and I want to thank the team for all the great work they've done.

At the end of the day, as we told you last quarter and a few quarters before that, the organic growth machine in Bank of America is driving hard, growing its market share, growing its deposits, growing its loans and doing well in the market. We will accelerate the P&L from that growth with the higher rates, as we told you. We'll continue to hold expenses in check, driving operating leverage, and that will always be a focus to get the most efficient growth we can. The strong customer activity, which we spoke about, continues even in the first part of April here. And so that would end up drive -- it's good for our company to drive our earnings. So thank you. We look forward to talking to you next time.