Participants

Hosts
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
Jim Mitchell – Seaport Global
Erika Najarian – UBS
Glenn Schorr – Evercore ISI
John McDonald – Autonomous
Mike Mayo – Wells Fargo
Matt O’Connor – Deutsche Bank
Ken Usdin – Jefferies
Vivek Juneja – JP Morgan
Betsy Graseck – Morgan Stanley
Gerard Cassidy – RBC Capital Markets
Charles Peabody – Portales Partners

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, Katherine. Good morning. Welcome. Hope everyone had a good weekend. Thank you for joining the call to review our third quarter results. I hope everyone had -- also had a chance to review our earnings documents released earlier this morning.

As always, they're available, including the earnings presentation that Brian and Alastair will refer to during the call, on the Investor Relations section of the bankofamerica.com website. I'm going to first turn the call over to our CEO, Brian Moynihan, for some opening comments, and then I'll ask Alastair Borthwick, our CFO, to cover the details of the quarter.

Before I turn the call over to Brian, I'll just 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 and they're subject to risks and uncertainties. Factors that may cause actual results to materially differ from expectations are detailed in our earnings materials and the SEC filings that are available on the website. Information about non-GAAP financial measures, including reconciliations to U.S. GAAP, can also be found in our earnings materials that are available on the website and in the docs. So with that, I will turn it over to you, Brian. Thank you.

Brian Moynihan
Good morning, and thank you for joining us. I want to start by sending our thoughts to the impacted areas from the devastation of the recent storms, especially our impacted teammates and their families. Our teams remain busy assisting those clients and associates in the impacted areas. So we're going to start on Slide 2 of the earnings materials.
This quarter, Bank of America reported $7.1 billion in net income or $0.81 per diluted share. We grew revenue 8% year-over-year. We delivered our fifth straight quarter of operating leverage. Every business segment delivered operating leverage. This takes us back to our 5-year run before the pandemic. The highlights this quarter were also once again marked by good organic customer activity. This was coupled with a significant increase in net interest income. In addition, the teams adapted well to our new capital requirements. And as a result, our common equity Tier 1 ratio or CET1 ratio improved by nearly 50 basis points to 11%. Moving 60 basis points above its current minimums.

The decline from prior year reported net income and EPS comparisons reflect a reserve build versus reserve release last year. At the same time, however, our asset quality remains strong as net charge-offs and several other metrics, in fact, improved from the second quarter 2022. Pretax pre-provision income grew 10% year-over-year. From a return perspective, we produced a 15% ROTCE and a 90 basis point ROA.

Our efficiency ratio this quarter dropped to 62%; taking out the litigation, it would have been 61%. So even while investing in marketing and people and technology and physical plan, the team continues to drive operational excellence. An easy way to think about this is we currently operate Bank of America with less people than we had in 2015, 7 years ago.

Let’s go to Slide 3. These continued investments over the past several years in our people, tools and resources for our customers and teammates as well as our new and renovated financial centers has allowed us to continually enhance the customer experience and fuel organic growth as we drive responsible growth.

In the third quarter alone, we added more than 400,000 plus net new consumer checking accounts. We added 1.3 million new credit card accounts. We added 100,000 new funded investment accounts in our consumer business. Customers are finding increasingly convenient to access us. Digital users grew to 56 million. Logins by those users cleared 3 billion in the past quarter, 1 billion per month. Erica surpassed 1 billion interactions since it was introduced 4 years ago this quarter. It has become a primary interaction method for our clients with more than 130 million interactions this quarter alone. When you look at our sales, 48% of third quarter sales were digital, a 36% year-over-year increase. This occurred even as we fully reopened our financial centers and had our teammates also selling.

Now once again, you can find all these digital statistics and more in the appendix of our earnings material as usual. I encourage you look at those statistics, for every one of those lines of business, not just consumer. They compare favorably to the competitive measures that we see because when we see people actually publish their numbers. At the same time, 27 million customers visit our financial center in the quarter. This highlights importance of having both high-touch and high-tech approach. In the wealth management business, we added 400 advisers this quarter.

Our advisers added nearly 6,000 [net] (corrected) new households in the Merrill and Private Bank areas. We saw a solid net flows despite the turbulence of markets. 80% of our GWIM customers are digitally active. 30% the new Merrill accounts are open digitally. That, combined with our consumer investments business has seen more than $100 billion of net acquired flows year-to-date. We continue to see increased activity both -- both in investments as well as the banking products in this area. This quarter, GWIM opened a record number of bank accounts. GWIM also saw its 50th consecutive quarter of average loan growth. The banking capabilities and success differentiates our platform. The business grew revenue, delivered operating leverage and saw a record pretax pre-provision growth, even in choppy markets.

As we turn to Global Banking, Ending loan balances were down linked quarter. However, we did see solid production in this area, and that was offset by client paydowns, decreasing the value of foreign denominated loans and loans sold to manage our risk-weighted assets, which helped us build the capital levels I talked about earlier.

As we look at Global Markets, the team had a strong third quarter in sales and trading performance. In fact, in the third quarter of 2022 was the strongest since the third quarter of 2010. It grew 13% from last year. It
was led by strong performance in our macro FICC business, which has benefited by investments made over the past year. We had no trading loss days this quarter.

Let me also make a few points using the customer activity highlighted on the continued resilience of Bank of America's broad customer base. So if you look at Slide 4, you can see some points about the overall health that demonstrate what's going on in the customer base. Let me make a couple of key points. First, consumers continue to spend at strong levels. Second, Consumer customer average deposit levels for September 2022 remain at multiples of the pre-pandemic levels. You can see that in the lower right. Third, there's plenty of capacity for borrowing as credit and card balances of BAC are still 12% below pre-pandemic levels, and the payment rates on those credit cards are 1,000 basis points over pre-pandemic levels.

So on spending, a couple of thoughts. A perspicacious analyst might wonder whether talk of inflation recession and other factors would fructify in a slower spending growth. We just don't see it here at Bank of America. Year-to-date spending of $3.1 trillion through September is up 12% compared to last year. Second, as you look across the period, you can see in the trend of year-over-year spending.

As we entered the pandemic, we saw spending decline and click or recover and grow across the quarters. And while still strong in September at 10%, spending growth has slowed just a bit from the 12% year-to-date pace, which shows you that early in the year was a faster year-over-year growth rate, but still strong. In the first 2 weeks of October show that strength is still growing at 10%. And is notable that it isn't just inflation that is driving spending as a transaction are up single digits year-over-year pretty consistently. You'll also note on the bottom left, the continued growth in goods and services, particularly retail toward experiences of travel and entertainment. While fuel price volatility continues, it is not currently impacting the spend levels in this quarter as prices stabilize. On a level of customer liquidity, the level of customer liquidity remains strong. Average deposit balances of our consumer customer remained at high levels relative to a year ago. These balances are still multiples of the pre-pandemic periods, and they were largely unchanged at these elevated amount -- amounts for the month of September. These deposit levels suggest continued capacity for spending at healthy levels.

On Slide 5, we show you as we did last quarter, some other stats about resiliency. As you can see, whether you look at early or late-stage card delinquencies, they all remain well below our pre-pandemic levels. These are decades-old lows, and we're just now seeing gradual move off these lows and early-stage delinquencies. Late-stage to links are still 40% below pre-pandemic levels.

Keep in mind, asset quality metrics were strong even before the pandemic. On this page, what you see is a 30 and down a day car delinquencies. If you compare them against the average for the past 5 years leading up to the pandemic, a period of growth and unemployment falling. Those averages were 183 basis points and 91 basis points, respectively. So the current ratio of delinquencies have to worse than 30% or more even approach that 5-year pre-pandemic average at a time of economic growth and falling unemployment. So consumers remain resilient.

Let me take a couple of minutes to talk to you quickly about the balance sheet, and I'll turn it over to Alastair. As you think about loan and deposit base balances in general, we're seeing what we expected as monetary policy tightens. On deposits, we see clients with excess liquidity looking for yield without being the global banking movements, you can see from moving from noninterest-bearing to interest-bearing accounts. Or in our Wealth Management business, where we saw clients shift out of brokerage sweeps into preferred deposits or other investment products like treasuries that we offer.

But if you look at our core customer base, where the transactional balances drive the outcome. We are seeing steady balances driven by new account activity and a good value proposition we have for our customers. When you think about loans, consumer loan balance growth was led by card and reflects increased marketing and continued reopening of financial centers building high levels of new customer relationships.
On commercial, the average loans rose $16 billion linked quarter or 12% annualized. We did see a modest ending balance decline as good loan production was offset by the sale of syndication of $3 billion of loans and also by $4 billion in negative foreign currency impacts. We obviously took activity on balance sheet optimization, which helped our RWA discussion – helped us reduce our RWAs and led to the capital levels I talked about earlier.

We have provided an update in the appendix as to the credit transformation of our loan portfolio and a few other consumer credit slides to help illustrate the quality of our portfolio under years of responsible growth. We update those slides again this quarter to show you them, and you can find in an appendix, and I recommend them to you.

So in summary, client activity remains good. NII has improved quickly and the customer's resilience and health remains strong. We've also managed our expenses very well. We drove operating leverage. The team managed the balance sheet well and improved capital even increased our dividend and bought back a modest amount of shares. We call that responsible growth. With that, I'll turn it over to Alastair.

Alastair Borthwick

Thank you, Brian. And I'll start by adding a little more detail on the income statement and refer you to Slide 6 highlights. You can see here revenue of $24.5 billion grew 8%, with NII improving 24% year-over-year, while our fees declined 8%. And I'll cover the NII improvement in just a moment. On noninterest income, the volatility and the levels of market activity drove a year-over-year decline in investment banking and asset management fees, while sales and trading benefited from investments made in the business and volatile market conditions.

Additionally, service charges moved lower for two reasons. First, in consumer, we completed the sweeping changes around insufficient funds and overdraft in June, marking a 90% reduction from June of 2021. Second, our corporate service charges declined as [earnings] (corrected) credit rates increased for clients, and that overwhelmed organic growth in the gross fees associated with treasury management services performed for our clients.

Expenses this quarter were $15.3 billion, and they included the settlement of our last large remaining legacy monoline insurance litigation. As you likely saw on October 7, we filed the 8-K announcing a settlement that resolved all of the outstanding litigation with Ambac, and that dates all the way back to the 2008 financial crisis. We recorded $354 million in litigation expense this quarter above previous accruals for payment of the settlement. And without that litigation cost, our expense would have been just below the $15 billion mark.

Okay. Let's move to the balance sheet and we'll look at Slide 7, where you can see during the quarter, the balance sheet declined $38 billion to $3.07 trillion, driven by a $46 billion decline in deposits and coupled with a $53 billion decline in securities. Our average liquidity portfolio declined in the quarter reflecting the decrease in deposits and security levels. At $941 billion, our liquidity still remains $365 billion above pre-pandemic levels, just to give you an idea of just how much our liquidity has increased.

Shareholders' equity was stable with the second quarter at $270 billion as earnings were offset by capital distributed to shareholders and the change in AOCI from rate rooms. We paid out $1.8 billion in common dividends. We bought back $450 million in gross share repurchases, and that covered $450 million in gross share repurchases, and that covered our employee issuances in the quarter, leaving no dilutive impact for shareholders.

AOCI declined $4.4 billion as a result of the increase in loan rates, and we saw the impact primarily in two ways. First, we had a reduction from a change in the value of our AFS debt securities. That was $1.1 billion, and that impacted CET1. Second, rates also drove a $3.7 billion deployment in AOCI from derivatives, and that does not impact CET1 that reflects cash flow hedges mostly put in place last year against some of our variable rate loans, and that protected us against CET1.
With regard to regulatory capital, our supplemental leverage ratio increased to 5.8% versus our minimum requirement of 5%, which still leaves plenty of capacity for balance sheet growth and our TLAC ratio remains comfortably above our requirements.

Okay. Let’s go to CET1 waterfall on Slide 8, and we can talk about that. As you’ll recall back in -- last quarter, we talked about our June CCAR results, where our stress capital buffer increased from 2.5% to 3.4%. And that increased our overall CET1 ratio minimum requirement from 9.5% to 10.4% as of the beginning of the fourth quarter. Our capital levels today remains strong with $176 billion of CET1 and through the good work of our tunes, we improved our CET1 ratio by 49 basis points compared to June 30, taking us to 11%. That leaves us well above our new 10.4% minimum requirement. So we’ll walk through the drivers this quarter.

First, it’s $6.6 billion of earnings, net of preferred dividends and that generated 40 basis points of capital. And then also importantly, through optimization of the balance sheet. We managed our RWA balances down and that added 26 basis points more of capital ratio improvement. Dividends used 11 basis points of capital. And this quarter, the movement in treasury and mortgage-backed securities rates caused the fair value of our AFS debt securities to decrease, and that lowered our CET1 ratio by 7 basis points.

We remain well positioned for the rate movement because of the hedge of a large portion of this portfolio continuing to protect us from AOCI movements while benefiting NII since swapped to floating. So we feel like our teams rose to the challenge well this quarter in terms of increased capital requirements.

On Slide 9, we’ve laid out average loans and looking at those loans and providing a bit more detail on a year-over-year basis, you can see 12% average growth as commercial loans grew 17% and consumer loans grew 7%; within consumer, credit card grew 12%.

Focusing on more near-term growth versus the second quarter of ’22, our average total loans grew 8% on an annualized basis, led by 12% annualized commercial loan growth and 21% annualized credit card growth, while other consumer loans were relatively flat linked quarter. This slower linked quarter growth included two multiple impacts that Brian mentioned. We saw good commercial loan demand, and we also saw FX valuations adjustments as a result of the strong dollar, and then some loan sales and syndications that lowered our RWAs. Partially offsetting some of the strong card growth in consumer loans, we sold about $1 billion of residential mortgage loans. Adjusting for the FX impact and loan sales, loan growth from Q2 was closer to the industry’s growth rate.

Let’s focus now on deposits use on Slide 10. And you can see there that our average deposits year-over-year are up 1% at $1.96 trillion. The noninterest-bearing deposits are down 3%, while the interest-bearing are up 4%. So overall, we grew our deposits. And as you would expect in a rising rate environment, we’ve seen some shifts from noninterest-bearing into interest-bearing, and it’s important to understand the makeup of these moves.

In consumer, our total deposits are up 7% year-over-year. These are core and foundational elements of the customers’ financial activities. And we’ve seen growth in both noninterest-bearing and interest-bearing balances and we remain very disciplined on $1.1 trillion of total consumer deposits while Fed funds is now at 3.25%. So customers see the value in their total relationship with us through their personalized cloud engagement and our industry-leading digital capabilities and rewards. We expect that to continue. Do we expect deposit rates to increase? Yes, of course, and we will remain both disciplined and competitive, and that is built into our asset sensitivity. On a linked quarter basis, our consumer deposits moved lower by less than 1%.

In Wealth Management, total deposits are flat year-over-year. And again, it’s important to understand that as expected, these are the clients who generally have more excess liquidity and have historically sought higher rates, both in deposit accounts as well as movements outside of deposits where we offer alternatives for those clients. While flat year-over-year, within that, we saw a $12 billion decline in year-over-year average deposits on our brokerage platform with some shifts from sweeps to preferred deposits within the platform. Meanwhile, Merrill bank deposits and deposits with Private Bank have grown $12
billion. The higher-tiered preferred deposit products represent a little more than 20% of the mix of deposits and they're moving largely in line with short-term rates, while the other 80% or so deposit products are paying much lower rates. On a linked quarter basis, we sell total GWIM deposits declined by 7%, further highlighting these trends.

In Global Banking, we hold about $500 billion in customer deposits, and we saw a 7% year-over-year decline. In a rising rate environment, where excess balances can be more expensive, we typically see some runoff, particularly in high liquidity environments as clients both use cash for inventory build and begin to manage their cash for yield. And we've seen the mix of interest-bearing deposits moved from 30% a year ago to nearly 35%, and we're paying an increased rate on those interest-bearing deposits. Pricing is largely customer by customer based on the depth of relationship and many other factors. And again, we're not really seeing anything unexpected here.

Betas at this point are still favorable to the last cycle. And as we would just note, relative to the last cycle, the Fed increases have been pretty rapid, and we'd expect to pay higher rates as we continue to move through this rate cycle. It's probably too early to say right now if at the end of that cycle, the percentage of those rate pass-throughs will be similar to the last cycle.

Turning to Slide 11 and net interest income. On a GAAP non-FTE basis, NII in Q3 was $13.8 billion, and the FTE NII number is $13.9 billion. Focusing on FTE, Net interest income increased $2.7 billion from Q3 '21 or 24%, and that's driven by benefits from higher interest rates, including lower premium amortization, and from loan growth. Versus the second quarter, NII is up $1.3 billion, driven largely by the same factors plus an additional day of interest in the quarter.

Year-over-year now, average short-term interest rates have increased 200-plus basis points, driving up the interest earned on our variable rate assets while we've maintained discipline on our deposit pricing, and that has driven nearly $1 billion of improvement. Long-term interest rates on mortgages have increased even more than short-term rates, and that's improving fixed rate asset replacement and driving down refinancing of mortgage assets therefore, slowing the recognition of premium amortization recognized in our securities portfolio. Year-over-year, that premium amortization has improved $1 billion. And additionally, lower securities balances over the past 6 months modestly offset the benefits of year-over-year loan growth.

The net interest yield was 2.06 and that improved 38 basis points from the third quarter of '21. 20 basis points of that improvement occurred in the most recent quarter. And as you will note, excluding Global Markets activities, our net interest yield was 2.51% this quarter.

Looking forward, as it relates to NII guidance, I'd like to make a couple comments. And first, I need to make a couple of caveats. Our guidance is going to assume interest rates in the most recent forward curve and that they materialize, that we see modest loan growth and modest deposit balance changes with market-based deposit pricing increasing baked in. With that said, we expect NII in Q4 to be at least $1.25 billion higher than Q3. So last quarter when we were together, we told you we expected to see consecutive NII increases of about $1 billion in Q3 and another $1 billion in Q4. And that would make a total of $2 billion in Q3 and Q4. Given we just put up $1.3 billion in Q3 and that outperformance and refreshing our expectation for Q4 at $1.25 billion, we're now saying that aggregate quarterly improvement won't be the $2 billion we initially thought it's increased to around $2.6 billion or more.

Turning to asset sensitivity and focusing on a forward yield basis. At September 30, it declined $0.7 billion to $4.2 billion of expected NII over the next 12 months, with now roughly 95% of the sensitivity driven by short rates. And on a spot basis, our sensitivity to 100 basis point instantaneous rate hike would be $5.3 billion.

Okay. Let's turn to expense, and we'll use Slide 12 for the discussion. Third quarter expenses were $15.3 billion and were flat with the second quarter as litigation costs for our settlement in Q3 nearly offset the fines agreed to last quarter on a comparative basis. And it's nice to bring resolution to these matters.
Without the costs associated with the resolutions in both periods, expenses would have been just less than $15 billion.

We continue to make steady investments in our people, technology, marketing and financial centers and what allows us to help pay for these investments of the operational process improvements we've talked about and the increased digital adoption rates by our customers and by our bankers.

Our headcount this quarter increased by 3,500 and if we adjust for the release of our summer and turns, our headcount is actually up by close to 5,500. We welcomed 1,800 new full-time associates from college campuses around the world into our company this quarter and we hired another 3,800 net new people on top of that. That included just less than 3,000 across our various lines of business and another 1,000 in staff and support and technology positions to support those lines of business. And with all the great benefits and talented people already at this company and with our great brand, it highlights that Bank of America is a great place to work.

As we look forward, we'd expect our fourth quarter expenses will land our full year reported expense at approximately $61 billion. That obviously includes the cost noted for resolving in the second quarter and third quarter regulatory and litigation matters. So without that, our expenses are expected to be a little more than the $60 billion level we talked about earlier in the year. And we're proud of our team's discipline around expense particularly in this inflationary environment, while at the same time, we're modestly increasing our level of investment in the company's future and our growth.

Turning to asset quality on Slide 13, and I want to start by saying just as Brian did the asset quality of our customers remains very healthy. The net charge-offs of $520 million declined $51 million from the second quarter -- that decline was driven by prior period charge-offs associated with the sale of some non-core mortgage loans we discussed last quarter. Absent those losses, net charge-offs were relatively stable with the prior period.

Provision expense was $898 million in the third quarter, and that was $375 million higher than the second quarter. And we built $378 million of reserve in the period compared to a modest release in Q2. The reserve build in the quarter primarily reflects good credit card loan growth and a dampened macroeconomic outlook.

Even as we build our resources for the future, this quarter, we saw many of our asset quality metrics continued to show modest improvement, as NPLs and reservable criticized both declined from Q2, and you can see that in the supplement.

On Slide 14, we highlight the credit quality metrics for both our consumer and commercial portfolios. And there's only one point I want to make, looking at this slide and that is delinquencies because our consumer delinquencies remain well below pre-pandemic levels. And as Brian noted earlier, we're watching closely the early-stage card delinquencies as they begin to increase modestly.

Lastly, the recent hurricane Ian impacted some areas where we have strong market shares for many of our businesses, and our teams have spent the past days assessing the damages and insurance coverage down to the loan level. And we've already incorporated that analysis into our reserves for the quarter. We compared our analysis to other large storms in recent years like Sandy, Harvey and Irma where we incurred just a small amount of financial losses.

Turning to the business segments, let's start with Consumer Banking on Slide 15. And Brian shared earlier, we've got organic growth across the checking accounts card accounts and investments picking up this quarter, not necessarily because of any one we're doing differently in the past 90 days, but as a result of many years of retooling and continuously investing in the business.

We have the leading retail deposit market share. We have leadership positions among all of the important products. We're the leading digital bank with tremendous convenient capabilities for consumer and small business clients. We've got a leading online consumer investment platform and the best small business
platform offering for our clients. So as a result, customer satisfaction is now at all-time highs, and that is
helping us to drive strong financial results.

The Consumer Bank earned $3.1 billion on good organic growth and delivered its sixth consecutive quarter
of operating leverage while we continued heavy investments for the future. The impact of strong year-over-
year revenue growth of 12% was partially offset by an increase in provision expense. And the provision
increase reflected reserve builds this period, mostly for card growth, versus a reserve release in the third
quarter of ‘21. Our net charge-offs remain low and stable. While reported earnings were only modestly up
year-over-year, pretax pre-provision income grew 12% year-over-year which highlights the earnings
improvement coming through without the impact of the reserve actions.

Card revenue was solid and increased modestly year-over-year as spending benefits were mostly offset by
higher rewards costs. Service charges were down $338 million year-over-year as our insufficient funds and
overdraft policy changes were in full effect now by the end of Q2. And because of the scale of the business
and the diverse revenue we fully absorbed that revenue impact and they're now benefiting from the benefits
of overall customer satisfaction, lower attrition in our client base and lower cost associated with fewer
customer complaint calls associated with less nuisance fees.

Expense increased 11% from business investments for growth, including people, digital and marketing along
with costs related to opening the business to fuller capacity. Much of the company’s increased salary and
wage moves in the quarter impact Consumer Banking the most. We also continued our investment in
financial centers, opening another 16 in the quarter while we renovated nearly 200 more. Both digital
banking and operational process improvements are helping to pay for those investments. And as revenue
grew, we've improved the efficiency ratio to 51%.

Moving to Slide 16, Wealth Management produced strong results, earning $1.2 billion, and that’s a
particularly strong result given both equity and bond market levels. If they remain unchanged for the rest of
the year, this would be only the first time since 1976, that both equity and bond markets were down for the
year.

Now the volatility and generally lower market levels have put pressure on revenue in this business. And
what's helping to differentiate Merrill and the private bank right now is a strong banking business. In this
case, to the tune of $339 billion of deposits and $224 billion of loans. So while many of our brokerage peers
faced declines in revenue and margin, we've seen year-over-year revenue growth of 2% and a margin of
29%, driving the sixth straight quarter of operating leverage.

And we saw enough revenue growth from banking products in Q3 that more than offset declines in assets
under management and brokerage fees. Our talented group of financial advisers, coupled with our powerful
digital capabilities, allowed modern Merrill to gain 5,200 net new households and the private bank gained
550 in more in the quarter, both up nicely from net household generation in 2021.

We added $24 billion of loans since Q3 of ‘21, growing 12% and this marked our 50th consecutive quarter
of average loans growth in the business, consistent and sustained performance. Assets under management
flows were $4 billion in the quarter and $42 billion since this time last year. Expenses increased 2%, driven
by continued client-facing hiring and higher other employee-related costs as our advisers are increasing
their in-person engagement with clients, and that's partially offset by lower revenue-related incentives.

On Slide 17, you'll see our Global Banking results, where we earned $2 billion in Q3 on strong revenue
growth as higher NII more than offset lower noninterest income. Earnings were down year-over-year, driven
in large part by the absence of a prior period reserve release. Our 7% revenue growth is quite healthy given
the more than 40% decline in investment banking fees, coupled with lower leasing revenue.

While the company's overall investment banking fees declined $1 billion year-over-year in a continued tough
market, investment banking fees did improve modestly from Q2 and the teams did a nice job of holding on
to our #3 ranking in overall fees in a tough environment. Otherwise, in fees, we saw a decline in corporate
service charges as [earnings] (corrected) credit rates rose with increased rates, and that outpaced the
growth in gross treasury service fees generated from new and existing clients. I’d also remind you the GTS benefits greatly from the NII off of deposits that more than offsets this. So our year-over-year total GTS revenue was up 44%. We also had lower leasing related revenue comparatively.

The provision expense increase reflected a reserve build of $144 million in Q3 ’22 compared to a $789 million release in the year ago period. And with regard to expenses, they increased 5% year-over-year, driven by continued investments in the business. For example, in Commercial Banking, our strategic hiring over the years has just continued to increase our client and prospecting efforts.

Switching to Global Markets on Slide 18. And as we usually do, we’ll talk about segment results, excluding DVA. Inflation, continued geopolitical tensions and the changing monetary policies of central banks around the world continue to drive volatility in both the bond and equity markets. As a result, it’s another quarter that favored macro trading while credit trading businesses faced the continued challenging market environment with wider spreads and recession concerns.

So the third quarter net income of $1.1 billion reflects a good quarter of sales and trading revenue. Focusing on year-over-year. Sales & Trading contributed $4.1 billion to revenue, improving 13%. FICC improved 27% while equities declined 4%. The FICC improvement was primarily driven by growth in our macro products, while our credit traded products were down. And we’ve been investing heavily over the past year in several macro businesses that we identified as opportunities for us, and we were rewarded this quarter. The decline in equities was driven by lower client activity in Asia and weaker performance in cash, partially offset by good performance in derivatives where we saw increased client activity.

Year-over-year expense declined reflecting the absence of costs associated with the realignment of liquidating business activity that we took in the fourth quarter of ’21, and the business generated a 10% return in the third quarter.

Finally, on Slide 19, we show All Other, which reported a loss of $281 million, declining from the year ago period, driven by the litigation settlement that I noted earlier and higher tax expense.

On income tax expense, I just want to mention one thing that made our tax rate a little higher this quarter, and that is with the recent passage of the inflation Reduction Act of 2022, among other things it incorporated, there is a change that allowed solar energy investments to elect production tax credits versus upfront investment tax credits. And those production tax credits have the potential to earn more credits over the expected life of the production facility. So as a result, our third quarter tax expense is approximately $150 million higher due to the net reversal of tax credits accrued for 2022 solar deals taken in the first half of 2022 that were recognized under initial investment tax credits at the time and we were placed with production tax credits.

So a little impact this quarter but net benefit to the shareholder over time. This drove the effective tax rate a little higher this quarter to more than 14%, still obviously benefiting from our ESG investment tax credits. And excluding the impact of ESG tax credits, tax rate would have been approximately 24%. Given the change noted for solar investments, we expect the fourth quarter tax rate to be similar to the third quarter tax rate and will examine the further effects of these changes and how they impact full year 2023 and report on that next quarter.

And with that, I’m going to stop there and open up for Q&A.
Q&A

Operator
(Operator Instructions) Our first question today from Jim Mitchell with Seaport Global.

Jim Mitchell
Maybe just on NII. I think there's a lot of uncertainty around deposit behavior, betas, what the catch-up rate could be with deposit pricing but you guys indicated that you do -- you're still pretty asset sensitive. So how do you think about the trajectory of NII next year? Can it kind of keep growing from sort of the Q4 level through next year? Assuming forward curve is realized, sorry.

Brian Moynihan
Yes. Yes. So the short answer is yes, we believe so. And we believe that really for three reasons. The first one is we still expect for future rate hikes and there's going to be some lag to their impact. So you'll start to feel some of that in Q1, for example, from the late hikes in this quarter. Second, we're anticipating on growth is still pretty good at this stage, so we're anticipating that we'll keep growing on the loan side. And then third, we've got an opportunity to restrike our balance sheet at higher rates with every opportunity now as things come off of our existing securities portfolio.

So look, we've got our assumptions in there to be competitive on deposit pricing in each of the various segments. But yes, we believe we'll grow NII next year.

Jim Mitchell
From 4Q run rates.

Brian Moynihan
Yes, correct.

Jim Mitchell
Okay. And then maybe as a follow-up, you guys have done a pretty great job on hedging AOCI risk and the AFS book. My understanding is that the benefit of those are sort of delayed start swaps. Is there a material benefit coming from those swaps in the fourth quarter and beyond? How do we think about?

Alastair Borthwick
Just the way our own ALM projected over the course of the next couple of years, we had some forward starting swaps. Those are going to pay us floating in the fourth quarter, and that's a contributor to the NII growth in the fourth quarter, but I think we should assume a little bit third quarter, most all in the fourth quarter, and that's probably it.

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

Erika Najarian
I wanted to ask a question about expenses. I think part of a bearish thesis on the stock is that bearish investors expect some sort of expense catch up relative to how your closest peer of your closest peers is budgeting expenses for not just this year but next year. Heard you loud and clear on the $61 billion plus the litigation settlement for full year 2022, but as we think about coming years and think about the investments that you've made, you've highlighted, the headcount additions in the third quarter, will the expectation of 1% to 2% expense growth still hold as we look forward? Or does inflation and investments change that range upward.

Brian Moynihan
So Erika, we continue to invest heavily along multiple dimensions, people, technology restructuring all the physical plant, marketing. And so -- but yes, through the core operational excellence discipline this company
has and has shown, as I said earlier, seven years later, we have the same number of people. The company is a lot bigger than it was in 2015.

And so we continue to reposition money from things we can eliminate the work by the engineering and work and the technology investments that we make enabling the customer uses that technology and plow it back into the production side of the company. And so we don't -- I think if you think about this year's third quarter '22 versus third quarter '21, taking out the litigation, there's about $600 million increase in expenses year-over-year. $100 million of that is marketing, another chunk is another couple of hundred million dollars of technology. This is quarterly, not annually, but quarterly numbers. And then on top of that, the amount of physical plant change in that time is huge, not only in our branches, but all over our company. So we feel strong.

We continue to increase investments, technology will go up 15% this year versus -- meaning '23 versus '20 and those expense numbers we're giving you, but we pay for it by not investing and hoping something happens, we expect the things to fructify in near term and bring forth the fruit and drive the expense efficiencies and effectiveness. And that's how we can take the managers in that time period I gave you the headcount is flat, the managers came down 10,000 people in that period of time. We invested all in frontline people to help serve clients.

Erika Najarian
Got it. And my second question is on more significant buyback activity, Brian. I think that the CET1 build is certainly coming faster than I think the street expected. And I'm wondering, do we need to see Bank of America get to that 11.4% before heavier buyback activity? Or do you think you could manage the heavier buyback activity as you build to that 11.4% CET1 by January 1, 2024?

Brian Moynihan
So we bought back shares this quarter and still grew the capital. Our job is to drive our company to serve our customers in that first order of business for capital is always help the growth in the balance sheet, especially on the lending and market side. And so you should expect that buybacks will continue to increase.

But remember, we are now sitting above what we are supposed to be sitting at on 1/1 2024. And so next year's is already here. So obviously, the trade between building the buffer up a little bit more, as you said, from where we are now to 50 basis points over the requirement is a little bit different. We already exceed the requirement. So we'll put a little bit towards the buffer, we'll support the organic growth, a little bit towards a buffer and the use of us to send back to you guys.

Operator
We'll go next to Glenn Schorr with Evercore ISI.

Glenn Schorr
I'm curious, half your capital build was thanks to RWA mitigation. You mentioned no loss days in the quarter despite all this market volatility. You also I think mentioned some loan sales, I don't know if that has to do some of the levered loans working off book. So I wonder if you could talk about RWA mitigation going forward and including that, what's left in delivered loan book to distribute?

Alastair Borthwick
So there's a couple of things that are going on there. I don't want to confuse them. Let me first talk about the leverage finance thing. That we just marked through our numbers. It's in the numbers, we pushed it through. We do it every week. So that's included. When you look at those global markets or investment banking results, they include anything we're doing in investment banking.

I don't think that's what Brian was referring to. What Brian was referring to is the RWA optimization that we're doing as a company to make sure that we're in a great place to serve our customers and to be in a position to have the flexibility for buybacks in the future.
So a couple of things that we did there. We did sell some loans. You saw that in prior quarters in All Other. You can see some of the legacy loans were able to sell in prior quarters. This quarter, we sold $1 billion of loans in consumer and wealth and maybe $1 billion in Global Banking. So it's not big, but it's important for us just to make progress in different areas.

And then most of the RWA optimization plan that we've been doing is pretty quiet it's taking the securities that are 20% risk-weighted asset. And as they roll off, remember, there's like $15 billion of them roll off every quarter, we can replace those with treasuries at a higher yield. So we're getting more yield and we're reducing the RWAs with that.

And then the other thing I'd just say on RWA optimization is we probably tapped the brakes a little bit on loan production this quarter in a couple of places. And we did a little bit of CDS hedging here and there. And you'll see, if you look at our numbers, you'll also see the global markets, just the way that the customers are demanding balance sheet, the balance sheet is still growing, but the RWAs are a little bit lower. So there's a lot that goes into RWAs, but it's $1 billion here, $1 billion there. You add it all up, and it makes a difference.

Glenn Schorr

That was awesome. I appreciate that. And I guess, very much related, you've just touched on it a little bit. But I'm curious, you're a prime and super prime bank in consumer land, you gave us enough details. I know how you're thinking about growth there. On the commercial side, given what we're all facing in this potential real buzz saw of an economy, how do you approach risk and what business to take on?

I don't know if you could include in that thought what kind of maturity wall you're looking at on the commercial side of the book?

Brian Moynihan

Look, we always say to ourselves and our teammates is that responsible growth across the last decade-plus leads us to where we are. And so you're not going to do anything like this afternoon to change the impact. Candace and her team have negative growth this quarter, but the fourth quarter and the first couple of quarters next year, obviously negative growth.

You're not going to change your portfolio overnight. So then the question is how do you manage it, right? So we have limits across all the different categories. You can see the spread of risk in the supplemental book. You can see that nobody is a big part of it.

Then we look customer by customer and anticipate who is going to be needing money in terms of refinancing, but also in terms of just operating like we did during the pandemic, we went through every single loan, a company with $5 million of revenue more in our company on a quarterly basis for what I'm sure we had it.

So we worked the construct of the book who we underwrite client selection, the structure of the deals, et cetera, and the spread of diversity among industries and U.S. versus non-U.S., et cetera. But then on top of that, we always work in the book hard, and our ratings integrity is very high. We can see it as measured in the mix and other things against a third parties it's very rare that we have much to do anything we have rated and we make sure we test that continuously with our credit review team under Christine Katziff and Geoff Greener's team because that, at the end of the day, make sure we're not fooling ourselves.

And we continue to look at that. And frankly, I think this quarter, we still had upgrades exceeding downgrades you look at NPLs and reservable criticized, they both went down this quarter again. And so we're seeing improvement in the credit book even though all of the parade of horribles that you sort of alluded to, and it wouldn't take a perspicacious person to read -- to see that because it's in the paper every day.

But right now, the credit continues to improve, but it's what we did over the last 12 years, 15 years of proof of this good stead as we head into the time.
Operator
The next question comes from John McDonald with Autonomous Research.

John McDonald
I wanted to ask about the NII assumptions and maybe just your outlook around loan growth and what you're seeing in the economy, what you expect from loan growth. You mentioned modest? And then also, Alistair, just the pace of deposit mix shift and betas that you're kind of building into your outlook would be helpful.

Alastair Borthwick
Well, on the loan side, I'd say we talked about at the beginning of the year that we thought loans would be high single digits, and we've slightly outperformed that, obviously. This quarter was a little bit of a 90-day reset for us in some ways. You didn't see that so much in consumer because the card growth just came through. And in commercial, certainly, we probably held back just a touch. So we think we'll resume that sort of high single-digit, maybe mid if things begin to slow a little bit. So we've got that in our forecast we sort of resume the path that we've been on.

With respect to deposits, I'd say on betas, obviously, we're just increasing those because we've got to be competitive in this environment. And around balances, I think there's a sense that the industry will be flattish, maybe down, we think we're going to outperform the industry ever so slightly. So that's what's largely baked into our assumptions at this stage.

John McDonald
And in terms of funding the gap between the loan growth and flattish deposits, securities came down a fair amount this quarter. Can you continue to run down the securities portfolio? And what kind of volume do you get from cash flows off the book that.

Alastair Borthwick
Yes. So the securities portfolio runs off at about $15 billion a quarter. It was a little more this quarter because we actually had an opportunity to sell some securities that offset, some gains, some losses and freed up some RWAs. So we took advantage of that this quarter. And so the securities number this particular quarter was a little larger.

But I think on an ongoing basis, John, you should assume that we've got $15 billion that just comes in. And then broadly, we've got $175 billion of cash at the Central Bank and we got another couple of hundred billion of stuff that's mostly treasury swap to floating. So we've got lots of ways to pay for loans going for the future.

John McDonald
Okay. If I could just clarify the discussion with Erika around expenses. The $61 billion this year includes the litigation. Did you say next year, you're kind of targeting low single-digit expense growth, would you say positive operating leverage?

Brian Moynihan
Yes, I think we said that yes, it includes the litigation. And the next year, we said basically this year includes litigation and next year, we said at some point, we'll get back to the 1% to 2% rise. We'll just have to see how some of the ins and outs play in terms of some of the stuff running off this year still left over from the pandemic. Look at the 15.3% for 3 quarters in a row, honestly, each quarter has had a little bit of something in it, John, if you think about the first quarter when we had FICA and that type of stuff in it, the second quarter had the regulatory obligations. So we're about around low 15s. We expect that run rate to kind of hold.

Operator
We'll go next to Mike Mayo with Wells Fargo.
Mike Mayo
I'd like a little bit more detail on how you add employees and resources for the additional revenues from the second quarter to the third quarter, your profit margin on the new revenues was 100%. I mean, revenue is up $2 billion, expenses up 0. Clearly, that's not sustainable. But I would like you to, if you can tie that into Slide 22, more digital users and sales, Zell, Erica, 1 billion interactions.

Your headcount is not growing a whole lot. How long can you keep that going? And theoretically, all this digitization over the past few years equates to like how many employees or how much in expenses or what's a terminal efficiency level relative to the past?

Brian Moynihan
So I think, Mike, that's a lot of questions, but I'll try to sort out a little bit. Start with the last. There is no terminal efficiency ratio. Our idea is when you work on expenses, you're not working on the ratio, it ends up in a ratio. We work on the actual dollar spend and so we can keep working on investing heavily to drive that. And the digitization of all the operational process in the company is what you see on Slide 22 on the consumer side. And you've seen it in the other slides on some of the wealth management and commercial operations, still a lot of paper in the GTS business that we continue to take out. So that's what we're trying to do.

But interesting enough, what's driving the near-term growth in employees has -- there's obviously financial advisor growth, you saw the 400 this quarter, that's investing in the in the training programs and hiring some people into the office, especially outside our footprint to get them grow.

And again, there's investment in consumer commercial bankers -- those are not huge numbers, a big investment in the GCIB platform over the last year, I think 1,000 teammates the last couple of years. And so those investments come in, but also we're investing to drive the operational excellence platform and actually ensuring that we've got great customer service, dealing with all the things that go on.

But a major part of it, frankly, is getting -- even though we have less branches year-over-year, less numbers of units, we have more people in them because we continue to build out the relationship management capabilities in branches. As you said on Page 22, the work goes out of the branches from a day-to-day sort of service things. We're putting more and more into relationship management. And that's why you see 400,000-plus net new checking households this quarter, which is a record for us going back to pre-financial crisis. We don't know how far back it is.

If you look at small business originations are going up. If you look at merchant services sales, which that was an investment in sales force there, an investment. So it's just a combination of driving that. And the continued digitization allows us to continue to be efficient, effective and frankly, plow the money saved back in the marketing, back into more technology to make us even more effective and then into people where we need them.

But Tom Scrivener runs our operations sees a lot of stuff ahead of he can take out, Bruce Thompson runs the credit operations platform across all the businesses, a lot they can take out over time and we just go work on it.

Alastair Borthwick
Mike, I think it's -- we don't necessarily translate it into that sort of idea of how many more people this digital replace or productivity metrics. But if you look at by different line of business, you just take consumer for a moment, if 50% of our consumer sales now are taking place digitally you almost think about that being the equivalent of 4,000 more financial centers.

And it turns out if you give 35 million people banking in their pocket with a mobile phone, it makes a big difference.
Mike Mayo
And then just a quick follow-up then. So Brian, you said before, the NII benefits have come barreling through to the benefit of investors. That was the case this quarter. Do you expect that to continue to be the case over the next year?

Brian Moynihan
Yes. That's -- we said it last quarter and I hope I proved it true there to what you asked about last quarter. One of the things, Mike, to think about is go back and look at the consumer page in the deck, you'll see the cost of deposits, which is the overall cost of all the stuff against deposit basis continues to basically be kind of 120 basis points, which is down from 300 basis points 15 years ago. And that is extremely leverageable. And by the way, the profit margins on back up to 30% and driving through it. So we're letting that NII pull through, which then drives those numbers in.

Mike Mayo
And then one quick follow-up. Just I asked this for someone else, they said they didn't really know. The consumer deposit betas are outperforming for you and for some others. Why is that outperforming now? And do you think that's going to last?

Brian Moynihan
The consumer -- if you go to the page on deposits, there's only one -- there's a distinguishing fact that goes on a consumer at our company and generally, which really drives up the tremendous value proposition we have to be the core transaction, core relationship bank for our customers.

And if you look at Page 10, you can see that the interest checking noninterest-bearing accounts, the dollar volume of deposits as a total percentage of deposits are a very high percentage, and that's where we focus on. And that allows you -- those are zero or very low rates because the amount of services that come around them.

The access to 3,900 branches to the call centers to the digital platform to the ability to Zelle payments, et cetera, et cetera. And that's what drives it. So it's a -- the beta is a product of a mix more than it is a product of any pricing strategy. Because zero interest – noninterest-bearing checking or zero in any rate environment.

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

Matt O'Connor
Capital build was obviously faster than expected or at least what most of us have expected. And it doesn't really seem like there was much revenue drag from that. Can you kind of flip the script here and lean into certain businesses? And I guess I'm thinking as we look globally, there's some peers that are needing to build capital, so maybe there's some opportunity for further share gains in areas like market and Global Banking.

Brian Moynihan
Yes. Look, we're in a good position on capital even after the increased stress capital buffer results, which surprised our industry and our company. And we appealed that, as you well know, and didn't get relief, but we hope looked at in the future.

But the capital improvement really didn't take a much of revenue hit, honestly, the only place we had to hold -- just be careful on was loan production in the high-end businesses, i.e., GCIB. Other than that, the markets business has an allocation of the size of balance sheet and capital and RWA, which basically they were able to achieve all the results were not even use it up. And Jimmy DeMare and the team do a great job there. The rest -- everything else is there's no real change. And frankly, where we are now, those changes are that capping is gone for this quarter already, and we're doing what we should do.
Matt O’Connor
And then separately, just a little nerdy modeling question. As we think about the timing of the tax credits being pushed out, driving the tax rate slightly higher, is there an offset in that all other fee line that I think is viewed in tandem with the tax rate and the ESG credits.

Alastair Borthwick
Yes. So I would think about it this way. The effective tax rate for Q3 and Q4, likely a little bit higher than our original guided 10% to 12%. But for the full year, it should end up right around that 12% mark. And then I’d say this year, you’re right, in the fourth quarter in All Other, we have to take into account the fact that the ESG deals and their timing.

So I think for your model, Matt, I would use $700 million of an after-tax loss for the fourth quarter as the most likely. And I’m talking All Other now. And if you’re asking me with respect to the consolidated other income, then I’d use something very similar to the fourth quarter of 2021, where we had an $800 million pretax loss. So I just use that there, okay?

Matt O’Connor
Okay. And that’s the high watermark of the year, right?

Alastair Borthwick
Yes. That’s just the seasonal nature of these ESG deals and their installation generally.

Operator
Our next question comes from Ken Usdin with Jefferies.

Ken Usdin
Just another -- just a question or two on fees. Can you just walk us through the -- some of the deltas and the service charges line? Just talk about -- I know you had mentioned both the overdraft run rating, deposit changes and ECR. Just how much of that is embedded by now? And what should we look for going forward from that -- those areas?

Alastair Borthwick
Yes. So Ken, I think with respect to card kind of flattish, as I would think about it right now, a little bit of fourth quarter seasonal maybe that should benefit there.

Service charges, most importantly, on the consumer side, all the NSFOD, we’re now at the steady-state run rate. So that won’t be hurting us again from this point forward. The commercial part you’re right to highlight, the commercial business, the GTS business, is adding clients, we’re doing more with clients. So that’s adding gross fees. Many of the clients prefer that earnings credit adjustment as the way that they essentially pay interest, receive interest and then pay fees. So that came down probably $150 million this quarter. I think you should expect that come down again next quarter just with the way rates are going.

And then the other fees are probably pretty straightforward. Wealth will be all about market levels with a 1-month lag based on where the markets are. Investment banking kind of flattish I would think, maybe hoping for a little bit of positive at some point but not necessarily this quarter. And then Sales & Trading your guess is as good as ours, but we generally point to the sort of 15% seasonality in Q4 compared to Q3. And we’re coming off of obviously a pretty good period.

Brian Moynihan
Yes. let me -- Ken, just -- one of the things I think if it goes a little bit to Mike’s point a little bit to some of their points, is that about 80-odd percent, if I got exact I think it’s 84%, if I got it right, of the interchange goes back to the customer base in terms of rewards products, either directly through our own rewards programs or through some affinity group programs. So obviously, as charges go up a fair amount of that goes back.
Now what does that produce in value? It produces incredible value. So a lot of that in our preferred rewards
fee structure -- reward structure, which goes across all products in our company, if you even just look at the
preferred segment and why deposit pricing and the stability of our accounts is different than peers in the
last cycle, you'll see what happens at this time is that that reward structure cements the customer
relationship.

And so that then has a 99% retention rate plus of those preferred customers that have about 80% of the
deposits on the consumer segment. And they are very stable important customer base all our customer
bases are. So you have to think through on those fees, we're effectively investing those fees and the
duration of the customer base, the length of customer base, the profitability of the customer base the
stability of the customer base and the fact that then we can net produce a lot more customers because
we're not having to replace a runoff.

And so as you see some fee, same with NSFOD, by doing what we've done the attrition rate has obviously
dropped to the floor and you're seeing more production of that accounts there. And these are all related to
total revenue per customer, profit per customer as opposed to any individual decision.

Ken Usdin
Just one separate question on -- you mentioned that this credit continues to improve, and you're seeing
some underlying can just work us through just to remind us just where you are in terms of your scenarios
from a CECL perspective and if the economy does, in fact, change, how weighted are you already to an
already worsening scenario?

Alastair Borthwick
Yes so this quarter, very similar to last quarter, we used blue chip consensus as our baseline. You're talking
50 different economists, some of whom are in the middle, some of whom are pessimistic themselves, some
of whom are more optimistic, that's 60%, that's the baseline. Other 40% is downside scenarios that we
built. And there, that's the weakened that we're applying.

And in this particular quarter, just to give you an idea Ken, once again, we increased our forecast for
inflation in that scenario. We increased unemployment in that scenario. And we decreased GDP through the
course of the next couple of years. So all of that's a few quarters now in a row where that pattern is
continuing, and we did it again this quarter. And we'll just keep adjusting that over time based on the
macroeconomic situation as it develops over time.

Brian Moynihan
Yes, Alastair, just to give a sense, though, it's a 5% unemployment like now and then continues all the way
through next year. So there's an inherent conservatism built into that reserving level. That our reserves can
60-40 and has those kinds of those kinds of statistics around it has inflation, but more importantly, it's
based on that kind of unemployment level, which is 150 basis points over where we are, we are in October.
So it will be the side at the end of year.

Alastair Borthwick
It moves even higher than that next year, just to give you an idea, it's in the mid 5s, just to give you a
general sense.

Operator
We'll go next to Vivek Juneja with JP Morgan.

Vivek Juneja
Just a couple of questions, Brian and Alastair hung loan marks, a quick one. How much were those in the
third quarter?
Alastair Borthwick
So we didn't call that out, Vivek, just for the simple reason, it was smaller this quarter. We run those through the P&L every week, as you know. So the results that we see in Global Markets and Investment Banking did include them last quarter. We called it out last quarter because it was just bigger. But this quarter, we didn't feel that we needed to.

Vivek Juneja
Okay. Brian, you talked about tech spend being up if I caught it correctly, 15% in '23. Is that right? And if so, what's the dollar amount of tech spend that you're expecting in either this year or next year?

Brian Moynihan
This year, we're around $3.3, next year, we can move up to 15%, $3.4 or something like that.

Vivek Juneja
Okay. This is for the new product development type of.

Brian Moynihan
Other people talk about the overall number is like $10 billion just for the platform and all this is purely new code.

Vivek Juneja
Yes. Yes. Got it. And for both of you, what are you expecting as the impact of QT on deposits? What are you modeling in?

Alastair Borthwick
Well, we're obviously modeling in probably the same thing you are. We're going to have to price competitively for deposits in an environment where, obviously, market-based expectations are changing every day. So we're anticipating it's going to be a little bit tougher from this point forward, but that's already baked into our NII.

Vivek Juneja
I guess to get to more precise since you have better resources and better data than we do. What betas -- where do you expect betas to get to?

Alastair Borthwick
Well, that's going to differ by customer base, and I don't want to get into this on this call just because it's competitively important for us, obviously. But you can assume that at the higher end of wealth, for example, I shared that we're passing through most of that at this stage.

That's going to be very different versus our noninterest-bearing accounts. It will be different for operational versus nonoperational in commercial. So betas will be in quite different places, but I'm anticipating that they'll just continue to drift up over time.

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

Betsy Graseck
Just a couple of questions. One is on how we think about comp going into next year. We've got this inflation rate that's obviously seems higher for longer and while we expect it comes down over the next 12 months? You're going into the year with it at a pretty high level and social security as even going up like 8% as we all know.

So wondering how you think about that. You've done a great job at being on the front foot with regard to minimum wage increases in your shop. So should we expect more of that to come into next year's expense guide as well?
Brian Moynihan
That’s I think, Betsy. The last several months, we’ve done the fifth share success program. We did our usual merit, we did a 3, 5 and 7 merit increase for everybody under $100,000 in compensation based on years of service. We went -- we accelerated $22 starting rate, which is $40,000-odd a year now. And we’ll continue those patterns. And the good news is we’re seeing the attrition rate move. Start to move back, there was 12% drop to 6%, moved back up to 15s and has now dropped down the low 14s and each month starts to drop even more.

So we feel that we’ve got the right mix, and we all look at benefits continuously. We continue to -- they didn’t vary any benefits during that we would increase our childcare benefit to $275 per month per child, increased our tuition reimbursement and did it in advance. And so it’s a complex package, but we should have -- we’ve been able to absorb all that and keep expenses bouncing along at $15.3 billion a quarter for the last 3 or 4 quarters, and we’ll continue to do that.

And that’s where it comes down to also using the technology investments and operational excellence investments and continue to reduce the aggregate number of people we have working and pay those talent teammates we have even more when they work.

Betsy Graseck
Okay. So expectation for that to persist, meaning flat expenses year-on-year as we go into ‘23.

Brian Moynihan
Yes. We’ve said that we’d start growing in the 1% to 2% category, and that’s part of these types of inflationary things that you’re mentioning, which are higher now and then working it down over time. And so right now, we’re running in the low $15 per quarter, $15.3, and we expect it to maintain and grow.

But most of that growth does come, as you’re saying, into the compensation and it ebbs and flows where it goes on a given -- when the markets are driving more investment banking markets and wealth management and those come down a little bit and the other compensation comes up as we’ve changed the base pay and things like I talked about. But it’s just -- it’s a 214,000 people, it’s a complex discussion all over the world. So there’s no one answer for the whole team.

Betsy Graseck
Yes, I get that. Okay. That’s helpful color. Just one other one, Alastair. You mentioned the securities roll off that you’ve been able to mix shift towards a higher yield over time. Can you give us a sense as to what kind of pull the par we should be thinking about for the model on the AOCI hits that you’ve had to take how many quarters or years should we be thinking that gets erased over?

Alastair Borthwick
So I’d say on the treasuries, generally speaking, you just think about the duration there being somewhere between 4 and 5 years. And on the mortgages, it’s probably 7 to 8, so it takes a while to pull the part. And then there’ll be some derivatives as well.

And I think the team can probably help you model that at some point. But those are broadly speaking about the numbers I would use. Obviously, it will be faster for any securities that we pay in the time.

Operator
We’ll take our next question from Gerard Cassidy with RBC.

Gerard Cassidy
Alastair, you touched on there is some early-stage delinquencies in the consumer book and not so much with the hurricane, but -- can you give us any color -- and your numbers are obviously very strong. But can you give us some color of what you’re seeing there? Is it a lower FICO score customer? Anything you can read into it?
Brian Moynihan
This is one of the things, Gerard, you have to be careful of because obviously, when a person doesn't pay you the FICO is going down. So the origination statistics we put back there are very strong, remains strong. And what we're seeing is, I gave you the 5-year averages, which would so far exceed where we are today. We're still lower pre-pandemic.

So even though we're picking back up, the word normalization, I ask people to be careful because we're moving back to what was all-time lows, and we're not there. So I think if you look at the auto business, the number of repossessions and stuff was down half on a monthly basis. So we built -- under responsible growth, we built a book on the consumer side that we knew would be durable through different modeled outcomes, which is what we do in the stress testing and what we do in a reserve setting process and stuff, but also to actual outcomes and what we're seeing is it's weathering any notion of issues in the economy well.

And then on commercial book, as we said, we still see upgrades exceeding downgrades. The simple way to think about it is I think we're -- the trough the P&L provision cost, with flat reserve build pre-pandemic was basically $1 billion a quarter, we're running around that number now. And that's building $400 million of reserves is a little different constitution. And that means unless charge-offs pick up, you're going to see the reserve they'll start to mitigate because sort of we're sitting here at a pretty conservative scenario now, and it will all depend on that as we go forward. But remember, the baseline is now baking in effectively a recession based on the Blue Chip.

Alastair Borthwick
Gerard, I think if you went back to our supplement over the course of the past 10 years, you're going to find these numbers are so low we're squinting to see a change here, and it's coming off of really historically extraordinary numbers. So is there a little bit of movement, yes, but is it the second best of all time, yes.

Gerard Cassidy
Very good. Very good color. Can I follow up on the provision, Brian, you just mentioned about the $1 billion in the past. If you took that worse, you guys, I think, said 60, 40 in terms of your reserve build in terms of the base case on the economy versus a really difficult economy, if that really difficult economy went to 100%, what type of provision on a quarterly basis would that push up to?

Brian Moynihan
Yes. I mean I think we have to remember that -- I'd be careful about that because basically the baseline now has built into it a fairly weak forward path in the near term. And so I wouldn't speculate exactly the numbers, but if you saw we built a bunch of reserves with a 15% unemployment and the projection that that was going to go on to whatever the heck it was in the pandemic, and you saw us move up, but we're sitting closer to what we call CECL day one and pandemic implementation. And you can see some of that in the stress test.

So we don't really speculate on that, but we have stress test it to make sure and we can see the Fed stress tests and the adverse case, you can see these numbers, frankly, which I don't think would ever materialize given what you do in a period of time between then and there, but that gives you some sense if you look those up.

Operator
We'll take our final question today from Charles Peabody with Portales.

Charles Peabody
Yes. Most of my questions were asked already. But I was just curious if you had any thoughts about how the Basel III endgame might play out and the timing of implementation of that? Or any general thoughts or color?
Alastair Borthwick
No particular updates at this point. Obviously, we’re waiting along with everybody else. And once we get the rules, Charles, we’ll sit down and start working through our own capital base. But obviously, as Brian pointed out earlier, just the fact that we’ve made ourselves in a position where already we’re ahead of where we need to be in January 2024, we’ve got a lot of flexibility at this point for whatever the end game does come out with.

Brian Moynihan
Okay. Well, thank you for all your questions and your attention. Let me just summarize for the third quarter 2022, you saw responsible growth in action once again. We had organic growth in all businesses. We had top line revenue growth driven by the NII increases. We had strong expense control, flat expenses for the third straight quarter, operating leverage for the fifth straight quarter and good work on that.

We had good risk management. You can see that we’re still running strong risk parameters, and we built the capital to the end-state 1/1/24 levels that we need. So that’s what we call responsible growth, and now you’re seeing it in action. Thank you.

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