

Q4 2016 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

- Elizabeth Lynn Graseck, Analyst
- Eric Wasserstrom, Analyst
- Gerard Cassidy, Analyst
- Glenn Schorr, Analyst
- James Mitchell, Analyst
- John Eamon McDonald, Analyst
- Marty Mosby, Analyst
- Matthew Derek O'Connor, Analyst
- Matthew Hart Burnell, Analyst
- Mike Mayo, Analyst
- Nancy Avans Bush, Analyst
- Paul J. Miller, Analyst
- Steven Chubak, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, everyone, and welcome to the Bank of America earnings announcement call. At this time, all participants are in 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, sir.

Lee McEntire {BIO 6651246 <GO>}

Good morning. Thanks, everybody, for joining us. I know it's a busy morning for all of you for the fourth quarter 2016 results. Hopefully, everybody's got a chance to review the earnings release documents that are available on our website.

Before I turn the call over to Brian and Paul, let me remind you we may make some forward-looking statements. For further information on those, please refer to our earnings release documents, our website, or SEC filings.

With that, let me turn it over to Brian Moynihan, our Chairman and CEO, for some opening comments before Paul Donofrio, our CFO, goes through the details. Brian?

Brian T. Moynihan {BIO 1517608 <GO>}

Good morning. Thank you, Lee, and thank all of you for joining us to review our results today. Results this year in the fourth quarter complete a solid year of execution in driving our responsible growth strategy. We produced earnings of \$17.9 billion in 2016. That is a 13% growth over 2015.

In a year in which we had a series of unexpected and sizable events around the world and a rough start in the capital markets, we were able to achieve 1% growth in revenue against the backdrop of a slow growth U.S. economy, importantly focused on driving what we could control: cost, production, and risk.

So, how did we do on all that? We lowered our costs and improved productivity which resulted in reduction in expenses by almost 5% compared to 2015. That's nearly \$3 billion in expense reductions continuing a long-term trend. From their peak in 2011 of \$77 billion, expenses are now down \$22 billion or 29%. And the reductions coupled with the revenue growth drove 6% in operating leverage.

An improving economy, a relentless focus on client selection and growth through responsible lending combined to result in a historical low charge-off rate of 39 basis points for our company this quarter.

We also returned more capital to shareholders through higher dividends and more share repurchases during 2016. As you may have seen in the news release this morning, we announced an additional \$1.8 billion expansion to our share buyback program. So, adding the \$1.8 billion to the \$2.5 billion left, that brings us to \$4.3 billion for the first six months of 2017.

Our repurchase resulted in a 2% reduction in share count at the end of 2016, which added to the earnings growth to produce a 15% growth in earnings per share. For the year, our return on tangible common equity was 9.5%, while return on assets was 82 basis points, and the efficiency ratio improved from 70% to 66%.

From a balance sheet perspective, let me mention a few things that are noteworthy, as the items continue to grow with the business while optimizing the balance sheet at the same time. Our average deposits grew \$64 billion or 5% compared to fourth quarter of 2015. Our average loans grew \$22 billion or 3% as the lending segments outgrew the legacy runoff, and Paul will show you that later on.

On regulatory capital, we ended the year at 10.8% on a fully phased-in CET1 advanced basis. Importantly, after reviewing our year-end calculation and through the hard work of our teams, we are pleased to report that our method 2 GSIB capital ratio requirement has dropped 50 basis points. So, our total 2019 CET1 requirement is now 9.5% instead of 10%.

Turning to slide 3, on these charts, you can see that each business segment played a role in driving our earnings growth in 2016. The businesses are producing good efficiency ratios and returns above the firm's cost of capital. And on this page, you can see that each business is driving hard to create operating leverage up in the upper right-hand corner.

Consumer Banking, our biggest earning business, continued a strong performance through its transformation, produced more than \$7 billion in after-tax earnings, growing 8%. Our Global Wealth and Investment Management business improved its earnings 8% as well, earning \$2.8 billion. Our Global Banking business, serving our commercial customers, continues to produce strong revenue and generated \$5.7 billion of earnings. And lastly but not leastly, our Global Markets business earned \$3.8 billion, the most it's earned in the past five years with the rebound in sales and trading revenue and strong expense discipline on the part of the team.

As you know and you can see from the slides Paul will walk through later, our business has important leadership positions across the board in the industry, and we believe that they have room to grow their market shares by focusing on deepening relationships with their existing customers as well as winning customers from the competition.

Turning to slide 4, let me cover a few highlights in the fourth quarter before I turn it over to Paul. We reported earnings of \$4.7 billion after tax or \$0.40 per diluted share, an EPS improvement of 48% from the year-ago quarter on a reported basis. We had a couple of pennies in net benefit this quarter from resolution of some tax matters that were partially offset by the combination of smaller charges for revenue, for debt hedge ineffectiveness, additions to our UK card PPI reserves to be prepared for sale, and DVA. This improvement in year-over-year results was driven by expense reductions as we lowered costs by 6% from fourth quarter 2015 to fourth quarter 2016.

Revenue from the fourth quarter 2015 to the fourth quarter of 2016 was up 2% on a reported basis. Note that this quarter had lower levels of non-core gains from equity, debt, and asset sales than in past years, so it is effectively more core earnings.

Provision expense was modestly lower in the aggregate from fourth quarter 2015 as our responsible growth strategy resulted in a 23% improvement in net charge-offs, and we also had a lower amount of net reserves released from last year's fourth quarter.

So, overall, I am pleased with the results. The company has produced another quarter of solid results with strong operating leverage. We reported year-over-year earnings growth in every quarter of 2016 with expenses declining in every quarter and revenue growing in three out of four. Our focus on operating leverage, expense management, and operating excellence continues.

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The fourth quarter 2016 represents the 20th successive quarter of year-over-year non-litigation expense going down. The expense reduction has been an important ability to grow our earnings without the benefit of significant rate increases, but now we see rate increases in the fourth quarter of 2016 in the latter part of the quarter on both the long-end and short-end. As these rate increases were late in the quarter, they didn't benefit the fourth quarter NII number that significantly, but we look forward to first quarter 2017 when we expect NII to increase, all things remaining equal, by approximately \$600 million per quarter despite having two less days in that first quarter. And with loan and deposit growth, we'd expect NII to continue to improve from there throughout 2017 and beyond, and Paul will take you through these numbers in a minute. This dynamic bodes well as we expect growth in earnings from productivity improvements will now get the added benefits of rate increases.

This quarter, investors have asked a lot of questions that they usually ask but importantly, questions about the incoming new presidential administration. The questions have ranged from corporate tax reform and what do we think about that, regulatory changes, economic growth, and the impacts of these things in interest rate changes. The optimism for positive change here at Bank of America and among our customers is palpable and has driven bank stock prices higher. We'll have to see how these topics play out but that we are optimistic, but in the interim, we'll continue to operate the company by controlling and driving what we can.

We're going to drive responsible growth. In prior calls, I've sort of answered the questions you asked about the fundamentals. First, can we continue to stay this disciplined on risk? Yes, we're making progress growing our loans, growing our deposits, growing our market business, and keeping the risk in check in all areas, and our credit is among the best it's ever been in history.

Can we get earnings growth in low rate environment? The answer is yes. You're seeing our earnings growth even without significant rises in rates, and now, we look forward to those rises in rates. And the question is can you keep driving expenses lower? Again, the 20th consecutive quarter of year-over-year lower operating expenses, and we have room to move them lower even as we continue a healthy investment across all our businesses. And can we continue to drive our returns up above our cost of capital? And you're seeing that happen.

So, while we are very optimistic about the future, optimistic about new policies which could spur growth, we at Bank of America will continue to drive what we can control, and that's a culture of what we have, and we'll keep doing that.

With that, I'll turn it over to Paul for the fourth quarter results. Paul?

Paul M. Donofrio {BIO 1533743 <GO>}

Thanks, Brian. Good morning, everybody. Since Brian covered income statement highlights, I'm going to start with the balance sheet on page 5.

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Overall, the end-of-period assets declined \$8 billion from Q3 as solid loan growth across our business segments was more than offset by lower levels of trading assets in our Global Markets business. On an ending basis, loans grew \$10.9 billion from Q3 2016. This includes adding back \$9.2 billion in UK card balances that were moved from loans and leases to assets of businesses held for sale, pursuant to the announcement of the sale of our UK Card business. Loans on a reported basis showed growth of \$1.7 billion as a result of that movement. We expect to close the sale around the middle of the year subject to regulatory approvals.

On the funding side, deposits rose \$28 billion from Q3 or 9% on an annualized basis. At the same time, long-term debt fell by \$8.3 billion, driven by hedge and FX valuations. Global Markets trading liabilities declined in tandem with Global Markets assets. Lastly, common equity declined \$3.2 billion compared to Q3, as additions from earnings were offset by a decline in AOCI and capital returned to shareholders. AOCI declined by \$5.6 billion. Driving the decline was a \$4.7 billion reduction in the value of AFS securities held in our investment portfolio, which reduced in value as long-term rates rose significantly during the quarter. Reflecting this, global liquidity sources declined a bit in the quarter, ending the year just below \$0.5 trillion. However, we remain well compliant with fully phased-in U.S. LCR requirements.

We returned a total of \$2.1 billion to common shareholders through a combination of dividends and share repurchases in the quarter. Return of capital plus the decline in AOCI drove a 1% decline relative to Q3 2016 in tangible book value per share to \$16.95. However, it's up \$1.33 or 9% from Q4 2015.

Turning to regulatory metrics and focusing on the advanced approach, our CET1 transition ratio under Basel III ended the quarter at 11%. On a fully phased-in basis compared to Q3 2016, the CET1 ratio decreased 12 basis points to 10.8% and remains well above our new 2019 requirement of 9.5%.

CET1 capital declined \$3 billion to \$163 billion, driven by the negative OCI valuations. Benefiting the ratio was a \$12 billion decline in RWA, driven by lower exposures in our Global Markets business, partially offset by loan growth. We also provided our capital metrics under the standardized approach, which remain relevant for CCAR comparison. Here, our CET1 ratio is higher at 11.5%. Supplementary leverage ratios for both the parent and the bank continue to exceed U.S. regulatory minimums that take effect in 2018.

Turning to slide 6, on an average basis, total loans were up \$22 billion or 3% from Q4 2015. Versus Q3 2016, we saw a pickup in growth, driven by holiday spending on credit cards and some late quarter growth in commercial activity.

Looking at loans by business segment and in All Other, year over year, loans in All Other were down \$26 billion, driven by continued runoff of first and second lien mortgages, while loans in our business segments were up \$48 billion or 6%. Consumer Banking led with 8% growth. We continue to see growth in residential real estate, as the pipeline from Q3 2016 flowed through. Vehicle lending was solid. Home equity paydowns and runoff continue to outpace originations. In Wealth Management, we saw year-over-year growth

of 7%, driven by residential real estate. Global Banking loans were up 6% year over year. And on the bottom right chart, note the \$64 billion in year-over-year growth in average deposits that Brian mentioned.

Turning to asset quality on slide 7, one can see clear evidence of our responsible growth strategy. Credit quality metrics remain strong, perhaps best symbolized by our net charge-off ratio, which hit a record low of 39 basis points this quarter. Our strong credit quality metrics are a manifestation of our overall risk management, which has been transformed since 2008, and we expect our performance to bode well as we move through economic cycle.

Total net charge-offs of \$880 million improved slightly from Q3 and are down \$264 million from Q4 2015. Provision expense of \$774 million declined \$76 million from Q3 and \$36 million from Q4 2015. Our net reserve release in the quarter of \$106 million was slightly higher than Q3 2016, as we released \$75 million of energy reserves given improvement in asset quality and current stability in energy prices. The Q4 2016 total net reserve release was roughly a third of the amount released in Q4 2015, as consumer real estate releases continue to moderate lower. Our allowance to loan ratio this quarter was 1.26%, with the current coverage level three times our annual net charge-offs.

On slide 8, we break out credit quality metrics for both our consumer and commercial portfolios. As you can see, charge-offs improved in both periods, with consumer real estate driving consumer improvement and reduced energy losses driving commercial improvement. We saw improvement in most of our other credit metrics.

Turning quickly to slide 9, net interest income on a GAAP non-FTE basis was \$10.3 billion, \$10.5 billion on an FTE basis. Compared to Q4 2015, NII this quarter was relatively stable after adding back the \$612 million charge we incurred last year when we called some TruPS securities.

Compared to Q3 2016, NII was up \$91 million. NII benefited in the quarter from solid loan and deposit growth. We also saw some modest benefit in NII from higher interest rates. Partially offsetting these benefits was market-based hedge ineffectiveness totaling \$169 million related to the accounting for our long-term debt and associated swaps where we have swapped interest payments from fixed to floating. This ineffectiveness is recorded in NII and will revert to zero over the remaining life of the debt. It is just a timing issue caused by accounting rules.

While I'm not likely to give specific NII guidance in most quarters, the move in Q1 2017 is expected to be significant, so we wanted to provide some near-term perspective. As you think about Q1 2017 versus Q4 2016, the benefit from the absence of negative market-related ineffectiveness will be offset by two less days in the quarter. So you can effectively take this quarter's NII as a starting point.

Now assuming interest rates remain at current levels and we see modest loan and deposit growth, we believe we will earn approximately \$600 million in additional NII in Q1, primarily driven by the Q4 rate increases on both the long and short end. From there, we

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would expect continued growth in 2017 assuming modest loan and deposit growth and stable short and long-term interest rates. With respect to asset sensitivity as of 12/31, an instantaneous 100 basis point parallel increase in rates is estimated to increase NII by \$3.4 billion over the subsequent 12 months.

Turning to slide 10, non-interest expense was \$13.2 billion. That's an improvement of more than \$800 million or 6% from Q4 2015. And as you can see, the reductions are across the company and in virtually all line items of expense. Our productivity projects and efforts to simplify how we get our work done and how we deliver for our clients are driving these reductions.

Q4 litigation expense was \$246 million, which is fairly consistent with Q3 2016 but lower than the \$400 million recorded in Q4 2015. Our employee base declined 2% from Q4 2015. However, we continue to invest in growth by adding primary sales associates across Consumer, across Wealth Management, and across Global Banking. As a reminder, in Q1, similar to past years, we expect to incur roughly \$1.3 billion for retirement-eligible incentives and seasonally elevated payroll tax expense. Additionally, if we were to see a normal seasonal rebound in capital markets based activity, we would most likely see an associated increase in expense.

Turning to the business segments and starting with Consumer Banking on slide 11, this business is generating above average deposit growth, solid loan growth, improving customer satisfaction, and strong growth in earnings. Consumer Banking earned \$1.9 billion and produced a 22% return on allocated capital this quarter. I would note that pre-tax pre-provision earnings rose more than \$400 million or 12%.

7% expense and 5% NII improvement were both notable and enough to more than offset higher provision expense and prior-year divestiture gains. Revenue was up 1% compared to Q4 2015 as NII growth was partially offset by the absence of approximately \$100 million of divestiture gains in Q4 2015 as we sold the last of our larger non-core affiliate portfolios in that quarter. Credit quality remains good and provision was higher primarily as a result of reserve releases in the year-ago quarter.

Consumer continued to lower expenses, and the efficiency ratio dropped nearly 500 basis points to 53% from Q4 2015. With good pricing discipline, rate paid on deposits remained a steady 4 basis points. and the operating cost of deposits was also steady at 160 basis points.

Turning to slide 12 and looking at key trends, first, in the upper left, the stats are a reminder of our strong competitive position. Looking a little closer at the revenue drivers compared to Q4 2015, while we report NII and noninterest revenue separately, it's important to emphasize again that our strategy is to focus on relationship deepening and growing total revenue while improving operating leverage through expense discipline. Our relationship deepening is improving NII and balance growth while holding the fee line flat as we reward customers for doing more business with us. We believe the overall result is a more satisfied customer whose balances are more sticky over time.

We continue to see strong client enrollment in our Preferred Rewards programs. For the year, we enrolled 1.2 million clients in Preferred Rewards, and that's up 42% from 2015. We are seeing a 99% retention rate for customers enrolled in Preferred Reward.

Average deposits continue their strong growth, up \$54 billion or 10% year-over-year, outpacing the industry. With respect to card, spending levels and new issuances were strong. However, the industry trend of increasing reward costs continues to mitigate our overall card revenue growth. By the way, this makes it even more important to hold down acquisition costs through the use of our branch network to source and fulfill customer demand. I would also emphasize that our underwriting standards in card result in a relatively higher-quality new card customers that, on the one hand, have higher spending habits but on the other hand, receive more rewards.

Turning to expenses in the upper right, they declined 7% in Q4 2015 despite higher FDIC assessment charges between the two periods. Digitalization and other productivity improvements continue to help us drive down costs in our delivery network. Focusing on client balances on the left, in addition to deposit growth, client brokerage assets at \$145 billion are up 18% versus Q4 2015 on strong account flows and market valuations. We also increased the number of Merrill Edge accounts by 11% versus Q4 2015. We now have more than 1.7 million households that leverage our financial solution advisors and self-directed investing platforms.

Moving across the bottom of the page, note that the average loans are up 8% from Q4 2015 on strong mortgage and vehicle lending growth. Loan growth reflected total consumer real estate production of \$22 billion, up 29% from Q4 2015 and 7% higher than Q3 2016 as the prior quarter's pipeline came through.

We retained about three-quarters of first mortgage production on the balance sheet this quarter. As you might imagine, the sudden rise in long-term rates caused a noticeable decline in applications to refinance, driving the overall mortgage pipeline down 43% from the end of Q3. Auto lending was up 15% from Q4 2015 with average book FICO scores remaining well above 750 and net losses of 35 basis points. On U.S. consumer card, average balances grew from Q3, aided by seasonal holiday spending, and spending on our credit cards adjusted for divestitures was up 10% compared to Q4 2015.

Okay, turning to slide 13, we remain an established leader in digital banking. With improvements like our Spanish app and contactless sign-in, we continue to see momentum in digital banking adoption. Mobile banking continues to transform how our customers bank, and we expect to introduce our artificial intelligence application, Erica, this year. She will add to both the functionality and excitement around digital banking. Importantly, as adoption rises particularly around transaction processing and self-service, we expect to see efficiency and customer satisfaction improve. I won't go through all the details on this slide, but mobile devices now represent 19% of all deposit transactions and represent the volume of more than 880 financial centers. Sales on digital devices continue to grow and now represent 20% of total sales.

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While these trends are important and continue to transform how consumers interact with us, I would remind you that we still have nearly 1 million people a day walking into our financial centers across the U.S. Many of these customers still use our branches to transact, but many also use the branch as a financial destination where they can learn more about products and services, work face-to-face with a specialized professional, and generally improve their financial lives.

Turning to slide 14, Global Wealth and Investment Management produced earnings of \$634 million, which is up modestly from Q4 2015 on solid operating leverage. The business continues to undergo meaningful change as firms and clients adapt to the new fiduciary rules and other market dynamics. We remain well positioned with market-leading brands and a wide range of investment service options, ranging from fully advised to self-directed with guided investing for those who want something in between. We also have strong margins and returns as well as resources to help us manage through market dynamics and customer trends.

Year-over-year, noninterest income declined \$104 million as higher asset management fees were more than offset by lower transactional revenue. A 4% decline year-over-year on expenses drove 170 basis point improvement in operating leverage from Q4 2015. The decline was driven by the expiration of the amortization of advisor retention awards that were put in place at the time of the Merrill Lynch merger. Other declines were the result of work across many categories of expense, more than offsetting higher litigation and FDIC costs compared to last year.

Moving to slide 15, we continue to see overall solid client engagement. Client balances climbed over - they climbed to \$2.5 trillion driven by market values, solid long-term AUM flows and continued loan and deposit growth. \$19 billion of long-term AUM flows include clients transferring assets to AUM from IRA brokerage. Average deposits of \$257 billion were up 2% from Q4 2015. Average loans of \$146 billion were up 7% year-over-year. Growth remained concentrated in consumer real estate.

Turning to slide 16, Global Banking earned \$1.6 billion, which was up 11% year-over-year. Global Banking continues to drive loan growth within its risk and client frameworks, continues stabilization in all prices, and improvement in exposures drove provision expense lower in Q4 2016. Investment banking fees were down 4% from Q4 2015 as strong debt underwriting activity was more than offset by lower advisory and equity issuance fees. Expenses decreased from Q4 2015 despite the addition of new commercial and business bankers and increased FDIC costs. The efficiency ratio improved to 45% in Q4. Return on allocated capital increased to 17% despite adding a couple of billion dollars of allocated capital this year.

Looking at trends on slide 17 and comparing Q4 last year, relative to Q3 2016, we saw a pickup in lending with average loans on a year-over-year basis up \$19 billion or 6%. Growth was broad-based across large corporates and middle market borrowers, and it was diversified across industries. Average deposits increased from Q4 2015, up \$6 billion or 2% from both new and existing clients.

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Switching to Global Markets on slide 18, the business had another solid quarter. Given our broad product and geographic footprint, we were well positioned to help clients address volatility around the elections and central bank policy uncertainty both in the U.S. and abroad. We continue to invest in and enjoy leadership positions across a broad range of products. This business is another great example of our focus on improving operating leverage. Revenue grew 8% excluding net DVA, while expenses declined 10%. Global Markets earned \$658 million and returned 7% on allocated capital in what is typically the most seasonally challenged quarter of the year.

For the year, the return on allocated capital was 10% as sales and trading revenue ex DVA grew 5% while expense declined. It is worth noting that we achieved these results with a stable balance sheet, lower VaR, and 7% fewer people. Continued expense discipline drove costs 10% lower year-over-year led by reductions in operating and support costs.

Moving to trends on slide 19 and focusing on the components of our sales and trading performance, sales and trading revenue of \$2.9 billion excluding DVA was up 11% from Q4 2015 driven by FICC. In terms of revenue, while we experienced a normal seasonal decline versus Q3, this Q4 was our second best fourth quarter in five years. Excluding net DVA and versus Q4 2015, FICC sales and trading of \$2 billion increased 12%. Mortgages showed particular strength among the credit products as investors saw a yield. It was a challenging market for municipals. With the exception of rates, we saw an improvement in trading of Macro products. Equity sales and trading was solid at \$948 million, up 7% versus Q4 2015. Flows were strong in the second half of the quarter, driven by changing investor sentiment after the U.S. elections, which drove a favorable environment for derivatives as clients reposition across industries. We were able to help many clients who were underweight equities leading up to the election at exposure.

On slide 20, we show All Other, which reported a net loss of \$95 million. This quarter includes \$132 million charge to add to our PPI reserve. You will also note that this quarter includes no debt security gains. Equity investment income was only \$56 million, and there was little to no gains from asset sales. Given the increase in rates and our progress with respect to reducing non-core assets, this quarter's results are more reflective of future trends with respect to these two line items. All Other's Q4 2016 loss includes a net benefit from some tax matters of roughly \$500 million which reduced our tax rate in the quarter to 22%. Excluding those matters, the effective tax rate would have been about 31%. I would expect a similar tax rate of 31% for the average for 2017, excluding unusual items.

Okay. Let me editorialize a little bit as I finish here. We reported solid results this quarter that capped a year filled with improvement. These results show that our strategy of responsible growth is working. One can see responsible growth in our deposit growth while maintaining good pricing discipline. You can see it in the reduction in our expenses even as we continue to invest in the future of the franchise. And you can see it in the deepening of relationships with our customers and clients.

Our focus on responsible growth is helping us return more capital to shareholders, and today's announcement of an increase in our share repurchase authorization is another example of that. Responsible growth has also driven the transformation of our risk profile, which is evident in our credit risk metrics and something we believe will differentiate us

through future economic cycles. And responsible growth is driving operating leverage, which is visible in each of our lines of businesses. Lastly, responsible growth has put us in a solid position to benefit in 2017 from higher interest rates.

With that, I'll open it up to Q&A.

Q&A

Operator

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

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

Hi. Good morning. Paul, I was wondering if you could give us a little more split of some of the drivers of the net interest income increase that you're expecting to occur between the fourth and the first quarter, the \$600 million. How much is that is driven by the Fed hike we saw on the short-end? And how much of it might be the long-end in rates versus loan growth?

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

Sure. Maybe the simplest way to answer that question would be to take you back to 9/30, when the interest sensitivity on the long-end was \$2.1 billion. We saw 75 basis point increase in long-end rates since then. So, 75 basis points times \$2.1 billion is \$1.6 billion. At that time, the short-end sensitivity was \$3.3 billion. We saw 25% of 1%, 25 basis points. So, \$3.3 billion times 25%, that's another \$600 million. So, together, that's \$2.4 billion as you can see just in the change in the interest sensitivity. You divide that by four, you get your \$600 million.

Again, I would emphasize that we see NII growing from there as we move through 2017, assuming, again, we have modest loan growth, modest deposit growth, and a stable short and long-term interest rate environment.

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

Okay. And then the reason the \$5.3 billion future sensitivity has now moved to \$3.4 billion is you've rolled \$2 billion into your base case outlook.

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

Conceptually, we're going to capture the decline in sensitivity that you've just experienced in our NII over the next 12 months, and you can see that in the calculation I just did for you.

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

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Okay, got it. That's helpful, and then a question for Brian on capital return and CCAR. Some of the other banks have used the de minimis exception to top off their 2016 CCAR authorizations. That leaves Bank of America standing out quite a bit on the low end of payouts versus peers. So I'm wondering, two questions. One, how do you guys think about that de minimis? You did well in 2016. Any reason that Bank of America couldn't think about the de minimis top-off? Are there restrictions on that, or could you do that at some point this year on the de minimis? And then second, as you move into 2017, what are your goals to get your capital distributions closer to peer payouts, and why wouldn't you be able to do that? Thanks.

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

Yes, John. So this morning and as part of our release, we announced that we got approval for a de minimis of \$1.8 billion to add to the \$2.5 billion we have for the first half of this year to bring the repurchase volume to \$4.3 billion for the first half here. So we applied for that obviously in December and got the approval, and our board has approved it, and that went out with the release this morning.

In terms of next year, we'll see what the scenarios are with all the caveats. But you've seen us constantly move our numbers up, and we'll continue to do that. And our cushions and stuff are strong. And the earnings - the most important thing for us was to make sure the earnings power of the company kept coming back. And now with \$17 billion earnings, we feel confident we ought to be able to push forward.

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

And, John, that \$1.8 billion was the full 1%.

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

Great. And that will take you through - just as a reminder, Paul, that will take you through the end of the CCAR period, right?

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

Right, the first two quarters, all in the first half here.

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

Great, thank you.

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

Thanks, John.

Operator

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

Q - James Mitchell {BIO 1972127 <GO>}

Hi, good morning. Maybe I'll just follow up on the NII question a little bit. Does that guidance that you provided include the sale of the UK Card business, and what's the impact from that?

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

Yes, the guidance includes the sale of the UK Card business. But just to be clear, that's not going to close until probably mid this year.

Q - James Mitchell {BIO 1972127 <GO>}

Right.

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

And so that NII will be with us until it closes.

Q - James Mitchell {BIO 1972127 <GO>}

Sure. And so when we think about going forward, what kind of deposit betas are you assuming in that \$600 million per quarter? And how do we think about the next rate hike? Say we get one in June, which seems to be consensus? Do you still expect to have very low deposit betas there?

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

So, again, if you go back to 9/30, I think we told you we were using deposit betas in our modeling on interest-bearing deposits in the high 40 basis points. And we said hey, the first few rate hikes are going to be less, and the later rate hikes are going to be more, and that's what we're experiencing. So if you look at our deposit betas right now, you'd probably see it inching into the 50s. It's definitely moving up as we get more short-term rate hikes.

Q - James Mitchell {BIO 1972127 <GO>}

And you think that's going to continue into the third, the next rate hike?

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

Again, I think we'll see what happens here. We had a rate hike a year ago, and I think a number of people would have said that we would have had a pass-through. I don't think there was a significant pass-through in the industry. We just had a rate hike in December, and we're going to see how much pass-through we actually had. From a modeling perspective, in that guidance I gave you, from a modeling perspective, the pass-through rate on the next 100 basis points would be in the 50s. And again, it would be the same story, less in the beginning, more at the end.

Q - James Mitchell {BIO 1972127 <GO>}

Yeah, understood. Okay, that's very helpful. Thanks.

Operator

And our next question is from Glenn Schorr with Evercore ISI.

Q - Glenn Schorr {BIO 1881019 <GO>}

Hello there.

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

Hi, Glenn.

Q - Glenn Schorr {BIO 1881019 <GO>}

Good morning, two quickies, one on card, one on mortgage. On cards, you had some pretty good growth, and we're seeing really big growth at some of the other big banks. And some of the economics of the business are being given away to support that growth. I'm just curious on how you're balancing that customer growth versus giving up some of the economics to capture that growth.

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

I think the way to think about it, Glenn, overall is that we are doing it on a customer basis. So Paul gave you the statistics earlier for the Preferred Rewards enrollment and things like that. So our priorities are to get our card used by our core customers and reward them for that who have other deeper relationships with the company. And so in a broad sense, we're getting paid through the NII line as well as any other relationship they have as well as the card income fee line that you see on deposit balances and other things plus obviously the card balances.

We've been pleased that we now have gotten through all the sales when you think about this quarter versus last year. And so active accounts are moving up I think 2% or 3% or so year over year. The active accounts were up, which shows the strategy is working. And so while we make that investment you're talking about, and that is part of the competitive dynamic, we feel good about the balances growing. So we're getting more NII from it but importantly, with our customers, these are the best customers we have, and so we're seeing the other aspects of the relationship grow.

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

And again, look, strong risk-adjusted margins in that business, stable for us, above 9%. Charge-offs look great. And as Brian said, we're staying at the higher end of the market.

Q - Glenn Schorr {BIO 1881019 <GO>}

Yes, super, ROA and ROE is supportive anyway for the overall company. And then the question on mortgage was production was good but the pipeline fell a lot, obviously a function of what happened in rates. But can you help us think about what to expect, say, next year if, say, rates go up along the forward yield curve? Like how do you model that? How do you again manage the expense along the way?

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

I think if you look at the page, Glenn, that showed the quarterly production in the Consumer section there, you can see that I think it was the last three quarters are over \$20 billion in home mortgage loans and home equity loans.

What you wouldn't know from the outside is during the last year, we've made a series of major changes in that business. We've consolidated internal platforms. So we have in one group, a fellow named Steve Boland, who does a terrific job for us delivering the product across all the businesses, whether it's U.S. Trust, Merrill Lynch, or the Consumer business. In addition, we've brought in the servicing from third parties of our customers, and we continue to do that. So even in the year, we've made tremendous transformations. You saw three \$20 billion-plus. And so our view, the team would tell me that the pipeline will be down because refinances are down and therefore expect less. But I think my view is that they should be able to continue to grow market share, frankly because of the capacity that they were able to develop this year given those changes and still produce well.

That being said, it's a rate-sensitive product. So we told you to think about the mortgage banking income line as \$300-odd million. It's a little higher this quarter just because of some of the dynamics. So it's a relatively modest line, but the production will be strong.

Q - Glenn Schorr {BIO 1881019 <GO>}

Okay, thanks very much.

Operator

The next question is from Steven Chubak with Instinet. Please go ahead.

Q - Steven Chubak {BIO 18457976 <GO>}

Hi, good morning. So, Paul, I wanted to start off with a question on the FICC business. The revenues have been remarkably resilient over the last couple of years, really helped by some of the factors that you cited, whether it be strong risk discipline, balance sheet management, and the reduction in VaR. But as we look ahead, what we've been hearing from a lot of folks is growing optimism around the FICC business in the coming year. And what I'm wondering is whether your strong risk discipline actually precludes you from participating in a significant recovery if that materializes to the same extent as some of your peers.

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

As you pointed out, look, we feel really great about that business. It is performing very well. I would note the operating leverage we're getting. I would note, as you said, our discipline on risk and the reduction of VaR, so we have no complaints.

We have a diversified product set that has a global geographic footprint. We have scale in every major market around the world. And when you look at Global Banking and Global Markets together, I would argue that only three companies in the world can deliver what

we can deliver for our clients and customers in every major market around the world. So there's tremendous opportunity there. We're not going to look exactly like every competitor every quarter. We've often said that when things are great, we might not be as high, but when things aren't so good, we're not going to be as low. So we feel great about it, but we think there's lots of opportunity, and we would expect continued performance in that business.

Q - Steven Chubak {BIO 18457976 <GO>}

Got it. And switching over to just the capital side for a moment, you highlighted the progress you made in reducing the G-SIB surcharge \$2.5 billion, and I'm wondering. As you think about how you're going to allocate capital across the different businesses, whether that positions you to reduce your firm-wide targets and maybe more specifically, how are you thinking about your spot capital requirement today for the firm overall?

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

I'm not sure I understand the question. So, let's just talk about it a bit. In terms of the allocation of capital, that's a process we go through once a year. We look at a number of different metrics, advanced approach, standardized approach, SLR. We look at internal models, economic capital, and we arrive at what we think is the right amount of capital to give to our businesses based upon their business operations and risk. Remember, we've got \$500 billion of operational risk capital that was assigned to us by the regulators. From my perspective, personal perspective, most of that is for businesses that we're no longer in, products that we no longer sell, risks that we no longer take. So, a big chunk of that sits in All Other and wouldn't really be appropriate to push it from a segment standpoint out to the businesses because they're not really using that risk capital. So, is that what you're looking for or was there some other element of that question that I missed?

Q - Steven Chubak {BIO 18457976 <GO>}

I think the tricky part there - and admittedly it's a complex topic - is thinking about how much capital you need to get through the CCAR process unscathed? Or maybe under the new SCB framework, what's the minimum capital requirement that you would need over which you can - the remainder is considered to be excess and can be returned to shareholders over time?

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

Look, we've made a lot of progress in CCAR. The progress we've really seen in the company is lots of technical things we've done to be much better on CCAR in terms of improving how we do it, involving everybody in the company, the qualitative aspects of it. I think from a quantitative standpoint, we've always looked like we've had enough capital. I think if you look at our stress losses relative to competitors, you can see responsible growth in coming out in the Fed's models, not our models.

And so, I think we feel really good quantitatively. I think we feel really good qualitatively. If you look at the stress capital buffer, that's not going to impact capital for us. We'd have to see how it all - the rules - this was a speech, so we don't really know what all the rules are going to say, but my guess is our stress capital buffer is below the minimum that would be

required. So, we feel like we're in a good position for CCAR 2017. We don't know what the scenario is yet. We don't know what the rules are. So, there's a lot still changing, but we feel really good about the progress we've made and certainly our cushion from a quantitative standpoint.

Q - Steven Chubak {BIO 18457976 <GO>}

All right, thanks for taking my questions.

Operator

Our next question is from Betsy Graseck with Morgan Stanley. Please go ahead.

Q - Elizabeth Lynn Graseck

Hi. Good morning. Hi. A couple of questions. One is on just the balance sheet. And as you think about your cash duration, just the profile that you have today in a rising rate environment over time. Do you expect to stay more static where you are today or any changes that we should be anticipating?

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

I don't think you should anticipate any changes. We haven't changed since rates started rising. We feel good about the way we are. We're very focused on our (49:34) our balance sheet. Deposits come in. That's what really drives the size of the balance sheet. Deposits come in, and the question is, within our risk framework, can we put those deposits to work with our customers and clients around the world? If we can, we put it to work within our risk framework. If we can't, it goes into some other place, either cash or the investment portfolio.

Q - Elizabeth Lynn Graseck

Okay. And then on...

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

We're not really thinking - we're always balancing liquidity, earnings, and capital, but we're not really sitting there every quarter talking and figuring out what the most optimum duration is for us.

Q - Elizabeth Lynn Graseck

And then just from the cash perspective, the LCR, could you just give us a little color as to where you stand there and...

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

We are in very good shape.

Q - Elizabeth Lynn Graseck

So, I hear you on that and it sounds like, okay, we have some excess cash, and I guess that's part of the reason I asked the question. Is there any interest in moving some of the cash into...

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

Yes, but LCR isn't just cash. LCR includes highly...

Q - Elizabeth Lynn Graseck

Right.

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

Lots of different securities go into the LCR calculation.

Q - Elizabeth Lynn Graseck

Sure. No, I get that.

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

Betsy, to make this simple, the excess of cash coming in over loan growth goes sort of half into mortgage-backed securities and half into treasuries at this point. And the duration of what we do on the treasuries will be a little bit based on where we think rates are going and stuff like that, but it goes into those two things because once we fund the loan balances, that's where it goes.

Q - Elizabeth Lynn Graseck

And then...

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

We're not trying to hold, Betsy, more cash than we need.

Q - Elizabeth Lynn Graseck

Yeah, that's good to hear. Other question was just on the improvement in the minimum capital ratio and the RWA reduction that drove that. Could you just give us a little more color on the drivers there? And do you feel like you're optimized now for what you want to take in terms of risk relative to total size balance sheet?

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

Yeah. Sure. So, as I think Brian mentioned and I mentioned, we took the GSIB buffer down 50 basis points. It's at 9.5%, again, compared to 10.8% on a fully phased-in basis. So, that's 130 sort of basis points of sort of cushion at this point. We got there through things like reducing derivative notionals through riskless trade compressions. We got there by lowering Level 3 assets as well as overall optimization as the rules became a little bit more clearer. So, we've been working at this for some time. You've asked in other calls. I think

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other people have asked. We haven't really wanted to declare where we were, but now, we've got to the end of the year, this is when the calculation really matters. So, we thought it was important just to disclose that progress. I'd also say that Global Markets is going to be up and down in any given quarter. The ending balances in the third quarter were up. They were a little bit less in the end of the fourth quarter just on client activity.

Q - Elizabeth Lynn Graseck

Great. Okay. Thank you.

Operator

The next question is from Marty Mosby with Vining Sparks. Please go ahead.

Q - Marty Mosby {BIO 14008907 <GO>}

Thank you. When you think about rate sensitivity and deposit betas, you get back to really deposit flows. We continue to see increases in deposit balances, and until we see any pressure of those balances being kind of deployed back into the economy, there really shouldn't be much impact on pricing. You're looking at the core deposit balances and kind of what are the flows you're seeing. Where is the growth coming from? And are you seeing any pressure in the sense of thinking of those balances being deployed back into the economy?

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

Well, Marty, so let's start - we saw \$50-odd billion of deposit growth year-over-year. Consumer business was the lion's share of that. Let me give you a sense. Fourth quarter 2015 to fourth quarter 2016 checking balance in the Consumer business grew 12%. So the growth is strong. And as you said, we expect to maintain pricing discipline in the company. Obviously, those are non-interest-bearing but on the interest-bearing side. And you've seen that so far as the first rate move happened last year.

In terms of deploying in the economy, we made \$20 billion more loans and we'll continue to drive in the economy, and when we can't, we'll invest in mortgage-backed securities and things like that. So we're able to find easily all the loan demand that we think is responsible to take on. And in the fourth quarter, we saw loan growth in our commercial business kicked up. Draws on lines stayed at a high level, and loan growth in the middle market business was strong in the fourth quarter, and we're looking for more of that in our small business. So, you're exactly right. We're deploying in the economy. They're growing faster in loans, and we believe that we can price with discipline.

Q - Marty Mosby {BIO 14008907 <GO>}

And then just two kind of unusual things out there. The hedge ineffectiveness, can you give us the actual dollar amount? It looks like the day count will typically impact you about \$150 million to \$200 million. And then other fee income looks artificially low, if you could just give us some color on that line item as well.

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

Sure. So, the hedge ineffectiveness was \$168 million in the quarter, negative obviously. And in terms of the other, you're talking about the other income line?

Q - Marty Mosby {BIO 14008907 <GO>}

Other fee income.

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

The other fee income. So, last quarter - let me give you a sense. Last quarter, we had I think some - that line is going to bounce around a little bit. Let me start with that. But last quarter, we had some positive impacts in that line from loans related to our FEO portfolio. This quarter, it was negatively impacted by the UK PPI provision. That was \$132 million, and that's non-tax deductible. So if you adjust for those two items, we'd be around \$300 million, and I would say that's probably a good base for you to think about if you're modeling.

Q - Marty Mosby {BIO 14008907 <GO>}

Perfect. We were right in that range, so that got us right back to the normal level. Thank you.

Operator

And we'll go next to Mike Mayo with CLSA.

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

Morning, Mike.

Q - Mike Mayo {BIO 1494617 <GO>}

Hi. So, there is certainly a lot of positives on this call, whether it's deposits, loans, expenses, et cetera, but the end result is still a single-digit return on equity, return on tangible common equity. And I know you want it to be higher. I know it's improved, but it's still below your peers today at 13% and below your target of 10%. So, can you give us a target metric for RTCE for 2017 or when do you think you get to that double-digit range where some of your peers are?

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

So, thank you, Mike, for noticing the improvement because we feel really good about all the progress we've made. As you point out, earnings are up year-over-year on 15%, and that's on a very significant earning base of \$18 billion. We need to get our capital down. We're returning more capital to shareholders. That's going to help. We need to continue to grow. So, we feel really good about the progress that we have made. Our return on assets metric is tracking in the right direction. Our return on tangible common equity metric is tracking in the right direction. So, we'll just have to wait and see. I think we'd get there even without a rate rise eventually, but certainly, a rate rise is going to help.

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Q - Mike Mayo {BIO 1494617 <GO>}

As a follow-up, I know I ask this each year but I mean, you just said wait and see and that's kind of been the answer. It just seems like from an investor standpoint, you get a free pass like you'll get to the double-digit RTCE when you get there. And as investors, we're just going to have to wait and see. It would be nice to have that metric or more color or just anything else you can give along those lines. And maybe just for some more of that color, the efficiency ratio, I get it. You've gotten better but it's still not where I think you want to be, 66%. And your peers today that reported are under 60% for last year. What else can you do with the efficiency which might help improve the RTCE to the double-digit range?

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

Yeah, Mike. A couple things. One is if you look across the last three quarters, the return on tangible common equity was 10.5%, 10.28%, 9.92%. You have a fourth quarter seasonal decline in trading, so it will pick back up in the first quarter, and we look forward to that going back up. Then on efficiency, we set the goal of \$53 billion in expenses. And with the rate increases, we'll continue to drive that down. And if you look through the year-over-year, it was down from 70% into 66% and the last couple of quarters have grown sub-65% - around 65%, and we'll continue to move from there.

Q - Mike Mayo {BIO 1494617 <GO>}

Okay. Last follow-up. You've come a long way with branches from 6,000 down to 4,600. Where do you think you ultimately could take that branch count? And why, all of a sudden, are you reducing the level of ATMs?

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

Well, the ATMs are coming down largely because as you reduce branches, there's one or two and then third-party ATMs in places that aren't very efficient. So, they'll continue to wind down. So, I wouldn't necessarily focus on that as being a separate question and so we build them out. But if you think about the - on the branch, we're down - for the year, we had 179 that closed. But we renovated 205, put out 34 new ones. So, we're continuing to invest, yet there's a steady downdraft in the total branch count. So, we ended the year at 4,500 -almost 4,579. So, we'll continue to work that count down, again, based on how the customer flows go. These are critical to serve the customers and so will end up as larger branches and smaller branches that are being folded in, and we'll continue to do that.

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

Yeah, I think as you think about that number, Mike, focus on the active mobile users because that's going to be the interplay here. Active mobile users are up 16% year-over-year. On a big base, we grew active mobile users more than we grew in 2015. And mobile deposit transactions are now 19% of all deposit transactions. That's the equivalent of 880 financial centers so that, on the one hand, that says maybe you can optimize a little more. But on the other hand, as I said in the lead-in, we still have 1 million people, almost 1 million coming in the branch every day, and they need that channel. They need it to transact some of them, but a lot of them come in for advice, and we want them to do that.

So, we need a certain footprint of financial centers. I think Brian alluded to the fact that we're adding financial centers all around the country and certain markets around the country, so it's going to ebb and flow.

Q - Mike Mayo {BIO 1494617 <GO>}

All right. Thank you.

Operator

And the next question is from Matt Burnell with Wells Fargo. Please go ahead.

Q - Matthew Hart Burnell {BIO 1786793 <GO>}

Good morning. Thanks for taking my question. Brian, maybe a question for you. I noticed on slide 19 the breakout of the Global Markets revenue mix, 40% of the revenue in the past year coming from outside the U.S. and Canada. As we look towards what appears to be a potentially more volatile market condition in Europe relative to the Brexit negotiations, which are set to start early in 2017, how are you thinking about that and what the effect could be on your sales and trading revenue in 2017?

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

I think there is volatility this year around just on the announced vote and things like that earlier in the year. That was one of the events that I referenced. The nice thing is the balance in this business when you think about it. So it's balanced by product. It's balanced by geography. So when one thing goes, if something else is going well, we pick it up. So I'm not overly worried about - we've got to get Brexit right as our company and the industry and everything, and there's a lot of discussion about that. But in terms of the impact on the trading revenue on a given day, it will ebb and flow, and we'll get through it. But the good news is, as the United States strengthens in the first part of the year, we've seen a good normal first quarter developing, and we've seen customer activity strong, all of which bodes well. So we'll get through it.

Q - Matthew Hart Burnell {BIO 1786793 <GO>}

Okay. And then if I can just follow up on your earlier comments about the post-election positive sentiment, could you give a little more color as to what your borrowers and what your corporate clients are saying in terms of what their demand, the increase in their demand could be, or are they holding back a little bit waiting to see what comes out of the beltway over the next six to nine months?

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

What I'd reflect on is as you came through the summer into the fall through the election, both on the consumer side and commercial side, you saw increasing optimism on the consumer side. You saw a bit of an acceleration in spending coming into the fall. And so just if you think about the middle market business, as I said earlier, the revolver utilization is on the high end of what it's been in the past several years at 40%-plus. And that group, which is our middle market business, our commercial real estate business, et cetera, had

about \$4 billion of loans in quarter four. So all that really relates to greater business confidence. And so I think we feel very good where businesses stand, and you get the same reports from the small business side.

So as I go out and visit these clients, they're very optimistic. They think policies will be supportive of growth in their businesses, and they are facing all the things that we face. Can they find good employees? Can they find the final demand? But I think overall, the optimism is very strong, and we're seeing it translate into some loan balances. I think it still will play out into early next year.

Q - Matthew Hart Burnell {BIO 1786793 <GO>}

Okay, thank you.

Operator

Next question is from Eric Wasserstrom with Guggenheim. Please go ahead.

Q - Eric Wasserstrom {BIO 3626772 <GO>}

Thanks, two quick questions, please. One is can you just perhaps update us on your outlook for auto credit? It's been an issue that's been a bit of a battleground, particularly on the mid and low FICO range. And I know that's not where you're concentrated, but I'd love to get your perspective there.

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

We've got market share of around 3.5%, and we're originating in prime and super-prime with average FICO scores at 771 and debt-to-income ratios at all-time lows. And I know this isn't necessarily completely responsive to your question, but credit statistics here are phenomenal. I think in the quarter, our net charge-off ratio was 19 basis points. So we're able to grow that. We did grow in the quarter well. And we're able to grow it within our risk tolerance.

Now, the fourth quarter was a great quarter in auto. I think we've all seen the numbers, and we're expecting that growth to continue. Assuming a modestly improving economy, we're expecting that growth to continue in the first and second quarter. I guess as guidance, I would give you auto growth in mid to low single digits. By the way, I've just been corrected here. Our net charge-off ratio in the fourth quarter was 35 basis points, not 19, but still well within our risk tolerance for that product.

Q - Eric Wasserstrom {BIO 3626772 <GO>}

And does the potential decline in collateral values present any particular concern to you guys?

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

It presents a concern and you watch it carefully. But where we keep our business because of how we view this business is it's a very high credit quality business. It hasn't affected us,

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as Paul just said, but we see it in the industry and it's obviously a concern. But there's always some seasonality to those recoveries and those statistics reported. But overall, with our high - our FICOs are 770-ish range, so it doesn't really affect us.

Q - Eric Wasserstrom {BIO 3626772 <GO>}

And just one quick follow-up on capital return. I just want to make sure I understand all the dynamics. It seems that there are two trends that are coinciding. One of course is the continued increase in targeted payout ratio as a percent of your earnings, and then of course there's the expansion in earnings themselves. Is that the right way to think about it, and is there any other dynamic to consider?

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

You have it right.

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

You have it right. Actually, the only thing I'd add is the process itself in terms of the scenarios and things like that, but we've had plenty of cushion. So unless they change dramatically, you've got it right.

Q - Eric Wasserstrom {BIO 3626772 <GO>}

Great, thanks very much.

Operator

Our next question is from Paul Miller with FBR Capital Markets.

Q - Paul J. Miller {BIO 1936667 <GO>}

Hey, thank you very much and good quarter, guys. Talking about mortgage banking a little bit, you talked about that you did about \$22 billion in originations in the quarter. Correct me if I'm wrong, Brian, but did you mention that you portfolioed three-quarters of that onto the portfolio? And if you did, what was the breakup between jumbos, just a rough estimate between jumbos and regular conforming, or were they are all jumbos?

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

So we balance sheet, I think to be precise, 78% this quarter, and we generally balance sheet all of the jumbos. So then the question is for conforming, how much do we do. I don't really have that in front of me. We're starting to do more conforming, but we're certainly not doing all of it. Maybe a good guess would be around half.

Q - Paul J. Miller {BIO 1936667 <GO>}

Okay.

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

Paul, just to think about that a second, that credit quality in mortgages is so strong that frankly, it's not worth getting the guarantees and things like that. We have the liquidity to fund them and obviously jumbos. But even on the conforming, the credit quality of ours is at the top end, and I think the charge-off ratio was 3 basis points in the fourth quarter. So economic, it's better keeping the pace for the guarantee.

Q - Paul J. Miller {BIO 1936667 <GO>}

We're seeing a lot more on people portfolio before what you just said because the guarantees are so extensive. Is the PHH, is that all now consolidated down into your operations, the PHH stuff from Merrill Lynch that you brought over?

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

Yes, it's finished up and we're still working through the last part of the conversion, but it's basically in-house.

Q - Paul J. Miller {BIO 1936667 <GO>}

Okay. Hey, guys. Thank you very much.

Operator

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

Q - Matthew Derek O'Connor

Good morning.

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

Good morning, Matt.

Q - Matthew Derek O'Connor

Sorry if I missed it, but did you guys comment on the \$53 billion expense target that you put out there? I think exiting 2018 is what you said.

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

It's still good.

Q - Matthew Derek O'Connor

Okay. So if even if revenue is better than expected but it's rate driven, that's not going to impact expenses materially?

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

It's still good and we still target that. And you're exactly right, rate increases will go to the bottom line.

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Q - Matthew Derek O'Connor

Okay. And then separately, credit quality overall is very good, the charge-offs, the non-performers. You did flag the - I think it's the non-guaranteed consumer early delinquencies. I think it was about 15% quarter over quarter and a little bit year over year, anything to flag there especially given how quality the consumer book is.

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

Yes, that was the transfer of servicing that we just talked about on the previous question.

Q - Matthew Derek O'Connor

Apologies about that, okay.

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

No, that's a good question, but we transferred servicing. At the end of the quarter, when you transfer servicing, you've got to redo all the bill pay, and that's just the result of not getting all those bill pays done over the quarter. By now, we're probably 90% of the way through that problem. It's just a timing issue.

Q - Matthew Derek O'Connor

Okay. And then ex that impact, I assume the early-stage delinquencies - what would the early-stage delinquency look like?

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

I think 30-plus day in mortgage was actually down \$40 million I think...

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

Absent that.

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

Yes, absent that issue.

Q - Matthew Derek O'Connor

Okay, all right. That makes sense. Thank you.

Operator

We'll go next to Nancy Bush with NAB Research.

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

Good morning, Nancy.

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Q - Nancy Avans Bush {BIO 1495529 <GO>}

Good morning. Brian, could you just talk a little bit about your deposit market share? I mean, you're sort of up the street or around the corner from a company that showed us this morning that they're getting a lot of churn in their deposit base. So, are you able to track whether you're benefiting from that?

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

I don't think we have specific guidance on that. We're growing our deposits faster than the market, therefore, your market share is growing. Where it's coming from exactly, Nancy, just for historical perspective because you've been around this company, this industry for a long time, I had them check something, but from 2007 to today, effectively, the deposit per branch had doubled, and the checking account numbers are basically flattish and up maybe 1% or something like that. So, think about the dynamics of that in terms of profitability. So, we feel very good about the growth in deposits year-over-year, 12% in checking and 10% overall, so it's coming from somewhere. I just don't know where exactly.

Q - Nancy Avans Bush {BIO 1495529 <GO>}

Can you just give us an idea of where - are you gaining more market share through digital, mobile? Are you gaining more through people still coming in the branch?

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

The answer would be yes.

Q - Nancy Avans Bush {BIO 1495529 <GO>}

All of the above.

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

Yeah, think about it. I think Paul said earlier that mobile sales are 20-ish percent, but means 80% or not mobile, therefore, they're coming through either call centers and branches. So, it's an integrated business system and Tom and Dean and the team working there have done a great job of optimizing that if you look at the chart and watch the cost per deposit continues to work its way down while there's growth and additional sales people. So, it's coming. The year-over-year rise in mobile sales is actually faster, obviously, but it's still only 20% of the contribution.

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

The other thing interesting, by the way, a statistic I really like is we have digital appointments. So, people come in to the branch, but they don't just walk in now.

Q - Nancy Avans Bush {BIO 1495529 <GO>}

Right.

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

They're coming in for an appointment that they've made over their smartphone. So, that really helps us from an efficiency standpoint as well if we can get people to do that. It's better for them and it's better for us.

Q - Nancy Avans Bush {BIO 1495529 <GO>}

Okay. Yeah. My follow-up question is this, I mean, we have experienced or we experienced on November 8 sort of a sea change in the thinking about bank regulation going forward. And everybody that I've talked to seems to think even if there are not significant changes in what's on the books that there will be "a lighter touch" in regulation. And I guess, I would ask if you're thinking in those terms, and if so, do you think that that will have an impact on your expense numbers, number of people you need to add in compliance et cetera, et cetera, sort of ongoing?

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

I think, Nancy, if you think about it, there are a couple dimensions. Obviously, that dimension is well spoken about out there. You saw yesterday. I think the House passed a couple cost/benefit analysis type requirements for the SEC and the commodities things.

Q - Nancy Avans Bush {BIO 1495529 <GO>}

Right.

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

So, I think there'll be a body of work that will go on to sort of balance. Let's make sure we understand the pluses and minuses, a lot of the stuff. But in reality, if you think about our company, we invest a lot of talent and capabilities and people in compliance and risk in 2010, 2011, 2012, and it's been relatively flat, but the company shrunk around it. So it's become a higher percentage, but it's not - we're able to now start to optimize that and make it better. And so I think if we get that, that's terrific. That will help us even do more potentially. But even if we don't, there's optimization to come now that we've crested all the different things have gone on in the industry. So, first, it was the work of just collecting the bad mortgage and stuff went out, but now you're optimizing more the way we manage risk in the systems environment and stuff like that. So, that's what helps us get confidence of the future path on costs overall.

Q - Nancy Avans Bush {BIO 1495529 <GO>}

Okay, all right. Thank you.

Operator

And we will take our last question from Gerard Cassidy with RBC. Please go ahead.

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

Good morning, Gerard.

Q - Gerard Cassidy {BIO 1505265 <GO>}

Hey, Brian. How are you?

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

Good.

Q - Gerard Cassidy {BIO 1505265 <GO>}

I got a question for Paul. You made a comment about that at end of the quarter, you saw some commercial activity. I know Brian referenced already some pickup in middle markets and commercial real estate. But can you give any further color of that commercial activity that you saw on the lending side at the end of the quarter?

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

Sure. That's a little earnings prep talking to our head of our middle markets business, our GCB business, and our small business banking. They're telling me that they're definitely seeing more interest from CEOs to have meetings, a lot of engagement around 2017, and what the environment might be. So, things are feeling a lot more optimistic to those bankers. And it's not just talk. Late in the quarter, we actually did see an increase in loan balances that was a little - I wouldn't call it a spike, but there was definitely an acceleration late in the quarter particularly in middle market and to a lesser extent, in business banking.

Q - Gerard Cassidy {BIO 1505265 <GO>}

Great. And another question, actually, Paul. Obviously, the banking industry has to live by a number of regulations that are dictated by the regulators on capital, liquidity, et cetera. Coming back to that operational risk capital number you gave us for businesses that you have exited and no longer are operating in, is that an opinion that the Fed has just laid upon all the banks or is that actually in statutes where to change it, it would require a lot of work versus if it's just the Fed wants to do that to make it extra conservative, maybe a new change in the Fed could maybe give you guys some relief there?

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

Yeah, so we have \$500 billion of operational RWA. I think our closest competitor has \$400 billion. And then I think Citi is probably at \$300 million-something. So we were given more by the regulators based upon the history of the bank, the acquisitions we did, and the losses that were historical. But as you know, we exited a lot of those products. Bank of America never had a risk profile. It was more the companies that we acquired, so it's a little bit arbitrary. There are models out there for calculating operational risk capital. Those models, they're subject to a lot of debate if you follow the Basel Committee process. So, we are focused on trying to get that number down, but it's going to take a little while, and we're going to need more clarity from the regulators on how they want to calculate a company's operational risk capital. But that's something that would be very helpful to us if new models were approved that were a little bit more rational in terms of looking at historical losses versus the current operations of a company.

Q - Gerard Cassidy {BIO 1505265 <GO>}

And then just finally, I think in your K you put your DTA from last year, it might have been around \$25 billion for the deferred tax asset. Do have an estimate yet for where it will stand at the end of 2016?

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

Yes, I do. The total DTA - guys, keep me honest here. But I think will be \$19 billion. But let me give you the number that kind of matters probably if you're thinking about the future. I mean, we're not here sitting, predicting any tax change, but what really matters if there is U.S. tax change in the U.S. is - I'll use 2015. In 2015, we had over \$20 billion of U.S. profits, pre-tax profits. That's an important number. And then the other number that's important is at year-end, our DTAs that would be repriced if the tax rate changed equaled approximately \$7 billion.

Q - Gerard Cassidy {BIO 1505265 <GO>}

Thank you very much. Thank you.

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

So, that was the last question. Let me close by closing up 2016. We've had 13% increase in net income for the year; 15% EPS. We had a good operating leverage with 1% revenue growth and 5% expense growth, and we announced today that we increased our stock repurchase program another \$1.8 billion. So, that closes off a good year.

As we look forward to 2017, we'll just continue to do what we've told you we're doing, focus on responsible growth, and we look forward to the benefits of a faster-growing economy potentially and increasing rates. So, thank you for your time, and we look forward to next time.

Operator

This will conclude today's program. Thanks for your participation. You may now disconnect. Have a great weekend.

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