Q4 2017 Earnings Call

Company Participants

- Brian T. Moynihan, Chairman, CEO & President
- Lee McEntire, SVP of IR
- Paul M. Donofrio, CFO

Other Participants

- Betsy Lynn Graseck, MD
- Brian Matthew Kleinhanzl, Director
- Gerard S. Cassidy, Analyst
- Glenn Paul Schorr, Senior MD, Senior Research Analyst & Fundamental Research Analyst
- John Eamon McDonald, Senior Analyst
- Kenneth Michael Usdin, MD and Senior Equity Research Analyst
- Marlin Lacey Mosby, Director of Banking and Equity Strategies
- Matthew D. O'Connor, MD
- Michael Lawrence Mayo, MD, Head of U.S. Large
- Saul Martinez, MD & Analyst
- Steven Joseph Chubak, VP
- Vivek Juneja, Senior Equity Analyst

Presentation

Operator

Good day, ladies and gentlemen. Welcome to the Bank of America Fourth Quarter 2017 Earnings Announcement. (Operator Instructions) Please be advised, today's program may be recorded. It is now my pleasure to turn the program over to Mr. Lee McEntire. You may begin, sir.

Lee McEntire {BIO 6651246 <GO>}

Good morning. Thanks to everyone for joining this morning's call to review our 4Q '17 results. Hopefully, everyone's had a chance to review the earnings release documents on the Investor Relations section of our bankofamerica.com website.

I will just remind you, we may make some forward-looking statements in the discussion today. For further information on those, please refer to either our earnings release documents, our website or our SEC filings.

Brian Moynihan, our Chairman and CEO, will make some opening comments; Paul Donofrio, our CFO, will review the 4Q results; and then we'll turn it back over to Brian for just a few thoughts on the company as we head into 2018 before we open it up for questions. Brian, take it away.

Brian T. Moynihan {BIO 1517608 <GO>}

Sure, Lee. Thank you. And thanks, everyone, for joining us today. Good morning. 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 12th straight quarter where we have had reported a positive operating leverage on a year-over-year basis. And you can see that on Slide 3. And we did it the right way. We achieved it through fundamental operating excellence of driving revenue and controlling 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 risks in our desired outcomes.

Let me highlight a little of the progress. For the year, we reported $18 billion in after-tax net income. Excluding the Tax Act impact of $2.9 billion, we would've reported net income of $21 billion, 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.

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 $11 billion and grew 14%. While our Global Banking and Global Markets business together generated about $10 billion. And they're up 7%, excluding the Tax Act impact, our return on tangible common equity was 11% and return on average -- return on assets was 93 basis points, 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 a higher stock price and improved credit ratings, we saw tangible benefits of our progress. Shareholders not only saw a 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 370 million from this time last year and down nearly 1 billion from the peak. With improved CCAR plus our additional $5 billion, we'll continue to make progress in this area.

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 did we continue to rank high in 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've added to the packet this time. This year, we also invested heavily on our teammates through improvements and starting minimum wages at -- where we've 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 year-end, we were able to provide nearly 70% of our teammates with a bonus to share in our future success of the expected benefits of the tax savings. As Paul will explain, this added about $145 million in core expenses in the Fourth Quarter.

We're now as well investing to continue to lower cost to make -- so we can make more money in our franchise. We also lowered costs and we continued our investments in digital capabilities for security protection for our customers, which show in our online and mobile banking leadership rankings. We also rolled out digital shopping capabilities in auto and in home. We're also heavily investing in capabilities on 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 JD Power. We know there's much more to do to continue to drive this positive change in our company and for the benefit of our customers and clients. So we, as a team, are proud of the outcome today, for sure. But even more proud that we're proving that we can win and do it the right way through driving responsible growth. And we plan do that in the future.

With that, let me turn it over to Paul to give you comments on the quarter.

Paul M. Donofrio {BIO 1533743 <GO>}

Thanks, Brian. I want to go back to Slide two to start. We reported net income of $2.4 billion 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 $3 billion dollars from the Tax Act. Our estimated impact we just saw is $2.9 billion, 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.

As noted in our materials, the impact was recorded in 2 places: First, in other income, there was a charge of approximately $950 million to revalue certain renewable energy investments. Within the income tax line, this pretax charge was offset by the tax benefit of this $950 million charge, plus the revalue of certain deferred tax liabilities associated with these renewable energy investments. In total, the tax line includes $1.9 billion aggregated spend for 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 provide a chart reflecting results on a basis that excludes the Tax Act impact. We believe this provides a more clear comparison to Q4 '16. On that basis, net income was $5.3 billion with EPS of $0.47 per share, growing 20% year-over-year. Return on tangible common equity was 11%. Return on assets was 90 basis points. Operating leverage year-over-year was a strong 8%. Revenue was $21 billion, improving 7%. An 11% improvement in net interest income drove revenue growth. Expenses declined 1%, which included roughly $200 million for the shared success bonuses in late December that Brian mentioned, plus an acceleration of planned charitable contributions in late December as we look to share some of the future tax savings with our teams and the communities we serve. Provision expense was $1 billion, up $227 million, driven by a $333 million 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.

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 grew $10 billion. But were offset by a $14 billion decrease in cash. On the funding side, strong deposit growth from Q3 of $25 billion was offset by reductions in market funding and lower equity. Debt levels were stable with prior period. However, we did complete an $11 billion 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 $522 billion. And we ended the quarter with a liquidity coverage ratio of 125%. Equity decreased $4.8 billion from Q3. This quarter, through the purchase -- through both the purchase of common shares and common dividends, we returned more than $6.1 billion to shareholders. That was $4 billion more than the $2.1 billion in income available to common, which included the $2.9 billion Tax Act charge. The remaining decline in equity was mostly a result of the decline in OCI as increases in long-end rates decreased the value of our debt securities portfolio. We purchased 174 million shares in Q4 and have repurchased 509 million shares in the past 12 months. Remember, this quarter, we received approval for $5 billion in share repurchases in addition to our previously announced $12.9 billion following CCAR.

Tangible book value per share of $16.96 was modestly above Q4 '16 as earnings over the year, including the Tax Act impact, offset share repurchases and dividends as well as the conversion of Berkshire preferred stock to common shares.

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 a 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 a $22 billion increase in RWA.

The CET1 ratio under advanced declined 34 basis points to 11.5%. Under standardized, the ratio declined 53 basis points to 11.7%. Both ratios remain well above our 9.5% requirement. And supplementing leverage ratios continue to exceed U.S. regulatory minimums.

Turning to Slide 5. On an average basis, total loans increased to $928 billion. Note that the Q2 sale of U.K. card, which was recorded in All Other, impacted the year-over-year comparisons of average loans by $9 billion. In Q4, we also sold our remaining student loan and manufactured housing loans, totaling approximately $800 million. Adjusting for these sales, average loans were up $29 billion or 3% year-over-year. Loan growth continued to be dampened by the runoff of noncore Consumer Real Estate loans in All Other. Year-over-year loans in All Other were down $29 billion, inclusive of the loan sales.

On the other hand, loans in our business segments were up $49 billion 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% year-over-year.

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

Turning to asset quality on Slide 6. Total net charge-offs were $1.2 billion or 53 basis points of average loans. As mentioned, the quarter was impacted by the one large single commercial charge-off. Excluding this single loss, net charge-offs and the net charge-off ratio were consistent with Q3. Also, due largely to this commercial loss, provision of $1 billion was up $167 million from Q3 '17 and $227 million from Q4 '16. Provision expense included a $236 million net reserve release. The net reserve release reflects continued improvement in our legacy Consumer Real Estate and energy portfolios. Our reserve coverage remained strong with an allowance for loan coverage ratio of 112 basis points and a coverage level 2.6x our full year net charge-offs.

On Slide 7, we break out credit quality metrics for both consumer and commercial portfolios. With respect to consumer, net charge-offs of $769 million were up $38 million from Q3. The modest uptick in net losses is negatively impacted by the absence of some prior-period recoveries, the Q3 '17 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 NPLs of $5.2 billion declined from Q3 and are at the lowest they've been since Q2 '08. 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 $1 billion from Q3.

Turning to Slide 8. Net interest income on a GAAP non-FTE basis was $11.5 billion, $11.7 billion on an FTE basis. Compared to Q4 '16, GAAP NII is up $1.2 billion 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 U.K. card portfolio, which was sold in Q2 '17. The increase year-over-year was also driven by growth in loan investment carries as well as lower prepayments and therefore, lower bond premium write-offs.

Focusing on the net interest yield, it improved 16 basis points from Q4 '16 to 2.39%. Compared to Q3 '17, NII increased $300 million, 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.

With respect to the positive pricing, we raised rates modestly on selected wealth management products as well as for certain commercial clients. Consumer rates paid remain stable. NII on a full year basis grew $3.6 billion or 9% to $44.7 billion. 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 $0.5 billion of interest from the U.K. 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 '18, we expect to benefit from the December rate hike. Having said that, remember, there will be 2 less days in Q1 than Q4. That should reduce NII by approximately $175 million. 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 a higher tax expense, resulting in no change in earnings. Still, on an FTE basis, NII is expected to decrease by approximately $120 million 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 rates is estimated to increase NII by $3.3 billion over the subsequent 12 months. This is largely unchanged from September 30 and approximately 2/3 driven by our sensitivity to short-term rates.

Turning to Slide 9. We had another solid quarter of expense management. Note this quarter includes an accounting change from the retirement eligible incentives. Previously, this expense, which was historically just over $1 billion, 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 4 quarters. Prior periods in this quarter's supplemental materials have been restated for this change.

Noninterest expense of $13.3 billion was down $140 million or 1% from Q4 '16. Note that this amount includes the 2 actions, which totaled approximately $200 million, that I mentioned earlier to share future tax savings with lower-paid employees in the communities we serve. Excluding these discretionary actions, expenses were down 2%.

In addition to cost savings associated with the sale of our U.K. card business, year-over-year 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 '17, expenses declined by $120 million despite the late quarter discretionary spend. The decline was driven by lower mortgage servicing costs 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 the typical seasonal weakness in our sales and trading business.

Okay, turning to the business segments and starting with Consumer Banking on Slide 10. Q4 caps a tremendous year for this business. On a full year basis, earnings were $8.2 billion, 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 $2.2 billion grew 14% year-over-year and returned 24% unallocated capital. Year-over-year, this business created over 600 basis points of operating leverage as revenue growth of 10% outpaced expense growth of 4%. Higher interest rates and growth in client balances drove the year-over-year improvement in revenue. Year-over-year, average loans grew 9%. Average deposits grew 8%. And Merrill Edge brokerage assets grew 22%. Cost of deposits, which reflects noninterest expense as a % of average deposits, increased modestly because of year-end discretionary actions mentioned earlier to share future tax savings with lower-paid employees in the communities we serve. Net charge-offs increased $107 million from Q4 '16 as we continued to experience modest and expected seasoning of our credit card portfolio and loan growth. Provision expense increased $126 million from Q4 '16. The net charge-off ratio remains low at 100 -- at 1.21%.

Turning to Slide 11 and looking at key trends. As I mentioned earlier, revenue increased 10% year-over-year. Within revenue, mortgage banking income was the only major category that was lower year-over-year, 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 referral award 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 on debit and credit cards were up 7% year-over-year. And we issued 1.1 million new cards -- new credit cards in the quarter, in line with last year.

Spending levels and a onetime partner rebate drove a 5% revenue increase in card income, which continues to be impacted by strong competition on the rewards front. Service charges were up a more modest 1%. And in 4Q, 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.

By the way, customer satisfaction in Consumer Banking reached an 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 booked cycle scores of at least 760. Expenses were up 4% compared to Q4 '16 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 of saving 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 offices. We also renovated nearly 300 financial centers and replaced more than 3,400 ATMs.

Turning to Slide 12 and focusing on the continuing improvement in digital banking trends. As you can see, the year-over-year growth in these metrics continues to be impressive. We remain the leader in digital banking. We now have nearly 35 million digital users, including 24 million accessing their accounts through mobile devices. We processed payments for customers valued at $669 billion in Q4. Annualized, that equates to over $2.5 trillion per year. And note, the 10% growth of digital payment relative to nondigital 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 '16 as the introduction 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 with 1.3 billion log-ins. 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 touch -- high-tech, high-touch customer strategy.

Turning to Global Wealth and Investment Management on Slide 13. GWIM produced earnings of $742 million, up 17% from Q4 '16; a pretax 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% year-over-year 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 $18 billion, bringing flows for the year to nearly $100 billion. Year-over-year, expenses were up 3%, driven by revenue-related incentives as well as investments in both primary sales professionals and technology.

Moving to Slide 14. We continue 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 into cash investment alternatives within AUM and brokerage started -- starting early in the year. In the second half of the year, trends improved after we increased rate paid on certain products. Average loans of $157 billion grew 7% year-over-year, continuing a trend of clients deepening their relationship with us. Loan growth remained concentrated in Consumer Real Estate as well as structured lending.

Turning to Slide 15. Global Banking earned $1.7 billion, increasing 6% from Q4 '16. 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. On a full year basis, Global Banking set several records, including revenue of $20 billion and net income of $7 billion. 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 continue to deepen and expand local coverage in commercial and business banking.

Returning to Q4 year-over-year comparisons. 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% year-over-year. Growth was led by advisory fees. But debt and equity fees were also up year-over-year. The efficiency ratio improved 200 basis points to 43%. Provision expense of $132 million increased from Q4 '16 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% year-over-year. The outlook for loan growth, given tax reform, remains to be seen. But optimum -- 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.

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. In Global Banking, loan spreads were down 1 basis point compared to Q3 '17, continuing the trend we've seen all year, which modestly compressed spreads year-over-year by mid-single digits. Average deposits rose $14 billion or 5% compared to Q4 '16, with most of the increase concentrated in the second half of the year, reflecting increases in 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% year-over-year to nearly $2 billion.

Total investment banking fees of $1.4 billion finished the year strong, growing 16% versus Q4 '16. Advisory fees hit a new record. For full year 2017, we remain ranked #3 in overall investment banking fees, with fees totaling $6 billion, up 15% from 2016.

Okay, switching to Global Markets on Slide 17. I will review results excluding DVA. Global Markets generated revenue of $3.5 billion and earned $0.5 billion. Year-over-year, earnings were down by $238 million, driven by lower sales and trading results, higher technology investment spending and provision. Revenue was down 2% year-over-year as the decline in sales and trading revenue was partially offset by a gain on the sale of a noncore asset recorded in other income.

Sales and trading revenue held up better from the middle of the quarter and through the end of the year than it did in the prior year. Sales and trading of $2.7 billion declined 9% from Q4 '16. Fixed sales and trading of $1.7 billion 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 $1 billion was stable year-over-year, 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 '17 was 5% higher than Q4 '16 as lower revenue-related incentive costs were more than offset by continued investments in technology.

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 consistent over the last three years at $13 billion to $13.6 billion. And note that we have achieved this stability while reducing VaR and advanced RWA. Now a lot has evolved 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 risk 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.

On Slide 19, we show All Other, which reported a loss of $2.7 billion. A few things to note this quarter. The $2.9 billion impact from the Tax Act was recorded here. So excluding that charge, All Other would have produced a profit of a little over $200 million.

Unrelated to the Tax Act. All Other results also include (inaudible) consideration. Revenue compared to Q4 '16, excluding the impact of the Tax Act, were down a little more than $130 million year-over-year. Remember, when comparing year-over-year, Q4 '16 included expenses and charge-offs for the U.K. 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.

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 2 basis points to 1 basis point. This reflects our preliminary analysis of the nondeductibility of FDIC premiums, the global mix of our profits and other tax reform provisions.

Okay, let me turn it back to Brian for a couple of closing comments before we open it up to Q&A.

Brian T. Moynihan {BIO 1517608 <GO>}

Thanks, Paul. As we wrap up, we thought it'd be useful to hit a couple questions from the top that Paul and I have been fielding as tax reform has become 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 the United States. There are 2 key elements from the standpoint of corporate America tax reform: First, the lower competitive tax rate; and second, a territorial system. And both these were accomplished in the tax reform. This, coupled with a 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 plan. As one of the largest banks in the United States, we will benefit that -- 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 the -- our company and achieve even more competitiveness.

The second question we get is, does our focus change? Or will we run the company differently given a lower tax rate? And the answer to that is 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.

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

The third question is, do we think that the impact of tax reform will affect loan growth? Near term, it'll be tougher to judge as people repatriate money or receive more after-tax cash flow. The question is, will it 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.

Another question we often get is, does the tax reform change our commitment to the $53 billion goal for 2018? I started out by pointing out that if you look at our expenses on Fourth Quarter, we effectively reached a run rate expense in the $53 billion range. We reported $13.3 billion in the quarter. If you back out the $200 million in additional bonuses and the accelerated charitable contribution, that leaves us just about $13.1 billion. You multiply that times 4. And that's $52.25-or-so billion. If you add $400 million in the FICA-related tax to come in the First Quarter and throw in on top of that a couple hundred million dollars of potential incentives due to the Fourth Quarter being a lower trading quarter, you get to around a $53 billion run rate. So effectively, we've reached our goal.

In the Second Quarter of 2016, we first announced this goal. I want to remind you that there were -- the expenses that were trailing at that time were $56 billion. It was in our business plan to hit $53 billion 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 in the competitive faster than they would have done before the tax reform act. So we continue to evaluate options for longer-term value creation along the dimensions of investments we've been making in branches in 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.

The next question I get is around capital return expectations. Will they change given the tax reform? The simple answer is -- to that question is yes. In 2017, we reported net income available to common shareholders of $16.6 billion and returned $16.8 billion back through share repurchase and dividends. We don't need to make any acquisitions as a company. In fact, in the United States, 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 that capital first to help customers grow. So yes, we will expect to return more capital to shareholders given the Tax Act.

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 93 basis points. They're just shy of the 12% and 1% targets that we laid out a few years ago. 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 150 basis points of increased return on tangible common equity and more than 10 basis points of increased return on average assets. But as you keep in mind, we've always been clear that the long-term targets were 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.

So wrapping up, we will stay focused on responsible growth in 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.

With that, that let me open it up for Q&A.

Questions And Answers

Operator

(Operator Instructions) And we can take our first question from Betsy Graseck with Morgan Stanley.

Q - Betsy Lynn Graseck {BIO 4799503 <GO>}

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, you're saying that $53 billion -- 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 groundwork you've laid in digital payments and the branch network.

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

Sure. I think what we're saying is that -- let's 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, 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'll do over five years, you want to speed it up a little bit. Would 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? Would it 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 - Betsy Lynn Graseck {BIO 4799503 <GO>}

Okay. 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 {BIO 1517608 <GO>}

Yes. 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 continued to get operating leverage through -- they've done a great job. And you see the branches are down 100-and-some year-over-year. 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 has done a great job there. But -- 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 Katy and the team are doing a great job. But we need to -- that business has grown. But we need to start to drive some of the digitization techniques that we've used in other business, including commercial business and that business, which you'll see. And that will help the operating leverage there. 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, how we underwrite centrally versus de-centrally and things like that. So it'll be across the board. And we expect more out of consumer.

Q - Betsy Lynn Graseck {BIO 4799503 <GO>}

Okay. Then just last question on the dividend payout ratio. I realized that earnings is up with a 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 {BIO 1517608 <GO>}

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. In fact, if tax earnings go up, it'd be a higher number. So -- but we're not quite there yet. But we're pushing that towards that direction.

Operator

And we can take our next question from John McDonald with Bernstein.

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

So I guess kind of just coming back to that. If we think about if you got to this $53 billion and kind of there now, is this a level where you feel like you can 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 in other? As you think about 2019 and beyond, is $53 billion 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 {BIO 1517608 <GO>}

I think the -- 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 leave aside the discussion about do you invest some of the proceeds of taxes. But basically the $53 billion was a rate that 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 to run the company relatively flat through continued investment and cost effectiveness. Still -- we still got a lot of room ahead of us. I always come back, John. And you followed our company closely, we have -- 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 in building 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 {BIO 1972557 <GO>}

Okay. Then 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 or continuation of drag on deposit fees that might come from the new overdraft policy? Or is that impact maybe fully in the Fourth Quarter numbers yet?

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

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 {BIO 1972557 <GO>}

Relative -- sorry.

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

They came in partway through the Fourth Quarter. So it's got -- a good chunk of it's in there, John. So it'll be a modest impact beyond that.

Operator

And we can take our next question from Steven Chubak with Nomura Instinet.

Q - Steven Joseph Chubak {BIO 18457976 <GO>}

So wanted to start with a question on credit outlook. Delinquency trends remain quite favorable. Brian, you noted that NPL has declined in 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 traject in line with charge-offs and maybe some upward growth as the loan portfolio continues to season? So maybe somewhere in the range of like $900 million to $1 billion? Is that a reasonable expectation?

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

We expect credit to continue to perform in line with the way it performed in the first 3 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 noncore Consumer Real Estate and energy.

Q - Steven Joseph Chubak {BIO 18457976 <GO>}

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 have 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 '18 to '19.

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

We'd say that -- we'd expect it to -- all things being equal, they would be flattish. And that's what we've told you. The questions, we took a little bit of money and accelerated investments that kind of run through a couple of years and probably dropped back off. But it'd be very modest in that -- in the greater context. A lot of those investments get capitalized in the near-term P&L. In fact, it's different. But basically from a conceptual framework, we think we can run the company below $53 billion -- $53 billion approximately, $53 billion on a consistent basis over the next couple years with a caveat that we may look to invest a part of the tax savings on top of that. We'll be very clear if we do that.

Q - Steven Joseph Chubak {BIO 18457976 <GO>}

Got it. And one final one from me just regarding the remarks on the wealth management side. Brian, you talked about efforts to invest in technology to drive improved profitability. You -- 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 {BIO 1517608 <GO>}

Yes. I think we're 27% this quarter, 26%, 27% -- 26%. We'd bounce around that. It's the target to get to. I think it -- mechanically, there are some things to help us over the next couple years in terms of some stuff running off that pushes this up. So we continue to do that. We -- what we're talking about is a more fundamental reset on a couple things. Obviously, in a lower end -- lower affluent businesses, we're driving Merrill Edge and things as a more efficient platform by definition. And secondly, there is a lot of paper in this business and a lot of work. And even the advisers themselves, there's a lot of automation work they do that will make it easier for them to do, they can become more efficient, handle more clients and handle them all. But if you think about the core pretax margin, it'll move up. And we can get a -- we still believe we can get up around 30%. And the deposit side helps that as the arbitrage from rates goes through that business.

Operator

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

Q - Glenn Paul Schorr {BIO 1881019 <GO>}

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 PPNR and shouldn't impact anything else in a vacuum. But just curious if I'm missing something there.

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

I don't think you're missing anything. There's 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 Paul Schorr {BIO 1881019 <GO>}

Then just switching over to wealth management. A couple of little questions on, like, number one is where's all the growth coming from? Meaning, you noted the strong flows. Curious of what's current versus new clients. And you also noted advisers are up 3%. Is that training? Or is that recruiting? Just curious.

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

Yes. Look, the FAs grew. It 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 {BIO 1517608 <GO>}

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

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

Yes. So as you think of the -- about 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 that -- 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 Paul Schorr {BIO 1881019 <GO>}

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

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

I'd say it's been -- the experience so far has been relatively modest in terms of anything. It was -- people have been changing opinion. But -- and we continue to monitor the market and will figure out what we want to do. But we haven't changed our position yet.

Operator

And we will take our next question from Matt O'Connor with Deutsche Bank.

Q - Matthew D. O'Connor

I was hoping to follow up on the outlook for net interest income for the full year. 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 $500 million drag from card is really that material. Obviously, you had good mid; to high growth year-over-year. So just trying to get a little better sense of maybe the magnitude of NII that you're looking for. Then if you want to give us the bond premium amortization, how much benefit that was this year versus last. That might be helpful in the pieces.

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

Yes. So look, we expect solid NII growth in 2018 from continued 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 utilization 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 $700 million 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 U.K. card. Then you 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 as well.

Q - Matthew D. O'Connor

Okay, that's helpful. Then just separately, on the retail deposit side, you mentioned essentially no repricing there. And that was consistent, I think, with what we're seeing for both of your big peers. But just wondering what your thoughts are in terms of when there'll start bringing a little bit of upward pressure there, I mean, being the biggest deposit player that you might be one of the kind of setters of the price there as we think about rates going forward?

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

Yes. 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 time. The industry really hasn't seen, on the retail side, deposit rates increase, sort of much or at all, on traditional accounts. 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 council. I think all of these, plus the lack of market pressure that 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. And my guess is we're getting close to that point given we expected funds rate hikes here in 2018. We just don't know, though. What -- 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' interests and we're going to do the right thing for all the parties.

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

All right. I'll just add a couple of things. One, the pricing strategy in consumers 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 type of customer depth and relationship, the rewards programs that reward deposit balance and longer -- 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 year-over-year in consumer, up $47 billion, the checking, which is always going to be very low, it was up $30 billion of the $47 billion -- or $29 billion of the $37 billion. And CDs are down $4 billion again. So even we've run off CDs. And so that dynamic is always going to lead to all-in deposit price 4 basis points, it 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 that paychecks coming in and coming out, that's what's driving the overall structure of the business. And will continue to do so.

Operator

And we will take our next question from Mike Mayo with Wells Fargo.

Q - Michael Lawrence Mayo {BIO 1494617 <GO>}

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 {BIO 1517608 <GO>}

Well we -- it'll be comparable, you have to understand what you're talking -- what the components are. But the component most people focus on is what we call technology initiatives or coded programming. And that's about $2.7 billion and relatively flat.

Q - Michael Lawrence Mayo {BIO 1494617 <GO>}

Relatively flat 2016 to 2017. What about for 2018?

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

Relatively flat for 2017 and 2018. We are getting, even in the way we've programmed and a little bit of efficiency, the nominal number for '17 will be higher than that. The number for

'18 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'll continue to evaluate to that level of spending at all times.

Q - Michael Lawrence Mayo {BIO 1494617 <GO>}

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 {BIO 1517608 <GO>}

Well I think the -- when you talk about technology, the consumer bank has benefit by a lot of technology spending across a lot of dimensions, including the way we distribute the environment to the branches, use of tablet-type technology in the branches to interface with customers, better call center technologies, it is a tremendous investment in the consumer. On the digital side, specifically, we will travel with a customer. And we are getting the customers to understand the value of instead of going to the ATM to deposit a check, do it with their phone, or instead of going to the branch to deposit, do it over 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 3 or four years ago, you can see on the page, Mike, that 12% is a meaningful amount. It's about 1,000 branches of activity go through the phones. 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 $1 billion we probably invested in mobile technology over the last 5, six years to get us here that now we're taking advantage of. Then, as you know, (inaudible) comes out, the Merrill Edge capabilities continue to improve to help in the affluent -- mass affluent America. So there's a lot of stuff behind it. So think of us spending $2.5 billion to $3 billion 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 change a customer behavior, which is less about the technology, it's more about getting the customer to move their behavior.

Q - Michael Lawrence Mayo {BIO 1494617 <GO>}

You guys have said take a look at all these trends collectively on slide 12, don't look at one in isolation. So what sort of metrics 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 {BIO 1517608 <GO>}

Well I think the efficiency ratio, when the team tells me they're going to get it -- they have it down to 50 and now you'll get below 50. And they take great solace in that, I tell them, don't take great solace because it could be -- we don't know how long it could go. But the one I think that I'd argue is that we've always looked at is -- if you look on Page 10, Mike, the average cost of deposits. If you take the entirety of running the system as a % of deposits, which can benchmark people relatively clearly in the industry, you'll see that we run about 160 basis points. So that's the phones, the mobile, the technologies, he people and all that stuff against the deposit base. That has come down over the last 7, eight years from 300 basis points to 161 basis points. That is a simple way for people to think of the impact of all this transformation activity and your effectiveness and efficiency in the business. Also, you wouldn't want to do this if your customer scores are suffering during that time frame. The customer scores have risen, as Paul said earlier, to record heights. It's that you can't get ahead of the customer. And you can't force them. You can't push the customer to do something they don't want to do. Hence, the challenge is to keep that cost efficiency. And 161 basis points would be the benchmark, while improving customer experience.

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

And Mike, I have something to add. You've got to focus on operating leverage. That's the 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 across mobile adoption and digital sales.

Q - Michael Lawrence Mayo {BIO 1494617 <GO>}

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

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

I think, year-over-year, the consumer business grew $47 billion of organic deposits growth. I think that sort of speaks for itself, Mike.

Operator

And we will take our next question from Ken Usdin with Jefferies.

Q - Kenneth Michael Usdin {BIO 3363625 <GO>}

If I can follow up on the loan side. 6% year-over-year in the core business, pretty decent rate. And you're seeing growth across. Just wondering what your just 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 {BIO 1533743 <GO>}

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 a 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. On a more -- 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 runoff. Card's been growing well, has done well the Fourth Quarter. I would note, I think, seasonally, card balances are usually down in the First Quarter. 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 (inaudible) and again, subject to what happens with repatriated funds in the short term, I don't see any reason to tender expectation around the loan growth.

Q - Kenneth Michael Usdin {BIO 3363625 <GO>}

And Paul, is there any change in the rate of runoff in the All Other bucket from that $71 billion bucket? How fast are you expecting that to still run off?

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

It's been running off -- and the way I would -- look, the way to characterize it, going forward, it's going to run off sort of 4 to 5 to 6 per quarter, call it 5.

Q - Kenneth Michael Usdin {BIO 3363625 <GO>}

Okay. One quick one. Just mortgage, it's a small line. But it had a big obvious swing, $300 million to a negative, especially that Other line. Can you just talk us through what that other couple of hundred million dollar negative was in the Other part of mortgage. And if that's recurring or just onetime thing?

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

Yes, sure. You're talking about the MBI line, right?

Q - Kenneth Michael Usdin {BIO 3363625 <GO>}

Yes.

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

So we had a rep and warranty provision of approximately $200 million to resolve some claims. If you exclude that. And you look quarter-over-quarter, 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 $200 million to resolve a claim, take a look at 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.

Operator

And we will take our next question from Raul Martinez of UBS.

Q - Saul Martinez {BIO 5811266 <GO>}

Saul Martinez. Couple of questions. I just wanted to go back, Brian, to the comments on your ROTCE and your ROA targets, obviously, with the bump from tax reform. You hit and you exceed the 12% and the 1% target that you previously laid out. But as you go forward, you benefit from the lower tax rate, you sort of rightsize your efficiency, get to the $53 billion and drive positive operating leverage from there, rates normalize. It does -- not to put words in your mouth. But it seems like it's pretty easy to get to sort of to a 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 over the next couple of years and where ROAs can get to over next couple of years as things progress, as you think they might?

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

I think that you -- and your question's sort of stated for yourself, which is, yes, there would be a mathematically bump that will make it "easy" to get there, at the 12 and you're running inside around that now. But the reality is that's what we're trying to say earlier is we don't look at 12 as being -- "geez, let's -- we've made it now, we can stop." That 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, then we earn because we have excess equity, that will help. We continue to improve the earnings, that'll help, as you to continue to drive operating leverage, all the things you cited will help. So we're going to have a sustainable basis. So I did -- 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 of years to get us close to 12% and 1% ROA at the time. And we've made it there. It'll be easier by tax reform. But doesn't mean we're stopping. That's the -- we just drive this company the same way. And it'll come out to be higher now and we will exceed those levels and we expect to continue to exceed.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Fair enough. I guess, just to follow up. And it's I guess, more 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's 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 {BIO 1517608 <GO>}

I don't think it'll change the way we run the company. We've been running it on a responsible growth for the 4 elements, got to grow, no excuses; got to do it on a customer focus, organic basis; got to do it with the right way and we got to be sustainable along the best place for people to work, drive sharing success with 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 is the idea of ESG and those types of things. And it's part of our sustainable -- part of our sharing success with the communities. It's not new for banking. I mean, it goes back to -- I mean, our bank, all those legacy banks that came together, all were formed to help communities to grow. And so we've had a long history investing because we're already successful at the economies and the communities we do business with are successful. So I don't think it's a major change in our industry, frankly, $200 million a year charitable giving, 22 million volunteer hours. Billions of dollars of building low and moderate housing investment earnings, $1 billion plus out to the CDFIs, we can rattle of all those stuff, $100 billion. But we'll commit more halfway through. These are things we're doing long before tax reform came and we'll 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 it's also the public role of banking, it's just a little bit different.

Operator

And we can take our next question from Marty Mosby with Vining Sparks.

Q - Marlin Lacey Mosby

I wanted to drill into the expenses, just a little bit to get some clarity. Seems like there were 2 kind of, not unusual. But kind of stand out. $200 million worth of compensation that would have been in the First Quarter now has accelerated into the Fourth Quarter. Then Brian, you were talking about $200 million of the charitable foundation and the extra bonus payments. Just want to make sure those were 2 separate items and that those numbers were correct.

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

No, Marty, I think we've got it a little confused. So in the Fourth Quarter, in the $13.3 billion expenses, there was about $145 million, $150 million of a onetime $1,000 bonus to people under $150,000 in our company, plus we accelerated a $50 million of charitable donations in the Fourth Quarter '17. That's the $200 million. That's what we're talking about. So the $13.3 billion becomes $13.1 billion, if you back out those 2 items and then do the math, multiplying times 4, I think the acceleration, I think, I assume that what you're talk about their is the change to FAS 123, which is that typically, we used to take $1 billion on the First Quarter, now we take $250 million per quarter. It moves around a little bit. But that's the phenomenon we announced earlier this quarter -- last quarter that we're going to take. And so that number is in that $13.3 billion, also the $250 million for that. It's not an acceleration, it's just the way it used to be done in one quarter, now, we spread across 4 quarters.

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

We made that change in the Fourth Quarter. So you're seeing it in the Fourth Quarter numbers.

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

And the earlier numbers that's been restated. So the relative difference year-over-year is the same. Does that help Marty? I just want to make sure I got your questions.

Q - Marlin Lacey Mosby

I just want to make sure those were 2 separate times. And that reconciles where I was getting. Then, if you look at the securities portfolio, you had 2 things that kind of popped up. One, you took just a very modest or slight loss in security sales. Then also your, AOCI, you had that OCI adjustment as rates went higher that you mentioned earlier. Will you be actively restructuring? Because it does kind of drop your capital anyway in taking those losses as you have the opportunity to kind of round up earnings. So just was curious how aggressive you wanted to be in that -- kind of in that push?

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

The short answer is no. We're not, in any way, restructuring our securities portfolio. There was a very modest â€“ (inaudible) find there $22 million loss on some securities we sold in the Fourth Quarter. 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 {BIO 1517608 <GO>}

That is not -- it wasn't related, Marty, to the core sort of way we look at the excess deposit proceeds on a given quarter. This was legacy stuff we were just trying to clean out.

Q - Marlin Lacey Mosby

Got you. One of the things we are anticipating is that banks can actually accelerate the benefit as we do get any uptick on the back end of the curve by doing some of that aggressive restructuring. So just was curious if you had been kind of thinking in that or kind of moving in that direction.

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

We feel really good about where we are in terms of our securities portfolio.

Yes, Marty, always remember, the reason why we have a securities portfolio is because we have that deposit franchise growing, the $40 billion, $50 billion year-over-year loans growth, more modestly, 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 {BIO 1533743 <GO>}

Yes. And remember, we're only putting them in treasuries, mortgage-backed securities or cash. We have a very high-quality securities portfolio.

Operator

We'll move to the next question. It comes from Gerard Cassidy with RBC.

Q - Gerard S. Cassidy {BIO 1505265 <GO>}

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 in 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. Any that you can identify that you guys are just keeping an eye on?

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

I think, Gerard, obviously the parade of horribles that you can go through, whether it's geopolitical risk, whether it's markets changing risk, whether it's credit risk because unemployment levels rise, they're all going to come back to this economy, 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 years to stay in the high-volume quality in the consumer business, balancing the consumer visits versus the commercial exposure, maintaining our tough discipline in commercial credit. And this situation this quarter, obviously, it is always a wake-up call that some things don't turn out well. And we got to go back and what are lessons learned and what did we do right or wrong on that and how we avoid that in the future. 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 year-over-year is relatively flat. And the team is doing a good job. So we think about all those risks and those type risk, 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 our company less. That is what we define as responsible growth, quite frankly.

Q - Gerard S. Cassidy {BIO 1505265 <GO>}

Okay. Then you guys mentioned that your commercial customers are optimistic about the future. Can you share with us in the investment bank what the pipeline looks like at the end of the Fourth Quarter coming into '18? Then second, within the investment banking division, I think you mentioned you hired 400 bankers. What sectors are you really doing well in? Is it health care? Technology? Financial?

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

Those bankers are in the commercial banking segment. So they're middle market and investment banking, just to be clear. And they are successful. But they are across all industries. Paul, I want you to talk about that pipeline.

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

Sure. The investment banking pipeline, end of the year, lower than Q3, mainly due to the completion of some large transactions in Q4, combined with the postponement of -- or cancellation 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 cleanup at the year-end. Your other question regarding sectors, we're #3 globally. And when you look at across all of our industry groups, we're -- we are plus or minus around that range, pretty consistently off the couple of 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 {BIO 1517608 <GO>}

Yes, Gerard, one thing I thought you were going to go to is what consumers feel. It was interesting that the spending to the full year '17, whether it's credit cards, debit cards, ACH wires, payment of bills, cashout ATMs, over-the-teller line, checks written, was a 6% growth over '16. And '16 to '15 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, that 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% versus 6%.

Q - Gerard S. Cassidy {BIO 1505265 <GO>}

And no, that's a really good insight. Then just lastly, I think you talked getting the dividend payout ratio to 30%. And I recognize 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 {BIO 1517608 <GO>}

I think we'll have to think about that when we get there. I'm not sure for us. But largest banks are not always going to 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 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'll 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 to get closer to that number.

Operator

And our next question comes from Vivek Juneja with JPMorgan.

Q - Vivek Juneja {BIO 1505553 <GO>}

A couple of questions for you, folks. Paul, you've mentioned that NII, you've got some puts and takes. I just want to tie them altogether. Net-net, do you -- I mean, I recognize the day count issue in Q1. Would you expect some growth growing from Q4 to Q1, given the December rate hike and even adjusting for the day count?

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

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 2 fewer days. We've got the card loans, which are usually a little bit lower. If we 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 deposit pricing is going to play out over the quarter.

Q - Vivek Juneja {BIO 1505553 <GO>}

Okay. 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 {BIO 1517608 <GO>}

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

Operator

And we will take our final question from Brian Kleinhanzl with KBW.

Q - Brian Matthew Kleinhanzl {BIO 15228405 <GO>}

Yes, I know you don't want to give any commentary about deposit betas in the quarter. But what's the ability that you have to remix. And sales there was up to 125%. So to the extent that 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 {BIO 1517608 <GO>}

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 $10 million investment assets with us, obviously, the cash in their accounts is an investment asset as opposed to in the retail business. But yes, it would be their household daily flow. And 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 rates raise, albeit smaller, the corporate business responds 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 a number. But frankly, we've done better than that model every single quarter. But we have to be conservative in our modeling for NII and other purposes.

Q - Brian Matthew Kleinhanzl {BIO 15228405 <GO>}

Okay. Then maybe just one follow-up on the expenses in 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, maybe pulled 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 $53 billion expenses in 2019? I mean, is that still possibly or something you're actively pursuing?

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

Our job -- what we told you guys was we got $53 billion for '18 it'd be relatively flat. They're absorbing 6% medical care cost 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 them up to speed. So you have to make sure they're coming in. And we use techniques to divide the portfolio, to give them deeper client penetration, to get the customers for -- the products for customer up, that takes time. You just can't snap your fingers. So the ability to accelerate those investments are largely based on what we think we can do. But it will be modest in the sense that even a fair increase in the margin is not a big number in the overall scheme of things at the $53 billion expense level. At the end of the day, our challenge is to drive operating leverage. And we continue to do that over 12 quarters in a row. And we'll continue to do that going forward. And that's good for our shareholders.

Operator

This does conclude the Q&A session. I'd like to turn it back over to our presenters for any additional comments.

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

Thanks to all of you for joining us. 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. Thank you, again. And we look forward to talking to you next time.

Operator

Thank you for your participation. This does conclude today's program. You may disconnect at any time.