Company Name: Bank of America
Company Ticker: BAC US
Date: 2018-01-17
Event Description: Q4 2017 Earnings Call

Market Cap: 304,880.36
Current PX: 29.82
YTD Change($): +.30
YTD Change(%): +1.016

Bloomberg Estimates - EPS
Current Quarter: 0.592
Current Year: 2.485
Bloomberg Estimates - Sales
Current Quarter: 22982.500
Current Year: 92202.913

Q4 2017 Earnings Call

Company Participants

- Brian T. Moynihan
- Paul M. Donofrio

Other Participants

- Elizabeth Lynn Graseck
- John Eamon McDonald
- Steven Chubak
- Glenn Schorr
- Matthew Derek O'Connor
- Mike Mayo
- Ken Usdin
- Saul Martinez
- Marty Mosby
- Gerard Cassidy
- Vivek Juneja
- Brian Kleinhanzl

MANAGEMENT DISCUSSION SECTION

Brian T. Moynihan

Business Highlights

Operating Leverage, Revenue and Expenses

- This was another strong quarter and year for our company across-the-board
- We drove positive operating leverage consistently through the year
- In fact, this is the twelfth straight quarter, where we have had reported a positive operating leverage on a y-over-y basis, and you can see that on slide 3
  - And we did it the right way
- We achieved it through fundamental operating excellence, driving revenue control and expenses, combined with strong relationship and sales production
- Full year revenue was up 5%, excluding the Tax Act impact; while expenses declined 1%
- Our business generated 6% loan growth for the year
- We grew and remained true to our responsible growth operating model, where there’s a clear recognition throughout the company of who our targeted customers are and how we manage risk in our desired outcomes

After-Tax Net Income

- Let me highlight a little of the progress
- For the year, we reported $18B in after-tax net income
- Excluding the Tax Act impact of $2.9B, we would have reported net income of $21B, which is up 18% over a solid 2016
  - This represents the highest earnings run rate for the company in its history
- Paul will discuss the Tax Act impact in a little more detail later

Return on Tangible Common Equity

- Our company remains balanced with earnings coming relatively evenly from our consumer and our commercial institutional segment businesses
- On our more – businesses for people, our consumer businesses and our wealth management businesses, together, they are more than $11B and grew 14%, while our global banking and global markets businesses together generated about $10B and they're up 7%
- Excluding the Tax Act impact, our return on tangible common equity was 11%, and our return on average – return on assets was 93BPS, pushing close to our long-term targets
- Across-the-board in our businesses, our brand improved in every area, recognized by many outside parties
- And through higher stock price improved credit ratings, we saw tangible benefits of our progress

Dividend and Average Diluted Shares

- Shareholders not only saw share price improvement, but we saw – we increased our dividend by 60% and reduced our fully diluted share count during the year by 3.4%
- Average diluted shares were down 370mm from this time last year and down nearly 1B from the peak
- With an improved CCAR plus our additional 5B, we'll continue to make progress in this area

Investments

- At the core of our model is a talented group of teammates, our best assets
- Therefore, we continue to invest heavily in making our company the best place for our teammates to work
- Not only do we continue to rank high in the overall list of Best Companies to Work For, we rank in the top 50 list of Best Workplaces for Diversity for parents, for working mothers and Hispanics among others
  - You can see some of these accolades in a couple of the appendix slides we added to the package this time
- This year, we also invested heavily in our teammates through improvements and starting minimum wages at – where we put them at $15 this time last year
- We had more – we introduced sabbaticals, family leave increases, bereavement leave policy extensions and wellness initiatives
  - This latest example is our announcement at the yearend we're able to provide nearly 70% of our teammates with a bonus to share in the future success of the expected benefits to the tax savings

- As Paul explained, this added about $145mm in expenses in Q4
- We did all this while investing to continue to lower costs to make – so we can make more money in our franchise
- We also lowered cost and we continued our investments in digital capabilities for security protection for our customers, which has driven our online and mobile banking leadership rankings

Digital Shopping Capabilities

- We also rolled out digital shopping capabilities in auto and in home
- We're also heavily investing in capabilities in our investment clients across the wealth management spectrum through our award-winning digital brokerage capabilities, as well as our treasury capabilities for our commercial clients
- Our consumer mobile banking app became the first app in the Apple App Store to be certified by J.D. Power

Closing Remarks

We know there is much more to do to continue to drive this positive change in our company and for the benefit of our customer and the clients

So we, as a team, are proud of the outcome to-date, for sure, but even more proud that we are proving that we can win and do it the right way through driving responsible growth; and we plan to do that in the future

Paul M. Donofrio

Financial Highlights

Net Income and EPS

- I want to go back to slide 2 to start
- We reported net income of $2.4B or $0.20 per diluted share in Q4
- Late in the quarter, we informed investors through an 8-K filing that we expected an impact of approximately $3B from the Tax Act
- Our estimated impact came in just shy of $2.9B, lowering EPS by $0.27
- Remember, the Tax Act is complex with several novel provisions
- Any clarifying guidance or new information could affect our estimated impact
- And as noted in our materials, the impact was recorded in two places
- First, in other income, there was a charge of approximately $950mm to revalue certain renewable energy investments
- Within the income tax line, this pre-tax charge was offset by the tax benefit of this $950mm charge, plus the revalue of certain deferred tax liabilities associated with these renewable energy investments
- In total, the tax line includes $1.9B aggregated expense with the multiple impacts of the Tax Act, including the tax benefit of the charge for new energy investments that I just mentioned, as well as the revaluation of our deferred tax assets and deferred tax liabilities

- In our materials, we provided a chart reflecting results on a basis that excludes the Tax Act impact
  - We believe this provides a more clear comparison to Q4 2016
- On that basis, net income was $5.3B with EPS of $0.47 per share, growing 20% y-over-y

Return on Tangible Common Equity and Operating Leverage

- Return on tangible common equity was 11%
- Return on assets was 90BPS.
- Operating leverage y-over-y was a strong 8%
- Revenue was $21B, improving 7%
- An 11% improvement in net interest income drove revenue growth

Expenses

- Expenses declined 1%, which included roughly $200mm for the shared success bonuses in late December that Brian mentioned, plus an acceleration of planned charitable contributions in late December, as we looked to share some of the future tax savings with our teams and the communities we serve
- Provision expense was $1B, up $227mm, driven by $333mm impact from the charge-off and reserve bill for a single commercial exposure
- Negative news reports on that company caused significant market concerns, which affected the credit spreads and stock price of this formerly investment-grade credit
- Despite downgrades of this credit, both nonperforming loans and criticized commercial exposures declined from Q3
  - And excluding this specific loss, net charge-offs remained very low

Balance Sheet

Turning to the balance sheet on slide 4

Overall, compared to September 30, end-of-period assets of $2.3 trillion were mostly unchanged

Loans, Deposit and Debt Levels

- Loans grew $10B, but were offset by $14B decrease in cash
- On the funding side, strong deposit growth from Q3 of $25B was offset by reductions in market funding and lower equity
- Debt levels were stable with prior period
- However, we did complete an $11B debt exchange offer in the quarter, which extended maturities and improved the structure of this debt from a TLAC perspective
- Liquidity remained strong with average global liquidity sources of $522B, and we ended the quarter with a liquidity coverage ratio of 125%

Equity and Dividends

- Equity decreased $4.8B from Q3
- This quarter, through both the purchase of common shares and common dividends, we returned more than $6.1B to shareholders
  - That was $4B more than the $2.1B in income available to common, which included the $2.9B Tax Act charge
- The remaining decline in equity was mostly result of the decline in OCI, as increases in long-end rates decreased the value of our debt securities portfolio

Share Repurchases

- We purchased 174mm shares in Q4 and have repurchased 509mm shares in the past 12 months
- Remember, this quarter, we received approval for $5B in share repurchases in addition to our previously announced $12.9B following CCAR.
- Tangible book value per share of $16.96 was modestly above Q4 2016, as earnings over the year, including the Tax Act impact, offset share repurchases and dividends as well as the conversion of Berkshire's preferred stock to common shares

CET1 Ratio

- Turning to regulatory metrics and focusing on the fully phased-in impacts, our CET1 ratio declined this quarter
- The primary cause of the decline was the return of capital to shareholders in excess of earnings, which obviously included the Tax Act impact
- Focusing on risk-weighted assets and starting with the advanced approach, RWA was flat from Q3 at $1.46 trillion as DTA reductions and the runoff of legacy loans with high risk weights offset general loan growth
- Under the standardized approach where risk sensitivity is less, funded and unfunded loan growth across the businesses drove $22B increase in RWA
- The CET1 ratio under Advanced declined 34BPS to 11.5%
- Under Standardized, the ratio declined 53BPS to 11.7%
- Both ratios remain well above our 9.5% requirement, and supplementary leverage ratios continue to exceed U.S. regulatory minimums

Loans

- Turning to slide 5
- On an average basis, total loans increased to $928B
- Note that Q2 sale of UK card, which was recorded in All Other, impacted the y-over-y comparisons of average loans by $9B
- In Q4, we also sold our remaining student loan and manufactured housing loans totaling approximately $800mm
  - Adjusting for these sales, average loans were up $29B or 3% y-over-y
- Loan growth continued to be dampened by the runoff of non-core consumer real estate loans in All Other

- Y-over-y, loans in All Other were down $29B, inclusive of the loan sales

Business Segments

- On the other hand, loans in our business segments were up $49B or 6%
- Consumer Banking led with a 9% increase with solid growth across mortgage, credit card and vehicle loans
- Wealth management's strong growth of 7% was driven by mortgages and structured lending
- Origination of new home equity loans continued to be outpaced by paydowns
- Growth in global banking loans and leases remained solid, up 4% y-over-y

Average Deposits

- Switching to average deposits and looking at the bottom right, growth was $43B or nearly 3.5% y-over-y
- This growth was driven by Consumer Banking, which increased by $48B or nearly 8% y-over-y
- Average deposits declined y-over-y on wealth management, as clients moved cash to other alternatives within brokerage or AUM.
  - This decline was mostly offset by solid growth in Global Banking

Asset Quality

- Turning to asset quality on slide 6, total net charge-offs were $1.2B or 53BPS of average loans
- As mentioned, the quarter was impacted by the one large single commercial charge-off
- Excluding the single loss, net charge-offs and the net charge-off ratio were consistent with Q3
  - Also, due largely to this commercial loss, provision of $1B was up $167mm from Q3 2017 and $227mm from Q4 2016
- Provision expense included $236mm net reserve release
- The net reserve release reflects continued improvement in our legacy consumer real estate and energy portfolios. Our reserve coverage remains strong with an allowance-to-loan coverage ratio of 112BPS and a coverage level 2.6 times our full-year net charge-offs

Credit Quality Metrics

- On slide 7, we break out credit quality metrics for both consumer and commercial portfolios. With respect to consumer, net charge-offs of $769mm were up $38mm in Q3
- The modest uptick in net losses is negatively impacted by the absence of some prior-period recoveries, Q3 2017 storm-related payment deferrals, and seasonality
- The consumer credit card net charge-off ratio increased to 2.78%, as the portfolio continues its expected seasoning
- Consumer NPL of $5.2B declined from Q3 and are at the lowest they've been since Q2 2008
  - And 45% of our consumer NPLs are current on their payments

- Commercial losses, excluding the one large credit already discussed, were stable
- Reservable criticized exposure was down more than $1B from Q3

Net Interest Income

- Turning to slide 8
- Net interest income on a GAAP non-FTE basis was $11.5B; $11.7B on an FTE basis
- Compared to Q4 2016, GAAP NII is up $1.2B or more than 11%, driven by the spread improvement between our asset yields and funding cost
- Partially offsetting the spread improvement is the lack of interest income associated with the UK card portfolio, which was sold in Q2 2017
  - The increase y-over-y was also driven by growth in loans and investment securities, as well as lower prepayment and therefore lower bond premium write-offs
- Focusing on the net interest yield, it improved 16BPS from Q4 2016 to 2.39%
- Compared to Q3 2017, NII increased $300mm, driven by loans, securities and asset growth in global markets, as well as a run-up of short-end rates in anticipation of the Fed funds hike in mid-December

Deposit Pricing

- With respect to deposit pricing, we raised rates modestly on selected Wealth Management products as well as for certain commercial clients
- Consumer rates paid remain stable

NII

- NII on a full year basis grew $3.6B or 9% to $44.7B
- In 2018, we expect solid NII growth, driven by loan and deposit growth and some net interest yield expansion, assuming the forward curve plays out as currently expected
- But I would remind you that 2017 included approximately $0.5B of interest from the UK card business that we sold
  - This will be a significant offset to NII growth in 2018
- In 2018, we also don’t expect the same full year benefit from the reduced premium amortization experienced in 2017, given the increase in rates that borrowers have already experienced
- More short term, as you think about NII in Q1 2018, we expect to benefit from the December rate hike
- Having said that, remember, there will be two less days in Q1 than Q4
  - That should reduce NII by approximately $175mm
- Also, NII from loan growth in Q1 is normally muted by seasonal declines in card loans
- One other item worth noting as you think about Q1, the Tax Act will lower NII on an FTE basis because the NII gross-up will be lower

- However, remember, NII gross-up on an FTE basis is completely offset by higher tax expense resulting in no change in earnings
- Still, on an FTE basis, NII is expected to decrease by approximately $120mm each quarter
- On a GAAP basis, again, NII is not impacted
- With respect to asset sensitivity, as of 12/31, an instantaneous 100 basis point parallel increase in rate is estimated to increase NII by $3.3B over the subsequent 12 months
  - This is largely unchanged from September 30 and approximately 2/3 driven by our sensitivity to short-term rates

Expense Management

- Turning to slide 9
- We had another solid quarter of expense management
- Note this quarter includes an accounting change for the retirement-eligible incentives
- Previously, this expense, which was historically just over $1B, was recorded in Q1 when awards were granted
- We will now record – we will now account for an estimate of next year's grant ratably over current year's four quarters
- Prior periods in this quarter's supplemental materials have been restated for this change

Noninterest Expense

- Noninterest expense of $13.3B was down $140mm or 1% from Q4 2016
- Note that this amount includes the two actions which totaled approximately $200mm that I mentioned earlier to share future tax savings with lower paid employees and the communities we serve
  - Excluding these discretionary actions, expenses were down 2%
- In addition to cost savings associated with the sale of our UK card business, y-over-y improvements in noninterest expense were broadly distributed across expense categories as we continue to focus on SIM, understanding and improving our work processes and optimizing the company's consumer delivery network
  - We expect these benefits over the medium term to drive efficiencies that will help us offset inflationary costs and potentially increases in investments
- Compared to Q3 2017, expenses declined by $120mm despite the late quarter discretionary spend
- The decline was driven by a lower mortgage servicing cost and lower revenue-related incentives in our Global Markets business
- Excluding the Tax Act's impacts on revenue, our efficiency ratio of 62% was above our target, reflecting a typical seasonal weakness in our sales and trading business
- Okay

Consumer Banking

- Turning to the business segments and starting with Consumer Banking on slide 10

- Q4 caps a tremendous year for this business

Earnings

- On a full year basis, earnings were $8.2B, growing 14% over 2016 with operating leverage driving the efficiency ratio to 50% by the end of the year
- Focusing on Q4 results
- Earnings at $2.2B grew 14% y-over-y and returned 24% on allocated capital
  - Y-over-y, this business created over 600BPS of operating leverage, as revenue growth of 10% outpaced expense growth of 4%
- Higher interest rates and growth in client balances drove the y-over-y improvement in revenue
- The y-over-y average loans grew 9%, average deposits grew 8% and Merrill Edge brokerage assets grew 22%

Cost of Deposits, Net Charge-Offs and Provision Expense

- Cost of deposits, which reflects noninterest expense as a percent of average deposits, increased modestly because of year-end discretionary actions mentioned earlier to share future tax savings with lower paid employees and the communities we serve
- Net charge-offs increased $107mm from Q4 2016, as we continued to experience modest and expected seasoning of our credit card portfolio and loan growth
- Provision expense increased $126mm from Q4 2016
- The net charge-off ratio remains low at 1.21%

Mortgage Banking

Revenue

- Turning to slide 11 and looking at key trends
- As I mentioned earlier, revenue increased 10% y-over-y
- Within revenue, mortgage banking income was the only major category that was lower y-over-y, driven by volume declines
- In Q4, we retained about 90% of our first mortgage production on the balance sheet
- Looking at revenue more broadly, we believe our relationship-deepening Preferred Rewards program is improving NII and growth of balances and allowing cost savings
  - These benefits are more than offsetting headwinds in the noninterest income line that our industry is facing

Spending Levels

- Spending levels on debit and credit cards were up 7% y-over-y, and we issued 1.1mm new cards – new credit cards in the quarter, in line with last year
- Spending levels and a one-time partner rebate drove a 5% revenue increase in card income, which continues to be impacted by strong competition on rewards front

- Service charges were up a more modest 1%
- And in Q4, we modestly revised our overdraft policy by eliminating certain fees
  - This revision reduced overall fees but has benefits in that it will improve customer satisfaction while helping to lower servicing costs

Customer Satisfaction

- By the way, customer satisfaction in Consumer Banking reached a historic high with roughly 80% of our clients rating us 9 or 10 on a 10-point scale
- Focusing on client balances on the bottom of the page, you can see the success we've continued to have growing deposits, loans and brokerage assets
- We remained focused on prime and super prime borrowers with average book-to-FICO scores of at least 760

Expenses and Investments

- Expenses were up 4% compared to Q4 2016, as the year-end special bonus impacted this business more heavily than others
- Otherwise, investments in renovating branches and technology initiatives modestly outpaced continued optimization savings from digitalization
- To give you a sense of the type and level of continued investment in our financial centers, let me highlight a few facts
- During 2017, we opened 30 new financial centers with 25 of these in de novo areas not previously served by our retail network, but in areas where we have existing wealth management and/or commercial banking presence
- We also opened 41 student centers and 69 lending centers and branded 585 Merrill Lynch officers
- We also renovated nearly 300 financial centers and replaced more than 3,400 ATMs

Digital Banking Trends

- Turning to slide 12 and focusing on the continuing improvement in digital banking trends
- As you can see, the y-over-y growth in these metrics continues to be impressive
- We remain the leader in digital banking
- We now have nearly 35mm digital users including 24mm assessing their accounts through mobile devices
- We process payments for customers valued at $669B in Q4
  - Annualized, that equates to over $2.5 trillion per year
- And note the 10% growth of digital payments relative to non-digital at 1% as customers continue to migrate from cash and check, helping us improve efficiency and reduce risk
- In particular, note P2P payments increasing
- They doubled from Q4 2016 as the adoption of Zelle makes it easier to send, request and even split person-to-person money transfers

- Also, note on the bottom left, the growth in mobile channel usage was 1.3B logins
- Also noteworthy is the volume of mobile deposit transactions, which now represents 23% of all deposit transactions
- And while still small, half of all our retail direct auto loan applications are originated digitally, following the recent rollout of our digital auto shopping capabilities last quarter
    - These digital trends and the investment behind them plus the continued investment in our financial centers that I earlier listed must be thought of together as you evaluate and we execute on our high-tech, high-touch customer strategy

Global Wealth and Investment Management

- Turning to Global Wealth and Investment Management on slide 13, [indiscernible] (28:02) earnings of $742mm up 17% from Q4 2016, a pre-tax margin of 26% and a return on allocated capital of 21%
- Market appreciation and client flows were once again a tailwind for asset management fees, offsetting modest spread compression
- At the same time, brokerage revenue continued to face headwinds as volumes declined and mix shifted
- All in, revenue grew 7% y-over-y with strong NII improvement and 16% growth in asset management fees, partially offset by lower brokerage revenue
    - This activity, coupled with careful expense management, drove 4% operating leverage
    - This quarter, we saw AUM flows of $18B, bringing flows for the year to nearly $100B
- Y-over-y expenses were up 3% driven by revenue-related incentives, as well as investments in both primary sales professionals and technology

Client Engagement

- Moving to slide 14
- We're continuing to see solid overall client engagement
- Client balances rose to $2.75 trillion, driven by higher market values, solid AUM flows, and continued loan growth
- As we noted during reviews of previous quarters, clients started to more appreciably move deposits and to cash investment alternatives within AUM and brokerage started – starting early in the year
- In H2, trends improved after we increased rates paid on certain products
- Average loans of $157B grew 7% y-over-y, continuing a trend of clients deepening their relationship with us
- The loan growth remained concentrated in consumer real estate as well as structured lending

Global Banking

- Turning to slide 15
- Global Banking earned $1.7B, increasing 6% from Q4 2016
- Return on allocated capital was 17% and stable with last year, despite an increase in allocated capital

- I want to talk about full year results for a moment to highlight the success of this business in 2017

Revenue

- On a full year basis, Global Banking set several records, including revenue of $20B and net income of $7B.
- Full year earnings were up 21% on strong operating leverage
- Revenue grew 8%, while expenses were up only 1% as the business reduced overhead to offset increases in investments, and we added more than 400 new bankers over the past few years as we continued to deepen and expand local coverage in commercial and business banking
- Returning to Q4 y-over-y comparisons, the revenue growth of 10% was driven by improved NII reflecting solid loan and deposit growth compounded by rising short-term interest rates
- We also grew IB fees 16% y-over-y
- Growth was led by advisory fees, but debt and equity fees were also up y-over-y

Efficiency Ratio and Provision Expense

- The efficiency ratio improved 200BPS to 43%
- Provision expense of $132mm increased from Q4 2016 as a result of the commercial charge-off mentioned earlier
- Half of the loss was recorded in Global Banking and half in Global Markets
- Provision expense also included some release of reserves on our energy portfolio which continued to improve
- Growth of loans in Global Banking remained fairly consistent with the past several quarters increasing 4% y-over-y
- The outlook for loan growth given the tax reform remains to be seen, but optimism among our clients is high
  - However, we also expect some of our clients to use repatriated funds and tax savings to pay down borrowings and other obligations

Average Loans

- Looking at trends on slide 16 and comparing to Q4 last year
- With respect to average loans, growth of 4% was led by corporate borrowers evenly balanced between domestic and international clients
- Within Commercial Lending, C&I rose 5% while Commercial Real Estate was flat

Global Banking

- In Global Banking, loan spreads were down 1 basis point compared to Q3 2017, continuing the trend we've seen all year, which modestly compressed spreads y-over-y by mid-single digits
- Average deposits rose $14B or 5% compared to Q4 2016, with most of the increase concentrated in H2 reflecting increases and rate paid in Q3 and Q4

- As interest rates rise, the value of these deposits and the relationships they represent is best seen in global transaction revenue, which is up 10% y-over-y to nearly $2B.
- Total investment banking fees of $1.4B finished the year strong, growing 16% vs Q4 2016
- Advisory fees hit a new record
- For the full year 2017, we remain ranked number three in overall investment banking fees, with fees totaling $6B, up 15% from 2016

Global Markets

- Switching to global markets on slide 17
- I will review results, excluding DVA

Revenue, Sales and Expenses

- Global markets generated revenue of $3.5B and earned $0.5B
- Y-over-y, earnings were down by $238mm, driven by lower sales and trading results, higher technology investment spending and provision
- Revenue was down 2% y-over-y, as a decline in sales and trading revenue was partially offset by a gain on the sale of a non-core asset recorded in other income
- Sales and trading revenue held up better from the middle of the quarter-end through the end of the year, than it did in the prior year
- Sales and trading of $2.7B declined 9% from Q4 2016
- FICC sales and trading of $1.7B decreased 13%
- Within FICC, the decrease was driven by less favorable market conditions across macro products, particularly rates
- Equity sales and trading at just shy of $1B was stable y-over-y as growth in client financing activity offset declines in cash and derivatives trading, given lower levels of volatility and client activity
- With respect to expenses, Q4 2017 was 5% higher than Q4 2016 as lower revenue-related incentive costs were more than offset by continued investments in technology

Sales and Trading Revenue

- Moving to trends on slide 18 and looking at trends across the last three years, we would highlight the following
- First, starting in the lower left box, full year sales and trading revenue has been fairly consistent over the last three years at $13B to $13.6B
- And note that we have achieved this stability while reducing VAR and advanced RWA
- Now, [indiscernible] (35:23) over the last three years, and that change was reflected in client activity and volatility that varied greatly from both a product and regional perspective over the last three years
- Still, we were able to produce relatively consistent revenue on reduced risks over this time period

  - We believe this consistency shows that clients value the diversity and comprehensiveness of our global markets capabilities, including sales and trading, as well as research in every major market across the globe

All Other Results

- On slide 19, we show All Other, which reported a loss of $2.7B
- A few things to note this quarter, the $2.9B impact from the Tax Act was recorded here
- So excluding that charge, All Other would have produced a profit of a little over $200mm
- Unrelated to the Tax Act, All Other results also included [indiscernible] (36:22)
- Revenue compared to Q4 2016, excluding the impact from [indiscernible] (36:32) were down a little more than $130mm y-over-y
- Remember, when comparing y-over-y, Q4 2016 included expenses and charge-offs for the UK card portfolio sold in 2017
- The tax rate this quarter was impacted by the negative impacts of the Tax Act, as well as the benefit of the unrelated subsidiary restructuring

Tax Rate

- With respect to tax rate in 2018, prior to tax reform, we expected our GAAP tax rate for 2018 to be around 29% before unusual items
- Now, we expect the GAAP tax rate to be approximately 20%, absent unusual items
- And remember, when thinking about tax rates on an FTE basis, the difference between GAAP and FTE has now narrowed from 2BPS to 1 basis point
  - This reflects our preliminary analysis of the non-deductibility of FDIC premiums, the global mix of our profits, and other tax reform provisions

Brian T. Moynihan

Highlights

Tax Reform

- As we wrap up, we thought it'd be useful to hit a couple questions from the top that Paul and I've been fielding as tax reform becomes more of a reality
- The first question we get often is, how do our clients and how do we feel about the tax reform and the client activity
- It's clear from what our clients tell us, the tax reform will be a positive for our clients and customers in United States
- There are two key elements from the standpoint of corporate America and tax reform: first, the lower competitive tax rate; and, second, the territorial system
  - And both of these were accomplished in the tax reform

- These, coupled with the continued regulatory reform agenda to balance regulation, are well received by businesses
- And this increased confidence will ultimately make it – and undoubtedly make it into the business plans
- And as one of the largest banks in United States, we will benefit with that as our customers grow and invest
- That being said, those customers, just as we at Bank of America will look and our other peers in our industry, are carefully evaluating alternatives to reinvest some portion of those savings to drive further business activity to help grow our company and achieve even more competitiveness

Focus Change

- The second question we get is does our focus change
- Are we going to run the company differently given a lower tax rate
- And at the end of the day, it's no
- We're going to remain focused on driving responsible growth, continually trying to connect better with our customers, striving to make it easier for those customers to do business with us, and for our employees to do business inside the company
- We'll continue to drive operational excellence, lowering operational expenses as we've done for many quarters in a row, and improving our competitiveness as we develop and invest in new products and services

Shareholder Return Model

- We're also continuing to drive our shareholder return model, and we expect that the largest portion of benefits from the tax reform will be delivered to you, our shareholders
- In the end, whether through increased investments, capital distributions or supporting our clients, all this would benefit the economy and shareholders and drive our activities consistent with responsible growth

Loan Growth

- The third question is do we think that the impact of tax reform will affect loan growth
- Near term, it will be tougher to judge as people repatriate money or receive more after-tax cash flow
- The question is will they pay down the loans; and perhaps they will
- However, over the medium to long-term, having more after-tax cash flow can't help, but be good for business and we will benefit by greater loan growth as those businesses invest those proceeds
- We believe the real test of our loan growth will be more of the general economy and how it's growing and less about the tax rate

2018 Goals

- Another question we often get is does the tax reform change our commitment to the $53B goal for 2018

Expenses

- I'd start out by pointing out that if you look at our expenses in Q4, we effectively reached a run rate expense in the $53B range
- We reported $13.3B in the quarter
- If you back out the $200mm in additional bonuses and the accelerated charitable contribution, that leaves us just about $13.1B
  - You multiply that times four, and that's $52.25-or-so billion
- If you add $400mm in the FICA-related tax that come in Q1 and throw on top of that a couple hundred million dollars of potential incentives due to Q4 being a lower trading quarter, you get to around $53B run rate
- So, effectively, we've reached our goal
- In Q2 2016, when we first announced this goal, we want to remind you that the expenses that we're trailing at that time were $56B
  - It was on our business plan to hit $53B in 2018 and still is
- But as we look forward, we have no doubt, as I said earlier, that businesses including our company will have to look to take advantage of some of the tax savings to invest to improve their business and competitiveness faster than they would've done before the tax reform act

Investments

- So we continue to evaluate options for longer term value creation along the dimensions of the investments we've been making in branches and technology and people
- We will continue to assess as we move through the year
- However, to be clear, we'd expect most of the benefits from tax reform will flow to the bottom line through dividends and share buybacks over time
- In addition, the investments we make will drive operational excellence and efficiency that will continue to play to our benefit over time

Capital Return

- The next question I get is around capital return expectations with a change given the tax reform
- The simple answer to that question is, yes
- In 2017, we reported net income available to common shareholders of $16.6B and returned $16.8B back through share repurchase and dividends

Acquisitions

- We don't need to make any acquisitions in the company
- In fact, in United States, the deposit acquisition is not legal
- So all growth will have to be organic and will continue to be so
- We believe we have sufficient capital to absorb our risk as we grow; and, in fact, we have excess capital

- We have the capital also to support our customers' demand for financing, and we always want to use the capital first to help customers grow
- So, yes, we will expect to return more capital to shareholders, given the Tax Act

Return Targets

- That brings us to the last question I often hear from investors
- How are you performing against your return targets? And do they need to increase for the tax savings implied in the Tax Reform Act going forward that Paul spoke about
- This year, excluding the impact of the Tax Act, we earned return on tangible common equity of 11% and return on assets of 93BPS.
    - They're just shy of the 12% and 1% targets that we laid out a few years ago

Tax Reform

- Going forward, the benefits from tax reform will easily mathematically accelerate those, and we'll reach those targets
- The potential lift in returns can be seen by just adding the benefits of the lower tax rate
- Assuming 100% of the benefits go to the bottom line, this would equate to something north of 150BPS with increased return on tangible common equity and more than 10BPS of increased return on average assets
- But as you keep in mind, we've always been clear that the long-term target was just a step to keep marking our continued path to driving this company's operating performance
- So, yes, our targets will be obtained, but that doesn't lower our desire to drive responsible growth and continue to improve the company and continue to improve the returns and return of capital to you
    - And we'll continue to do that

Closing Remarks

So wrapping that up, we will stay focused on responsible growth for 2018

It's what got us here and what will get us here going forward

We'll control the things we can do and drive operating leverage throughout the company

QUESTION AND ANSWER SECTION

<Q - Elizabeth Lynn Graseck>: Brian, I just wanted to follow up on one of the comments you made around the expenses. As you indicated in the prepared remarks, the expense improvement has been fantastic in particular in the consumer business where operating leverage has been very strong over the last two years. I wanted to understand from your prepared remarks, are you saying that the $53B – you've already met it and you'll retain it for the full year or may change your outlook based on how the customer demand evolves with the tax plan, and within that, just wondering if you're expecting that you'll be able to generate more operating leverage in particular in the consumer space given the ground work you've laid in digital payments and the branch network?

<A - Brian T. Moynihan>: Sure. I think what we're saying is that, just to start from the base principle, the vast majority of any increased after-tax cash flow would go to the shareholders. The question that we have to look at, Betsy, as you referenced, is there an amount of investment that we'd make to accelerate some of the things we're doing, especially around consumer business but across all the businesses, accelerate the branch build out in some of the cities has proved to be very successful that we'd do over five years, you want to speed it up a little bit, or do we invest a little bit more in technology, especially to make the next major move in the markets businesses, which Tom and the team are driving at to get the – even with stable revenues to start to drive the profit back up again, or in the Treasury Services business. So the debate is, is there some amount that you would invest to help accelerate growth, but it'd be along the dimensions that we've been doing and would just improve our ability to get them done and speed it up. It would be modest, I think, is the best way to say.

<Q - Elizabeth Lynn Graseck>: Okay. And then on the consumer business, the operating leverage has obviously been extraordinary in the last two years. Is there more to come this year?

<A - Brian T. Moynihan>: Yeah, I think, we want to focus all of you across all the business' operating leverage and they tend to – they've shown good progress, the company as a whole and each of the businesses. And consumer can continue to get operating leverage through – they've done a great job. You'll see the branches have done a hundred and some y-over-y. The digital transactions continue to go up but there's a lot of room to go still even though we think we've made great progress in digital, and we have, only 23% of the deposits are made digitally and about 30% are made over-the-counter at the branches. So, as we continue to get customers to adopt these new and exciting technologies, we'll see more operating leverage. But it's been – the team's done a great job there and I think they'll continue to improve it.

Likewise, you're going to see some of the transformation we're doing in the wealth management business continue to grow. And Terry and Andy and Katie and the team are doing a great job. That business has grown but we need to start to drive some of the digitization techniques that we've used in other businesses, including commercial business into that business, which you'll see, and that will help the operating leverage there. And then the commercial business, it's very efficient, so it's very hard fought to get much expense. But even then, they still have done a good job of taking the expense leverage through the change in some of the underwriting ways we do business and how we underwrite centrally vs. decentrally and things like that. So it'll be across the board and we expect more out of consumer.

<Q - Elizabeth Lynn Graseck>: Okay. Thanks. And then just last question on the dividend payout ratio, realize that earnings up with the lower tax rate. Do you expect you'll keep that dividend payout ratio flat? Or how are you thinking about the dividend and overall capital return?

<A - Brian T. Moynihan>: We basically said we're moving towards a 30% type payout ratio of earnings, and I think that would mathematically follow your – what you just laid out, if after-tax earnings go up, it'd be a higher number, so – we're not quite there yet but we're pushing that towards that direction.

<Q - John Eamon McDonald>: Brian, thanks for the comments on expenses and how you're thinking about some of the tax impacts and maybe accelerating investments. I guess kind of just coming back to that, if we think about, you got to this $53B or kind of there now, is this a level where you feel like you could run the company and kind of have some kind of maybe just core inflation associated with the economy? Are you still reinvesting cost saves but you're still taking out cost in some places, reinvesting other? As you think about 2019 and beyond, is $53B kind of where you want to be or should we think about an efficiency ratio set of goals for the next year? Is that a better way to think about it?

<A - Brian T. Moynihan>: I think, as we said before, the key is to drive operating leverage, as Betsy referenced, John, and continue to drive that across the businesses. A couple things, we've been clear that we decide the discussion about do you invest on the proceeds or taxes, but basically the $53B was a rate we could kind of sustain around, i.e., continuing to invest in operational improvement over time and keeping it relatively flat. And you are dealing with inflation and things like that, that creep up on you. And so we had a pretty good dynamic going. The sole question is do you want to invest a bit to speed up? And that would just increase that number by a little – by a bit and then play over the next couple years. But the basic principle is you want the company relatively flat through continued investment and cost effectiveness is still – we still got a lot of room ahead of us.

I always come back, John, and you follow our company closely, we will continue to have the same rigor around the way we run the company, just because the tax rate's lower doesn't change how we're going to do it. So we're going to be driving that analysis that says how much can we invest and build in this operational excellence campaign we're on? We just see tremendous opportunity to keep applying digitization to paper and the work and the company and continue to drive that. So a lot of the – some of those investments will be branches or people or salespeople and have been in the businesses. But on the other hand, we're investing tremendously in effectiveness and the company will continue to do that.

<Q - John Eamon McDonald>: Okay. And just for Paul. On the overdraft policy, understanding the long-term franchise value of the new policy, trying to think about the near-term financial impact. Is there any kind of pull through, a continuation of drag on deposit fees that might come from the new overdraft policy? Or is that impact maybe fully in Q4 numbers yet?

<A - Paul M. Donofrio>: I would say that you're going to see that next year. If I were modeling it, you'd probably want a sort of low-single digit impact.

<Q - John Eamon McDonald>: Relative – sorry?

<A - Brian T. Moynihan>: It came in part way through Q4, so you just got – a good chunk is in there, John, so it'd be a modest impact beyond that.

<Q - Steven Chubak>: So wanted to start with a question on credit outlook, delinquency trends remain quite favorable. Brian, you know that NPL has declined, both consumer and commercial. I'm just wondering how we should be thinking about the provision outlook in the coming quarters. Is it still reasonable for us to expect that to trajectory in line with charge-offs, maybe some upward growth as the loan portfolio continues this season? So maybe somewhere in the range of like $900mm to $1B, is that a reasonable expectation?

<A - Paul M. Donofrio>: We expect credit to continue to perform in line with the way it performed in the first three quarters of 2017, which we would characterize as solid if not excellent. We would expect provision to roughly match net charge-offs with reserve releases moderating over time as we continue to build allowance in support of loan growth. Those releases are being driven by non-core consumer real estate and energy.

<Q - Steven Chubak>: Got it. And just one clarifying question for me on the expense side. I know that Betsy and John had already touched on this a little bit, but I just wanted to clarify the guidance that you guys had actually given on the last earnings call. Brian, it was in the Q&A where you alluded to the fact that you expect expenses to be flattish in 2019. I know you're very focused on digitization, automation. I just want to confirm whether that's still a reasonable expectation just because it looks like most people are contemplating some expense ramp from 2018 to 2019.

<A - Brian T. Moynihan>: We'd say that we'd expect, all things being equal, they would be flattish and that's what we've told you. The question is, if we took a little bit of money and accelerate investments to kind of run through a couple years, it'd probably drop back off, but it'd be very modest in the greater context. A lot of those investments get capitalized. The near-term P&L impact's different, but basically from a conceptual framework, we think we can run the company in the low $53B approximately $53B on a consistent basis over the next couple years with the caveat that we may look to invest a part of the tax savings on top of that and we'll be very clear that we do that.

<Q - Steven Chubak>: Got it. And one final one for me, just regarding the remarks on the wealth management side, Brian, you talked about efforts to invest in technology to drive improved profitability. In the past, you had alluded to a 30% margin target. I didn't know if that was still a reasonable expectation that you guys could get to.

<A - Brian T. Moynihan>: Yeah, I think we're at 27% this quarter, 26%, 27%, 26%, we bounce around that. It's the target to get to. I think it mechanically, there are some things that help us over the next couple years in terms of some stuff running off that pushes us up, so we continue to do that. What we're talking about is a more fundamental reset on a couple things. Obviously in the lower end, lower affluent businesses we're driving Merrill Edge and things as more efficient platform by definition. And secondly, there is a lot of paper in this business and a lot of work and even the – and they advised themselves, there's a lot of automation work they do that will make it easier for them to do, they could become more efficient and handle more clients and handle them well. But if you think about the core pre-tax margin, it'll move up and we can get it. We still believe we get up around 30% in the deposit side helps that as the arbitrage from rates goes through that business.

<Q - Glenn Schorr>: Hopefully this is simple, and I know you can't talk for the regulators, but all else equal, have you thought through how the Tax Act might impact the CCAR process, meaning I see just a lot higher PP&R and shouldn't impact anything else in a vacuum but just curious if I'm missing something there?

<A - Paul M. Donofrio>: I don't think you're missing anything. Just going to be – I think all companies, all banks are going to have more, are going to keep more of what they earn. That's going to increase our profits, and so we're going to be in a better position to return more capital to shareholders in the form of dividends and buybacks.

<Q - Glenn Schorr>: Good. And then just switching over to wealth management. A couple little questions on like, number one is, where's all the growth coming from, meaning you noted the strong flows, curious what's current vs. new clients and you also noted advisors are up 3%, is that training, or is that recruiting? Just curious.

<A - Paul M. Donofrio>: Well, look, the FAs grew, reflects really our continued investment in the training program. Some experienced hires offset by sort of the normal kind of attrition, which has been very low particularly in competitive losses.

<A - Brian T. Moynihan>: Paul, just remember, just to be clear, we have changed our recruiting. We announced that six months ago where we have been recruiting in sort of the traditional way, so most of the growth is coming through our advisor training platform, which we consolidated between the people who work in the branches and the people who work in the Merrill offices brought into one big training program again for effectiveness, and we think there's great prospects to that. It'll take a few years for that to play out obviously.

<A - Paul M. Donofrio>: So, as you think about the numbers, it's just AUM growth, which is being driven by market levels. It's being driven by increased flows. It's being driven by some new household, and we're very focused on that. That's offset by some little, a little bit of spread compression and decline in transactional revenues that we've been seeing now for a couple of years.

<Q - Glenn Schorr>: Okay. Last follow-up if I could. Your decision to stay in protocols is a little different than a handful of the large peers. Just curious, the thought process and experience so far.

<A - Paul M. Donofrio>: I'd say it's been, the experience so far has been relatively modest in terms of anything. It was – people have been changing their opinions, but we continue to monitor the market. And we'll figure out what we want to do but we haven't changed our position yet.

<Q - Matthew Derek O'Connor>: I was hoping to follow-up on the outlook for net interest income for the full year. I know you mentioned some of the drags from the card business, but I guess in the grand scheme of things, I mean it doesn't seem like the $500mm drag from card is really that material. Obviously, you had good net II growth y-over-y. So just trying to get a little better sense of maybe the magnitude of the net II that you're looking for. And then if you want to give us the bond premium amortization, how much benefit that was this year vs. last, that might be helpful in the pieces.

<A - Paul M. Donofrio>: Yeah, so look, we expect solid NII growth in 2018 from continued sort of NIM expansion as well as loan and deposit growth. I think the size of the increase is going to depend upon the amount of loan growth, the realization of rates increasing along the forward curve, and obviously, our ability to manage deposit rate paid. With respect to bond premiums, what I would point out was that in 2017, we got a benefit of approximately $700mm from lower bond amortization driven by slower prepayments as long-end rates moved up at the end of the year, at the end of 2016.

So you really can't expect that to repeat itself this year, given that that curve is not linear. It's convex. And we've already had a big increase in rates. And so we're not going to get the same decline in the future of prepayment speeds. You noted and I would also note that 2017 included half of the UK card. And then you've got to factor in FTE. But all that said, we feel good about 2018 NII growth. We think it's going to be solid. It's going to be back to basics, growing loans, growing deposits, managing deposit rate paid well.

<Q - Matthew Derek O'Connor>: Okay. That's helpful. And then just separately, on the retail deposit side, you mentioned essentially no repricing there and it's consistent, I think, with what we're seeing for mostly your big peers, but just wondering what your thoughts are in terms of when there does start being a little bit of upward pressure there, being the biggest deposit player, you might be one of the kind of setters in the price there as we think about rates going forward.

<A - Paul M. Donofrio>: Yeah, I'm not sure how helpful I'm going to be to you. I would just make a couple of points that we've made many times. The industry really hasn't seen on the retail side deposit rates increase sort of much or at all on traditional accounts. And I think it's important just to remind everybody that Bank of America delivers a lot of value to depositors. You've got transparency, convenience, safety, mobile banking, nationwide network, advice and counsel. I think all of this plus the lack of market pressure so far has kept deposit rates relatively low. You've seen rates rising in GWIM and Global Banking. Look, at some point, rates are going to rise. My guess is we're getting close to that point, given the expected Fed fund rate hikes here in 2018. We just don't know though. All I can tell you is that we're going to balance our customer needs and we're going to balance the competitive marketplace with our shareholders' interest and we're going to do the right thing for all the parties.

<A - Brian T. Moynihan>: Paul, I'd just add a couple of things. One, the pricing strategy in consumer has already driven on depth and relationship. And so, as we look at pricing tiers and how we do it and set by market, set by product, set by customer depth and relationship, the rewards programs that reward deposit balance along with lower rates on loans and other types of things, it's an integrated business. And a lot of people focus on the one aspect of it and try to isolate it, but it's actually a very integrated business.

But to give you a couple of other things, what holds us down is if you look at deposits y-over-y and consumer up $47B, the checking, which is always going to be very low, was up $30B of the $47B, or $29B of the $37B. And CDs are down $4B again. So even – we run-off CDs. And so that dynamic is always going to lead to all-in deposit price, more basis points. Looks lower but it's the quality of the checking franchise and core franchise we have. I think we had the average checking balance in consumer reached $7,000 this quarter. They're all prime, core transaction accounts for the household, which means the paychecks come in, come out. That's what's driving the overall structure of the business and we'll continue to do so.

<Q - Mike Mayo>: What is your total technology spending, say for 2017? How did that compare to 2016? Where do you expect that to be for 2018?

<A - Brian T. Moynihan>: Well, it will be comparable. You have to understand what the components are, but the component most people focus on is what we call technology initiatives or coded programming. That's about $2.7B and relatively flat.

<Q - Mike Mayo>: Relatively flat, 2016 to 2017. What about for 2018?

<A - Brian T. Moynihan>: Relatively flat for 2017 and 2018. We are getting, even in the way we program and a little bit of efficiencies, the nominal number for 2017 would be higher than that. The number for 2018 will be lower than that. But it's largely getting the same amount of work done for a little less efficiency, a little less cost per dollar per programming unit for the lack of a better term. So that's been fairly constant across time and we continue to evaluate the level of spending at all times.

<Q - Mike Mayo>: So going back to slide 12 for the Consumer Banking digital trends, are you spending more money in those areas as you get more traction? I mean, you see 23% mobile deposit transactions that are digital. I mean, where do you want to take that 23% number? And do you need to spend more to get there?

<A - Brian T. Moynihan>: Well, I think when you talk about technology, the consumer bank has benefited by a lot of technology spending across a lot of dimensions, including the way we still distribute the environment to the branches, the use of tablet type technology in the branches to interface with customers, better call center technology. It is a tremendous investment in the consumer.

On the digital side, specifically, we will travel with the customer. And we are getting the customers to understand the value of instead of going to the ATM to deposit check, do it with their phone, or instead of going to the branch to deposit, do it with their phone. But we can't get ahead of them. We have to walk with them and help them do it and help them grow and that 23% number up from three or four years ago you can see on the page, Mike, 12% is a meaningful amount. It's about 1,000 branches of activity that goes through the phone, so we'll continue to drive that.

But I think, yes, we've invested, but it's not necessarily what we invested this year. It's the $1B dollars we probably invested in mobile technology over the last five, six years to get us here that now we're taking advantage of. And then as you know, [indiscernible] (01:05:36) comes out, the Merrill Edge capabilities continue to be improved to help in the mass affluent America. So there's a lot of stuff behind it. So think about spending $2.5B to $3B in technology. Think of us having done that for a long time and think of some of those benefits now coming through. So it's not like we have to accelerate spending to get the mobile behavior. It's actually a change in customer behavior, which is less about the technology; it's more about getting the customer moves and behavior.

<Q - Mike Mayo>: You guys have said, take a look at all these trends collectively on slide 12, but don't look at one in isolation. So what sort of metric should we monitor externally to gauge your progress? Would it be, for example, the Consumer Banking efficiency ratio? Or is there one all-encompassing number? Or how would you suggest that we think about this?

<A - Brian T. Moynihan>: Well, I think the efficiency ratio, when the team tells me that they have it down to 50 and they're going to get below 50 and they take great solace in that. I tell them don't take great solace in that because we don't know how low it could go. But the one I think that I'd argue is that we've always looked at is the, if you look on page 10, Mike, the average cost of deposits, if you take the entirety of running this system as a percent of deposits, which can benchmark people relatively clearly in the industry, you'll see that we run about 160BPS, the phones, the mobile, the technology, the people, and all that stuff against the deposit base. That has come down over the last seven, eight years from 300BPS to 161BPS. That is a simple way for people to think of the impact of all this transformation activity in your effectiveness and efficiency in the business.

Also, you wouldn't want to do this if your customer scores are suffering during that timeframe. The customer scores have risen, as Paul said earlier, to record heights. But you can't get ahead of the customer and you can't push the customer to do something they don't want to do. And so, the challenge is to keep that cost efficiency at 161BPS would be the benchmark while improving customer experience.

<A - Paul M. Donofrio>: And, Mike, I might just add, you've got to focus on operating leverage. That's a key thing that we're looking at all the time and holding people accountable to in addition to efficiency, and then all the other individual metrics of growth across mobile adoption and digital sales.

<Q - Mike Mayo>: Last follow-up, just on that last point, Brian. A lot of investors have voiced concern that all of the Internet digital banking will be the demise of the deposits, that deposits will flee more quickly. And what's your short answer to that concern?

<A - Brian T. Moynihan>: I think y-over-y, the consumer business grew $47B of organic deposit growth. I think that sort of speaks for itself, Mike.

<Q - Ken Usdin>: If I could follow-up on the loan side, 6% y-over-y in the core business, pretty decent rate, and you're seeing growth across. Just wondering what your expectations for loan growth are as you look out? And in a bigger sense, any sense of just movement in commercial and corporate America in terms of starting to think about investing more in their businesses?

<A - Paul M. Donofrio>: Loan growth, we feel very good about loan growth. We feel really good about loan growth. Clearly, tax reform is going to make businesses and individuals have more money in their pocket, and we think that's going to stimulate economic activity. We think tax reform has made America stronger. There's going to be more investment here because we've leveled the playing field. So medium, long-term, even short-term, I think we're very optimistic about loan growth. I mean with the slight caveat that people are repatriating some funds, so we're going to see what effect there is in the short-term on really our large corporate international kind of borrowers.

At a more detailed level, we feel like we've been growing well in mortgage and we're going to continue to do that. That's going to be offset by home equity run-offs. Card's been growing well in Q4. I would note that, seasonally, card balance is usually down in Q1. Auto has been growing strongly. Historically, that's going to soften or has softened. Again, I would remind everybody that we are focused on prime and super prime, and we didn't follow the market out to extended durations. But we're still holding our own there and expect slight modest growth next year. And on the commercial side, we've been growing loans at mid-single digits. And again, subject to what happens with the repatriated funds here in the short-term, I don't see any reason to change our expectation around loan growth.

<Q - Ken Usdin>: And, Paul, is there any change in the rate of run-off in the All Other bucket from that $71B bucket? How fast are you expecting that to still run-off?

<A - Paul M. Donofrio>: The way I would characterize this going forward, it's going to run-off sort of 4% to 5% to 6% per quarter, call it 5%.

<Q - Ken Usdin>: Okay. One quick one. Just mortgage, it's a small line, but it had a big obvious swing, $300mm to a negative, especially that other line. Can you just talk us through what that couple hundred million dollar negative was in the other part of mortgage and if that's recurring or just a one-time thing?

<A - Paul M. Donofrio>: Yeah, sure. You're talking about the MBI line, right?

<Q - Ken Usdin>: Yes.

<A - Paul M. Donofrio>: Yeah. So we had a rep and warranty provision of approximately $200mm to resolve some claims. If you exclude that and you look q-over-q, the decline in mortgage banking income reflected lower production volume in a smaller mortgage market, as well as lower servicing income. As the size of that portfolio continues to decline, keep in mind that mortgage banking income line is just simply becoming less relevant since we are now retaining 90% of our originations on the balance sheet. And coming back to that reps and warranty of $200mm to resolve a claim, the litigation line this quarter was a little bit lower than normal. So, we're resolving claims. Sometimes they show up in litigation; sometimes they show up in reps and warranty, but there's a little bit of geography there.

<Q - Saul Martinez>: Couple questions. Just wanted to go back, Brian, to the comments on your ROTCE and your ROA targets. Obviously, with the bump from the tax reform you hit and you exceeded the 12%, the 1% targets that you previously laid out. But as you go forward, you benefit from the lower tax rate, you sort of right-size your efficiency, get to the $53B and drive positive while operating leverage from there, rates normalize.

Not to put words in your mouth, but it seems like it's pretty easy to get sort of to the mid to high-teen ROTCE and ROAs well in excess of 1%. But do you have a view on where you think your ROTCE can get to over the next couple years and where ROAs can get to over the next couple of years as – if things progress as you think they might?

<A - Brian T. Moynihan>: I think you – and your question sort of stated for yourself which is, yes, there'll be a mathematical bump that will make it "easy" to get there at the 12% when you're running right around that now. But what we're trying to say earlier is, we don't look at 12% as being, geez, we've made it now. We can stop. The answer is, we'll drive that number as high as we can, driving responsible growth. And as we start to get rid of more equity than we earn because we have excess equity that'll help, we continue to improve the earnings. That'll help. As we continue to drive operating leverage, all the things you cited will help. So we're going to do it on a sustainable basis.

So the point was, when we talked about those targets, we were probably running around 8% or something like that. And so, we said we had a path over a couple years to get us close to 12% and 1% ROA at the time and we've made it there and it'd be easier by tax reform. But that doesn't mean we're stopping. We'll just drive this company the same way, and it will come out to be higher now and we'll see those levels and we expect to continue to exceed them.

<Q - Saul Martinez>: Okay. Fair enough. I guess, just to follow up and it's, I guess, of a – maybe a little bit more of a philosophical question. So Larry Fink, obviously, as you know, sent a letter indicating that management should look not only at maximizing profitability and returns for shareholders, but at the social impact of their actions. And I think, for good reasons, you guys take pride in being a good corporate citizen.

But I'm curious if you have any thoughts on that and whether you think there is a trade-off between maximizing profitability and doing good for society and other stakeholders? And with the tax windfall, do you feel like maybe there is or there will be greater pressure to invest in things or to provide products or take actions that you may not have taken if tax reform hadn't happened?

<A - Brian T. Moynihan>: I don't think it will change the way we run the company. We've been running it on a responsible growth with the four elements: got to grow, no excuses; got to do it with a – on a customer-focused organic basis; got to do it with the right risk; and got to be sustainable along the best place for people to work; drive shareholder success for communities; and drive operational excellence. That format won't change. And so, what Larry wrote about and what we've been working on for years, the idea of ESG and those types of things is part of our sustainable, part of our sharing success with the communities is not new for banking. And it goes back to – we were – our banks, all those legacy banks that came together, all were formed to help communities grow. And so, we had a long history investing because if we are already successful, the economies in the communities we do business within are successful.

So I don't think it's a major change in our industry, frankly, $200mm a year charitable, we're giving 2mm volunteer hours, billions of dollars of building moderate housing and investment earnings a billion dollars plus out to the CDFIs. We can rattle off all the stuff, $100B, but we'll commit more halfway through. These are things we were doing long before tax reform came and will do long before tax reform – when tax reform goes away someday or something else changes. These are things that make this company great. And as you said, it's a philosophical viewpoint. But also, the public role of banking is just a little bit different.

<Q - Marty Mosby>: Wanted to drill in to the expenses just a little bit to get some clarity. Seems like there was two kind of – not unusual, but kind of standout, $200mm worth of compensation that would have been in Q1 now has accelerated into Q4. And then, Brian, you were talking about $200mm of the charitable foundation and the extra bonus payments. Just want to make sure those were two separate items and that those numbers were correct.

<A - Brian T. Moynihan>: Marty, I think we've got it. So in Q4, in the $13.3B expenses, there's about $145mm, $150mm of a one-time $1,000 bonus to people under $150,000 in our company, plus we accelerated $50mm of charitable donations in Q4 2017. That's the $200mm. That's what we're talking about. So, the $13.3B becomes $13.1B, if you back out those two items and then did the math and multiply it times four.

I assume that what you're talking about there is the change to FAS123, which is that – the simple way to think of it. We used to take $1B in Q1; now, we take $250mm per quarter. It moves around a little bit. But that's the phenomenon we announced earlier this quarter that we're going to – last quarter that we're going to take. And so, that number is in that $13.3B and also the $250mm for that. It's not acceleration. It's just the way – it's used to be done all at once in one quarter. Now, we spread it across four quarters.

<A - Paul M. Donofrio>: We made that change in Q4, so you're seeing it in Q4 numbers.

<A - Brian T. Moynihan>: And the earlier number has been restated, so the relative difference y-over-y is the same. Does that help, Marty? I want to make sure I got your question...

<Q - Marty Mosby>: I was just making sure those were two separate items and that reconciles where I was getting to. And then, if you look at the securities portfolio, you had two things that kind of popped up. One, you took just a very modest or slight loss in security sales. And then, also, your AOCI, you had the OCI adjustment as rates went higher that you mentioned earlier. Will you be actively restructuring because it does kind of drop through capital anyway and taking those losses as you have the opportunity to kind of round up earnings? So, I just was curious how aggressive you wanted to be in that kind of push.

<A - Paul M. Donofrio>: The short answer is no. We're not in any way restructuring our securities portfolio. There was a very modest – but nice find there, $23mm loss on some securities we sold in Q4. That was basically just some legacy stuff that got to a nice price that affects our CCAR results, and we wanted to get rid of it and we think it's a good trade-off.

<A - Brian T. Moynihan>: It does not – it wasn't related, Marty, to the core sort of way we invest the excess deposit proceeds in a given quarter. This was legacy stuff we were just trying to clean out.

<Q - Marty Mosby>: Got you. And just one of the things we're anticipating is that banks can actually accelerate the benefit as we do any get uptick on the back end of the curve by doing some of that aggressive restructuring. So, I just was curious if you had been kind of thinking of that or kind of moving in that direction.

<A - Paul M. Donofrio>: No. We feel really good where we are in terms of our securities portfolio.

<A - Brian T. Moynihan>: Yes. And, Marty, always remember, the reason why we have a securities portfolio is because we have that deposit franchise growing $40B, $50B y-over-y. Loans grow at a more modest rate especially due to the runoff. So, you just have to put the money to work and we put it into an investment portfolio to extract the value of that great deposit franchise.

<A - Paul M. Donofrio>: Yes. And remember, we're only putting them in treasuries, mortgage-backed securities or cash. We have a very high quality securities portfolio.

<A - Brian T. Moynihan>: Operator, do we have another question?

<Q - Gerard Cassidy>: Your fourth quarter results were good, and the outlook looks quite good for you folks as well as your peers. Can you share with us what risks you're kind of looking out for on the horizon? Obviously, again, things are looking very good for you folks, and we always have to watch out from left field for some type of risk. Anything that you can identify that you guys are just keeping an eye on?

<A - Brian T. Moynihan>: Yes. I think, Gerard, obviously, the parade of horribles that you can go through whether it's geopolitical risk, whether it's the markets changing risk, whether it's credit risk because unemployment levels rise, they're all going to come back as the economy is going to keep moving along and even accelerate or decline. And we don't see a lot of risk in that. But we do watch those risks. How we avoid them is not what we're doing today. In fact, it's what we've been doing over the years to stay in the high prime quality in the consumer business, balancing the consumer business vs. the commercial exposure, maintaining our tough discipline in commercial credit. And this situation this quarter obviously is always a wakeup call that some things don't turn out well and we got to go back and what are the lessons learned and what did we do right or wrong in that and how do we avoid that in the future.

And the team has spent significant time doing that. We weren't happy with it from the top of the house through to the actual people who were involved in it. But even with that, the credit cost y-over-y is relatively flat and the team is doing a good job. So, we think about all those risks and – plus cyber risk. You could – you know the list as well as I do. The question is, how do you balance and how do you keep yourself ahead of those so that you won't be immune from them but they'll impact your company less? That is what we define as responsible growth, quite frankly.

<Q - Gerard Cassidy>: Okay. Thank you. And then, you guys mentioned that your commercial customers were optimistic about the future. Can you share with us in the investment bank what the pipeline looks like at the end of Q4 coming into 2018? And then, second, within the investment banking division, I think you mentioned you hired 400 bankers. What sectors are you really doing well in? And is it health care, technology, financial?

<A - Brian T. Moynihan>: Those bankers are in the commercial banking segment. S, they're middle market and investment banking, just to be clear. And they are successful, but they're across all industries. Paul, why don't you talk about the pipeline?

<A - Paul M. Donofrio>: Sure. The investment banking pipeline ended the year lower than Q3, mainly due to the completion of some large transactions in Q4 combined with the postponement of or cancelation of some other large transactions. Having said that, again, I think we're very optimistic about 2018, given the Tax Act which again has leveled the playing field here. And we think companies are going to be interested in more M&A transactions and ultimately are going to be investing and raising capital. So, down a little bit, but that's kind of normal for a clean-up at the yearend.

Your other question regarding sectors. We're number three globally. And when you look at across all of our industry groups, we are +/- around that range pretty consistently. Obviously, we have a couple groups that are stronger than others, but we feel like there are no weak spots in investment banking and all the groups are very strong.

<A - Brian T. Moynihan>: And, Gerard, one thing that I thought you were going to go through is what the consumers feel. It was interesting that the spending for the full year of 2017, whether it's credit cards, debit cards, ACH, wires, payment of bills, cash-out ATM's, over-the-teller line, checks written was a 6% growth over 2016. And 2016 to 2015 was a little under 3%. So, the consumers are feeling pretty good and spending very strongly out there. And it is broader than just the credit and debit card spending. Debt is up 6%, 7% as Paul said earlier. But it's the broader use of cash, which shows that consumers are putting money out there and spending on things. So, we feel good about the consumer side. And the month of December was faster than the year in terms of the growth rate of 7% vs. 6%.

<Q - Gerard Cassidy>: No, that's a real good insight. And then, just lastly, I think you talked about getting the dividend payout ratio to 30%. And I recognize that – and this is a board of directors' decision. If the regulators give the green light to the SIFI banks that 40% dividend payout ratios are okay, philosophically, how do you think about that if, again, the green light is given by the regulators?

<A - Brian T. Moynihan>: I think we'll have to think about that when we get there. I'm not sure. For our, various largest banks are not going to always be a little more circumspect or whatever the right word would be in terms of governing our dividend. They just don't want us to ever have to cut our dividends. And as you do look at it mathematically across time periods, the idea of us not earning 70% of our earnings, therefore, i.e., being able to pay for the dividend is a fairly low probability and that's where they came up with that number. And I think it will just be – we'll see it play out. I don't know what they'll do. But our strategy inside the company is to continue to move up the dividend on a rational basis along with the earnings and get it close to that number.

<Q - Vivek Juneja>: A couple of questions for you, folks. Paul, you've mentioned that NII, you gave some puts and takes. Just want to tie them all together and say, net-net, do you – I mean, I recognize that the account issue in Q1. Would you expect some growth going from Q4 to Q1, given the December rate hike, even adjusting for the day count?

<A - Paul M. Donofrio>: I think it's too early to give you that sort of guidance. I've given you everything that I want to give you at this point. Again, we got two fewer days. We've got the card loans which are usually a little bit lower to get rid of the FTE. I don't know how you look at it. And remember that, at the end of Q4, there was a run-up in LIBOR in anticipation of the rate increase. So, we got some of that benefit in Q4. It's really just going to depend on loan and deposit growth and what happens on deposit pricing. That's why I'm not really willing to tell you higher or lower because I just don't know how the deposit pricing is going to play out over the quarter.

<Q - Vivek Juneja>: Okay, okay. Thanks on that one. Brian, a question for you. One of your peers set a goal of 2% of net income for corporate philanthropy. Are you thinking of setting anything like that?

<A - Brian T. Moynihan>: We have. We have. It's what you call as pure charity. We've kept our levels consistent from before the crisis now about $175mm, $200mm a year and we'll expect to keep it there. In addition to that, we do tremendous volunteer work, 2mm hours a year and other things. We feel comfortable with that level. I haven't even done the math lately, but I think that's 1% after-tax at this point. But our view is that we could have a lot of impact there. It ebbs and flows depending on what's going on at the moment. But I don't expect us to change that dramatically.

<Q - Brian Kleinhanzl>: Yes, I know you didn't want to give any commentary about deposit betas in the quarter in that, but what's the ability that you have to remix? I notice the LCR is up to 125%. So, to the extent you don't want to get as competitive on deposit rates, I mean, is there still plenty of opportunity to remix from short term into loans?

<A - Brian T. Moynihan>: On deposits, just – it's a very sophisticated question of how you price. We price literally by every market, by every product, by different customer sets. And so, as Paul mentioned earlier in the wealth management business, we moved pricing up because people with $10mm in investment assets, whether it's obviously the cash in their accounts, is an investment asset as it is opposed to in the retail business it'd be their household daily flows. So, it's a very sophisticated question and you're seeing us work that question across time and you saw us raise rates in the wealth management business.

Consumer business raised rates, albeit slower. The corporate business responded a little more instantaneously, but it's a methodology for paying for services. And so, it's a very complex thing. So it's hard to sort of give you a single answer. And when we model, we use the number. But frankly, we've done better than that model every single quarter. So – but we have to be conservative in our modeling for NII and other purposes.

<Q - Brian Kleinhanzl>: Okay. And maybe just one follow-up on the expenses in the 2019. I mean, is there a big opportunity to do investments? I know you said you would give further details later on as you looked across to maybe pull forward some investments and lower expenses. But it seems like if you were to go on some kind of accelerated investment, maybe there would be a chance to get below that $53B in expenses in 2019? I mean, is that still a possibility and something you're actively pursuing?

<A - Brian T. Moynihan>: Our job – what we've told you guys was we got to $53B for 2018, it would be relatively flat, thereon absorbing 6% medical care costs, increases, raises and things like that. And that comes through our ability to continue to invest in effectiveness and efficiency. So, we don't – that's an operating strategy level and the exact number that we're focused on and we continue to focus on that. So, I don't – there's no change to that. The question would be, do you want to accelerate some investments given the higher after-tax yield? And we will look at it, as I said, and we'll look at it across time.

You have to be able to get the value of those investments. We've been – as one of the caller's questions referenced a little bit earlier, we added 400 commercial bankers. We have to make sure if we added 400 more tomorrow, you might not be able to get it up to speed. So, you have to make sure they're coming in and we use the techniques to divide the portfolio up to give them deeper client penetration, to get the customers per – the products per customer up. That takes time, and you just can't snap your fingers. So, the ability to accelerate those investments were largely based on what we think we can do.

But it will be modest in the sense that even if a fair increase in the – at the margin is not a big number in the overall scheme of things at $53B expense level. In the end of day, our challenge is to drive operating leverage and we continued to do that within 12 quarters in a row and we'll continue to do that going forward and that's good for our shareholders.

Brian T. Moynihan

Closing Remarks

We had a good 2017, and we look forward to a great 2018

And we're going to do that by driving responsible growth, delivering value for our customers and for you, our shareholders, and we'll continue to do that