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Q3 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
- Gerard Cassidy, Analyst
- Glenn Schorr, Analyst
- James Mitchell, Analyst
- John Eamon McDonald, Analyst
- Marty Mosby, Analyst
- Matthew O'Connor, Analyst
- Mike Mayo, Analyst
- Saul Martinez, Analyst
- Steven Chubak, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, everyone, and welcome to today's Bank of America Earnings Announcement. At this time, all participants are in a listen-only mode. Later you will 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.

Lee McEntire {BIO 6651246 <GO>}

Good morning. Thanks for joining this morning's call to review our 3Q 2018 results. By now, I hope everybody's had a chance to review the earnings release documents on the Investor Relations section of bankofamerica.com website.

Before I turn the call over to our CEO Brian Moynihan let me just 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 third quarter results. We'll then open up for questions.

For further information on our forward-looking comments, 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>}

Yeah. Thank you, Lee. And good morning, everyone, and thank you for joining us to review our third quarter results. This is another quarter in which Bank of America delivered on the core tenets of our shareholder model. On a year-over-year basis, we grew revenue a little better than GDP. We grew loans in our core business on a same basis and deposits along those same lines.

We managed expenses well. In fact, our expenses were down year-over-year by 2%. And we continue to manage risk well. We've reached decade lows in credit costs. This allowed us to grow our earnings nicely. Our pre-tax is up 18%, and we returned virtually all those earnings to you, our shareholders. And this capital returned allowed us to reduce our share count by over 5% year-over-year and grow EPS faster than earnings.

So beginning on slide 2. During the third quarter, our 200,000 plus teammates did a great job for you, our shareholders. They drove $9 billion of pre-tax earnings. This is the highest quarter in the company's history. And we grew pre-tax by 18% over the third quarter of 2017.

Our operating model continues to deliver. In each of the past 11 quarters, we have grown pre-tax earnings compared to the year-ago period and done so by an average of 15%. We are in an operating environment that has a strong growing U.S. economy, low unemployment, growing wage growth and strong consumer spending levels. Client engagement, optimism and activity remains good.

For the quarter, net income was $7.2 billion after tax, an increase of 32% over last year. EPS was $0.66, up 43%. Our return on tangible common equity was 15.5%, improving 450 basis points over last year. Our return on assets reached 1.23% this quarter. Driving that year-over-year improvement was 4% revenue growth. Net interest income led the way here, with 6% growth year-over-year. The value of our deposit franchise is showing both in our NII and our net interest yield improvement, and Paul's going to take you through the details on that later.

Our balance sheet from both the capital and liquidity standpoint remains very strong, allowing us to pay $4 billion in common dividends year-to-date and spent $15 billion to reduce our share count in the same period. $6.5 billion of that $19 billion of the year-to-date return came this quarter. On a diluted basis, average shares declined 5% from last year. We now reduced our average diluted shares by 1.4 billion from their peak, and outstanding shares fell below a $10 billion mark this quarter, which is below the level we started at with this management team in 2010.

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The teams continue to demonstrate good organic responsible growth this quarter. Year-over-year, we grew loans, on average, by more than 3% across the business segments. Our commercial loan growth, as you've seen in the market, moderated a bit this quarter, but keep in mind that many companies came into the year flushed with cash. They continue to make good money and they also have cash they're repatriating. And lastly, they continue to benefit from tax saving and they're using that to keep their debt levels in check.

We believe this liquidity position should change as the economy continues to grow and expand as the need for capital expenditure continues to rise. In addition, we grew deposits, on average, 4% year-over-year. This marks the 12th straight quarter we have grown average deposits by $40 billion on a year-over-year basis. This growth illustrates our strong competitive position. Of the $40 billion, consumer checking contributed $25 billion in those balance growth (04:52) as it grew over 8% year-over-year.

The $350 billion of those checking balances have grown every quarter since 2012 or up 9% on a compounded growth rate since that time. In addition, Global Banking deposits grew nicely as well and wealth management continue to stabilize. We grew credit cards and checking accounts. We broke the $200 billion asset mark in Merrill Edge online brokerage platform. We've now doubled those assets twice in the past eight years with plenty of room ahead for future growth.

Overall, our client balances within our wealth management business, the best business there is in the world, exceeded $2.8 trillion. Annualized net household growth for Merrill Edge is up nearly four times from last year as advisors win more accounts. In addition, we grew small business clients and balances. Small business originations, key to supporting those communities we serve this quarter were $2 billion, up 9% from last year, and we continue to acquire new commercial banking clients. So we're optimistic as we continue to add more customers and deepen existing relationships.

With respect to credit risk, here too, we maintained our strong credit culture and, yes, we grew responsibly. Net charge-offs and ratios declined from second quarter levels as did nearly every key asset quality metric. Many factors in addition to our disciplined underwriting standards continue to contribute to success here. Our cost with expenses this quarter at $13.07 billion, our trailing four quarters expense equals $53.5 billion.

We achieved this run rate while making investments for shared success, the name we have for our tax reform grants of cash and stock to over 90% of our employees, increased investments in technology, increased investments in infrastructure, increased investments in relationship managers and physical (06:40) plan.

Since we declared in the second quarter 2016 that we would see a $53 billion-ish run rate in 2018, we have now achieved it. At first, some of you were skeptical of that but we're here, and I have some good news, we'll stay here. As we developed our plans for 2019 and 2020, we reaffirm that our expenses will continue to be in line with the trailing four quarter $53.5 billion number. This takes great discipline and strong execution by our teammates. Our team's ability to invest heavily while driving expense improvements is a

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tribute to this innovation and discipline. This discipline, combined with great customer work, produces operating leverage.

As you go to slide 3, in 2015 and 2016, some of you also questioned whether we could drive operating leverage, were the expenses attributable to runoff activities or were they not generating enough revenue? Well, we have done it again. This quarter marks the 15th consecutive quarter of operating leverage. Every quarter since the beginning of 2015, and you can see this on slide 3, where the 700 basis points of operating leverage is in this quarter.

Revenue was up 4% and expenses were down more than 2%. The efficiency ratio fell to 57%, a 400 basis point improvement from last year. The work the teams are driving is delivering productivity savings that are paying for investments in (08:01) our franchise at unprecedented levels and offsetting merit and other inflationary cost to hold underlying cost steady.

As we've driven that operating leverage, a question which also get asks is are we investing enough in our franchise. We are long-term managers with a short-term focus. That is what we call driving sustainable responsible growth. Yes, discipline on expenses can be coeval with investment.

On slide 4, you can see a sampling of investments made in the franchise, not only in technology, which tends to get all the publicity, but also investments made in our people, in our physical footprint and infrastructure. The point here is while we have driven our cost base lower every year for the past eight years, we have been constantly investing in the future of the franchise and we've listed some of these here.

On technology alone, since 2012, we invested roughly $20 billion in new initiative spending alone. That's a $3 billion a year pace or nearly a third of our current annual technology and operation budget. These consistent investments allowed us to replace almost every major platform the company operates and now add new and exciting platforms for growth at the same time.

In addition, we have reduced data centers, migrating two-thirds of our applications to our internal cloud. We rolled out digital capabilities across our lending consumer online platform. We rolled out Erica, our digital assistant; our digital mortgage; our digital auto and on and on. In our wealth management business, we are rolling out a sleeker Merrill Lynch digital platform with more integration between banking and investing along with adding industry-leading capabilities on market data, enhanced document scanning and texting capabilities between our advisors and our clients.

In Global Banking, we enabled additional CashPro digital capabilities, giving CFOs and treasurers more mobile capabilities and insights to see to move cash at their (09:47) companies just as our consumers do. Uses and adoption continues at a steady pace and we're investing heavily in our capabilities in funding for both domestic and international treasury services.

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In international, we have not only invested expense dollars, we've invested in balance sheet, driving outstanding loans from $30 billion in 2010 to nearly $100 billion today. In markets, we upgraded our systems and are allowing faster execution for our customers with enhanced reporting and other capabilities, again to take advantage of our investment not only in expense dollars, but also in our prime brokerage balance sheet and risk deployment.

Across the firm, we continue to use robotics and other automated processes to replace repetitive and office work, driving operational excellence. And at the same time, we've been investing in our financial center network and other infrastructure. Over the last three years, we've added 103 brand new financial centers with improved layouts and technology capabilities for customers. This included entering four new markets so far and five more to come where our retail footprint didn't exist, but the rest of our (10:48) franchise was well established. In that case, we have an installed customer base already and we can serve them more broadly.

We also have announced plans to open several hundred more branches across the entire franchise over the next few years. As well as opening new branches, we have renovated 700 financial centers over the past couple of years and have another 1,200 planned in the couple years ahead. So we've finished upgrading nearly every ATM.

With regards to our people, we adopted a starting wage of $15 an hour in February of 2017. We increased our paid parental leave to 16 weeks for both parents and 40% of those taking that are males. We've increased our bereavement period. We've invested heavily in learning and development program called The Academy, a tangible investment that creates (11:30) over 40,000 teammates to better drive engagement, stability and productivity of workforce.

We have a new Pathways program hiring in local neighborhoods and communities we serve to draw on a diverse employee basis. So far this year, we've hired 2,000 people from those communities. And across every line of business, we are hiring client-facing professionals: more relationship managers, more Merrill Edge advisors, more Merrill Lynch financial advisors, more U.S. Trust advisors, more small business bankers, more business bankers, more commercial bankers, more middle-market investment bankers and more corporate bankers and so on.

We're using our resources to invest in the future of the franchise, the people who work here, the tools we use to serve our clients, the capabilities our clients value and the communities we live in. All the while, we continue to reduce expenses. All the while, we continue to produce operating leverage. All the while, we improve the customer experience and brand scores, and our risk remains under control, and that's what we call driving responsible growth.

With that, I'll turn it over to Paul.

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Paul M. Donofrio {BIO 1533743 <GO>}

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Good morning, everyone. I'm starting on slide 5. Bank of America reported net income of $7.2 billion or $0.66 per diluted share. Net income was up 32% from Q3 2017 and EPS grew 43%. Growth was strong even if you adjust for a lower tax rate from the Tax Act.

Year-over-year, pre-tax income, as Brian noted, reached a record $9 billion, up 18%. Once again, our year-over-year earnings growth was driven by strong operating leverage and strong asset quality. The 4% improvement in revenue was driven by NII improvement. And with expenses down more than 2%, we drove 700 basis points of operating leverage.

Provision expense was $118 million lower than Q3 2017. NPLs, reservable criticized exposure and delinquencies, all declined, while net charge-offs were up $32 million year-over-year, mostly from the seasoning of our credit card portfolio and loan growth. The effective tax rate for the quarter was a little more than 20%. The tax rate in Q4 should be marginally higher absent unusual items.

Turning to the balance sheet on slide 6. Overall, compared to the end of Q2, deposit growth of $36 billion drove an increase in assets of $47 billion. The deposits were invested in cash and investments as well as reverse repo.

Liquidity remained strong with average global liquidity sources of $537 billion and a liquidity coverage ratio of 120%. Total shareholders' equity decreased $2.1 billion from Q2. We returned 96% of net income available to common, through a combination of dividends and share repurchases.

Common equity was driven lower by $1.5 billion reduction in AOCI from the impact of higher long-end rates on the value of our AFS debt securities. Preferred stock declined as redemptions of some higher yielding issuances caught up with the new preferreds we issued in the first half at lower yields.

Turning to regulatory metrics. Our CET1 standardized ratio was stable with Q2 at 11.4% and remains well above our 9.5% minimum. The small decline in capital driven by OCI that I just mentioned was offset by a small improvement and risk-weighted assets. The supplementary leverage ratio remains well above U.S. regulatory minimums.

Looking at deposits on slide 7, overall, average deposits grew 4% year-over-year. We thought it would be helpful to show deposit growth in a little more detail this quarter. A few takeaways that I want to note. First, in total, average deposits have grown $157 billion or a CAGR of 4% over the past three years. That's an average of $50 billion per year. Secondly, June was down a little over that time period, consistent with other wealth managers for all the reasons that we reviewed in the past quarters around deposit alternatives.

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Third, Global Banking continues to grow well, up 4% annually since 2015, reflecting the investments we've made in our Global Treasury Services capabilities. Also, within Global Banking, in addition to the growth, note the rotation from non-interest-bearing to interest-bearing deposits.

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But what I really want to draw your attention to is Consumer Banking growth in the upper right. Overall, consumer deposits have grown at a CAGR of 7%. But within consumer deposits, focus on the accounts that our customers use to transact every day. These transactional accounts, i.e., consumer non-interest-bearing and low interest checking accounts, are the most valuable types of accounts.

And these two account categories combined have grown every quarter since 201, and just since 2015 as shown here have grown at a compounded annual rate of 9%. We believe this pace of growth and the aggregate level of these account categories is demonstrably better than the market. This leadership reflects the value customers see in not only our deposit capabilities but also their total relationship with us including preferred relationship rewards, simple transparent products, lower service charges, improved customer service, enhanced mobile capabilities and improved physical centers.

Turning to slide 8. Total loans on an average basis were $931 billion. Total loan growth continued to be impacted by the runoff and sales of non-core consumer real estate loans. In addition to the typical runoff near the end of this quarter, we sold a portfolio of non-core consumer real estate loans with a book value of $3.7 billion, recording a small gain.

Focusing on loans in our business segments, they were up $29 billion or 3% year-over-year. Our consumer loans grew 5% year-over-year as mortgage originations grew across both Consumer Banking and wealth management and clients grew card balances 3%. Commercial loans grew 2% year-over-year. While up year-over-year, we did experience a slowdown this quarter in commercial loans.

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As Brian mentioned, competition for commercial loans remains intense. Accommodating capital markets are a receptive alternative to bank loans. Non-bank lenders have likely increased their market share, and companies remain flushed with cash and are generating solid earnings. Having said that, our dollar declines continues to be robust and the economy continues to grow which bodes well for continued loan growth.

Turning to asset quality on slide nine. Asset quality continued to perform very well. Total net charge-offs were $932 million or 40 basis points of average loans. Net charge-offs were up $32 million from a year ago as we saw expected seasoning and balanced growth in credit card.

Compared to Q2 2018, losses were lower by $64 million as Q2 included seasonally higher losses in credit card and some modest 2017 storm-related losses. Provision expense included a $216 million net reserve release, reflecting improvement in our consumer real estate and energy portfolios as well as other more broad-based commercial improvements.

Turning to slide 10. We break out credit quality metrics on both our consumer and commercial portfolios. As you can see, the year-over-year change in the net charge-offs was mainly a consumer card story, while commercial was down modestly. And as Brian mentioned, note the improvement in almost every other asset quality metric.

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Okay. Turning to slide 11. Net interest income on a GAAP non-FTE basis was $11.9 billion, $12 billion on an FTE basis. Compared to Q3 2017, GAAP NII was up $710 million or 6%. The benefits of higher interest rates as well as loan deposit growth was modestly offset by higher funding costs in Global Markets.

On a linked-quarter basis, GAAP NII was up $220 million. Higher interest rates and deposit growth also drove the linked-quarter improvement aided by an additional day of interest. Net interest yield improved 6 basis points year-over-year and 4 basis points linked-quarter.

Note that we have presented net interest yield excluding our Global Markets segment, which primarily reflects our trading related assets, so that you can see more transparency into our banking activities. On this adjusted basis, NII is up $850 million year-over-year and the net interest yield is up 13 basis points driven by a broad improvement in asset yields relative to funding costs.

With respect to deposit pricing, we continue to see a slow upward movement in rate paid and total interest-bearing deposits. Average rate paid on interest-bearing deposits rose 12 basis points from Q2 and is up 44 basis points versus Q4 2015, which was the beginning of this Fed rate hike cycle.

Turning to asset sensitivity. As of 9/30, an instantaneous 100 basis point parallel increase in rates above the forward yield curve is estimated to increase NII by $2.9 billion over the subsequent 12 months. Note that the short end represents a little more than 75% of this sensitivity.

Turning to slide 12. We had another solid quarter of expense management. Non-interest expense of $13.1 billion was down $327 million or 2% year-over-year. For four years now, our teams have driven expenses lower every quarter on a year-over-year basis with only one exception, our efficiency ratio of 57% improving 400 basis points from Q3 2017.

The expense discipline was fairly broad-based across personnel, marketing, litigation and other general operating costs. Our head count fell more than 5,000 from last year despite adding client-facing associates in several businesses. And I would emphasize that we achieved this reduction even as we increased our investment in technology, in new financial centers and in our people as Brian mentioned earlier. In fact, if you recall, Brian mentioned last quarter that we increased our budget for new initiative spending starting this quarter by $75 million per quarter through the end of 2019.

Turning to the business segments and starting with Consumer Banking on slide 13, another outstanding quarter for this segment. As client balances grew, revenues increased and expenses were down. This quarter earnings grew 49% to $3.1 billion, marking the 13th consecutive quarter that earnings in Consumer Banking have increased year-over-year. With 4% year-over-year deposit growth and 8% increase in consumer payments, we believe we are gaining share and deepening relationships.

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Consumer Banking created nearly 1,000 basis points of operating leverage this quarter, as revenue grew 7% while expenses were down 2%. Engagement with customers was strong. Year-over-year, average loans grew 6% and average deposits grew 4%.

Primary accounts have now grown to 91% of all deposit accounts. And Merrill Edge brokerage assets grew 22%, surpassing $200 billion. The cost of running the business continues its decline as the cost of deposits fell to 152 basis points, while the rate paid remained low at 6 basis points.

The efficiency ratio dropped to 46% in the quarter, improving more than 450 basis points in the past 12 months. Provision expense decreased from Q3 2017, due mostly to a smaller reserve build in credit card. And net charge-off ratio remained low at 119 basis points, up only 1 basis point from Q3 2017.

Turning to slide 14 and key trends. I would make just a few points here. We believe relationship deepening is driving improvement in revenue, predominantly NII. This quarter, year-over-year revenue growth was 7%, included a 10% growth in NII as well as modestly higher revenue and card income and service charges.

Customer satisfaction in Consumer Banking reached a new high with more than 80% of our clients rating us 9 or 10 on a 10-point scale. This improvement in customer satisfaction is clearly an important factor, driving the strong growth in customer balances I mentioned a moment ago. And we are achieving this growth while lowering expenses.

This quarter, productivity improvements more than offset the continued investment in technology and financial center renovations and in our sales staff. Brian already reviewed our past activity with respect to the significant investments in both new and modernized financial centers. I would just add that this quarter, we opened nine new centers and renovated another 96.

Turning to digital trends on slide 15, a few highlights. As you can see, we continue to grow mobile users which were up 10% year-over-year. And while total payments were up more than 8% year-over-year, digital payments were up 14%. And by the way, annualizing payment volume equates to $2.8 trillion of payments by Bank of America customers.

Within that, Bank of America has now surpassed $4 million Zelle users that process $12 billion of payments in the quarter. Mobile and ATM now account for more than three-quarters of deposit transactions. And lastly, mobile with all its benefits for both our customers and our shareholders is now approaching half of all digital sales.

Turning to Global Wealth and Investment Management on slide 16. GWIM produced another quarter of strong results, earning net income of more than $1 billion, which was the second highest quarter ever for this segment. Earnings were up 31%, and pre-tax income was up 10%. The pre-tax margin improved to 28%. The business created more than 200 basis points of operating leverage, growing revenue 4%, while holding expense growth to 1%. Strong client activity and a healthy equity market coupled with solid expense management, all benefited results.

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We were asking Merrill Lynch advisors to improve organic growth, and we embedded incentives in our 2018 compensation program to drive responsible organic household growth. Advisors have responded positively, and we have seen year-to-date net households on an annualized basis grow four times faster than 2017. With respect to U.S. Trust, we're also seeing good results. Like Merrill, U.S. Trust has grown advisors and households.

Moving to slide 17. Trends reflect solid overall client engagement in Merrill Lynch and U.S. Trust. Our local market strategy, led by 93 market presidents, is helping to better integrate our lines of business and deepen relationships, especially in wealth management. Competitive advisor attrition remains near historic lows.

Year-over-year, client balances rose to record levels of more than $2.8 trillion driven by higher market values, solid AUM flows and continued loan growth. AUM balances, which have climbed to over $1.1 trillion, are up $108 billion versus Q3 2017, with flows contributing $61 billion of that increase.

Average loans of $162 billion grew 5% year-over-year, with continued strength in consumer real estate and custom lending. Year-over-year revenue growth of 4% was led by a 9% increase in asset management fees and modestly higher NII, partially offset by lower transactional revenue.

Turning to slide 18. Global Banking earned slightly less than $2 billion and generated a 19% return on allocated capital. Earnings were up 13% from Q3 2017. Revenue and pre-tax earnings were both down 5% year-over-year. Growth in NII was partially offset by a decline in investment banking fees and the impact of the Tax Act with respect to tax-advantaged investment.

Note this impact on tax-advantaged investments affects our segment reporting, but has no effect on the company's consolidated results. Expenses were held flat versus Q3 2017 despite our continued investment in the business, including the addition of sales professionals to enhance local market coverage.

Looking at trends on slide 19 and comparing to Q3 last year. At 2% year-over-year, growth in average loans moderated this quarter, while deposits grew 7%. We believe both have been impacted by repatriation of cash. Second quarter data was recently released on repatriation of overseas earnings through dividends and withdrawals. That data shows that repatriation in the first half of 2018 exceeded the prior two years combined.

IB fees of $1.2 billion for the overall firm declined 18% year-over-year. For context, note that the overall industry fee pool declined 16% from last year. A decline in advisory fees this quarter was driven by a decrease in our announced volumes over the past couple of quarters. Our pipeline today reflects some pickup in our share of announced transactions since then.

Leveraged financed underwriting was another area where we experienced a decline that was a bit more than the industry fee pools as we maintained our focus on the less highly

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levered deals amid a slowdown in client activity. The bright spot of the quarter was a significant increase in equity underwriting fees.

Switching to Global Markets on slide 20, I will talk about the results, excluding DVA. Global Markets grew earnings by 28% year-over-year to just under $1 billion, producing a solid return on allocated capital of 11%. Revenue was stable compared to Q3 2017, while expenses declined 4%.

Within revenue, a decline in sales and trading was offset by a gain on the sale of an equity investment and a trading platform. Sales and trading declined 3% year-over-year to $3.1 billion. FICC declined 5%, while equities grew 3%. The lower FICC sales and trading performance was driven by lower client activity in rates and a weaker environment in municipal bonds. On the other hand, equities benefited from increased client financing activity, reflecting investments made in the business over the past 18 months. Equity derivatives also performed better and was offset by weaker performance in cash.

On slide 21, I would just point out the chart on the bottom left, which shows the relative stability of sales and trading revenue across the past three years on a year-to-date basis. It also shows the stability and benefit that comes with diversity as growth in equity revenue has made up for the decline in FICC revenue.

On slide 22, we show All Other, which reported net income of $144 million. This is an improvement from Q3 2017 of $90 million. Revenue improvement includes a small gain mentioned earlier on the sale of a non-core portfolio and lower reps and warranty expense. Otherwise, the net impact of lower expense and less provision benefit were offset by less income tax benefit from applying a lower tax rate to a smaller pre-tax loss in the current period.

Okay. With that, let's open it up to Q&A.

Q&A

Operator

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

Q - Steven Chubak {BIO 18457976 <GO>}

Hi. Good morning. So I was hoping to maybe start off, Brian, with just a question on the investment banking strategy. There's been a lot of focus in the press on some of the senior personnel changes at the investment bank, whether your lack of risk appetite may have negatively impacted revenue growth. And was just hoping you can maybe set the record straight, give us your own perspective on BAC's performance relative to the peer set across those businesses, and maybe how you're planning on striking out right balance between responsible growth, while maintaining that commitment to risk-adjusted returns.

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

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So I think the – Paul actually can speak to this too because he was a leader in that business, but the team did a good job across the last several years of repositioning us after the crisis. Tom Montag has brought in a new leader to help carry us to the next level as we look forward. We know we can get our fair share out of that business. We've got to keep it balanced both domestically and internationally across the platform and make sure we are doing a great job in the United States because of, A, the size of the business and, B, our competitive position with our middle-market business.

And then on the other hand, we've invested heavily to support the Global Banking business including investment banking and that business earned $2 billion after tax and we've increased the commitments in that business, internationally, as I said earlier from $30 billion, round numbers, after the crisis to almost $100 billion today. So we can do better and we'll just keep pushing our way at it (35:48). It's $1 billion and change of revenue, and a lot of it was driven by the M&A environment where we didn't get our fair share, but the key is to maintain our dominance in debt underwriting and things like that which we've got to make sure we do. Paul?

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

Look, I'm not sure what else to add. I would just say, look, if you look at where we kind of underperformed this quarter, it was in M&A and a little bit in leveraged and finance. In M&A, our market share declined a bit this quarter. You kind of saw that in the announced transactions if you go back a quarter or two. Some of our clients we're in, some of those deals that our clients just didn't win or our client was not involved or perhaps we didn't even get chosen in some of those deals.

But if you look at announced transactions since then, I think you can see that we rebounded a bit. In leveraged finance, you all have written about this quite a bit that regulatory guidance is out there impacting underwriting and leveraged finance in our U.S. banks, you've got non-bank entries. At the same time, we've got terms and structures that are getting a little bit more risky, so we are staying focused on responsible growth. We're not chasing the market. We want to make sure we're able to service our customers and clients through the cycle.

So I mean, that's how I think about the areas where this quarter we underperformed a little bit. To Brian's point, having said all that, I think we know we can do better. I did come from investment banking. I know they had built a great business with great bankers and we have one of the best platforms on the planet. There's very few banks that can do for clients what we can do for them in every major market around the world. So from my perspective, this is just about renewing our focus, reenergizing the teams. There is really no reason we can't execute on this opportunity.

Q - Steven Chubak {BIO 18457976 <GO>}

Extremely helpful color, so I appreciate remarks from both of you. Just one follow-up for me and I'll head back in the queue, on loan growth. You talked in the past about mid-single-digit loan growth being a sustainable target for the core businesses. It's been a very steady trend that we've seen over the last few quarters. The commercial side did slow down a bit. I know you had alluded to that. I'm just wondering whether you're still

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committed to delivering that mid-single-digit loan growth and whether that's just sustainable target from here in your view.

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

Yes. I think we're still committed to doing that. You can see as you referenced, Steven, in slide eight, you can see the commercial slowed down a little bit in the last section, but the key, the Consumer and the GWIM business continues to grow well. We expect to be in the mid-single digits. The big debate is if the economy slowed down a little bit from the current growth rate next year as many people projected – if it goes in a recession, that changes the picture obviously.

But if it just slows down, remember that in economy that grew 2% plus or minus for many years – we after the recovery kind of settled in – you can see on page eight, you can see that in earlier things, we grew loans in mid-single digit, so we're comfortable in the 2% growth economy, we can continue to do that.

Q - Steven Chubak {BIO 18457976 <GO>}

That's perfect. Thanks very much for taking my questions.

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

Sure.

Operator

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

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

Hi. Good morning.

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

Good morning.

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

Good morning.

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

Good morning. Hi. I had two questions. One just on deposits. I know that you spent quite a bit of time going through on page 7, the growth rates there. Could you give us a little bit of color around how you're driving that increase in deposit growth, given that your deposit yields are not the highest on the Street? You've got a very efficient deposit franchise. So just wanted to dig into that. As well as on the Global Banking side, the increase in deposits, would you deem this to be operating or non-operating? Just wondering.

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

So on the Global Banking side, these are operating deposits that we're growing. We're very focused on growing operating deposits, and we have very few – 100% were off LCR deposit products. There has been a shift between non-interest-bearing to interest-bearing, but they're still operating deposits.

In terms of how we're growing deposits, across the franchise with as little deposit rate paid growth that we're seeing, well, first of all, we are growing, we are increasing deposit rates paid in GWIM and Global Banking. We and the industry have not increased deposit rates appreciably in traditional sort of consumer bank accounts.

I think the reason for that is because Bank of America delivers a lot of value to depositors. We've got transparency, convenience, safety in mobile banking, online banking, a nationwide network of financial centers. We've got rewards, advice and counsel. This value, plus the lack of market pressure so far, has allowed us to keep deposit rates relatively flat on traditional retail accounts.

Like I said, we've been rising rates in GWIM and IB. We just have to wait and see. At some point, rates are going to rise in Consumer as well. And our focus is on balancing our customers' needs with the competitive marketplace and our shareholders interest and we'll do the right thing.

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

And your branch expansion that you're planning on doing over the next several years, that hasn't materially kicked in yet. Is that correct?

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

It's been material relative to the start to finish and we've crossed a $100 million branch for example in Denver. It was in three years, which is very strong, but it's not material to the $1.4 trillion deposit base or the $680 billion in consumer. So it's not contributing, it will over time, but right now, it's marginally adding.

Betsy, I think couple of things to think about, the amount of investment we've made in the Global Transaction Services platform across the last eight or nine years has been over $2 billion. So those deposits come from the ability to continue to provide better and better services to clients in that investment rate. And that's the thing.

This takes a lot of investment, not only on the consumer side which is obvious with the mobile and everything that you statistically see, but a lot of people forget on the commercial side, the institutional side, there is a likewise investment going on. So, that we think is competitive advantage and our customers respond to it.

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

And those deposits are up 7% year-over-year. So we're seeing the growth.

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

Okay. So then just my last question here is on – the LCR ticked down very slightly from like 122 to 120 and if the Global Banking is not driving that, what was driving the slight tick-down that you had in LCR ratio this quarter?

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

I don't think anything other than maybe just our outflow assumptions, the tweaking of models here or there. We have a significant cushion of LCR at the top of the house. Really what – really the – if there is any – where we manage liquidity is more at the bank level, but we have to be more careful, at the top of the house, we have plenty of liquidity.

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

Okay. Thanks.

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

Thanks.

Operator

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

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

Hi. Good morning. Brian, you guys delivered on the expense numbers again this quarter and the commitment to keep the expenses flat at $53.5 billion for two more years is impressive. I know I've asked you this before, I'd love to hear it again. You've come so far on improving efficiency already and you're doing a lot of investing as you detailed on slide 4. So how do you do all that, the modernization, the build-out, the expansion and then also keep expenses flat for two years?

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

Well, John, if you look at one of the interesting things – just to use the consumer example, if you look at their cost of producing the deposits, in other words, if we take all the cost in the consumer business, put it over the deposit base, you can see that's dropped to 152 basis points.

So marginally – improving from second quarter to third quarter by 3 basis points, last year 7 basis points, that is just all the stuff we're talking about. If you look, there's a few less branches. The transactions per branch are going up. The sales in the branches continue to go up as well as the digital sales that – and you can look at all the statistics on page 15 of the digitalization. That would take you through the whole franchise.

So specifically, head count reductions are due to continuing applying of technology. Branch reductions, bigger branches, more sales and relationship management people but less number in footprint and more efficient, more activity by the customer taken to the

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digital platforms, digital sales at 23%, and it just brings its square footage down in the company from $130 million to about $75 million, continued densification beyond that due to not only reduced FTE, but also the ability to densify the space and through some of the work we're doing in new space, for example, in New York.

We created an internal cloud. There wasn't an external cloud at the time. People didn't even talk about the concept. We bought about 80% of our applications on to that cloud that makes us much more efficiency in our server cost and environment.

Standardization platforms, it is every little thing – frankly 9,000 less managers over the last three years to give you a sense. Since 2015, we started looking at layers and spans of control in the company. And so it isn't ever going to be any one thing. Each year, we invest probably $0.5 billion in initiatives to help drive efficiencies. But the efficiencies not only show up in pure dollars, they also show up in operational losses and litigation and other things, which is just – we strive to be perfect and if we can't be that, we'll be excellent and that will produce a lot of saved money. If you look back over the last decade or two, we've had errors and operational losses, which led to some well-known issues but – and all those are costly. Our job is to keep it out of here.

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

Okay. And just a quick follow-up to that. I know you don't have a formal goal on this metric but you printed an efficiency ratio of 57% this quarter. If you continue to deliver that positive operating leverage into next year and 2020, which seems likely, is there any reason it shouldn't aspire to kind of get to that mid-50s over time on that metric?

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

We should keep pushing it down to that level, yes.

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

Okay. Thanks.

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

Yeah.

Operator

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

Q - Mike Mayo {BIO 1494617 <GO>}

Hi. Just a follow-up to that last question. So I know, John asked a question, said, if you get better revenue growth, are you committing or do you expect to have higher revenues in 2019 and 2020?

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

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Yeah. Given the economy, if we have whether consistent with the economic projections of us and the rest of people, sure.

Q - Mike Mayo {BIO 1494617 <GO>}

Okay. So flat expenses with higher revenues for the next two years. I guess, one reason that you just mentioned for that is digital banking. If 26 million mobile banking users, what's the total size of the market? What percent of the market do you have in mobile banking?

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

That's going to be – I don't know if I have that off the top of my head, Mike. But there's 130 million, 140 million households plus all the users, I think we have more than our fair share of it. So we can get to that calculation, honestly, to get back to that. I don't have it off the top of my head.

Q - Mike Mayo {BIO 1494617 <GO>}

That'd be great. And as far as the new markets, can you remind us what are your four new markets and the five new markets yet to come?

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

The four new markets are Denver, Minneapolis, Indianapolis and Pittsburgh are actually open. Then we have Cincinnati, Columbus, Lexington, Cleveland. I'm missing one.

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

It's the one out West.

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

I got Lexington. But anyway, we've got them listed somewhere here. I'll send them to you.

Q - Mike Mayo {BIO 1494617 <GO>}

Okay. And then I guess, my main...

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

I'm sorry, Salt Lake City is the other one.

Q - Mike Mayo {BIO 1494617 <GO>}

Salt Lake City? Okay. So, why now? Seems like everybody is engaging the national digital banking wars at the same time, and so you're not alone in some of this expansion. I guess, your advantage – your consumer efficiency ratio this quarter, if I'm looking at this right, was 46%. So maybe that is your advantage. So, I guess why are you expanding in all these new markets de novo now? And are you doing enough to press your advantage if you are indeed more efficient than others?

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

Mike, you have to go back to – and you can because you've been around a long time, but you have to go back to the history of interstate banking. And the reason why we're not in these markets is completely a historical accident where our franchise wasn't when we made acquisitions.

And so the idea is that in these markets, we have customer bases already there and we're putting the branch system in conjunction with the customer bases and the teammates we already have there. So if you took them where (49:23) we had commercial banking, we had business banking, we had Merrill Lynch, we had U.S. Trust. And we put the branches underneath, and you have $100 million branch in three years.

I think you can look at competitors, branch structures that they've deployed and they won't get there for 10 years. So it's really a competitive advantage of our brand and our capabilities and our customer base that we can then get fuller relationships from that already exist and so that's why we're doing it.

It's not a de novo expansion, i.e., we've never been heard about the – Bank of America's brand name is recognized and there's customer base in these markets and we're trying to build that high-touch, high-tech service model across all the businesses, including the ability for middle-market and business banking clients to have branches nearby and small business clients to interact with for their business banking needs. And so it takes both physical plant and digital. A digital-only institution will not – in our mind is not the way that you should go.

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

And just one other statistic for you, Mike, that may be helpful. Again, these are our customers who want us to be in these regions because they're already there, we just don't have a retail footprint. We have top three deposit market share in 24 out of the top 30 markets in the United States. So this is about filling out those last six markets to get us in the top three.

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Q - Mike Mayo {BIO 1494617 <GO>}

And last follow-up, any potential changes in your marketing spend as you engage in this expansion?

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

We increased our marketing spend and our trail (50:50) spend as part of the sharing in the charitable side of the community that benefits the tax reform. So we increased it to $50 million. And on the marketing side, marketing is done differently in this traditional media spend.

So we basically want our customers to be able to ask the question – answer the question, assess the question themselves, so what do you want the power to do and we'll keep

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reminding them that we're here to provide the services and capability they need, so they can live their financial lives and we'll market that to them.

But with digital marketing, with direct marketing to our own customer base through our – if you look at that 1.4 billion of mobile channel usage, inherently, there's marketing built within that and offers and products and capabilities and knowledge.

So the idea is, yes, the marketing spend, we did put some more money in marketing to help push some of the expansion that you're talking about, but it's relatively marginal. But at the same time, we're spending more on marketing that way. We're also making marketing more efficient and they self-fund a lot of this initiative just because it's – they can become more efficient using the modern techniques.

Q - Mike Mayo {BIO 1494617 <GO>}

Thank you.

Operator

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

Q - James Mitchell {BIO 1972127 <GO>}

Hey, good morning. Maybe just a quick question on just sort of consumer spend, on debit and credit cards, 7% growth still good, but a little bit of a deceleration from the first half and I think that your peers, we saw some acceleration in 3Q. Is there anything to read into that in terms of the consumer activity in your cards?

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

The question, a little bit, that you're hearing debated is you see some of the consumer spending numbers come up is very strong. So the third quarter this year, all spending including cash, all the ATMs, bill pay, everything, it was 8%-plus over last year. In last year, to the year before that, that number was around 5%. So it's still accelerating.

We can't tell whether it's the canicular days of summer, the dog days and the slowdown, or the hurricanes that affected it, or whether it's those types of things. But the reality is it was running around 9% ran to 8% (53:00), there's one less, there's – September ended on the Thursday or Friday, or weekend and things. So all this affects it, but basically it's running very strong. Year-to-date is around 9%; third quarter 8%; and so we're seeing strong consumer spending, no doubt.

Q - James Mitchell {BIO 1972127 <GO>}

Yeah. The hurricane's a good point. Maybe a quick question on just sort of asset liability management. Just thinking through on the securities portfolio, yields are kind of slowly grinding higher, but obviously, it's a little bit of a longer duration portfolio. It's sort of taking its hit on OCI. I think right now, yield's right around where the one year treasury is. I

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mean how do we think about that duration and an ability to kind of maybe more quickly reinvest at higher rates or how do we think about that?

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

Look, we're always, always, always thinking about earnings capital and liquidity when we think about that portfolio. When you look carefully at it, between the cash we have, between the treasuries, between the mortgage-backed securities, it doesn't have a duration as long as one might think. By the way, you can see that in our asset sensitivity.

We generally don't try to manage the NII of the company through adjusting that portfolio. It's there to take our excess deposits and put them to work if we don't have the loan growth to absorb all those deposits. As rates rise, we're going to have an opportunity to invest at higher yields. That takes a little bit of time. The biggest impact as rates rise is you tend to see less premium amortization. But over time, as rates rise, it's going to have a meaningful impact. It just takes little while.

Q - James Mitchell {BIO 1972127 <GO>}

You see you're shortening that over time though.

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

No, I don't see us...

Q - James Mitchell {BIO 1972127 <GO>}

Maturities (55:02).

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

...shortening that. Again, we're always sort of thinking about liquidity, capital; the effect on capital, liquidity, and the effect on earnings. So the effect on – you kind of want to go along to get the most earnings, but it's a pretty flat yield curve. So you've got to really think about that. You want to go shorter, if you're trying to protect your capital, we're just always managing capital, liquidity and earnings when we think about that portfolio.

But having said all that, generally, we don't make a lot of changes. We have a plan to invest, and we follow that plan kind of religiously quarter-after-quarter. And again, we're talking about the excess deposits. Where do those go if we don't have enough loan growth to absorb the excess deposits? And as you know, we're growing deposits consistently faster than we've been growing loans, so it goes into that portfolio.

Q - James Mitchell {BIO 1972127 <GO>}

Okay. Great. Thanks.

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

Yeah. One more thing, by the way, I just want to emphasize for everybody who doesn't know, we don't take risk in that portfolio. So some other peers will buy different things in that portfolio. That portfolio for us is made up of cash, treasuries and agency-backed securities.

Operator

Thank you. Our next question will be from Matt O'Connor with Deutsche Bank. Please go ahead.

Q - Matthew O'Connor

Good morning.

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

Hey, Matt.

Q - Matthew O'Connor

I was wondering if you could talk about the outlook for net interest income dollars, just given a little bit of a backup and long rates. I mean you did just comment that it takes a lot of work to sell through but obviously, that's an incremental positive, the continued kind of steady march up and short-term rates should continue to be a positive, and it sounds like you're optimistic about loans continuing to grow. So maybe just give us a little outlook on the net interest income dollars the next few quarters or however you want to frame that.

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

Sure. Look, we are optimistic. In 4Q, we're going to benefit from the September rate hike. We should also benefit from loan and deposit growth. I think the only real question is how much of these benefits are going to be offset by rate increases on deposits. As you know, we have been increasing our rate paid in GWIM and Global Banking. Having said that, so far as I think about NII growth in Q4, and it's obviously early, it feels a lot like Q3 to me.

And the other thing I would say is I would really – as you think about it, I would really – as you think about the year-over-year growth instead of the quarter-over-quarter growth, I mean as an example, year-over-year, year-to-date, we're up I think over $1.9 billion. As you stretch out into the future, you move into 2019, we're obviously going to need to factor in day count as you think about each quarter, I would expect NII growth, assuming again continued loan and deposit growth as well as the current forward curve. Deposit pricing is the wild card. And we can't predict with certainty what our competitors are going to do, so it's difficult to provide much more perspective than that, but we do feel quite confident.

Q - Matthew O'Connor

And then just to clarify, I think you said net interest income growth in 4Q similar to 3Q. Did you mean the growth rate linked-quarter would be similar or the absolute dollars similar?

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

I would think about it – I mean as we've started Q4 and it's early, the NII growth that we're feeling feels a lot like Q3 in terms of the movement in rate paid so far. And so I would think about it as a year-over-year growth being something that feels the same this early in the quarter. Again, year-to-date, NII is up over $1.9 billion.

Q - Matthew O'Connor

Okay. And then just a little bit related. As we think about the NIM percentage, obviously, nice increase this quarter. I think you're past some of the drags as we think year-over-year in terms of the international card business, it was dragging the first half of the year. Should that trend up as well? I know there's also been some drag from markets for you and for others, but is your best guess the NIM percent would trend up as well?

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

Yeah, I think – look, you hit all the points. I mean in 4Q given the September rate hike again, I would expect net interest yield or net interest margin, whatever you want to call it, to edge up in fourth quarter. But again, that increase is going to be dependent on several factors including loan growth, mix shift, particularly in Global Markets. You've got the realization of the forward curve, you've got the competitive environment with respect to (59:57) deposit rate paid.

And I would just – again, think about it banking book versus the markets book. I mean we're seeing the benefits of our strong deposit base, how we've invested in our clients in a rising rate environment. We're seeing that if you look at the "banking book", obviously, Global Markets is going to impact that number. But if you look at the banking book, I think you get a better reflection of what's going on with the company.

Q - Matthew O'Connor

Okay. All right. That's all helpful. Thank you.

Operator

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

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

Good morning, Glenn.

Q - Glenn Schorr {BIO 1881019 <GO>}

Good morning. I just want to follow up on some of the comments you made on loan growth and I hear you on high competition, good capital markets, non-bank lenders, corporates flushed with cash. What I didn't hear is anything about – from the competition on aggressive pricing or loosening of terms. So wonder if you could address if you're seeing that and particularly from the non-bank lending side because there has been a lot more talk about that lately? Thanks.

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

Well, we – consistent with what you've heard from other discussions over the last few days, the competition from the non-bank is high and the structures, you've seen written about widely and I'm sure you've written about them too, have gotten away. And we tried to play down the middle and we will continue to do that. Having been in the commercial lending business for 230 years, I think we probably know what we're doing and we're trying to make sure that we're prepared at any moment for what could come next.

Q - Glenn Schorr {BIO 1881019 <GO>}

(01:01:43). Okay. I get your responsible growth mantra and I think your shareholders will love that over time. But do you see cracks in the armour in terms of – is that just a return on investment that you're not willing to go down the path or do you think there is some irresponsible growth going on?

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

Look, I think what we would emphasize is given the strength of our platform, given the bankers that we're adding, given our relationships globally, we should be able to grow loans the way we've been talking about even with these forces, even with the non-banks, even with whatever you're seeing out there. We should be able to grow loans, we think, at mid-single digits at the whole company level even with all those forces.

Let me give you an example. If you look at CRE – so this is when responsible growth kind of helps you, right? If you look at CRE – I think we've talked about in past quarters, we transformed our approach to commercial real estate lending. We're still very selective, focusing on top-tier companies, and we ensure we maintain a diversified portfolio across property type and geography. And if you look at our CRE portfolio as a percentage of our commercial portfolio, it's probably the lowest of the top 40 banks.

And having said all that, we're starting to see other banks pull back in CRE, and we're seeing more opportunities now with clients – within our client selection and risk framework, we're seeing more opportunities. So in Q3 alone, year-over-year CRE growth was up 3%. I think you're going to see things like that. CRE is going to turn out to be a great example of responsible growth and how maintaining a strong balance sheet and disciplined underwriting standards through the cycle means you're going to be able to deliver for your customers and clients when others can't.

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

So I think that's a lot of discussion there. But at the end of the day, we think we can grow loans in the mid-single digits and the 2% or 3% GDP growth. But you've seen us do that and we'll continue to do that. And the ebbs and flows of the competition will come or go and we'll be here driving.

Q - Glenn Schorr {BIO 1881019 <GO>}

Loud and clear, appreciate that. Little quickly on DCM. You mentioned part of it related to slower advisory quarter. Rates, competition, tax cuts are there too. Should we consider

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this a more normal-ish level of DCM as you and the industry are off the recent highs?

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

Look, there definitely was a slowdown in client activity in the third quarter in DCM. I don't know but I do not think that's systemic. People have to refinance their bonds, and in a growing economy, they're going to borrow more money. So I would answer that question no, but we'll have to wait and see.

Q - Glenn Schorr {BIO 1881019 <GO>}

Okay. Well, thanks. Appreciate it.

Operator

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

Q - Saul Martinez {BIO 5811266 <GO>}

Hi. Good morning. Can you quantify the impact of the lower provisions for representations and warranties and yeah, sale of the consumer real estate portfolio in All Other? Should we just look at the sort of sequential and year-on-year change in revenues in All Other which is something maybe I heard of, I think, $300 million to $400 million and kind of estimate that that's more or less the size of the impact?

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

No, I wouldn't trump it up to (01:05:18) all the reps and warranties. Reps and warranties were down a little this quarter. But if you look at net income, it bounces around quite a bit every quarter. I would point out by the way, if you look at that, it's been gradually declining. I mean I think if you look year-to-date, year-over-year, it's probably down $800 million or $900 million. Remember, it includes MBI which is less relevant and declining now for us as we're booking 90% of our mortgages on the balance sheet. This quarter, other income rebounded a bit, it had the equity investment gain that we mentioned earlier of a couple of hundred million dollars and some other cats and dogs.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Right. So I'm just trying to get out. I know it bounces around, it's volatile. I'm just trying to get out what – I wouldn't call it a more normalized figure, would be to just – trying to clear out some of the noise to kind of gauge where we should be thinking that line could go. But okay. And I guess to change gears a little bit where are you in your Cecil preparations? And when could we expect to see a more formal estimate of what the financial impact could be?

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

Cecil. So we're not at the point where we're going to provide an estimate on the impacts. We've made a lot of progress on our efforts towards adoption. However, a number of things need to be finalized really before we can disclose the impacts. I would point out by

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the way that we're not overly concerned about those impacts and it's certainly not going to change how we serve our clients in the future. Having said that, there will likely be some increase to allowance upon adoption. But the amount of increase, the impact is going to be dependent on the economic outlook and credit conditions on the date of adoption. And that's not until 1/1/2020. So we'll just have to wait.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. All right. Thanks a lot.

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

Thank you.

Operator

Our next question is from Marty Mosby with Vining Sparks. Please go ahead. Your line is open.

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

Good morning, Marty.

Q - Marty Mosby {BIO 14008907 <GO>}

Good morning. Want to talk about, first, asset yields, and earning asset yields were up 11 basis points. There looked (01:07:50) to be some noise in the other earning assets this particular quarter. It was up 55 basis points. So just curious what was driving that big increase this particular quarter.

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

Say that again, Marty.

Q - Marty Mosby {BIO 14008907 <GO>}

Other earning assets sequentially was up 55 basis points. So I was just curious why that was up so much this particular quarter.

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

Other earning assets was up 55 basis points. So in other earning assets, we have some mix shift as some of our margin loans pay down.

Q - Marty Mosby {BIO 14008907 <GO>}

Okay. And then in consumer loans, you've been going up about 6 basis points per quarter over the last three quarters leading up to this quarter. Now, it was up 16 basis points. So it looked like there was another kind of step-up in consumer loans, which I thought may have been maybe something in the consumer loan portfolio as well.

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

I don't think there's anything unusual in the consumer loan portfolio that's driving those. It's just a mix every quarter of what we're growing versus fixed versus floating or what happens to rates.

Q - Marty Mosby {BIO 14008907 <GO>}

Which is good in a sense since (01:09:10) earning asset yields are moving up faster which is what we'd expect to happen at this particular point of the interest rate cycle as you're beginning to re-price some of the longer term assets as well as the short term assets, if we actually equate that to what's happening on the interest-bearing deposit rates, you're only up a little bit less than 50% deposit beta this particular quarter.

But if you take into account your funding which borrowings has a (01:09:40) little bit more of a fixed rate as well as non-interest-bearing funds, you really have the headroom with how far earning assets are going up at 10 or 11 basis points per quarter or per rate hike to increase interest-bearing deposit rates somewhere between 85% and 95% before you see really see any pressure on net interest margins.

So it seems like there's some headroom that still see margins expand even though we're seeing deposit rates move up and just wanted to see what you thought about that threshold calculation.

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

Yeah. I think just you have to step back and say, what the constitution deposits are. And I think Paul took you through some of this earlier. But what – each business has interest-bearing deposits, non-interest-bearing deposits, but those are very different types of business.

So some people, the money is effectively investment cash; some people's transactional cash; some people, it's both depending on the business. But at the end of the day, we will continue to – in the second part, as you've got to remember that while your loans are basically priced and go through the market and competitiveness, your deposits have a lot of services attached to them, so it's much more complex, rates not the only determinant of what goes on with the deposit accounts as you're well aware.

So I think there is headroom for us to continue to expand in net interest income margin percent over time as we see a higher rate structure lock in the balance sheet for host of reasons, most importantly, which is the checking accounts and consumer, which we talked about will always have a very advantaged place and that advantaged place had been lost as they hit the zero floors after the crisis and that's finally coming back and that's going to drive a substantial amount of deposit value not only in the consumer business but in the franchise.

Q - Marty Mosby {BIO 14008907 <GO>}

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No. And I thought the highlight of transactions account growing was very important, and the only reason I was asking is, there's so much consternation about what margins are going to start to go down as interest rates are moving up and deposit rates are finally starting to increase. What investors I think are missing is there's a lot of headroom to still kind of trickle up those deposit rates and still continue to improve net interest margin.

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

Agreed.

Q - Marty Mosby {BIO 14008907 <GO>}

Thanks.

Operator

And we'll take today's last question from Gerard Cassidy with RBC. Please go ahead. Your line is open.

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

Good morning, Gerard.

Q - Gerard Cassidy {BIO 1505265 <GO>}

Hi, Brian. How are you?

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

Good.

Q - Gerard Cassidy {BIO 1505265 <GO>}

You have worked very diligently with your team since 2010, bringing Bank of America to this level of profitability that you've reported today, 123 basis points on assets and an ROE of 11%. What do you think – I know you're not at your optimum mix in terms of your balance sheet. What do you think – how much higher can you go, whether it's ROA or ROE? Is this a bank that can do 140 basis points on assets or is that just way too optimistic?

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

I would say, Gerard, you've got to be careful because the mix of the business we have versus what people could have been familiar with the different times in our past is with the markets business in the way that business works in terms of ROA and things. But the reality is the team has done a great job at getting this company back to an earnings level and we expect to continue to grow that and we continue to expect to reduce the share count, a 1.4 billion of reductions since we started.

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But as we say to ourselves, when we sit down and look at it, it's a nice start. And so we're going to be here every day, pushing to increase all those things. And if it gets the level you referenced, we'll be happy but the idea is to how do we get a better tomorrow than it was today.

Q - Gerard Cassidy {BIO 1505265 <GO>}

Very good. And then following up on a comment you made a moment ago, obviously, national interstate banking changed the lay of the land to the banks, your deposit market share is over the 10% level that prohibits a bank from making depository acquisitions. Clearly, you're going with the organic growth strategy as you pointed out.

As we look out into the future, assuming you're not allowed to do a depository acquisition, should we look at your return of excess capital consistently to be between 70% and 80% indefinitely out into the future? 70%, 80% of earnings that is.

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

Oh, right now between the dividends and share repurchases, it was $6.5 billion this quarter on earnings of $7.2 billion. So it's pushing to 100%. We have excess capital under any standard on top of that. So we've got to adjust that as we continue to figure out what the future of the capital – CCAR rules are and stuff like that.

But yeah, you should expect that we can return it all. And if we ever need to retain it, it's going to – any portion of it's going to be in conjunction with earnings, which are accretive to the returns and the balance sheet. But just between repositioning loans that you can still see despite all the efforts – despite 12 years from the last time some of these loans are produced, we still have $60 billion of non-core loans, which continue to run off that will – we can replace with $60 billion of good credit, which would be another – I don't know – 6%, 7% growth over the current core business loans. And so there's a lot of room in the balance sheet to grow that itself.

So the idea is to continue – one of the core business model attributes, as I said at the outset, is to continue to return all the earnings to their shareholders and dividends and share buybacks not because we can't support that – not because any other reason that we don't need it to support our customers. You can have good returns and support your customers and contemporaneous with the ability to produce good shareholder returns and good return of capital.

Q - Gerard Cassidy {BIO 1505265 <GO>}

Great. Thank you so much.

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

Thanks.

Operator

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And this will conclude today's Q&A portion. I will return the floor to Brian Moynihan for closing remarks.

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

Thank you everyone for your time and attention this morning. We continue to operate in a good business environment led by the consumer spending we discussed. Commercial clients continue to have good activity. We continue to perform well in this environment and we're getting more than our fair share of business, and to do that we managed expenses well, drove operating leverage 700 basis points for the quarter. When you think about all this, you have to think back to what we've been talking to you each quarter, which is we're here to drive responsible growth and this quarter shows another quarter of that with record earnings across the franchise. Thank you.

Operator

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

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