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
Gerard Cassidy – RBC Capital Markets
Mike Mayo – Wells Fargo
John McDonald – Autonomous
Erika Najarian – UBS
Ken Usdin – Jefferies
Matt O’Connor – Deutsche Bank
Betsy Graseck – Morgan Stanley
Vivek Juneja – JP Morgan

Presentation

Operator
Good day, everyone, and welcome to today’s Bank of America earnings announcement. (Operator Instructions). It is now my pleasure to turn today’s program over to Lee McEntire. Please go ahead.

Lee McEntire
Thank you. Good morning. Welcome. Thank you for joining the call to review the fourth quarter results. I know it’s a busy day with lots of banks reporting, and we appreciate your interest. I trust everybody has had a chance to review our earnings release documents. They’re available, including the earnings presentation that we’ll be referring 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 ask Alastair Borthwick, our CFO, to cover some other elements of the quarter.

Before I turn the call over to Brian, let me remind you that we may make forward-looking statements and refer to non-GAAP financial measures during the call. Forward-looking statements are based on management’s current expectations and 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 SEC filings available on our website. Information about our non-GAAP financial measures, including reconciliations to U.S. GAAP, can also be found in our earnings materials that are available on the website.

So with that, take it away, Brian.

Brian Moynihan
Thank you, Lee, and thank all of you for joining us this morning. I am starting on Slide 2 of the earnings presentation. During the fourth quarter of 2022, our team once again delivered responsible growth for our shareholders. We reported $7.1 billion of net income after tax or $0.85 per diluted share. We grew revenue 11% year-over-year and delivered our sixth straight quarter of operating leverage. And again, we delivered a strong 16% return on tangible common equity.
If you move to Slide 3, we list the highlights of the quarter, which have been pretty consistent throughout the year. We drove good organic customer activity and saw significant increases in net interest income, which all helped drive operating leverage. Revenue increased year-over-year 11%. It was led by a 29% improvement in net interest income, coupled with a strong 27% growth in sales and trading results by Jimmy DeMare and the team. This growth well exceeded the impacts of lower investment banking fees and the impact of bond and equity market valuations on asset management fees in our wealth management business. The positive contributions of NII and sales and trading were also enough to overcome a decline in service charges driven by the fully implemented changes in NSF and overdraft fees in our consumer business.

Importantly, we improved our Common Equity Tier 1 ratio by 25 basis points in quarter 4 to 11.2%, and we achieved that without changing our business strategies. We’re well above both our current 10.4% minimum CET1 requirement and above the requirement that we’ll have beginning next year in January of 10.9%.

We added to our buffer of both growing loans and reducing outstanding shares in the quarter. On a year-over-year comparative basis, both net income and EPS are up modestly with strong operating leverage more than offsetting higher provision expense. The higher provision expense is driven primarily by reserve builds this quarter, a result of loan growth in our portfolios and also our conservative waiting in our reserve setting methodology, which I'll touch on later.

Last year, we had large reserve releases. Net charge-offs increased this quarter, but asset quality remains strong. Charge-offs are well above both the beginning of the pandemic as well as longer-term historical levels. And again, I'll touch on this in a few pages. All that being said, the simple way to think about it is pretax, pre-provision income, which neutralizes these reserve actions, grew 23% year-over-year.

Let's turn to Slide 4. Slide 4 shows the year-over-year annualized results. And quarter 4 results were a nice finish to a successful year in which we produced $27.5 billion in net income on 7% revenue growth and a 4% operating leverage. While the year was strong, full year earnings declined as a result of loan loss reserve actions. For the full year of 2022, again, we built about $370 million reserves. And by contrast, last year, in 21, we released $6.8 billion of reserves. Isolating those changes, again, you'll see that PPNR grew a strong 14% over 2021. As I said earlier, the themes were characterized by good organic customer activity, strong NII and always helped by our years of responsible growth.

Slide 5 highlights some of the attributes of organic growth for the quarter and the year. This, plus the slides that we include each earnings materials in our appendix, would show digital trends and organic growth highlights across all the businesses. Our investments over the past several years in our people, tools and resources for our customers and our teammates, as well as renovating our facilities, have allowed us to continue to enhance the customer experience to record high levels and fuel organic growth. In the fourth quarter of 2022, we added 195,000 net new checking accounts, bringing the total for the year to more than 1 million. This is twice the rate of addition that we had in 2019 in periods before the pandemic.

This net growth has led to a 10% increase in our customer checking accounts since the pandemic while keeping that 92% of our accounts are primary checking accounts of the household, and the average opening balance, not the average balance, but the average opening balance of these new accounts is over $5,000.

We also produced more than 1 million new credit cards, the sixth consecutive quarter of doing that, bringing us back to levels that we generated pre-pandemic. Credit quality, you can see on Appendix Slide 28, for consumer remains very high in new originations. Verified digital users grew to 56 million with 73% of our consumer households fully digitally active. We have more than 1 billion log-ins to our digital platforms each month, and that's been going on for some time now. Digital sales are also growing, and they now represent half of our sales in the consumer business. Erica, our virtual digital system, is now handling 145 million interactions this past quarter and has passed 1 billion interactions since its introduction just a few years ago.

This saves a lot of work for our team.

When you move to the GWIM business, the wealth management business, our advisers grew by 800 in the second half of the year. Our team added 28,000 net new households across Merrill and the Private Bank in 2022. We experienced solid net flows despite the turbulence of markets. By the way, during 2022, our average Merrill household opened with balances of $1.6 million. Again, very high-quality account openings.

On flows, when combined across all our investment platforms in our consumer wealth management business, we saw $125 billion of net client flows this year. Additionally, we continue to see increased activity around
both investments in our GWIM business and our banking products. The diversified bank element adds a strong differentiator for us as a company. It also supports the healthy pretax margin. This helped the GWIM business deliver strong operating leverage for the year, and they grew net revenue and net income to records.

In our Global Banking business, we saw solid loan production and growing use of our digital platform throughout the year and added new clients to our portfolio. As you well know, the overall investment banking fee pool was down. However, we continue to deepen and expand client relationships with our build-out of commercial bankers. Our global treasury services business also grew revenue 38% year-over-year as a result of both rates as well as fees for service on cash management.

In Global Markets, we had our highest fourth quarter sales and trading performance on record, growing 27% from last year ex-DVA. This was led by a strong performance in our macro FICC businesses, where we made continuous investments in the past 18 months. Equities had a record quarter 4 performance as well.

Let’s move to Slide 6 and talk about operating leverage. As I’ve said to you for many years, one of the primary goals of this company, which is an important part of our shareholder return model, has been to drive operating leverage. Those efforts, including investments made for the future, coupled with revenue growth, produced 18 straight quarters of operating leverage, as you can see, leading up to the pandemic.

Beginning last year, in the third quarter of ’21 -- 2021, I told you that we’ve now started achieving operating leverage and gotten back on streak. Since then, we’re at 6 quarters of operating leverage despite all the things that are going on out there, and the team continues to drive towards that for 2023.

So I thought I’d spend a few minutes on a discussion of topics that’s been important to, as we’ve talked about, investors over the last couple of months, deposits and credit. So let’s go to Slide 7. First, on deposits.

On a year-on-year basis, average deposits of $1.93 trillion are down 5%. This reflects the market trends, and in fact, it reflects high tax payments to the governments in quarter 2 2022. In addition, as we move forward through 2022, customers with excess cash, investment-oriented cash, sought yield as rates increased for money market funds, direct treasuries and other products.

It’s probably more relevant to discuss the more near-term trends. Comparing third quarter of ‘22 to fourth quarter of ‘22, average deposits were down 1.9%. Noninterest-bearing deposits are down 8%, while interest-bearing deposits are up 2%. The mix shift is especially pronounced in treasury services in the Global Banking business. Corporate treasurers manage $500 billion of deposits they have with us. The impact of their activities has a change in the mix.

On the personal side, you can see the checking account balances floating down a little bit from core expenses and spending while more affluent customers put money into higher-yielding deposits in the market. We do manage all these products differentially. And the discussion of deposits by business segment you can see on Slide 8, and we’ll talk through that.

So this breaks down our deposits in a more near-term trend. In the upper left, you can see the full year across -- for the whole company going across the page in the upper left-hand chart. We also put in the rate hikes that you can see. On the chart, you can see the heavy tax payment outflows in the second quarter. Then we saw the acceleration of rate hikes and deposits to move to products seeking yield in certain customer segments.

But in large part, what you’ve seen over the course of the quarter has been stabilization and more normal client activity. Simply put, we ended quarter 4 of ’22 with $1.93 trillion in deposits, roughly the overall level as we ended in quarter 3 ending deposit balances.

So let’s look at those differentiated by business. In consumer, looking at the upper right chart, we show the difference between the movement through the quarter between the balance of low to no interest checking accounts to somewhat higher-yielding nonchecking accounts, money market and saving accounts and a limited portion of CDs.
Across the quarter, we saw a $24 billion decline in total, down 2%. We have seen small declines in customers’ continued higher levels of spending, paid down debt and also move money to the brokerage accounts even in this business. Higher wages have offset this. While we saw a decline in quarter 4 deposits in consumer, correspondingly, we also saw brokerage levels of consumer investments increase $11 billion, capturing a good portion of those deposits.

In general, think of these consumer deposits as being very sticky of $1 trillion. That stickiness, along with net checking account growth, reflect the recognition and the value proposition of a relationship transactional account with our company. It also has -- it reflects industry-leading digital capabilities we offer and the convenience of a nationwide franchise.

It also reflects that the customers in our mass market segments have fewer excess cash investment style cash balances. 56% of the $1 trillion in consumer deposits remain in low and no interest checking accounts. And because of all that, overall rate paid in this segment remains low at 6 basis points.

In wealth management, which you can see at the bottom left of the chart, more than $300 billion of deposits became more stable across the fourth quarter. They also -- here, you also witnessed a shift to higher-yielding preferred deposits, as you can see on the labels, from lower-yielding transaction deposits as these customers have more excess cash and move them to seek higher yields.

Early in the quarter, we saw modest declines in balances, but November’s rate hikes began to slow, and the probability of future rate hikes became less. People had moved their money, and we saw an uptick in balances as we moved through the quarter. This reflects the seasonal inflows that happened in the fourth quarter for wealth management clients.

At the bottom right chart, you can see the most dynamic part of this equation. Our Global Banking deposit movement moves across $500 billion in customer deposits. The shift here is what drives the mix total for the company. It’s pretty typical with the exception that it happened very quickly in quarter 4 driven by the pace of rate hikes.

In a rising rate environment, where a company’s operational funds are more expensive, we anticipate these changes, particularly in the high liquidity environments as clients use both cash for inventory (corrected), pay down debt or manage their cash for investment yield. We have seen the mix of Global Banking interest-bearing deposits move from 35% last quarter to 45% in quarter 4. And obviously, we’re paying higher rates on those deposits to retain them.

Customer pricing here is on a customer-to-customer basis based on the depth of relationship, the product usage and many other factors. So overall deposit rates paid as a percent of Fed funds increases are still very favorable to last cycle, even as rates are rising much faster than last cycle. I would note, relative to the last cycle, that the Fed increases have been rapid, and we’d expect to pay higher rates as we continue to move through the end of the interest rate cycle.

So just remember, while we’re paying more for deposits, we also get that on our asset side. That is simply why the NII, net interest income, is up 29% from quarter 4 2022 versus quarter 4 2021.

Now let’s move to the second topic I want to touch on specifically, which is credit. And this begins on Slide 9. First, it is an ineluctable truth that our asset quality of our customers remains very healthy. On the other hand, it’s impossible to gainsay that the net charge-offs are moving to pre-pandemic levels. So in the fourth quarter, we saw net charge-offs of $689 million increased $169 million from quarter 3. The increase was driven by both higher commercial and credit card losses. As these charts show, they’re still very low in the overall context.

In commercial, we had a few of older company-specific loans but not related or not predictive of any broad trends in the portfolio. These were already reserved for in prior periods, and based on our methodologies, went through charge-off in quarter 4.

Credit card charge-offs increased in quarter 4 as a result of the flow-through of modest increase in last quarter’s late-stage delinquencies. This should continue as we transition off the historic lows in delinquencies to still very low pre-pandemic levels.
Provision expense was $1.1 billion in quarter 4. In addition to higher charge-off, provision included roughly $400 million reserve build. This was higher than quarter 3, reflecting good credit card and other loan growth combined with the reserve setting scenario. So let’s just stop on the reserve setting scenario.

Our scenario -- our baseline scenario contemplates a mild recession. That’s the base case of the economic assumptions in the blue chip and other methods we use. But we also add to that a downside scenario. And what this results in is 95% of our reserve methodology is weighted towards a recessionary environment in 2023. That includes higher expectations of inflation leading to depressed GDP and higher unemployment expectations.

This scenario is more conservative than last quarter’s scenario. Now to be clear, just to give you a sense of how that scenario plays out, it contemplates a rapid rise in unemployment to peak at 5.5% early this year in 2023 and remain at 5% or above all the way through the end of ‘24, obviously, much more conservative than the economic estimates that are out there. We included again the updated slides in the appendix on Pages 36 and 37 to highlight differences in our credit portfolios between pre-financial, pre-pandemic and current status. We also, again, gave you the new origination statistics for consumer credit on Page 28.

The work the team has done on responsible growth continues to show strong results. From an outsider’s view, you don’t have to look any further in the Fed stress test results. We’ve had the lowest net charge-offs for peer banks in 10 of the last 11 stress tests.

On Slides 10 to 12, we included some longer-term perspective. We showed long-term trends for commercial net charge-offs, total consumer charge-off rates, and more specifically, credit card charge-off rates. This compares those ratios to pre-financial crisis, during the recovery after the financial crisis, pre-pandemic and then through the pandemic.

So that gives you a long-term perspective, which I think keeps in context the idea that we’re moving off the bottom in credit cost towards a level which is normalizing to pre-pandemic, but that level is very low in the grand context of banking.

So before I move it to Alastair, I want to just update a few comments on our consumer behavior. Consumer deposit balances continue to show strong liquidity with the lower cohorts of our consumers continue to hold several multiples of balance that they have as the pandemic began. These balances are drifting down, but they still have plenty of cushion left. And while their spending remains healthy, we continue to see the pace of that year-over-year growth slow.

In the aggregate, in 2022, our consumer spent $4.2 trillion, which outpaced 2021 by 10%. You can see that on Slide 35. Two things to note on that consumer spending pace. There continues to be a slowdown. Year-over-year growth percentage earlier in 2022 were 14% year-over-year. They’ve now moved to 5% year-over-year in the fourth quarter. So what does this spend mean? Well, that level of growth in year-over-year spending is consistent with the low inflation, 2% growth economy, we saw pre-pandemic.

They’re also moving from goods to services and experiences and spend more money on travel, vacations and eating out and things like that. That is a good for unemployment but continues to maintain service side inflation pressure.

With that, let me pass the mic over to Alastair to go through the rest of the quarter. Alastair?

Alastair Borthwick

Okay. Thanks, Brian. And let me start with the balance sheet, and I’ll use Slide 13 for this. During the quarter, our balance sheet declined $23 billion to $3.05 trillion driven by modestly lower Global Markets balances. Our average liquidity portfolio declined in the quarter, reflecting the decrease in deposits and securities levels. And that $868 billion, it still remains $300 billion above our pre-pandemic levels.

Shareholders’ equity increased $3.7 billion from the third quarter as earnings were only partially offset by capital we distributed to shareholders and roughly $700 million in redemption of some preferred securities. We paid out $1.8 in common dividends. And we bought back $1 billion of shares, which was $600 million above those issued for employees in the quarter. AOCI was little changed in the quarter as a small benefit from lower mortgage rates was more than offset by a change in our annual pension revaluation.
With regard to regulatory capital, our supplementary leverage ratio increased to 5.9% versus our minimum requirement of 5%. And that obviously leaves capacity for balance sheet growth, and our TLAC ratio remains comfortably above our requirements.

Okay. Let’s turn to Slide 14 and talk about CET1, where, as you can see, our capital remains strong as our CET1 level improved to $180 billion, and our CET1 ratio improved 25 basis points to 11.2%. That means in the past 2 quarters, we’ve improved our CET1 ratio by 74 basis points as we’ve added to our management buffer on top of both our current and 2024 requirements.

So we can walk through the drivers of the CET1 ratio this quarter, and you can see earnings net of preferred dividends generated 43 basis points, common dividends used 11 basis points, and gross share repurchases used 6 basis points. And while the balance sheet was down, loan growth drove a modest increase in RWA using 3 basis points of CET1. So we were able to support our loan growth and return capital and add to our capital buffer in the same quarter.

Let’s spend a minute on the loan growth by focusing on average loans on Slide 15. And here, you can see average loans grew 10% year-over-year, driven by credit card and commercial loan improvement. On a more near-term linked-quarter basis, loans grew at a slower 2% annualized pace just driven by credit card.

The credit card growth reflects increased marketing, enhanced offers and reopening of our financial centers, delivering higher levels of account openings. Mortgage balances were up modestly year-over-year, and linked quarter were driven by slower prepayments. Commercial growth reflects a good balance of Global Markets lending as well as commercial real estate and to a lesser degree, custom lending in our Private Bank and Merrill businesses.

Turning to Slide 16 and net interest income. On a GAAP, non-FTE basis, NII in Q4 was $14.7 billion, and the FTE NII number was $14.8 billion. Focusing on FTE, net interest income increased $3.3 billion from Q4 of ’21 or 29% driven by a few notable components.

First, nearly $3.6 billion of the year-over-year improvement in NII was driven by interest rates. Year-over-year, the average Fed funds rates has increased 359 basis points, driving up the interest earned on our variable rate assets. Relative to that Fed funds move, the rate paid on our total deposits increased 59 basis points to 62. And focusing just on interest-bearing deposit rates paid, the increase is 91.

So even while Fed funds rates have increased 140 basis points more than the last cycle, at this point, our cumulative pass-through percentage rates still remain lower in this cycle. That includes an increase in the pass-through rates in the past 90 days due to the unprecedented period of rate hikes.

Included in the rate benefit was a $1 billion improvement in the quarterly securities premium amortization. Long-term interest rates on mortgages have increased 345 basis points from the fourth quarter of ’21, which has driven down refinancing of mortgage assets and therefore, slowed the recognition of premium amortization expense recognized in our securities portfolio.

The second contributor is loan growth net of securities paydowns, and that’s added nearly $400 million to the year-over-year improvement. And lastly, partially offsetting the banking book NII growth just described, was higher funding costs for our Global Markets inventory.

Now that is passed on to clients through our noninterest market-making line, so it’s revenue neutral to both sales and trading and to total revenue. And as you can see in our material, Global Markets NII is down $660 million year-over-year.

Okay. Turning to a linked quarter discussion. NII is up $933 million from the third quarter driven largely by interest rates. That $933 million increase included a $372 million decline in our Global Markets NII. The net interest yield was 2.22%, and that improved 55 basis points from the fourth quarter of ’21. Nearly 30% of that improvement occurred in the most recent quarter with the primary driver being the benefit from higher interest rates, which includes a [16] (corrected) basis point benefit from lower premium amortization. As you will note, excluding Global Markets, our net interest yield was up 89 basis points to 2.81%.

Looking forward, I would make a couple of comments. As I do every quarter, let me provide the important caveats regarding our NII guidance. Our caveats include assumptions that interest rates in the forward curve materialize, and we anticipate card loans will decline seasonally from holiday spend paydowns. And otherwise,
we expect modest loan growth. We expect a seasonal decline in Global Banking deposits and that the other deposit mix shifts experienced in Q4 may continue into the first quarter in the face of more rate hikes.

We also expect the funding cost for Global Markets to continue to increase based on higher rates. And as noted, the impact of that is recognized and offset in noninterest income, so it’s revenue neutral. So starting with the fourth quarter NII of $14.8 billion. And assuming a decline of roughly $300 million of Global Markets NII in Q1, which would be similar to the fourth quarter decline, that would get us to a Q1 number around $14.5 billion. In addition, we have to factor in 2 less days of interest, which is about $250 million. So that would lower our starting point to $14.25 billion.

We believe the core banking book will continue to show the benefit of rates and other elements and can offset most of the day count. So we’re expecting Q1 NII to be somewhere around $14.4 billion. Beyond Q1, with increases in rates slowing, and if balances continue their recent stabilization trends, expect less variability in NII for the balance of 2023.

Okay. Let’s turn to expense, and we’ll use Slide 17 for the discussion. Q4 expenses were $15.5 billion, and they were up $240 million from Q3, driven by an increase in our people and technology costs. In addition, we also saw higher costs from our continued return to work and travel and cost of client engagement. We’ve seen pent-up demand for our teams gathering back together in person to drive collaboration and to spend more time with our clients.

Inflationary pressures continued, but our operational excellence improvements as well as the benefits of a more digitized customer base helped offset those pressures. Our headcount this quarter increased by 3,600 from Q3. And as we faced increased attrition in 2022, our teams were quite successful in their hiring efforts to continue to support customers. As the attrition slowed in the fall, our accelerated pace of hiring outpaced attrition, leaving us with growth in our headcount.

As we look forward to next quarter, I would just remind everyone that Q1 typically includes $400 million to $500 million in seasonally elevated payroll taxes. And Q1 will also be the first quarter to include the costs of the late October announcement by regulators of higher FDIC insurance costs.

And as a result of holding the leadership share in U.S. retail deposits, that will add $125 million to each of our quarterly costs or a total of $500 million for the year. We expect these things will put expenses around $16 billion in the first quarter before expectations that they should trend back down again over the course of 2023.

On asset quality, we highlight credit quality metrics on Slide 18 for both our consumer and commercial portfolios. And since Brian already covered much of the topics on asset quality, I’m going to move to a discussion of our line of business results, starting with consumer on Slide 19.

Brian noted the earlier organic growth across checking accounts, card accounts, and investments were strong again this quarter, and that’s as a result of many years of retooling and continuous investments in the business. So let me offer some highlights.

At this point, we have the leading retail deposit market share. We have leadership positions among the most important products for consumers, and we’re the leading digital bank with convenient capabilities for consumer and small business clients. We also have a leading online consumer investment platform and a great small business platform offering for our clients.

And importantly, when you combine all these capabilities with improved service, at this point, customer satisfaction is now at all-time highs. And we produced another strong quarter of results in Consumer Banking that resulted in $12.5 billion in net income in 2022.

For the quarter, Consumer Banking earned $3.6 billion on good organic growth and delivered its seventh consecutive quarter of operating leverage while we continue to invest for the future. Note that our top line grew 21%, while expense grew 8%. The earnings impact of 21% year-over-year revenue growth was partially offset by an increase in provision expense, and that provision increase reflects reserve builds this period compared to a reserve release in the fourth quarter of 2021.

Net charge-offs increased as a result of the card charge-offs that Brian noted earlier. While this quarter’s reported earnings were up 15% year-over-year, pretax, pre-provision income grew an even stronger 36% year-over-year. So that highlights the earnings improvement without the impact of the reserve actions.
Revenue improvement reflects the fuller value of our deposit base as well as deepening with our deposit relationships. I’d note the growth also includes a decline in service charges of $335 million year-over-year as our insufficient funds and overdraft policy changes were in full effect by the end of Q2 of this year.

And as a result of those policy changes, we continue to benefit from the better overall customer satisfaction and the corresponding lower attrition and the lower costs associated with fewer customer complaint calls, obviously, as a result of fewer fees.

The 8% increase in expenses reflects business investments for growth, including people and technology, along with costs related to reopening the business to fuller capacity. And remember, much of the company’s minimum wage hikes and quarter 2 increased salary and wage moves impacts Consumer Banking the most of our lines of business and therefore, impacts most the year-over-year comparisons.

We also continued our investment in financial centers. For the year, we opened 58 and we renovated 784 more. And against all of that, both digital banking and operational excellence helped us to pay for investments, and that allowed us to improve the efficiency ratio to 47%, an impressive 600 basis point improvement over the year ago period.

Before moving away from Consumer Banking, I want to note some differences that highlight just how much more effectively and efficiently this business is running since even just before the pandemic. It’s easy to lose sight of how well this business is operating from an already strong position in 2019. And you can see some of the stats on Slide [27] (corrected) in the appendix.

We can best summarize by noting we’ve got $318 billion more in deposits; 10% more checking customers, 92% of whom are primary; 28% more investment accounts. And absent the card divestitures, we’ve increased the amount of new card accounts by 4%, and our payment volumes are 36% higher. We’re servicing those customers with 387 fewer financial centers because of our digital capabilities, and it’s allowed us to need 10% fewer people to run the business.

Our combined credit and debit spend was up 35%. Digital sales increased 77%, and we sent and received 3x the number of Zelle transactions. All of this allowed us to run the business with fewer employees and lower our cost of deposits ratio below 120 basis points.

Moving to Slide 20. Wealth management produced strong results, earning $1.2 billion on good revenue and 29% profit margin. This led to full year records for both revenue and net income of $21.7 billion and $4.7 billion, respectively. This was an especially good result given the nearly unprecedented negative returns of both the equity and the bond markets at the same time this year.

The volatility and generally lower market levels put pressure on certain revenues in this business again in Q4, but what helps differentiate Merrill and the Private Bank is a strong banking business at scale with $324 billion of deposits and $224 billion of loans. So despite a 14% decline in assets under management and brokerage fees year-over-year, we saw revenues hold flat with the fourth quarter of ’21.

Our talented group of wealth advisers, coupled with powerful digital capabilities, generated 8,500 net new households in Merrill in the fourth quarter, while the Private Bank gained an impressive 550 net new high net worth relationships in the quarter. Both were up nicely from net household generation in 2021.

We added $20 billion of loans in this business since Q4 of ’21, growing 10% and marking the 51st consecutive quarter of average loan growth in the business despite securities-based lending reductions related to the current market environment. That’s consistent and sustained performance by the teams. Our expenses declined 1%, driven by lower revenue-related incentives, partially offset by investments in our business.

Moving to Global Banking on Slide 21. And you can see the business earned $2.5 billion in the fourth quarter on record revenues of $6.4 billion, pretty remarkable given the decline in investment banking fees during this year.

Lower investment banking fees, higher credit costs and a modest increase in expenses were mostly offset by stronger NII and other fees. So overall, revenue grew 9%, reflecting the value of our Global Transaction Service business to our clients and our associated revenue growth, while investment banking fees declined a little more than 50%.
The company’s overall investment banking fees were $1.1 billion in Q4, declining $1.3 billion year-over-year in a continued tough market. Still, we increased our ranking in overall fees for the full year 2022 to #3 as we’ve continued to invest in the business.

The $612 million increase in provision expense reflected a modest reserve build of $37 million in the fourth quarter compared to a $435 million release in the year ago period, and pretax, pre-provision income grew 13% year-over-year. Expense increased 4% year-over-year, and that was driven by strategic investments in the business, including hiring and technology.

Switching to Global Markets on Slide 22. And as we usually do, I’ll talk about the segment results, excluding DVA. You can see our fourth quarter record results were a very strong finish to a good year. The continued themes of inflation, geopolitical tensions and central banks’ changing monetary policies around the globe continued to drive volatility in both bond and equity markets and repositioning from our clients. And as a result, it was another quarter that favored macro trading, while our credit trading businesses improved also. Spreads fared better than the prior year.

Our fourth quarter net income of $650 million reflects a good quarter of sales and trading revenue partially offset by lower shares of investment banking revenue. And it’s worth noting that this net income excludes $193 million of DVA losses this quarter as a result of our own credit spread movements. Reported net income was $504 million.

Focusing on year-over-year, sales and trading contributed $3.7 billion to revenue, and that improved 27%. That’s a new fourth quarter record for this business, besting the previous one by 21%. And at $16.5 billion in sales and trading for the year, it marked the best in more than a decade. FICC improved 49%, while equities was up 1% compared to the quarter a year ago. And the FICC improvement was primarily driven by growth in our macro products, while credit products also improved from a weaker Q4 ‘21 environment.

We’ve been investing continuously over the past year in our macro businesses. We’ve identified those as opportunities for us. And again, we’ve been rewarded for that this quarter. Year-over-year expense increased about 10% primarily driven by investments in the business.

Finally, on Slide 23, we show All Other, which reported a loss of $689 million, and that was consistent with the year ago period. For the quarter, the effective tax rate was approximately 10%, benefiting from ESG investment tax credits and certain discrete tax benefits. Excluding those discrete items, our tax rate would have been 12.5%. And further adjusting for the tax credits, it would have been 25%. Our full year GAAP tax rate was 11%, and we would not expect 2023 to be a lot different.

So with that, we’ll stop here, and we’ll open it up, please, for Q&A.

Q&A

Operator

(Operator Instructions) We'll take our first question from Glenn Schorr with Evercore.

Glenn Schorr

Need a little more help, you gave a lot, but I need a little more help on NII for 2023. You walked us to the $14.4 billion starting point on the quarter, and your words were less variability in NII for the rest of ’23. So I guess my question is you got a lot of loan growth. You have a few more rate hikes hopefully coming through, and I understand the opposite -- the flip side of that is deposit migration, some outflows and betas.

But could you fill in those blanks because I think -- I won't speak for everybody else. I know I am -- we're still expecting some growth in NII for the calendar year. So maybe you could talk through some of those pieces and maybe the outflow in Global Banking, noninterest-bearing is a big piece of it.
Alastair Borthwick
Glenn, I'll start with just -- just by way of context, obviously, we're coming off a period with historic inflows for pandemic deposits. And now in Q4, we're beginning to see the impact of quantitative tightening and a number of sharp rate rises. So that obviously creates some uncertainty.

We don't necessarily have a playbook for that. We've just got to see how actual balances perform, and we've got to see how the rotation and the rate paid develop. So it's dynamic. It's evolving, and we manage and we forecast that weekly. So when we lay out for you the actuals on Page 7 and 8 of the earnings presentation, we're trying to show you what we're seeing in real time around balances and mix.

So what we've said with respect to this quarter coming up is we got to adjust for the day count as we would every year. That's timing, and we'll get that back, obviously, in Q2 and Q3.

And then we highlighted the Global Markets NII impact. It's always been there. The last couple of quarters, it's been around $300 million. It is revenue neutral to shareholders as we point out because we pass that along to clients and we capture it elsewhere in sales and trading, but it does obviously impact the NII. That's why we're highlighting it.

But as it relates to the forecast, look, we feel like the modest balance declines are kind of in there. That may continue. And this continued rotation from some of the noninterest-bearing to interest-bearing. We got some pricing and rate pressure. So that's in the back of our mind, too.

And the only final thing I'll just say is we're reluctant to go a whole lot further out. Last year, we declined to give a full year guide. This year, we feel that way in particular because it's just a much more sensitive environment when we're modeling when interest rates are at 5% than when they were at 50 basis points, so for all those reasons.

Now I will say this as the final point. We just got to -- I think we got to stay patient because we got to see how rates and balances and rotation shake out. And as rates return to more normal and as customer behavior -- and you can sort of see it, it's behaving maybe a little more normally, then we should be able to resume our upward path over time. But we've got to see how this shakes out, and that's why we don't want to go out beyond Q1 at this stage.

Glenn Schorr
Fair enough. I feel bad for all of us. Maybe a quick one on credit. Good to see charge-offs down given everything that's going on in the world. But can you talk through the big -- the $1.6 billion sequential pickup in criticized book from last quarter, what's driving that and how you feel about reserves against that?

Alastair Borthwick
Yes. So you're aware, the main driver there is commercial real estate. And it's specifically -- around $1 billion of it is office. Obviously, there's a significant amount of change going on in office. And what we've chosen to do is as rates are rising here, we're pushing that through the models. And just with the debt service coverage it comes down, we pushed through the downgrade. So we've chosen to do that.

The performance is still okay. So we're not concerned with the performance, but we're just making sure we're being tight on the modeling there. It is obviously a portfolio where -- I think you know this. We're pretty focused on making originsations into office buildings that are leased up, generally at 55% LTV at origination, and 75% of that book is Class A office buildings. So we're not alarmed there. We're just following our own process with respect to making sure we're current on the debt service coverage.

Brian Moynihan
Just remember that we're talking about office with very high-quality underwriting characteristics, all A class, etcetera. And so we just have a conservative rating process, frankly. And it's well viewed out there
and well looked at by many people. But remember, office is $14 billion to $15 billion of the total portfolio. So we feel very comfortable where we are.

And then obviously, we built reserves against the portfolios across the board that are strong and reflect, as I said earlier, basically a mild recession in the base case and the worst recession in the adverse case that we weight 40%.

Operator
We'll go next to Gerard Cassidy with RBC.

Gerard Cassidy
Alastair, on the loan loss reserving, and Brian just talked about the adverse case being about 40%. Can you guys share with us how much of the reserve building is what might be referred to as management overlay relative to what the models are specifically dictating on reserve building?

Brian Moynihan
We don't disclose that. But you might assume that there's a fair amount -- 3 components to this: one is what the models say; two is basically uncertainty, imprecision and other things we overlay and then a judgmental, and you might think that there's a fair amount of that right now with the uncertainty. But -- so the model piece of that would be a portion of it.

Gerard Cassidy
Very good, Brian. And then when you look at your deposit behavior of the consumer the past cycles, is there any material differences in the way they're moving money around or not moving money around from their checking accounts or low-yielding savings accounts?

Brian Moynihan
I think -- when you look at the higher-end consumer, not really. They move to -- when the rate in the market yields money market funds, we move them to it, and it's part of what we do. In that sort of investment cash, Gerard, as we call it, moves; the checking accounts don't move.

The difference, frankly, is that there was a lot of stimulus that was in addition to the earnings power of our consumers. So we've never had that in history, but -- and so that amount of stimulus, the question is, will they spend it down or will they keep storing it up? And they've been spending it down very modestly across sort of median income households or so and the general consumer business.

Give you an example, the cohort that was $2,000 to $5,000 in average balances pre-pandemic had $3,400. They're still sitting at $12,800, but they peaked early in '22 at $13,400. So they're drifting down, but it's still multiples.

The big question was, will they end up spending that down? If they're employed, probably not. But if they're -- if unemployment rate changes -- and our models assume the unemployment rate changes. So I think we're at 6 basis points now in total consumer rate paid. The rate structure is very high, and we are 11 basis points, it was where we got to. We have very low CD volumes, and things have a fair amount of money markets. But most of it's checking. That's why we showed you the differential in checking.

So is it different yet probably in the mass consumer business just because they are sitting on more cash, and they use that cash in certain scenarios, but the rest of the behavior is largely the same, including in the
corporate business where people can have less balances and the effective credit rate generates a bigger number to cover their fees, so they tend to pull the balances out.

Gerard Cassidy
Just quickly, Brian, just when you look at the high net worth in corporate, did that move from 0% to 3% Fed funds, for example, versus 3% to where we are today at 4.5%. Is most of that completed, where the people that were going to move the money have already moved it in those 2 categories?

Brian Moynihan
Well, I mean, I can’t say definitively, but you’ve seen -- that’s what we showed you on those pages where we showed a stable -- that the account balances are relatively stable in wealth management in the fourth quarter, $300-odd billion and $300-odd billion. Basically, they’re flat if you looked across the last several weeks. So there’s always a little bit of migration to the preferred deposit, which is a market for higher-yielding sort of money market account.

But the big shift in that was, frankly, in the second quarter of ’22, when I think we had $50 billion-odd numbers of tax payments, which was a lot higher than in past years due to -- if you think about the ’21 dynamic and capital gains and other things that went through. So what we’re seeing is the last 4 or 5 weeks, we’re seeing relatively -- stable in deposit balances. Quarter end 3, quarter end 4, basically flat, a little bit of movement among the categories. But in that business, frankly, a fairly sort of stable place right now. And so I think this long answer, realize the sort of answer, if they move the money, they kind of already moved it.

Operator
We’ll take our next question from Mike Mayo with Wells Fargo.

Mike Mayo
I guess, Alastair, I guess, no good deed goes unpunished. I mean NII did grow 21% for the year 2022. It did grow 7% linked quarter and the fourth quarter, up $900 million. But 6 weeks after you gave guidance last quarter, you lowered that guidance by $300 million. And it just raised some questions about the quality of your modeling or if you had your arms completely around the asset liability management. So what happened to cause you to change that guidance, albeit in the context of still some of the best NII growth you guys have seen in many years?

Alastair Borthwick
Yes. So Mike, if I go back to 6 months ago, quarter 2 earnings, what we said at the time was we thought over the course of the next 6 months, NII might go up by $1.8 billion, $1.85 billion. In actual fact, it’s gone up $2.25 billion. So that’s the actuals. Remember, we’re forecasting as best we can any given time, up $2.25 billion.

Q3 was more favorable than I think we had thought, and Q4 was less favorable. And the Q4 was less favorable in large part because the balances behaved just a little bit differently, and the rate paid behaved just a little bit differently. And the mix or rotation, if you like, that behaved a little differently. It kind of makes sense because Q4 is where QT kind of kicked in. So look, we don’t have a great deal of precedent. It’s obviously a historic period. It’s difficult to forecast quarter-to-quarter, and it’s -- our models are just a lot more sensitive right now. So I think we’re going to try and share with you what we know when we know it, but it’s just a more difficult environment at this point to predict looking forward.
Mike Mayo
It is. It’s like the first half of your round of golf, you played well, you should have just stopped after then, I guess. But I guess, as we look -- so in other words, that $400 million extra that you got, you’re kind of giving back here from the fourth to the first quarter. So $14.4 billion NII guide. If you annualize that, that would be still 9% NII growth in 2023. Is that a fair starting point? Can you give us, not big confidence, but a little confidence given that deposits have stabilized, the day count, cards are seasonally lower. So again, if you analyze that, that’s 9% NII growth. And then, Brian, still on expenses, any change there? Are you going to keep it at just like 1.5% growth?

Brian Moynihan
On the first thing, Mike, you -- it was something I was going to pick up on earlier to the first question. You picked up -- going to the point. We will have growth in NII year-over-year in the range you talked about if you take the $14.4 billion. As Alastair said, we expect it to sort of be less variability and annualize that, compare that to ’22 of 9% as you said. So you’re exactly right. So that’s good growth.

And I think you’ll see, as you move through the year ’23, leave aside the economic scenario playing out. But you’ll see -- you’ll move from where we are today, which is uncertainty about where the balances will finally settle in and the plateauing of those balances to where you get back to normalized growth and normalized loan growth, et cetera. So you’ve got it right. There’ll be nice NII growth year-over-year.

On expenses, if you look at your guys’ estimates for us, 62.5, which is what we sort of said earlier this -- in the fourth quarter, we’re comfortable with that. That’s what the average of the Street analysts are -- and that -- but that takes a lot of good management to get there, and we’ll continue to work on it, letting the headcount drift back down and continuing to invest in things that provide efficiencies. So you’ve got -- and key to that is the 6 quarters of operating leverage and the idea of continuing that going.

Mike Mayo
And then the last part of the income -- or the EPS is simply your excess capital, which you highlighted. It seems like you’re well above your CET1 ratio. So what does that mean for the pace of buybacks and your desire to buy back stock at this price?

Brian Moynihan
So we’ve always said that the first desire is always to support business growth, and that’s what we’ve been doing. We then -- we’re well above our minimums. We’re on a path to close out the requirements for next year. And so we bought back a chunk of shares this quarter. You’d expect that to start to increase, neutralizing employee issuances and then going above that each quarter now because we -- 11.2-something percent -- we were close to 11.4% target. So we’re back in the game.

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

John McDonald
Alastair, I know we’re asking you to predict a lot of things here. Just thinking about the credit and the pace of normalization, do you have any sense of where charge-offs kind of might start out the year? And what kind of pace of normalization, if we look at the charge-off ratio that moved up a little bit this quarter, what might that look like for 2023?
Alastair Borthwick
Yes. So we're not going to look too far into the future, John. But if you look at our 90-days past due in the credit card data that we show you every quarter, that tends to give you a pretty good leading indicator of what's coming down next quarter. So you can see the 90-days past due have picked up just a little bit. 30-days past due have picked up just a little bit. We're still well below where we were pre-pandemic, but that would tell you on the consumer side, it looks like it's drifting just a little higher. So that's number one.

Number two, with respect to commercial, this quarter was a little unusual. We had 3 deals that we ended up having to charge off. Not correlated in any way. They're in totally different businesses, and they've been hanging around for a while, but it was -- 2 of them are fully reserved. So they didn't come as a surprise.

But I think because the commercial stuff was so close to 0, it immediately looks like a pop in any given number. That's part of the reason why we showed those graphs of what charge-offs have looked like over time in the earnings materials. But the commercial portfolio continues to look very strong.

John McDonald
Okay. And you touched on this a little bit on Brian's comments, but just on loan growth, what are you guys thinking about for this year? And what's the perspective of where you closed the spigots a little bit in the third quarter as you managed RWA? You kind of said those were opening up in the fourth, but we didn't really see it translate to robust loan growth. Just kind of that dynamic between what you're looking to do and what you're seeing on demand for loan growth outlook.

Alastair Borthwick
Yes. So we said we're wide open for business in the fourth quarter, and that remains the case. Brian covered the capital point. We had to do what we had to do in the third quarter. We did it. We've added 75 basis points of capital in the last 2 quarters, puts us in a great place. So mainly what you're seeing in Q4 is just it was a slower environment for loan growth.

A year ago, we were talking about the fact that we anticipated that loan growth might be high single digits, and we grew 10. This year, we feel like it's going to be mid-single digits; it's going to be slower. And it's going to be led by commercial, it will be led by card, but things like securities-based lending, that's just quieter now that we've got balances being paid down there. Mortgage is quieter this year. And then in our base case, you look at the economic blue-chip consensus, you can see the forecast is for a recession. So it will be a quieter loan growth year this year, I suspect, but we're open for business to support our clients.

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

Erika Najarian
I just had one compound clarifying question. The first is, Brian, did you, in response to Mike's questions on NII, bless $57.6 billion in NII for '23, right? He was saying $14.4 billion times 4 or 9% NII growth. You seem to be going with it. I just wanted to confirm that. I think there's a bit of confusion given that you guys were saying you don't want to go beyond the first quarter.

And the second question is also for you, Brian. I think that you've done an unbelievable job at transforming the company. And I think the one thing that remains is that the investor base still thinks you as mostly a bank to invest in when rates are going up, right? And clearly, there's a lot of uncertainty over the NII outlook.
But could you sort of give us what we should be potentially excited about that you can control with regards to the revenue trajectory from here? And also you spent so much time on deposits. I'm just kind of confused on the message in terms of deposit declines from here because you laid out this case that you have this very resilient deposit base, and it seems like a lot of attrition has already happened. So that -- sorry, that was actually 3 questions in one. I apologize, but that's it.

Brian Moynihan
I think I'll put all those questions together in one answer. If you go to the page that's in the report where we sort of say, look at the difference between the consumer business in '19 and now. And it's something to be excited about because we have -- during a period of time where we were completely shut down in branches, like 2,000 opened back up.

We actually went down from 4,300 branches to 3,900 branches. We built out in a lot of new cities. We still have work. We have 10% more checking accounts. The customer favorability is an all-time high. Our small business part of that business is the biggest in the country and growing.

And you look at that, and that provides a great anchor, which provides a great stable deposit base. We showed you on the slide where we showed that base. It also provides a lot of very low-cost deposits. And as rates rise and materialize that. And then if you think what happened last cycle, for a year when rates did not move up, we continue to grow deposits in the consumer business in the mid-single digits, which just is infinite leverage.

And so that's something to be excited about from not only a customer side, where we're digitized and Zelle usage is going up. Erica usage is going up, Erica, meaning our Erica, not you, Erika. But the -- and the balance of the consumer investments, opened up 7% more accounts in a year where investment world was choppy.

And then you pair that into the wealth management business, same thing, one of the biggest deposit franchises in the country. Biggest -- 3-point-something trillion, high $3 trillion of assets, growing net households at the fastest rate it's grown in a long, long time, maybe history, growing advisers. Those are things to get excited. That's the organic growth engine in the company.

You got to put that against the backdrop of a plateauing of NII, which is basically what Alastair said, sort of think about less variability around the $14.4 billion starting number, which Mike analyzed and did math. And so he did the math and made it out, but that provides us a good base of which to drive forward. And so you really got to get through the economic uncertainty, and then all those things will start to bear. Meanwhile, the trading business, which we invested in a couple of years ago now is at its best fourth quarter ever, and Jimmy and the team are doing a good shape.

And so I -- we just feel good about the overall franchise, more customers, more of each customer, and then that provides a big stable base, which as rate increases slow down, the marginal impact of it will slow down until we see the good core loan and deposit growth, which you saw after rate -- the last rate rising increase stopped and produced the 20 quarters of operating leverage -- and things like that. So that's pretty good to be excited about. Biggest bank growing its franchise in the only growing solid economy in the world at a faster rate than anybody else is pretty interesting.

Erika Najarian
Just to clarify, Brian, you mentioned the plateauing of NII and then, hopefully, all the investments in the business will drive growth from there. Is that still possible if we have continued rate cuts through 2024?
Brian Moynihan
The scenario of rate cuts and rate rises, we basically use blue chip. So I'm not sure. It depends on what's causing that. So if it's a normalization of the rate curve back to say, 3% on the front end, 4.5% at the back end or something like that. That's different than what you saw when they had to cut rates for the pandemic or after the financial crisis and left in there for years to get the engine of the United States economy restarted.

What's different this time, frankly, and that's what we're talking about with the consumer data is even with strong rise in interest rates, a less tight labor market and inflation and what people are being told to worry about, you're actually seeing consumer spending consistent with a good 2% growth environment, a low-inflation environment, which is good because the consumer is being appropriately conservative right now.

Alastair Borthwick
Erika, the other thing I'd just say is you think about why we've got a slowdown in some of our fee-based businesses right now, it's because rates have risen so quickly, and that's created a lot of volatility and it's created -- the asset management business, it's had a sell-off in bonds and stocks. So we're poised now in a lower base where we can grow from here. Same thing, if you look at our net income, we've really outrun a pretty historic decline in investment banking fees. So we got a diversified set of businesses where as some normalcy returns, we can see some pickup in those fee lines as well.

Operator
We'll go next to Ken Usdin with Jefferies.

Ken Usdin
I wanted to follow up, Alastair. You had about $800 million of incremental interest income from the securities book. And I'm just wondering if you can help us understand, how much of that was attributed to the continued benefit from the swap portfolio? And also then how would you expect that to impact your outlook for the $14.4 billion in the first quarter guide?

Alastair Borthwick
Yes. So most of the increase in securities portfolio, we're not really reinvesting in there at this point as the securities portfolio started declining. We're using the money that's throwing off to put it into loans. That's always our first preferred place.

So you're picking up on the right thing. It's mainly the treasuries that are in there. They're swapped to floating. That way, we don't have any capital impact from rising rates. And so you're going to see the securities yield just continue to pick up, number one, based off of the treasuries swap to floating as floating rates go higher; and number two, as the securities come due, there'll be fewer and fewer of them at lower rates. And so you're going to see the pickup over time.

Ken Usdin
And just as a follow-up, what's our best benchmark rate to kind of watch that trajectory for how we can understand that helper from that swap portfolio?

Alastair Borthwick
Normally, it's SOFR, secured overnight financing rate.
Ken Usdin
Okay. Great. Second quick one, just on capital. You had 20 basis points increase in your CET1. You did $1 billion or so of the buyback. Just wondering how you’re thinking about capital return with the Barr package of rules still ahead of us going forward.

Alastair Borthwick
Well, I think Brian said the right things. The strategy hasn't changed. We've got to, number one, support our clients; we’re going to, number two, invest in our growth. Then we plan to just sustain and grow our dividend, and over time, we'll balance building capital and buying back shares.

I think the difficult part with Basel III endgame right now is we don't have the rules. So we got to wait, I think, until we see those. They'll go through a comment period. At that point, we'll offer much more perspective. But I'll say the obvious, banks have got plenty of capital. We were asked to take 90 basis points more in June. There's a lot of procyclicality already in things like the stress test and stress capital buffer and in CECL. And I think, look, we've shown our ability to perform and build capital, in this case, 75 basis points in 2 quarters. So we'll deal with whatever the ultimate rules come out with.

Operator
Our next question comes from Matt O’Connor with Deutsche Bank.

Matt O'Connor
Have you guys thought about how to better insulate yourself against potentially lower rates? And not just kind of a little bit of a decline, but if we get something unusual and rates drop a lot. I know it’s easier for some of the smaller banks to do it, but we have seen some regional banks essentially kind of lock in a corridor of the NIM so that kind of medium term, it's more about growing the balance sheet versus the rate moves up and down. And clearly, with your deposit rates low, if we do get Fed cuts, there’s just not as much leverage to bring down those rates.

Alastair Borthwick
Yes. So I don't know that we’ve thought about it in terms of like a corridor of NIM, but we definitely think about balancing earnings and capital and liquidity through the cycle. So I don't see us making significant changes to our core. We're trying to make sure that we operate and deliver in all rate environments. That can be high or 2 years ago, it can be 0 rate environment.

So the changes -- you can start to see our changes at the margin. You can see we’re taking securities out and replacing them with loans, and you can see everything restriking higher. So we’ve got a smaller, more efficient balance sheet.

We, at the margin may consider fixing some rates here depending on how things develop over the quarter. But it’s -- we’ve had a pretty, I’d say, good strategy that’s allowed us to drive net interest yields. You can see those on Page 16. They're up 46% over the course of the past year and drive the NII. That’s up $3.3 billion year-over-year. So we feel like we’ve struck that balance. That’s what responsible growth means to us. And at the margin, we'll probably still maintain a little bit of asset sensitivity.

Operator
We’ll take our next question from Betsy Graseck with Morgan Stanley.
Betsy Graseck
Okay. Great. Two questions. One, just a little more color on the loan growth outlook. I heard you on expecting that loan growth will be slowing as you go through the year. And I just wanted to get an understanding of -- is that more just demand slowing base effects? Or is there also anything in there from you on proactive credit decisioning as normalization comes through the rest of the year?

Brian Moynihan
That's a couple of things. If you look in the fourth quarter, you can see the cards come up, which seasonal, and that's going to come down, and that's one of the things that -- people tend to pay those down. The usage of those cards, frankly, are still at low levels. The pay rate, the other way to think about that, still in the 30s. So that's sort of one thing that's been kind of consistent through the pandemic. The customers are paying down the card balances. And you expect at some point, those will get back to more normalized paydown rate in the mid-20s.

The second is line usage, frankly, has also come back down. It's not gotten ever back to where it was pre-pandemic, and it moved up and it dropped by 100 or so basis points, which across a lot of lines, is a fair amount of loans. So that you saw.

And so how corporates manage their borrowing and cash and demand cycle seems to be flattening out a little bit. Then obviously, acquisitions and things are way slowed down, so there wasn't much activity there. So I think you put it together, then you have -- in the securities-based business, customers took down leverage, paid off a fair amount of loans in the wealth management business, even though they've grown, I think, for 50-some quarters in a row or something like that in loan balances. This happens -- mortgages, obviously, are low.

So -- but what we think is as the rate environment settles in, you'll see that normalize and that we'll get -- we'll be back on the mid-single digits. We just won't have the 10% loan growth year-over-year because that is faster than economy and faster than we do. We have not changed credit underwriting standards. And you can see that in the consistency of the origination standards back in pages in the appendix where we show sort of our cards and home equity and things like that. It's just the demand side is a little soft because people are reading the same headlines we're all reading about, a recession is coming and what should -- and they should be careful.

Betsy Graseck
Okay. Got it. And then on the expense side, I know we talked a lot about the NII and the puts and takes as you go through the year that you're looking for. What about stability on the expense line to manage through any worse-than-expected outcomes on the NII? What kind of levers do you think you have to pull there, Brian?

Brian Moynihan
Well, we always have -- the variable compensation stuff will drop because -- assuming that the reason why rates are going -- being cut is because economic activity is worse than people thought. And then you have the general just efficiency movements in the house that we've been pretty good at.

And then you have to remember, we try to get people to go off of nominal expense to operating leverage. And so we have 6 quarters of operating leverage. As NII growth slows down, we have to manage a company to produce operating leverage. And so we'd expect that fees might stabilize and absorb the $1 billion downdraft in quarterly investment banking fees and start to work up from there and other types of things.
So I think we feel very good about the ability to find ways to manage expenses, always have. We slowed down hiring as we came into the fourth quarter, not because we're -- because frankly, we were -- we've gotten our hiring to match the Great Resignation earlier in the year, and it was sort of overachieving. So we slowed that down, and that will allow us to get back in line and start to bring the headcount back down to where we want it to be. But those are, frankly, positions that are relatively -- that have a relatively high movement rate, and only because of the nature of the job.

So we feel good about -- between variable rate compensation -- between continuing to reduce headcount for efficiency and frankly, just activity levels. In a down scenario, we'll be able to pull the expenses down. But yes, meanwhile, we're going to invest $3.7 billion in technology development in '23 versus $3.4 billion in '22.

We continue to add bankers. We added 800 wealth management advisers in the second half of last year. We're -- our training program for those across wealth -- all our wealth management businesses and other training programs. We continue to hire young talented people. So we're trying to maintain that balance of continuing to invest in the growth and opening in new cities. We're averaging -- these branches we're opening are extremely successful when you look at the size of them relative to anybody else's opening practice. And so why would you just stop that? And yet the total number of branches comes down because we're managing the expense side.

So we're paying for this stuff as we go. But -- and so you could slow some of that down and get leverage out of it. But the question would be, as we're in that scenario, is that the right decision for long-term value creation?

Operator
We'll go next to Vivek Juneja with JPMorgan.

Vivek Juneja
A couple of clarifications on the same NII question. I just want to understand, in your assumption about staying at $14.4 billion through the year on a quarterly basis. Are you assuming deposits to continue growing or shrinking? Number one, are you expecting further rotation out of noninterest-bearing to interest-bearing? And do you expect the $14.4 billion number even if there are rate cuts towards the end of the year. Is that number doable even with -- what is it that you're assuming? Is it even with rate cuts?

Brian Moynihan
So Vivek, we just said less -- there'd be less variability around that number due to the fact the market stuff has gone to 0. That has no impact on it that you saw over the last few quarters have impact. So less variability. All the things you cited are the reasons why we tend to say you have to be careful about saying what's going to happen in the fourth quarter '23 with great clarity. What we did say is at this level, with less variability, you'll have nice growth over this year than next year.

But I think everything you point out, whether it's rates going up faster than people think because inflation doesn't go or come down because people think that they've done a good job and they want to get behind the economy. We base our modeling on the blue-chip economic assumptions out there and then looking at our balances and stuff.

And so I think that's a reluctance. So all your points are great points, and they're all reasons why we are reluctant to say, I can tell you to the 3 decimal places what it's going to be 3 quarters out because it can move around on you. And to Mike's earlier point, we grew $1.2 billion and $900 million in linked quarter, and
somehow people thought that wasn't good enough because there's math that could have -- would have gotten you different.

So stay tuned and we'll tell you what we know when we know it. And -- but it's good organic customer growth, 1 million net new checking accounts starting at $5,000 balances, growth in wealth management and loans and deposits. These are things that stick with you and will be good no matter what the scenario.

**Vivek Juneja**

Another -- a different question slightly. You gave the $2,000 to $5,000 deposit cohort, Brian, in terms of where they are in the deposit balances. In the past, you've also given a cohort below that, like $1,000 type cohort. Where does -- how is that doing? Can you give any numbers on that?

**Brian Moynihan**

It's similar. It's -- they're all moving down very slightly, that average balance. So that same group of customers taken out, I'd say -- so it's in the same sort of -- different sizing, but it's the same thing. I don't have it right in front of me, but we'll -- I'll have Lee get it to you. But I don't -- but it's moving down slightly.

The interesting part of that, Vivek, obviously, is in the highest average balances. You actually have seen them down from pre-pandemic, which means you saw them reposition that in the market. So going to your earlier question, we may have seen a lot of that already take place. But think of them as being down slightly quarter-over-quarter in that cohort.

**Operator**

We have no further questions in queue at this time. I'd like to turn the program back over to Brian Moynihan for any additional or closing remarks.

**Brian Moynihan**

Thank all of you. Good quarter to finish 2022, and thank you to our teammates for producing it. We continue to grow earnings year-over-year. We have good organic growth and operating leverage for the sixth straight quarter. Those will continue in 2023.

The asset quality in the company continues to remain at historic lows relative to any normalized time period in the company's history, including the strong credit performance we had just leading into the pandemic. So our job is now to drive what we can control, which is the organic growth of the franchise, the investments that we make are bearing fruit and also to keep the expenses in good control, and we plan to do that in 2023. Thank you, and we look forward to talking to you next quarter.
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