Q4 2018 Earnings Call

Company Participants

- Brian T. Moynihan, Chairman & Chief Executive Officer
- Lee McEntire, Senior Vice President-Investor Relations
- Paul M. Donofrio, Chief Financial Officer

Other Participants

- Betsy L. Graseck, Analyst
- Brian Kleinhanzl, Analyst
- Glenn Schorr, Analyst
- James Mitchell, Analyst
- John Eamon McDonald, Analyst
- Matthew Derek O'Connor, Analyst
- Mike Mayo, Analyst
- Saul Martinez, Analyst
- Steven Chubak, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, everyone, and welcome to the Bank of America fourth quarter earnings announcement. At this time, all participants are in a listen-only mode. Later you'll have the opportunity to ask questions during the question-and-answer session. Please note this call is being recorded.

It is now my pleasure to turn the conference over to Mr. Lee McEntire. Please go ahead, sir.

Lee McEntire {BIO 6651246 <GO>}

Good morning. Thanks for joining this morning's call to review our fourth quarter and full year 2018 results. By now everybody has, I'm sure, had a chance to review the earnings release documents on our Investor Relations section of bankofamerica.com, our website.

Before I turn the call over to our CEO, Brian Moynihan, let me remind you that we may make forward-looking statements during the call. After Brian's comments, our CFO, Paul Donofrio, will review the details of the fourth quarter results. Then we'll open up for questions. For further information on our forward-looking statements, please refer to either our earnings release documents, our website or our SEC filings.

With that, take it away, Brian.

Brian T. Moynihan {BIO 1517608 <GO>}

Good morning, everyone, and thank you for joining us to review our fourth quarter results and 2018 results.

Before Paul walks you through some of the details of the latest quarter, I want to review what our 200,000 teammates produced for you in 2018. This year and, in fact, this quarter were continuing examples of how our shareholder model works for you. So, let's start on slide 2. We grew the top line a little better than the economy. We managed costs and risk well. We invested heavily in our leading capabilities and in our teammates. And that benefit all of you as we returned almost all of our earnings to you.

Looking at the full-year results, we reported record earnings for our company of $28 billion after tax, or $2.61 per share. Revenue grew a little better than GDP at 3% and when discussing the growth rate over 2017, we were increasing 2017 baseline as shown to add back the charges taken to the Tax Act last year. Our client base has expanded and in our key business, our market leadership positions continued to improve. Deposits and loans within our business segments grew a little better than the economy.

We managed expenses well and hit our target for 2018, which we established a few years ago. In fact, our expenses were down 2% for the year and that helped achieve 6% operating leverage. We also believe we manage risk well, as net charge-offs remain at decade lows. Driving these elements allowed us to grow pre-tax earnings at 15%. And we used our capital to reduce shares, and that allowed us to grow EPS faster than our earnings growth rate. And importantly, we believe the same focus on responsible growth with a laser focus on controlling what we can will allow us to continue to improve results for 2019.

As you can see on slide 3, every line of business contributed to our growth and earned well above our company's cost of capital. And each line of business had superior efficiency through a focus on operating leverage. I put three years on this page so you can see the improvement across the business for multiple years. This is not a recent phenomenon and will continue in 2019. We expect to continue to drive incremental improvement in these businesses as we take advantage of our very strong franchise and the continued investments in digitalization and operating efficiency, as well as our relationship management capacity in core products and services.

Let me give you a few examples. In our Consumer Banking, after a decade of simplifying our products, reviewing our focus on primary accounts, transforming our delivery network, and driving deeper relationship for our customers, we have seen net new checking accounts growing, and those are growing with the same strong core attributes as our existing book. Savings accounts and credit cards have seen the same progress. In our Merrill Edge investment assets, we had a 21% year-over-year increase in funded brokerage assets and $25 billion of net client flows.

In Merrill Lynch, we grew net relationships 4 times faster in 2018 than 2017. We saw a record number of our experienced $1 million and $5 million producers in the financial advisor population. In our U.S. Trust team, we grew households by 9% last year. Andy Sieg and Katy Knox, who have been recently added to my management team, are driving continued success in these businesses.

Our commercial and business banking continues to build relationships. Net new relationship additions increased 32% for global commercial banking, our middle market business, and 28% for business banking comparing 2018 to 2017. And when you go on the institutional investor side of the house, through our investments in the business and increased balance sheet commitment to our clients, we have seen an expansion in our prime brokerage business. And as a result, we had a record revenue year in our equities business. In the fourth quarter alone, we added 70 new clients for our equities team.

As you turn to slide 4, one of the drivers of an expansion in our client base is the fruit of multiple years of continuous improvement in our franchise. These investments have improved the capabilities and processes used to serve our customers. And we've added this talent and these capabilities without net expense growth. To enable this investment, we have driven a culture of expense management to reduce costs significantly over the past nine years while increasing our customer service scores and capabilities. This has led to a $30 billion annual reduction in our expense base since 2010.

The team has done great work for you here, accomplishing significant savings at the bottom line and at the same time industry-leading investment levels in technology, physical platform, and talent. We face the same inflationary cost challenges everybody faces, benefit increases, wage increases, real estate cost increases, more investment, everything that we face, and we still hit our 2000 (sic) [2018] expense target of approximately $53 billion. And as Paul will reiterate in a bit, we expect that those expenses will remain in that neighborhood for 2019 and 2020. And this year, our efficiency ratio was at 58%. These expense reductions increased revenue, a result of substantial operating leverage.

Now, take a look at slide 5. 16 consecutive quarters of operating leverage, every quarter for four straight years. Even in periods of revenue decline, we were able to reduce expenses even more. During that four-year period, we have invested $12 billion in new technology initiatives, retooled every single ATM in the company, rehabbed 1,500 branches, built hundreds of new branches, added new administrative facilities, and added relationship management and sales teammates. And we've also shared success with our teammates. Our Shared Success program we announced at the end of 2017 also continued again into 2018. The two programs combined added over $1 billion to 95% – to all but the top 5% of our team in annual compensation.

If you go to the next slide, slide 6, one of the things that helped us deliver these earnings and growth has been the increase in net interest income over the last several years. Once in a while, I get asked by you, did you capture the value of the rate curve normalizing that you told us you would. The simple answer is yes, and you can see it here. But we delivered more than that. On slide 6, you see the improvement in NII every year since 2015. NII is up $8 billion in the past four years. But what we often miss here, it wasn't solely driven by higher rates. It is driven by our business model, a business model which drives strong core deposit growth coupled with strong pricing discipline, but it's also not just about deposits. Driving core NII takes good core loan growth as well, and we have seen growth in loans across the business. This continues to strongly help NII growth.

So you can see these on the right-hand side. Average deposits grew more than $150 billion after the past four years at a 4% compound annual growth rate. Loans in our business grew $140 billion or 6% CAGR over the same four years. But a specific point to demonstrate this, we have grown consumer checking balances at Bank of America for 40 quarters in a row, a stat our consumer team would be proud of. And by the way, that was $200 billion in core checking balances added across that decade.

So as we look forward into 2019 and consider the debate of where the NII can grow, short-term rate increases stop or slow, we will drive what we control with loan and deposit growth. And even in an unchanged change rate environment, that should produce more NII.

One of the other areas for improvement has been the continued increase in the amount of capital we've been able to return to you, our shareholders. Take a look at slide 7. As we have increased earnings, we have also increased the return of those earnings in the form of both increased dividends as well as share repurchases. This quarter we crossed an important milestone for our team. Fully diluted shares moved under 10 billion with more than 1.4 billion shares lower than the peak in 2013 and the lowest since 2008. It's the same great company, has more earnings, more capital, but 14% less shares than the peak, and we see much more ahead.

So we strive to deliver what we control, more customers, more activities from those customers. Whether it's loans, whether it's deposits, whether it's assets under management, whether it's underwriting fees, whether it's trading revenue, we continue to drive what we control, and we control the risk in expenses. And we do this while driving our competitive advantage through increasing investments in people, technology and physical plant. What does that sound like? It sounds like another year of driving responsible growth.

Now, before I ask Paul to dive in the quarter, I wanted to give you – we are all facing a perceived change in the operating environment, with predictions in the year ahead reflecting a range of outcomes from GDP growth in the mid-2s to lower growth to recession. I wanted to give you two perspectives, one from our research team and the second from what we see in our client base.

Let's first focus on the views of our research team, one of the best there is. The United States economy, the largest in the world, grew at the highest rate in a decade, the long recovery in 2018. We still have low inflation, rising wages, low unemployment. And despite the increases in rates, interest rates remain at all-time lows. Our research team predicts economic growth to be lower in 2019 than it was in 2018, as do the general economic community. However, it is true, these estimates still point to solid growth. For

2019, our research team has global GDP growth at 3.5%, and the research team has the U.S. GDP growth at 2.5%, which is higher than any but one year in the last seven.

But the second view is, our view is through our customers, and this strongly supports a solid growth view. In our Consumer business, we processed in 2018 more than $2.8 trillion in consumer payments and cash consumption. That's a large sample of the U.S. GDP. That data shows that consumer spending was 8.5% higher for all of 2018 than 2017. That growth rate remained solid in December and January, even as comparables are increasing due to strong growth in the end of 2017 into early 2018. We also see a lot of credit flows as one of the larger commercial and consumer lenders in the United States. Those flows are solid, reflecting customer confidence, responsible borrowing and lending.

We talk to a lot of clients. We survey a lot of clients. We monitor their asset quality, and we've seen it remain strong as net loss ratios are at record lows. We see no problems in the near-term horizon and expect charge-offs to remain around $1 billion or so for the rest of 2019. We also see those companies as just healthy, making more money and continuing to invest. Our small business clients remain optimistic. Our most recent survey shows that. The geopolitical comment, however, affects all this. It provides a backdrop of obdurate uncertainty.

Trade wars, government shutdown, China slowdown, EU slowdown, Brexit, you name it, both here and abroad, impact people's economic growth outlook. We are mindful of those potential impacts, but we see in the U.S. strong indications of continued growth due to the denizens we have here in our economy. So, given the slowdown predicted, it does not enervate us, it invigorates us. We look forward to continue to produce strong results in 2019 by driving responsible growth.

With that, let me turn it over to Paul.

Paul M. Donofrio {BIO 1533743 <GO>}

Thanks, Brian. I'm starting on slide 8 and referring to the highlights on slide 9 as well. Bank of America reported net income of $7.3 billion, or $0.70 per diluted share. As you recall, Q4 2017 included significant charges for the Tax Act. All the year-over-year results that I will review adjust for those charges.

On that adjusted basis, comparing Q4 2018 to Q4 2017, we grew revenue 6%, pre-tax earnings 22%, net income by 39% and, with a 6% reduction in shares, EPS by 49%. This growth was driven by 7% operating leverage and strong asset quality. The effective tax rate of 16% for the quarter included a net tax benefit of approximately $200 million related to a few items. The benefit was driven by updated tax guidance with respect to the Tax Act and international earnings. This benefit was partially offset by charges related to a variety of other tax matters. Year-over-year return on assets and equity improved significantly.

Turning to the balance sheet on slide 10, overall compared to the end of Q3, the balance sheet grew $16 billion, driven by commercial loan growth. Liquidity remains strong with average Global Liquidity Sources of $544 billion and all liquidity metrics remain well above requirements. Long-term debt declined $5 billion with maturities outpacing issuances. We are comfortably in compliance with the TLAC rules that became effective in January, especially in light of the recent reduction in our Method 1 G-SIBs.

Given our robust funding levels, we expect our parent debt issuances in 2019 will likely be less than maturities. Total shareholder equity increased $3 billion from Q3, as AOCI benefited from increases in the value of our AFS debt securities given the decline in long-end rates. We returned 95% of net income available to common, or $6.7 billion, through the combination of dividends and share repurchases in the quarter.

Turning to regulatory metrics, our CET1 standardized ratio improved 22 basis points to 11.6% from Q3 and remains well above our 9.5% requirement. The improvement was driven by the increase in AOCI that I just mentioned, combined with a modest decline in RWA. RWA declined, was driven by lower Global Markets RWA and the sale of non-core consumer loans, which offset the impact of loan growth across the businesses.

Looking at deposits on slide 11, overall average deposits grew 4% year-over-year. A decline in noninterest-bearing deposits was isolated to mix shifts in Global Banking given the interest rate environment, while interest-bearing grew across every segment. Consumer Banking deposits grew 3% as noninterest-bearing and low-interest checking, which account for over half of Consumer Banking deposits, grew 7%, while the aggregate of money market accounts, savings and CDs were flat.

GWIM also grew deposits, 3% year-over-year. GWIM's deposit balances benefit from market volatilities as customers move from investments to cash. We also simplified client account structures for clients, which moved funds from off-balance sheet sweep accounts to deposits. Global Banking deposits continued to grow well, up 9% year-over-year, reflecting the investments we have made in client-facing bankers and global treasury services capabilities. Also, as mentioned earlier, in Global Banking, we saw expected rotation from noninterest-bearing to interest-bearing deposits.

Turning to slide 12, total loans, on an average basis, were $934 billion. Total loan growth continued to be impacted by the runoff in sales of non-core consumer real estate loans. Near the end of the quarter and similar to last quarter, we sold a potential of mostly non-core consumer real estate loans with a book value of $5 billion, recording a small gain. Focusing on loans and our business segments, they were up $25 billion or 3% year-over-year. Consumer loans grew 4% year-over-year, led by mortgage and, to a lesser degree, consumer credit card. Commercial loans grew 2% year-over-year.

As you think about starting loan levels for the new year, note that towards the end of the quarter we originated several large primarily investment-grade financings which resulted in loans ending the quarter $13 billion higher than the average for the quarter. While we would not call this a trend, we were pleased with the late quarter growth.

Turning to slide 13, net interest income on a GAAP non-FTE was $12.3 billion, or $12.5 billion on an FTE basis. Compared with Q4 2017, GAAP NII was up $842 million or 7%. The improvement was driven by the value of our deposits as interest rates rose, as well as loan and deposit growth and was partially offset by higher funding costs in Global Markets and lower loan spreads. On a linked-quarter basis, GAAP NII was up $434 million. Linked-quarter growth reflects the benefit of the September rate hike, loan and deposit growth and lower long-term debt expense.

Net interest yield of 2.48% improved 9 basis points year-over-year and 6 basis points linked-quarter. Strong improvement in our core banking activities was partially offset by the impact of lower yielding Global Markets assets. Including our Global Markets segment, which primarily reflects our trading-related assets, NII from core banking activities grew almost $1 billion year-over-year or 9%. The net interest yield on that same basis crossed 3% and is up 14 basis points year-over-year, driven by broad improvement in asset yields relative to funding costs. Average rate paid on interest-bearing deposits of 67 basis points rose 12 basis points from Q3, and is up 56 basis points versus Q4 2015, which was the beginning of this Fed rate hike cycle.

Turning to asset sensitivity, as of 12/31 an instantaneous 100 basis point parallel increase in rates above the forward curve is estimated to increase NII by $2.7 billion over the subsequent 12 months. The decrease since the end of September reflects the continued shift in Global Banking deposits to interest-bearing as well as modestly higher Global Banking pass-through rates. Note that the short end represents approximately 75% of this sensitivity. As you look forward to 2019, keep in mind, Q1 has two less days of interest accrual, which will negatively impact NII by about $200 million.

Turning to expenses on slide 14, we finished the year with another solid quarter of expense management. Compared to Q4 2017, noninterest expense of $13.1 billion was down 1%, continuing our quarterly string of year-over-year improvements. On a linked-quarter basis, expenses were flat as lower FDI insurance costs were offset by a couple of increases. First, we increased marketing in a few areas, including an investment to reposition our brand. And second, in October, we announced another Shared Success bonus covering 95% of our teammates. Despite these late year investments, we reported full year expenses in line with our target, which was established in the middle of 2016, and our efficiency ratio improved to 58%.

As we look ahead to 2019, we believe our full year expenses should approximate the 2018 expense level. This expense level includes approximately $1 billion for increased spending in the aggregate in several areas; normal yearly merit, healthcare benefits primarily from inflation, marketing and the previously announced new investment initiative spending in technology, as well as expansion and modernization of financial centers. On a full year basis, we believe we should be able to offset these investments through lower FDIC insurance and other efficiencies.

With respect to Q1, note that expenses seasonally increase compared to Q4. In addition to any increase related to seasonal revenue in Q1, we anticipate that Q1 expense will be higher than Q4 2018 by approximately $500 million due to seasonal personnel costs, mostly payroll tax. We expect expenses should trend lower than Q1 through the remaining quarters of 2019.

Turning to asset quality on slide 15, asset quality continued to perform very well. Total net charge-offs were $924 million, lower than both the prior quarter and the year ago quarter. The net charge-off ratio declined to 39 basis points as losses declined, while loans grew. Provision expense of $905 million more closely matched losses this quarter as we had a modest $19 million net reserve release.

On slide 16, we break out credit quality metrics for both our consumer and commercial portfolios. The only thing I would note here as respect to consumer, seasoning drove credit card losses modestly higher, but the loss ratio remained below 3%.

Okay, turning to the business segments and starting with Consumer Banking on slide 17, Q4 finished a strong year, generating $12 billion in full-year earnings. In Q4, earnings grew 52% year over year to $3.3 billion. We created more than 1,000 basis of operating leverage this quarter as revenue grew 10%, while expenses were held flat. The all-in cost of running the deposit franchise was 159 basis points this quarter, which includes both the cost of deposits at 152 basis points and the average rate paid of 7 basis points. This total cost ratio declined from 165 basis points in Q4 2017.

The efficiency ratio improved nearly 500 basis points year-over-year to 45%. Credit costs showed a modest increase, but remained low. As reviewed earlier, we grew Consumer Banking deposits 3% year-over-year and the percentage of checking accounts that are now the primary account of a household increased to 91%. Consumer payments increased 7% year-over-year. Lending was also solid, growing 5% year-over-year. And Merrill Edge brokerage assets ended the quarter up $9 billion versus year-end 2017, as a $16 billion decline driven by market valuations masked strong client flows of $25 billion for the full year. And customer activity in the quarter remained solid across all major product categories.

Turning to slide 18, you can see that 10% revenue growth was driven by NII as we realize the value of our deposits through our focus on relationship deepening. You will also note noninterest income improved year over year from account growth and higher levels of consumer spending. We experienced modest improvement in card income and service charges. As discussed previously, to promote relationship deepening, we reduced certain fees, and we provide rewards and offer discounts when customers do more with us. This may reduce fees but overall drives revenue growth, especially NII.

We believe this approach to customers combined with our leading capabilities has produced superior deposit growth relative to the industry average. We also believe it is driving customer satisfaction improvement, which is at an all-time high. And, given expense declines, it's important to note the significant platform enhancements accomplished in the second half of 2018. We expanded in 26 new and existing markets in 2018. That included opening 81 new centers and in renovating more than 500. All our financial centers are now equipped with WiFi.

Turning to digital trends on slide 19, just a couple of things to highlight. Mobile users continued to grow, crossing over 26 million. We processed more than $2.5 trillion in total payments in 2018. And we saw digital as a percentage of all payments continue to grow in

2018, lowering costs, reducing errors, and improving customer convenience. Mobile and ATM now account for more than three-quarters of deposit transactions. And mobile, with all its benefits for our customers and our shareholders, is now approaching half of all digital sales.

Turning to Global Wealth & Investment Management on slide 20, GWIM produced another quarter of strong results, delivering client flows totaling $35 billion, one of the best quarters of client flows in the company's history, which is partially due to growth in net new households. Net income of more than $1 billion was the best quarter ever for this segment, growing 43% year over year. Pre-tax income was up 18%, and our pre-tax margin improved to nearly 29%. The business created more than 400 basis points of operating leverage, growing revenues 7% while holding expense growth to 2%. Revenue included solid growth in NII and noninterest income, overcoming some of the negative impacts of a decline in the financial markets early in the quarter.

Asset management fees were up 3% versus Q4 2017, driven by a solid year of AUM flows, but were mitigated by a decline in brokerage fees. Revenue also included a roughly $100 million benefit from the sale of a non-core asset associated with indices sublicensing. It's important to note as you look at 2019 that the December drop in equity markets doesn't actually impact AUM fees until Q1 2019 due to the one-month lag in the determination of fees for assets under management.

Moving to slide 21, trends reflected strong client engagement in Merrill Lynch and U.S. trusts. Strong household growth and continued near record low attrition of experienced financial advisors contributed to the $35 billion in overall client flows this quarter. AUM outflows in the quarter reflected market volatility, which impacted some clients' preferences versus cash and deposits. At the same time, we had $17 billion of positive brokerage flows, which is a record. We saw many of our new households begin their investing relationship with us through a new brokerage account. On the banking side, we had deposit flows of $21 billion, as some investors increased their allocation of cash, and ending loan balances grew $3 billion.

Turning to slide 22, Global Banking earned $2.1 billion and generated a 20% return on allocated capital. Global Banking achieved several records this quarter across revenue, net income, loan levels, and deposit levels. Earnings were up 25% from Q4 2017, driven by operating leverage and tax rate benefits. Revenue of $5.1 billion and pre-tax earnings of $2.8 billion were both up modestly year over year. But this growth is understated given the impact of the Tax Act on tax-advantaged investments in Q4 2018 versus Q4 2017.

Revenue was led by 4% growth in NII from strong deposit growth and higher rates, but was offset by the small decline in investment banking fees. The business created operating leverage as expense declined 2% versus Q4 2017. Efficiency savings and lower deposit insurance costs more than offset continued investment in the business.

Looking at trends on slide 23 and comparing to Q4 last year, since we already covered loan and deposits, I'll start with IB fees. IB fees of $1.3 billion for the overall firm decreased 5% year over year. For context, note the overall industry fee pools declined 13% from last year. Compared to Q4 2017, modestly improved M&A fees only partially offset a decline in underwriting fees, given the significant weakness in financing fee pools, as corporations and other participants assessed significant market volatility late in the quarter.

Switching to Global Markets on slide 24, I will talk about the results excluding DVA. Global Markets produced roughly $450 million of earnings in a tough quarter where market volatility increased and credit spreads widened. FICC and equity financial performance diverged, with equity achieving record revenue. Overall, revenue declined 10% compared to Q4 2017 while expenses declined 3%. Q4 2017 revenue included a small gain from the sale of a non-core asset.

Sales and trading declined 6% year over year to $2.5 billion. FICC declined 15% while equities grew 11%. FICC's lower revenue was due to weakness in credit and mortgage markets and lower client activity in credit products. On the other hand, equities benefited. Market volatility led to increased client activity, producing revenue and improvements in both derivatives and in client financing activities, where we have been recently investing.

On slide 25, I would just point out the chart on the bottom left, which shows at roughly $13 billion in full-year revenues, the relative stability of sales and trading revenue over the past three years. It also shows the stability and benefit that comes from a full and diverse set of client solutions, as growth in equity revenue has made up for the decline in FICC revenue.

On slide 26, we show All Other, which reported net income of $279 million. Comparisons against the prior year were impacted by the charges in Q4 2017 associated with the Tax Act, which reduced revenue by $946 million and increased tax expense by $1.9 billion. As I mentioned earlier, Q4 2018 included a $200 million net tax benefit. Expenses improved $71 million year over year.

Okay, let me close with a couple of thoughts. Q4 was a solid finish to a record year of earnings. We controlled our costs well and invested in the future. Asset quality remains excellent. Our balance sheet is strong, and we returned more earnings to shareholders. And while the market may now believe interest rate hikes have stopped, we believe we can grow net interest income without rate hikes, assuming modest levels of loan and deposit growth.

With regard to things that are more in our control because of all the hard work our employees are doing to eliminate duplicative work and root out inefficiencies, we expect expense in 2019 to be roughly the same as 2018. And as Brian said, we also don't expect any meaningful change in net charge-offs in 2019, based on our years of responsible growth and our view of the credit horizon. So, we enter 2019 positively with a strong balance sheet and market share in businesses that positions us well for better earnings again in 2019.

Thanks for listening. And, with that, let's open it up to questions.

Q&A

Operator

We'll take our first question from John McDonald with Bernstein. Please go ahead.

Q - John Eamon McDonald {BIO 1972557 <GO>}

Hi, good morning. I was wondering on the loan growth front what you saw this quarter in terms of demand trends, you mentioned in commercial you saw the late quarter pickup, wondering if you attribute that to capital markets weakening. But underneath that, how's the core commercial demand and overall how are you feeling about loan growth prospects heading into 2019? Are you still thinking about GDP, GDP plus a little bit as you think about responsible growth in 2019?

A - Brian T. Moynihan {BIO 1517608 <GO>}

Yeah, we did see some late quarter pickup in loans in Global Banking. I'm not sure I can attribute it to the shutdown that we saw in the quarter in parts of the debt markets from a bond perspective, but I wouldn't be surprised if some of that pickup was from that.

In terms of loan growth, in our Consumer and GWIM segments, loan growth really continues to be solid and well within our expectations. As I said, Consumer grew 5% year-over-year, GWIM grew 4% which importantly is better than economic growth. In Global Banking, loan growth in Q4 was more subdued, but that's also consistent with industry data. Year-over-year loans grew 2%. I guess, I would say that we think there are, at least, two factors impacting corporate clients.

First, tax reform has increased cash flow and repatriation has also increased cash available for debt pay-downs. But having said all that, our near-term expectations for loan growth are unchanged. We still expect total loan growth to be in the low single digits and growth in our business segments should be at mid-single digits. Maybe depending on economic growth on the low end of mid-single digits, but we're still – I think we can achieve mid-single digits.

Q - John Eamon McDonald {BIO 1972557 <GO>}

Okay, great. And, Paul, just a follow-up in terms of deposit pricing, what are your baseline expectations? You've been able to hold deposit pricing very nicely, while growing. What are your baseline expectations for deposit pricing if the Fed does slow? And just to clarify your NII outlook, as you go into the first quarter, what kind of offsets might you have to the day count headwind in terms of deposit growth and pricing?

A - Paul M. Donofrio {BIO 1533743 <GO>}

Let's start with NII outlook for Q1. The December rate hike and loan and deposit growth are clearly tailwinds and we just think they'll be offset by two less trading days. I mean that's the best perspective I can give you. In terms of where the rates go from here, look, I think Bank of America and indeed the rest of the industry really haven't increased deposit pricing on traditional bank accounts appreciably.

And I think, again, as we've said – and many times I think, at least, for Bank of America, we deliver a lot of value to depositors between transparency, convenience, safety, mobile banking, online banking, our nationwide network of financial centers, the rewards we give our clients, the advice and counsel, all that value, I think, has helped us keep deposit rates relatively flat in traditional retail accounts. But again, we have been raising rates in accounts in GWIM and in Global Banking. So, we pass a lot of value through in the form of higher deposits to those clients. At some point, the broader retail rates will rise. We just don't know when. So, I think we're just going to have to wait and see.

Q - John Eamon McDonald {BIO 1972557 <GO>}

Okay, thanks.

Operator

And we'll take our next question from Mike Mayo with Wells Fargo. Please go ahead.

Q - Mike Mayo {BIO 1494617 <GO>}

Hi. Can you elaborate more on the checking deposit balance growth over the last year? It's up what, 7% or 8%. And I really want to get to the why? And, Brian, I know you always take us – you have good team members and everything else, but how much of that growth is due to mobile banking and digital banking? And of that component, how much would be due to millennials?

A - Brian T. Moynihan {BIO 1517608 <GO>}

Mike, to put it in perspective, I think we had 20-odd billion dollars of fourth quarter 2017 to fourth quarter 2018 checking account growth in Consumer. We actually, as I said earlier, we have been in a decade-long repurposing of that business, including focusing on primary accounts. So, we're 91% primary accounts.

The accounts we add are accretive and solid. The average balance per account continues to grow. The satisfaction of that business hit an all-time high across the board in terms of customer delight. So, it's good performance and strong performance. But the key among all that is basically we are net growing checking accounts a few hundred thousand a year for the last couple of years, which we hadn't been for the last eight or nine years as we repositioned the old product lines and did all the consolidations, even sold some branches you're well aware.

To go to your question on millenials, there are 50 million households in Consumer, 36 million digital households, 26 million mobile households. There're not enough millenials to meet those statistics. So, this was a broad-based change going on and whether it's people eight years old, seven years old, six years old, the way people use the capabilities that we have built for them is across the board. So, any technology adoption, people often attribute to millennials, but when you think about that kind of penetration of digital practice, 1.5 billion log-ins quarter, you have 77% of the checks deposited not at the branch, i.e., through ATMs and mobile deposits. You just don't have enough millennials to go around. So, this is a broad-based trend that we've been driving and over the 10 years I talked about earlier, we had 6,100 branches, we have 4,200 branches. We have grown checking balances. And it just isn't enough millennials to make that happen. So, it's a broad-based thing.

I'll give you a – this quarter we crossed 5 million Zelle users, 5 million Erica users. Now, remember, Erica is not even a year old and 5 million Preferred Rewards customers who have brought their total relationship to get the benefits. That is what's driving this, just checking growth, because you get – if you bring all your relationships through the reward programs we have there integrated across all products and not just card products, that provides a good benefit. And so, it's tremendous operating leverage and Paul mentioned some of the statistics and cost. It's tremendous client delight, it's tremendous capability, tremendous efficiency, it is broad-based. I mean, it's not – millennials would score high on something like Erica, but that would be expected. Long term, it'll be broadly adopted and franchised.

Q - Mike Mayo {BIO 1494617 <GO>}

Great. One follow-up, if I could. I've asked this before, but what is your market share of digital banking users or, at least, how much of that checking account growth over the last year is due to digital banking?

A - Brian T. Moynihan {BIO 1517608 <GO>}

It's always hard to – our market share in consumer deposits we think is around, I don't know, 13% 14%, 15% depending on what you calculate in, Mike, and it's growing. And if you look in the top 30 markets, 30 or 40 markets that we play in across the country, you can see that if you just follow the FDIC data, you can see our deposit base continuing to grow. So, would it skew a little bit that way? Sure, because younger people are opening up the relationships. If you look at it, the mobile adoption, just to give you a sense, millennials are about 80-plus percent, Gen Xers are 72%, and boomers are 50% plus. So, it's across the board.

Q - Mike Mayo {BIO 1494617 <GO>}

That's helpful. Thank you.

Operator

Our next question comes from Glenn Schorr with Evercore. Please go ahead.

Q - Glenn Schorr {BIO 1881019 <GO>}

Thanks. So, the ROA and the ROTCE came in well above where I think a lot of us might have thought a few years ago. So, I know credit's going to pick up someday, but I heard you loud and clear that economy is good, credit you expect flat, expenses you expect flat, and you've seen some modest growth. All that points towards – while you shrink, the share count is a lot better, profitability, so I'm just looking for your thoughts around where are the balance of where ROA and ROTCE can go because we're in good and uncharted territory here.

A - Brian T. Moynihan {BIO 1517608 <GO>}

I'm not sure I'd agree – I agree with everything you said until the very last part, Glenn, when you said good and uncharted. I mean this is – the ROAs are solid and – if you think about it, 100 basis points plus 100 in the quarter, those are getting to numbers which are solid performance, the ROTCE. So, we had to – because of tax reform, those all moved up, we moved that up to higher levels now. And you're seeing us run at a rate which we'd expect to continue, with the economy growing a couple percent.

If the economy shrinks or something, that's a different question. But we sort of think that this model – all the things you cited in your opening to your question is the model, right, which is grow revenue a little fast than economy, keep the expenses flat, keep the credit risk in check, and drive that operating leverage and bring the share count down. So, you're saying what we're doing and I just – I'm not sure the returns will incrementally move up. There was a fundamental resetting obviously through, not only the operating performance, but the tax reform, but now they'll grind forward a little bit, but they'll be in that range, 14% 15% 16% return on tangible common equity and maybe move up higher than that on a given quarter, but I think we're in a solid place right now.

Q - Glenn Schorr {BIO 1881019 <GO>}

I appreciate it. Maybe one question on markets, FICC particularly, I'll overgeneralize there too. Spreads widen out and market does what it does. Volatility becomes bad for a little while when it happens quickly in fixed income, as we saw. I know it's early, but spreads have tightened, liquidity has improved, markets are dethawing. Directionally, can you recoup what was lost without putting numbers on it and if markets normalize? In other words, in the old days, the opposite would happen. Spreads tighten up and flows pick up and you could have great market environments. Like, has anything changed from the past?

A - Brian T. Moynihan {BIO 1517608 <GO>}

I think the simple way to put it, it's all of two weeks into the quarter or whatever is that it's – we've seen a normal progression that you see from the fourth quarter to first quarter and it's solid out there right now and the equities business is stronger as we referenced earlier. And all the theses you had are all pieces of it, but overall our trading revenue has been fairly consistent every year. It came about at every quarter and every year differently, but it's basically been 13-odd billion sort of year after year after year with a range, I think a total range of maybe $500 million, $600 million, $700 million just to give you a sense. I don't have the numbers right in front of me.

So, the model was a moving model. And so there's not a lot of markdowns, markup stuff which you would have seen more in 2008, 2009. All the stuff's marked to moving through at 100 miles an hour, there's no storage going on. So, we've seen a recovery in the activity of the clients. That's good news and you've probably seen it with your clients and that's been good. So, you've seen that pick up, but let's – we got to get through some things in the atmosphere out there and make sure that sustains for the quarter.

Q - Glenn Schorr {BIO 1881019 <GO>}

Okay. A tiny little follow-up on that is, is the average trading assets ticked up the last couple of years, I mean your capital base improved. You put up good results with VARs going down, while it's going. Is there anything in that pickup in the trading-related assets that was just year-end parking as opposed to just bigger...

A - Brian T. Moynihan {BIO 1517608 <GO>}

Yeah. Remember, the team in equities, Fab Gallo and team, they had to retool a lot of the platform, put a lot of technology. And about 24 months ago, Tom Montag and the team said they're ready to start really pushing our capabilities out in the market and as I said earlier, we got 70 new clients in the fourth quarter in the equities business. So, the balance sheet growth has been in support of the equities business. Remember, it's very low risk, a very low RWA, but that's been fairly consistent build over time. It'll ebb and flow a little bit by market values because of the way it works. But it's really because the equities business is – with the investments we made in technology and capabilities have now turned out into providing balance sheet capacity and capability as a prime brokerage business.

Q - Glenn Schorr {BIO 1881019 <GO>}

Perfect. Thank you.

Operator

We'll take our next question from Betsy Graseck with Morgan Stanley. Please go ahead.

A - Brian T. Moynihan {BIO 1517608 <GO>}

Good morning, Betsy.

Q - Betsy L. Graseck {BIO 4799503 <GO>}

Hi. Good morning. Hey, a couple of questions. One is just a question on how you expect to be managing in the event that the downside happens. So, what if some of the negative things pan out and revenues come in a little bit lighter? Can you talk through where you have expense leverage, if you have any, or do you keep the expenses flat in a tougher environment?

A - Brian T. Moynihan {BIO 1517608 <GO>}

I think assuming an environment of – the GDP decline is I think what the base of your question is, you would obviously probably see a market decline. That will bring incentive-related compensation down, that instantaneously happens. And frankly, if we're not earning as much, that's obviously an outcome and so there would be those types of things. We could always choose not to invest, but I think if you looked at what we're investing in and you'd say keep going, honestly as a shareholder, it would be a better answer for the company because the technology investments allow us to take long-term expenses down and things like that.

So there are always levers you can pull. But the business model we've been operating for many years now has been to constantly be pulling those levers with time that allows you to manage the company much more carefully and allows attrition to be your friend in terms of head count. But the key is to just keep driving that operating leverage. So if revenues flatten, you've got to get the expenses down a little bit to make it all work and keep it positive, and we're focused on it. So, let's see what happens. You have to have what the constituent parts of the backdrop are. But mechanically some of the expenses come down just due to pure revenue-related incentives.

Q - Betsy L. Graseck {BIO 4799503 <GO>}

Got it. So even if the revenue environment is a little weaker, you think you can generate positive operating leverage?

A - Brian T. Moynihan {BIO 1517608 <GO>}

We've been able to do it. And if you look go back and look at the chart on quarterly operating leverage, it has come in quarters where revenue fell. The key is, it may not be as big, in other words, the net operating leverage, but the culture we built in this company to operating excellence and simplify and improve and the idea generation, we went through 4,200 ideas over the last four or five years. We're continuing to generate them.

We're looking at every single process and taking it apart, mapping and understanding, understanding the data flows, how we can automate it, and it's very incremental. Those are not huge, spend $1 billion and see if it works. When you add them all up, we do spend $1 billion, but it's a bunch of small projects. So those will always be redounding to our benefit as we move through it. And so I think if you look at that operating leverage, yeah, if revenues were flat, just say, because of whatever is going on out there, we should be able to manage expenses underneath it.

Q - Betsy L. Graseck {BIO 4799503 <GO>}

And then could you speak a little bit to the investment spend that you're making in the investment bank, and in particular, in which geographies you're really looking to increase your market share?

A - Brian T. Moynihan {BIO 1517608 <GO>}

I think the U.S. being the biggest fee pool as people talk about it by far, we continue to do that. We feel pretty good about the team we have – in Asia we feel – Europe we're going to add some there, but the real key is to cover deeper in the client base. Outside the United States, we cover the largest companies in the world, the largest investors in the world. Inside the United States, because of the nature of our business, we cover from small businesses all the way through the largest companies. And the piece that we probably gave up coverage on it, we've got to go back in is the upper end of the middle market in a broader base.

And so we're adding resources, middle market investment bankers that work with Alastair Borthwick's team, on Matthew Koder's team, working with them to drive it. We're adding more coverage deeper in the industry groups. And so broadening out of the U.S. in North

America will be the biggest explicit build you'll see. But a lot of this is just filling in the cracks and making sure that we've got that coverage really owned in the United States from the smallest company, the largest company for all their capital markets needs and M&A needs. And then outside, it's really picking our industries and our fine-tuning which we've done.

Q - Betsy L. Graseck {BIO 4799503 <GO>}

Okay, thank you.

Operator

We'll take our next question from Steven Chubak with Wolfe Research. Please go ahead.

Q - Steven Chubak {BIO 18457976 <GO>}

Hi, good morning.

A - Brian T. Moynihan {BIO 1517608 <GO>}

Good morning.

Q - Steven Chubak {BIO 18457976 <GO>}

So I wanted to start off with a question on capital return. Capital ratios ended the year flat versus 4Q 2017. It stands at an impressive 11.6%. I think it's fair to say that you're currently operating with substantial levels of excess capital. And just given your strong track record and the stress test, as we look to benchmark against how much capital return you could support or what you're sufficiently comfortable with, you did 96%. I think it was the number that was cited in the prepared remarks. Are you in a position at this point, especially given some of the recent decline in the share price, to take full advantage and maybe exceed 100% payout in the coming stress test cycle?

A - Paul M. Donofrio {BIO 1533743 <GO>}

Okay. Look, let me just start off with a couple level-setting points. We've clearly, as everyone has seen, been growing our capital return to shareholders consistently for many years now, so that's one point. We increased our dividend 25% last year. We increased our buybacks by $8 billion. And last year, when you put that all together based upon what we submitted, we were at 100% payout – a little over 100% payout ratio.

If you look at our CCAR results, which you alluded to, we did have a significant cushion using the Fed's results. Considering, I guess, the severity of last year's scenario and, as you point out, our current capital cushion, we would hope, expect to have room to, at a minimum, sustain that payout ratio, if not increase it. But we've got to see the scenario first. That's the one caveat.

Q - Steven Chubak {BIO 18457976 <GO>}

Understood, and just one follow-up on some of the remarks relating to TLAC. Increased issuance of TLAC-eligible debt, while this is maybe an underappreciated fact, it's been a substantial dampener of NII expansion over the last few years. And, Paul, I was hoping you can update us on where that ratio sits today. I'm just trying to get – and whether there's a target level that you're thinking about. I'm just trying to gauge what the opportunity is to optimize that TLAC ratio, how we could think about the potential benefit from replacing that with cheaper deposit funding.

A - Paul M. Donofrio {BIO 1533743 <GO>}

We are not disclosing what our TLAC ratio is. But I will say that as we sit here today, we have a comfortable cushion. And as you also heard in my prepared remarks, the debt issuances this year are going to be – likely to be less than maturities.

Q - Steven Chubak {BIO 18457976 <GO>}

Okay, I'm looking forward to more updates in the future. Just one final follow-up for me on credit loss expectations. Brian, you made an interesting remark at a conference recently in December, noting that you expect through-the-cycle loss expectations to come in well below 90 basis points, but at the same time didn't really commit to an explicit level or expectation. And given the late-cycle rhetoric, the focus on – particularly from long-onlies with longer horizons as to what through-the-cycle loss expectations might be and all the balance sheet cleansing you've accomplished, I was wondering if you can maybe provide us with some sort of benchmark or target expectation that we can compare you guys against versus peers, just given many have provided at least medium-term or through-the-cycle loss expectations already.

A - Brian T. Moynihan {BIO 1517608 <GO>}

Earlier I said what I expected for 2019 charge-offs in the range of where they are now. The point that I think we were talking about at the conference is around the construction of the portfolio versus what they were last cycle for this cycle for us. We had $250 billion in unsecured consumer credit card and other types of unsecured debt. So just sheer volume, that is completely different, and that took frankly a lot of work to get us repositioned to where we have it.

So, just using that example and if you look at charge-offs, go back in 2010 I think they were 30-odd billion dollars in the year. And a big part of it was credit card and related unsecured debt, restructured credit card loans. That was due to the fact in the mid-2000s with the best data analytics, the best underwriting team in the business, we were underwriting with a 5% charge-off expectation in a good economy. And it turned out to be a bad economy and it turned out to be consumer-led problem and that led to much higher charge-offs. So, you can then run that same story through home equities and other things.

And so, if you look at the size of the consumer book, it's much smaller. Then you flip it over and talk about the quality of underwriting. So, now our expectations are 3.5%, 4% charge-off rate in a 7%, 8% unemployment type levels versus 5%, 6% before and moving on beyond there. So, you got both the rate and the volume question on home equity and in the unsecured consumer credit that is much different. And then, you go to mortgage, same story. Then you flip over into commercial credit, we've always had wonderful commercial credit experience.

Go back to 1990s – the late 1990s through the fallen angel crisis, go back through the last crisis and we underwrite commercial credit, I think, better than anybody in the business and yet we still have balance there and you see us – a ray of risk is across the board. We've managed the limits at an industry level, at a country level and all that stuff. And so, we expect the outcome to even be better than it was last time there and we watch the SNC and all the different things that give us that comfort.

But the real acid test is look at the stress test. And so, if you look at the stress test and say under that scenario with no preparation, no ability to change during the nine quarters, if you look at card, if I remember right off the top of my head, I think the total charge-offs for nine quarters are around, I don't know, 11%, 12%, something like that. If you de-annualize that, you think of that under that scenario if unemployment going from 4-ish to the pace it goes up, then you end up with about a 5% to 6% per year -5% per year. That just shows you the difference in the underlying quality, but it was a conscious effort to give up a lot of revenue to get the company more balanced, so that through a crisis it would perform completely different. All that I'm not going to give you a target, because I don't have a scenario, I'm giving that target if that will be much better than the last time.

Q - Steven Chubak {BIO 18457976 <GO>}

And despite no exclusive target, very helpful color. So, thank you, Brian, for taking my questions and all the insights.

Operator

Our next question is from Matt O'Connor with Deutsche Bank. Please go ahead.

Q - Matthew Derek O'Connor

Good morning. I was wondering if you could talk about just your thoughts on managing interest rate risk, given the drop in most parts of the curve, lowered expectations for future short hikes and then maybe specifically the securities book. Is it worth kind of reinvesting proceeds into securities? Or do you keep it shorter? Hoping for a backup in rates.

A - Paul M. Donofrio {BIO 1533743 <GO>}

So, first thing to think about as we look at that securities book, we're always, always, always balancing earnings against capital and liquidity. That dynamic process, that happens daily, certainly weekly. We don't take any credit risk in that investment portfolio. That's the other thing I always like to stress when we talk about it. So, we look at it and we're always sort of trying to figure out whether we should do a little bit more of this or a little bit less of that. If you looked at this quarter, by the way we did – we have a little bit less sitting at the Fed because we did some overnight very high quality reverse repo because the yields were just higher. So, yeah, we're looking at it. We look at it all the time.

Q - Matthew Derek O'Connor

And I guess from a NIM percent perspective, I realize there's some puts and takes specifically with the trading book. But in a stable rate environment, you did mention you can grow the net interest income dollars, can you get stability in the NIM? So, should we really think about it as net II being driven by the balance sheet, or is there some risk that the NIM arose a little bit in a stable rate environment?

A - Paul M. Donofrio {BIO 1533743 <GO>}

We look at it. If you look at Q1, I would expect NIM to edge up a little bit, driven by loan growth, funded by low-cost deposits. Longer term, NIM is really going to depend on the forward curve and our ability to lag deposit rate paid.

Q - Matthew Derek O'Connor

Okay. And then just separately if I could squeeze in, did you guys comment on the tax rate for 2019? Sorry if I missed that.

A - Paul M. Donofrio {BIO 1533743 <GO>}

I don't think we did actually. We're expecting an effective tax rate for 2019 of approximately 19%, absent unusual items.

Q - Matthew Derek O'Connor

Okay. Thank you.

Operator

Our next question is from Jim Mitchell with Buckingham Research. Please go ahead.

Q - James Mitchell {BIO 1972127 <GO>}

Hey, good morning.

A - Brian T. Moynihan {BIO 1517608 <GO>}

Good morning.

Q - James Mitchell {BIO 1972127 <GO>}

Maybe if you could just talk a little bit about leverage lending risk, how you think about it, how you manage it. Obviously, that's been a big topic lately given the freezing of the markets in December, in particular. Just your thoughts, I guess, from here around your own book and maybe the industry.

A - Paul M. Donofrio {BIO 1533743 <GO>}

Sure. So, the first thing I would say is, look, we're staying focused and have been focused on responsible growth. So, we're maintaining our underwriting standards and we're staying within and have now for years stayed within our portfolio limits. Our exposure to leverage lending is primarily through underwriting and distributing leverage loans. We have very little, for example, CLO exposure at the company because as I just pointed out, we don't hold that kind of risk in our investment portfolio.

Having said that, leveraged finance is a very important part of our franchise and if it's done well, it supports economic growth. Our leveraged finance franchise does well over $1 billion. So, nothing's really changed for us. If you're going to be in this business, if you're going to be a leader in this business as we are, you've got to be there when the market's good and when the market's not and we are, but we're doing it our way, sticking to our standards.

Q - James Mitchell {BIO 1972127 <GO>}

How do you manage sort of size giving – just any thoughts and have you sort of taken down the amount you're willing to put on the balance sheet, at least, in the short term. Or how do we think about how you manage today versus what you did a year ago?

A - Brian T. Moynihan {BIO 1517608 <GO>}

As I said earlier in a response to an earlier question, we're in the moving business, not the storage business as the risks go. So we have limits for the transitory process of doing the underwritings. So, we market and move them out and it's gone. And so, this is not how much – as Paul said, we don't – we make lots of commercial credit available to our clients, but in the underwriting part of the business which is what you're talking about, it all goes out the door. It's not a whole business.

Q - James Mitchell {BIO 1972127 <GO>}

Right, that's helpful. And maybe just a question on CECL, any thoughts on the impact and I guess given some of the pushback, do you see any parts of it changing? Just your thoughts on CECL.

A - Paul M. Donofrio {BIO 1533743 <GO>}

Sure. So in terms of the impact, we're not at the point yet where we're providing an estimate. We have made a ton of progress on our efforts towards adoption. However, there's still a lot of things needing to be finalized before we're really ready to talk about impacts. I would point out that we're not overly concerned at this point and it certainly is not going to change how we're going to serve our clients. Having said that, we may see an increase in allowance upon adoption, maybe, maybe not. It's ultimately just going to depend on the economic outlook and credit conditions as of the adoption date in 01/01/2020.

The only other issue out there is sort of the double count in CCAR and how it's going to affect capital. And with respect to that, I think the regulators and us are thinking about a lot of things, but the only two I would point out is we just need to understand the implications on capital and how it affects the willingness of banks to extend credit. As I said before, I don't think it's going to change how we operate our company.

If CECL is in the company run stress test, but not in the Fed's, what are the implications of that? There are still a lot of things to work out here between now. And I think that's why they delayed the implementation of CECL in the stress test until 2022. Yeah, 2022, I think. Yeah.

Q - James Mitchell {BIO 1972127 <GO>}

Okay, great. Thanks for your thoughts.

Operator

Our next question is from Saul Martinez with UBS. Please go ahead.

Q - Saul Martinez {BIO 5811266 <GO>}

Hi. Good morning, everybody. Most of my questions have been asked. But I'll just follow up, I guess, on the earlier question on your – what a Fed pause would mean for your NIM and I think you mentioned, Paul, that it really depends on the forward curve and the ability to lag on deposit rates. But I guess on that point, how much of a risk do you see of a lagged effect on deposits rates, specifically on retail deposit rates, which really haven't moved much in this rate tightening cycle. How much of a risk do you see that in an environment where we pause, the economy is still doing okay that we do see sort of a lagged effect and you start to see some – a bit more deposit cost pressure on the retail side than maybe we've seen up until now?

A - Brian T. Moynihan {BIO 1517608 <GO>}

So think about it, I think if I got it right, it was two Fed rates three years ago, three two years ago, and four last year, something like that. So, if you just sort of noodle in, look at the different movement from the end of 2017 to the end of 2018 given – and think of it as a live basis, think that what was embedded in it, there isn't a lot of movement because they're checking accounts and checking accounts never have high interest rates on them and then half of them are noninterest-bearing. So, they don't have any or interest rate on them.

So, I think it really comes down to who the customer is, how they use the cash or is it transactional cash, is it investment cash, is it short term or long term and each business line is different. But in the Consumer business, what is driving our deposit growth is a $20 billion from fourth quarter 2017 to fourth quarter 2018 in checking balance growth, which always be tremendously advantaged from the perspective you're coming at which is a funding basis. And as they grow, we don't feel – there's not a lot of pressure because half of it's noninterest-bearing accounts.

I mean it's not a – you can just go back and look at the pricing across time and these businesses and see what's happened if you sort of look at it and I think you'll feel that we should be able to consistently drive that. In the rate sensitive side, i.e. where it's investment cash, the rates have moved up substantially already and we're growing those balances. So, we tell our team to price to grow deposits 3%, 4%, i.e., better than the economy and they've got to achieve that balance and they've done a great job.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. That's helpful. I guess on the – you may also – just another question. You made the point that the equity market downturn in December will hit these in the first quarter and we can obviously do our own calculations and look at the role forward and the asset values. But is there any way to sort of size up what the magnitude of the downturn in the fourth quarter, the markets could mean for fees in that business?

A - Paul M. Donofrio {BIO 1533743 <GO>}

Look it's a good question. I wouldn't or hesitate to give you a number because the revenue is based upon a lot of different things besides just what the level of the markets are. I think it kind of be misleading to come up with a number just based upon the markets to everybody on this call. So, maybe if you call back in, Lee and his team can help you think through what the issues are more broadly, but we're not going to give a number today.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. And that is fair enough. Thanks a lot. Appreciate it.

A - Lee McEntire {BIO 6651246 <GO>}

Okay. I think that's all – do we have one more question?

Operator

Yes. We do have one final question from Brian Kleinhanzl. Please go ahead. Your line is open.

Q - Brian Kleinhanzl {BIO 15228405 <GO>}

Great. Thanks for taking the questions. Yeah, I hear you on the net charge-off guidance for 2019 relative to 2018, but how are you thinking about reserve builds? I mean reserve releases were $500 million this quarter. Are you still thinking about you're able to release reserves at that pace next year as well?

A - Paul M. Donofrio {BIO 1533743 <GO>}

Yeah, look, we think – just to run through it for everybody, we think that provision – we think credit is going to continue to perform well, hopefully everybody heard that on the call. And we would expect provision to roughly match net charge-offs depending on loan growth. You heard us talk about what we're expecting for net charge-offs. The releases are coming down. You saw there $19 million this quarter. You're going to see our provision much more closely match net charge-offs going forward because we've seen a lot of improvement in that consumer real estate portfolio. So, that's the best guidance I can give you.

Q - Brian Kleinhanzl {BIO 15228405 <GO>}

Okay. And then just one follow-up still on credit, I mean you've seen kind of the commercial NPLs pick up this quarter and it's been a pretty steady downward trend. Even though since 2016, is it just because of the market conditions or can you give a little bit more color there as to why the uptick in this quarter? Thanks.

A - Paul M. Donofrio {BIO 1533743 <GO>}

Yeah, sure. Look, at 22 basis points, NPLs as a percentage of loans is basically at an historic low here. There was an increase in the quarter driven by a couple or a few names that were downgraded. If you look at reserve, we'll criticize exposure; it continued to fall in the quarter. So, again, we don't see anything suggesting a broad-based decline in the overall credit quality.

Q - Brian Kleinhanzl {BIO 15228405 <GO>}

Okay, thanks for taking the questions.

A - Brian T. Moynihan {BIO 1517608 <GO>}

Okay. I think that's all the questions. So, thank you for joining us again. We had a strong solid quarter and 2018 was a strong year for this company with record earnings. As we look forward in 2019, as I said earlier, the predictions of potential slowdown in the economy don't enervate us, they invigorate us. We built this company to operate in that setting. We'll continue to drive responsible growth and we look forward to talking to you next quarter.

Operator

And this will conclude today's program. Thanks for your participation. You may now disconnect and have a great day.