Q1 2019 Earnings Call

Company Participants

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

Other Participants

- Al Alevizakos, Analyst
- Betsy Graseck, Analyst
- Brian Kleinhanzl, Analyst
- Gerard Cassidy, Analyst
- Glenn Schorr, Analyst
- John McDonald, Analyst
- Matthew D. O'Connor, Analyst
- Nancy Bush, Analyst
- Saul Martinez, Analyst
- Steven Chubak, Analyst
- Vivek Juneja, Analsyt

Presentation

Operator

Good day everyone, and welcome to today's Bank of America Earnings Announcement. At this time, all participants are in a listen-only mode. Later you'll have the opportunity to ask questions during the question-and-answer session. (Operator Instructions) Please note this call is being recorded.

And it's now my pleasure to turn the conference over to Mr. Lee McEntire. Please go ahead.

Lee McEntire {BIO 6651246 <GO>}

Good morning. Thanks for joining this morning's call to review our 1Q '19 results. By now I trust that everyone's had a chance to review the earnings release documents, which are available on the Investor Relations section of bankofamerica.com's website.

Before I turn the call over to the CEO, Brian Moynihan, let me remind you that we may make forward-looking statements during this call. After Brian's comments, our CFO, Paul

Donofrio will review the details of the 1Q results. After that, we'll open it up for all of your questions.

For further information on forward-looking comments, please refer to either our earnings release documents, our website or our SEC filings.

With that, take it away, Brian.

Brian Moynihan {BIO 1517608 <GO>}

Thank you, Lee, and good morning everyone. Thank you for joining us this morning to review our first quarter of 2019 results. In the first quarter, we reported $7.3 billion of net income after tax, the best quarter in the Company's history.

So, let's begin on Slide 2. This slide shows the building blocks in achieving another record quarter. It also shows our commitment to responsible growth, and how it drives our shareholder model. We reported diluted EPS of $0.70, which grew 13% from the first quarter 2018. This reflects a nice mix of both operating improvements and capital returns.

Pretax income of $8.8 billion, grew 4%, you can see that in the upper right, and we generated operating leverage of more than 400 basis points, which you can see in the lower right. Asset quality remains strong, as net charge-offs remained around $1 billion, the same level they have been for several quarters. Provision expense is up year-over-year to match those net charge-offs more closely and we had a small reserve build this quarter against the net reserve release last year.

Through disciplined capital deployment, after meeting all the requirements to make loans to our customers and support their businesses, we continue to drive our share count lower. You can see that on the lower left. We are well underway with our goal to wring out the dilution in shares caused by the increased capital build after the crisis.

Through share buybacks, our diluted shares are down 7% compared to the first quarter of 2018 and down 1.5 billion shares in the past four years.

Turning to Slide 3. Part of responsive growth is to produce sustainable results, and part of that is to drive operational excellence, and we did it again this quarter. As you can see on Slide 3, we extended our positive operating leverage streak to 17 consecutive quarters. As you think across the last four years or so, we've had many different markets out there, many different interest rate environments, many different changes and perceptions in the U.S. economy and the global economy. All these things affect our business in a given quarter, but what has been constant behind that is our ability to drive operating leverage. We achieved it differently in different quarters, but as shown here, we achieved it consistently.

When you think of our Company, there are three broad and diverse buckets of revenue, two of which have annuity-like characteristics and one is more susceptible to prevailing market conditions. The first bucket is spread revenue from loans and deposits, and the second bucket is recurring fees, like our cash management fees in our commercial businesses or our consumer account fees or interchange and things like that. The third bucket of revenue, which are more market related would be the sales and trading revenue, the investment banking fees and asset management brokerage revenue, which are both dependent on market levels at a given moment and market activity, giving rise to those levels.

So, if you think about this quarter versus last year, our market related types of revenue was down 12%. The other two non-market related revenue sources were up 7%. That shows you the diversity in this Company. And all in, that ended up with flat revenue growth. However, our laser like focus on expense management came to the table again and resulted in year-over-year expense decline of 4%, which resulted in the 400 basis points of operating leverage. All you can see as you move to the right-hand slide -- right-hand side of Slide 3.

When you think about how we are driving the Company, for managing expenses, we continue to invest in the future. Our expenses have come down from $57 billion to $53 billion and change over the last four years or so. And we've been driving the operating leverage in each quarter during that time, but we also continue to invest deeply in our franchise. And why do we do that? Because it is working. We're getting more business as we add relationship management capacity, increase our marketing and drive deeper penetration of U.S. markets through the full franchise entry and more and more markets across the United States.

We also continue to invest in our people with industry leading benefit plans, both in health and retirement, with industry-leading capabilities and universities to train and re-skill our teammates and plus the pay plan we announced recently, we are going to increase our minimum wage over the next 26 months from $15 an hour plus to $20 an hour. We need to do that because we need the best teammates to make this great client work -- Company work and work for our clients.

Across the Company, we added 500 new sales professionals this quarter, more consumer relationship bankers, more wealth advisers, more commercial bankers and more business bankers, more small business bankers and more investment bankers. And as we have discussed many times, our initial spending for technology has been running around $3 billion for many years now, but is currently, the savings [ph] from tax reform expected to be 10% higher in 2019.

We continue to enhance both our physical network for delivering products and services to clients, as well as the facilities we operate in communities and countries around the globe. All in, Bank of America invests around $2 billion a year in capital expenditures to build out, enhance our buildings, facilities and infrastructure.

As it relates to our financial centers, our ATMs and other physical build-out, the point is we haven't just announced what we'll do, we're halfway through the broad-based build-out in our consumer business. We're executing the plan we laid out several years ago. But importantly for you, the cost to complete the work is already embedded in all our expense guidance. It's in fact embedded in our current run rate.

So, we drive operating leverage and we invest and we see returns on that investment. One of the ways that we get a return on that investment is through our digital capabilities. Each quarter we show you the charts on Slide 5 of our digital customer statistics. Because as I discuss with many of you, we sometimes miss the obvious. What is driving this trend? It's a change in our customers' behavior. We are continuing to serve our customers in every manner possible.

The customer can have their cake and eat it too; take it out digital, physical 24 hours a day cash and electronic payments, checks and wires and ACH, a loan officer, an online application, a fulfillment of their mortgage. It is their choice. 37 million digital users now, with 27 million of those mobile. And we now have 27% of our sales transacted digitally. 77% of our deposit transactions are now done through digital means. This means more of our financial centers and teammates and their time can be devoted to important events in the client's financial lives.

We welcome 800,000 customers a day into our financial centers and they remain very important to our capabilities. And we continue to invest in those financial centers to upgrade them and make them more modern. And while consumer payments growth slowed, from the 8% to 9% pace of a year ago, to a 3% pace in the first quarter 2019, over the strong quarter in the first quarter of 2018, that still amounted to over $700 billion in payments in the quarter. An example is, part of those payments you can see in the Zelle users, have grown to more than 5 million active users and we processed $16 billion of payments for them this quarter.

So, if you look at the drivers of our income, let's go to Slide 6. We'll spend a couple of minutes on client activity on these matters. Average total deposits grew $63 billion on a year-over-year basis. This is our 14th straight quarter of growth of $40 billion or more organic deposit growth versus the prior year. Global Banking grew deposits at an 8% pace as did Wealth Management. Consumer Banking deposits grew by 3%. Consumer core checking grew 7% from last year, showing more households are choosing us to be their core bank.

Our pace of growth has consistently exceeded the industry's growth rates. Customers value the capabilities and rewards of their relationship and continue to see lower attrition and 90% plus primary bank status. In addition, Wealth Management also saw strong growth of deposits in their relationships. Our Global Banking team continues to benefit from strong customer demand as we continue to deploy bankers and treasury officers across our franchise.

Within Global Banking, you will note that commercial customers move balances from non-interest bearing to interest bearing. As the treasury credit rate we give them for their balances to pay for their services rises, they play to need less non-interest-bearing balances. However, this change stabilizes when the rate curve stabilizes, as it has.

As we go to Slide 7, let's talk about average loans. The good news is the average impact of late fourth quarter growth we spoke to you about last call was complemented by further good growth during the first quarter. Particularly promising was a strong rebound in our middle market customer base, where we saw growth and line usage increase. This means middle market companies are increasing their own activity, as they draw lines to finance raw material purchases, payrolls and other investments. Overall, from a corporate top of the house level, we grew loans 1%. However, looking across our business segments, core loans grew $33 billion, or 4% on a year-over-year basis. That's consistent with our responsible growth model.

The lower left-hand chart shows the core business growth has been consistent across the last five years or more. Consistent growth consists of the responsive growth for several years and the growth rate improved this quarter. In fact, this quarter, our earning balance in Commercial Banking showed the highest linked quarter growth rate in the last six years.

As we move to Slide 8, you can see the highlights for the quarter. I've covered a lot of the core points here, so I want to focus a little bit on returns. Despite a modest increase in the average balance sheet, our return on assets in the Company was 126 basis points and improved both on a year ago and a sequential quarter basis. Our return on tangible common equity was 16%. Our efficiency ratio continue to move down to 57% from 59.5% last year.

With that, let me turn it over to Paul to walk you through more details of our first quarter results. Paul?

Paul M. Donofrio {BIO 1533743 <GO>}

Good morning, everyone. I'm starting on Slide 10, since Brian already covered the P&L. Overall, compared to the end of Q4, the balance sheet grew $23 billion, driven by the equity financing business. Liquidity remained strong with average global liquidity sources of $546 billion and all liquidity metrics remained well above requirements. Long-term debt increased $4 billion, common shareholders' equity increased $1.7 billion from Q4, as the value of our AFS debt securities benefited from the decline in long-end interest rates, thereby increasing AOCI.

Partially offsetting the increase was the return of more capital than we earned this quarter. We returned $7.7 billion, or 112% of the net income available to common, through a combination of dividends and share repurchases.

Turning to regulatory metrics. Total loss-absorbing capacity rules became effective in January and at the end of March, our TLAC ratio comfortably exceeded our minimum requirements. Our CET1 standardized ratio was flat at 11.6% from Q4 and remained well above our 9.5% regulatory requirement. The ratio was flat, because the increase in AOCI, mentioned earlier, was offset by higher RWA, primarily in Global Markets.

Turning to Slide 11, I want to spend a few moments on NII, given the changes in the rate environment. Net interest income on a GAAP non-FTE basis was $12.4 billion -- $12.5

billion on an FTE basis. Compared to Q1 '18, GAAP NII was up $606 million, or 5%. The improvement was driven by the value of our deposits, as interest rates rose, as well as loan and deposit growth, partially offset by lower loan spreads.

On a linked quarter basis, GAAP NII was down $128 million. In Q1, we benefited from yields rising on our floating rate assets, as short-term rates rose. We were also disciplined with respect to deposit pricing and we benefited from loan and deposit growth, particularly commercial loan growth. However, higher short-term rates also increased the cost of our long-term debt and other global market funding costs.

Additionally, lower mortgage rates muted the benefits from increased short-term rates. The net of all these things was still a benefit in the quarter. However, this net benefit only partially mitigated the seasonal impact in Q1 from two less days of interest, which cost us roughly $180 million. Net interest yield of 2.51% improved 9 basis points year-over-year, but was down 1 basis point linked quarter.

Deposit rates in our Wealth Management and Global Banking businesses increased, however, we saw minimal movement in our consumer business. Overall, the average rate paid on interest-bearing deposits of 166 [ph] -- excuse me, of 76 basis points, rose 9 basis points from Q4 and is up 40 basis points versus Q1 '18. That compares to an average increase in fed funds of 97 basis points year-over-year.

Turning to the asset sensitivity of our banking book, the drop in long-end rates increased our asset sensitivity compared to year-end. In addition, we are now modeling modestly lower deposit pass-through rates, given our experience in this rate cycle. Given the recent moves in rates, I thought I would provide some perspective on NII for the rest of the year.

On a full year basis, NII grew 6% in 2018, in a rising rate environment and an economy that grew approximately 3%. The economy is expected to grow more moderately in 2019 and rate expectations have been lowered, plus we have some seasonal headwinds in Q2. But through loan and deposit growth and picking up two additional days of interest over the next couple of quarters, we would expect growth in NII to be consistent with or slightly better than growth of the general economy. More specifically, in Q2, typically sees higher funding of client activity in global markets, related to the European dividend season, which aids trading revenue, but reduces NII. We also typically see less benefit from loan growth, driven by paydowns on year-end credit card balances in Q2.

Finally, long-end rates have fallen across Q1 and remain lower. This should drive higher prepayment of mortgage-backed securities, which will cause bond premium write-offs. These headwinds will be partially mitigated by one additional day of accrued -- of interest accrual. Across the second half of the year, we expect NII to benefit from growth in loan and deposits, as well as an additional day of interest in Q3. Ultimately, we expect NII for the year -- for the full year of 2019 to be up roughly half the pace of 2018. This perspective assumes today's forward curve and loan and deposit growth, consistent with the current economic environment.

Turning to expenses on Slide 12. We continued to improve efficiency. At $13.2 billion, we were down $618 million, or 4% compared to Q1 '18. This reflected efficiencies from a full year of work across the enterprise to simplify and improve our processes, as well as lower FDI insurance costs. We also reduced managers and management layers over the last year, cutting bureaucracy and complexity. By the way, in terms of headcount, we are replacing many of these managers with sales professionals. We also saw and entered some intangible amortization in our Merrill business related to the merger 10 years ago. Compared to Q4 '18, expenses are up $149 million, due to seasonally elevated payroll tax expense, partially mitigated by timing of marketing and tech initiative plans.

In addition, 4Q was elevated by the mismatch between accounting for certain deferred benefit programs and the accounting for related hedges, as the overall market declined in Q4. This went the other way in Q1 with the markets rebound.

Our efficiency ratio improved to 57%. I would also note that we filed an 8-K earlier this year in which we reclassified some expense to revenue, resulting in an approximately $200 million reduction in full year 2018 expense. With the expected expense levels for full year 2019 and 2020, as you know, we increased for 2019 our planned level of initiative spending, supporting both physical and digital expansion and we've made announcements of further investments in our people, like our minimum wage increase. Despite these increases, we still believe we will meet our target of reporting expense for the next two years that approximate our reclassified 2018 levels. However, please note that the quarterly progression of expenses in 2019 may look a little different than the past years, as it will be impacted by the timing of planned technology and marketing spend.

Turning to asset quality on Slide 13. Asset quality continued to perform well, driven by long-term adherence to responsible growth and a solid U.S. economy. Net charge-offs were $991 million, $80 million higher than Q1 '18 and $67 million higher than Q4. Comparing to Q4, we saw typical seasonality in our credit card portfolio. Compared to the prior year, we continued to see modest seasoning in our credit card portfolio. In Q1, there was also one charge-off related to a single utility client, which increased losses by $84 million, impacting comparisons against both periods.

The net charge-off ratio was 43 basis points. The loss ratio has now been below 50 basis points in all, but three quarters of the past five years. Provision expense was a little more than $1 billion and closely matched losses this quarter. Provision included a modest $22 million net reserve build. Looking forward, we expect net charge-offs to approximate this quarter's $1 billion level for each of the remaining quarters in 2019, assuming current economic conditions continue.

On Slide 14, we break out credit quality metrics for both our Consumer and Commercial portfolios. Here you can see both the seasonal increase in consumer losses, as well as the impact of the commercial charge-off, I mentioned. With respect to consumer metrics, both delinquencies and non-performing loans trended lower, which we believe is a good indicator of future asset quality. In commercial, we did have a modest increase in non-performing loans and reservable criticized exposure, but as a percent of loans, both metrics remain near historic lows.

Turning to the business segments and starting with Consumer Banking on Slide 15. Earnings grew 25% year-over-year to $3.2 billion. Q1 reflects continued strong momentum from 2018, as deposits grew $23 billion, or 3%, revenue grew 7% and expenses were down 4%, creating operating leverage of 11%. Despite the expanded physical footprint, the all-in cost of running the deposit franchise declined 6 basis points year-over-year to 1.64%, which includes both the cost of deposits, as well as rates paid. The efficiency ratio has now declined to 45%. Credit costs remain low. The net charge-off ratio was 128 basis points, increasing only 1 basis point year-over-year.

With respect to client activity, we continued to increase the number of accounts, while maintaining primary account status above 90%. More customers enrolled in preferred rewards, more customers used our digital channels for service as well as sales, and more customers used our expanded and enhanced physical delivery network. While remaining healthy, growth in consumer spending has slowed to 3%. This seems quite natural following two years of spending growth above historical averages, especially given the backdrop of an economy, which has modestly slowed. And remember, growth in spending in Q1 '18 was fueled by confidence following tax reform in late 2017.

Consumer lending was also solid, growing 5% year-over-year. The recent dip in mortgage rates has improved momentum in the mortgage market on both refinance and purchases. Originations were up 22% from Q4. With respect to small business owners, we've been investing in our capabilities. For example, we've streamlined underwriting, enhanced credit card features and added specialists.

Loans to small businesses are quickly approaching the $20 billion level, up 6% year-over-year. Solid activity with consumers is also evident in the growth of our investment assets. Investment assets in the consumer segment ended the quarter up $29 billion from Q1 '18 on solid flows and a Q1 '19 market rebound. So, customer activity remained solid across all major product categories.

Okay, turning to Slide 16. Note, the year-over-year improvement in Consumer Banking NII, which drove our 7% growth, as we realized the value of our deposits through our focus on relationship deepening. Card income was down 3% year-over-year, driven by higher rewards. Higher rewards were impacted by a number of factors. First, we saw more customers sign up for preferred rewards. Second, as some clients deepened their relationship with us, the amount of their rewards increased. Lastly, we added features that made it easier for customers to earn and view the rewards. While these types of improvements increase rewards, we believe they also deepen the relationships across multiple products, improving retention and profitability. Service charges were 2% lower year-over-year, as we continue to make policy changes to reduce certain overdraft fees for customers. Lower ATM volume also had an impact.

Turning to Global Wealth and Investment Management on Slide 17. GWIM's results were impressive, particularly given the revenue impact of the markets decline at the end of December. Relative to 2018, the business continued to gain momentum, growing net new households, which not only added to solid AUM flows, but also drove another strong quarter of brokerage flows.

Net income of just over $1 billion grew 14% from Q1 '18. Pretax margins remain strong at 29%. The business created 360 basis points of year-over-year operating leverage, as expense declined 4%, while revenue was down only modestly. Within revenue, positive impacts from the banking activities and AUM flows were not enough to overcome lower market valuations, declines in transactional revenue and general pricing pressures. The expense decline of 4% was driven by lower FDIC insurance costs, lower revenue related to incentive costs and merger-related intangibles, which are now fully amortized.

Moving to Slide 14. Q1 results reflect continued strong client engagement in both -- at both Merrill and the private bank. Strong household growth in both businesses and continued low attrition of experienced financial advisers contributed to the $17 billion in overall client flows.

On the banking side, deposits were up $20 billion year-over-year, which included inflows of about $8 billion from the conversion of some money market funds to deposits near the end of 2018. We also saw deposit outflows of about $8 billion, as the market recovered. Loans were higher by 3% year-over-year, reflecting strong mortgage growth, given the decline in rates. We also saw growth in custom lending.

Okay, before discussing Global Banking and Global Markets separately, I know many of you look at these segments together. So, for comparison, note that on a combined basis these two segments generated revenue of $9.3 billion and earned $3.1 billion in Q1, which is a 16% return on their combined allocated capital.

Looking at them separately and beginning with Global Banking on Slide 19, the business earned $2 billion and generated a 20% return on allocated capital. Earnings were up 2% from Q1 '18, driven by operating leverage. Revenue was up 3% year-over-year. We saw positive impacts from loan and deposit growth, as well as higher interest rates. We also saw higher leasing revenue. These increases more than compensated for a decline in investment banking and loan spread compression.

The business created more than 400 basis points of operating leverage, as revenue growth was matched with a 1% decline in expenses. Lower deposit insurance costs more than offset continued investments in technology and bankers. Lastly, provision expense increased year-over-year, driven by the single-name charge-off mentioned earlier, as well as the absence of the prior year's energy reserve release.

Looking at trends on Slide 20 and comparing to Q1 last year, let's focus on IB fees. We and the industry felt the impact of the government shutdown, as the SEC was closed for some period of time in the quarter. IB fees of $1.3 billion for the overall firm decreased 7% year-over-year. This was relative to a global fee pool that is estimated to have declined 14%. Year-over-year, we saw good performance in advisory fees, up 16%. This was more than offset by declines in both debt and equity underwriting fees. Within debt underwriting, leverage finance rebounded from a tough -- from tough conditions in Q4. But primary issuance remained slow, and in investment grade, we saw lower than expected offerings to finance share repurchases. Fee pools in ECM were also down year-over-year.

Switching to Global Markets on Slide 21. As I usually do, I will talk about results excluding DVA. Global markets produced $1.1 billion of earnings and generated a return on capital of 13%. While Q1 saw a seasonal rebound from Q4, we were down from the first quarter of last year. Q1 '18 was a record for the equities business, fueled by higher client activity and a spike in market volatility. And in Q1 '18, the equity business included a large client derivative -- client-driven derivative transaction.

Overall, revenue declined 10%, while expenses declined 6%. Sales and trading declined 13% year-over-year to $3.6 billion. FICC declined 8%, while equities fell 22%. The decline in equities was more modest, adjusting for the one large client trade in the year ago period. Much lower market volatility this year resulted in less client activity and weaker performance in equity derivatives. FICC's lower revenue was due to lower client activity and less favorable markets across both macro and credit-related products. Investors remained cautious through the quarter, given geopolitical concerns and market volumes were light for both primary and secondary trading. We had no days with trading losses in the quarter. The year-over-year expense decline was a reflection of lower revenue-related costs.

On Slide 22 you can see that our mix of sales and trading revenue remained weighted to domestic activity, where fee pools are concentrated. Within FICCs, we remain more oriented towards credit products than macro.

All right, finally on Slide 23, we show All Other, which reported a net loss of $48 million, which was relatively unchanged from the prior year period. Given the recent changes to our financial statements that enhanced certain allocation methodologies, we believe the ongoing profitability or loss in this unit should not be much different from Q1, absent unusual items. This quarter there was the normal seasonal tax benefit associated with stock-based compensation of about $200 million. This moved the tax rate in the quarter from our expected full year rate of 19% to the reported 17% rate in Q1.

Okay, with that let's open it up to questions.

Questions And Answers

Operator

(Operator Instructions) We'll take our first question from John McDonald with Autonomous Research. Please go ahead.

Q - John McDonald {BIO 21440002 <GO>}

Hi, good morning. Paul, I was hoping to just clarify the outlook for the net interest income. It sounds like you expect NII to be down sequentially in the second quarter on a few of those pressure points that you mentioned, and then to grow some in the back half, as loan and deposit growth and day count get more favorable.

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

Yeah, that's right. I mean as we said in the prepared remarks, we've got some near-term headwinds, some of them are seasonal, some of them recurred long when rates were down. But as we move to the second half of the year, we expect to benefit from continued loan and deposit growth, plus another day of interest in Q3. So, ultimately, we think the full year 2019 NII is going to be up roughly 3% year-over-year. By the way, when I gave the -- in the prepared remarks when I gave the net charge-off for that single credit, I transposed the numbers, I said $84 million, it was really $48 million.

Q - John McDonald {BIO 21440002 <GO>}

Okay. Just -- and on that outlook for 3% NII in 2019, is that assuming no rate hikes and still a pretty flattish curve?

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

Yeah, that assumes the curve as it is here today, which is flat.

Q - John McDonald {BIO 21440002 <GO>}

Okay. No hikes?

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

Correct.

Q - John McDonald {BIO 21440002 <GO>}

And then in terms of your rate sensitivity, you mentioned that they had gone up. How do you think about managing rate sensitivity at this point in the cycle, and actions to potentially protect NII in a flattening curve environment from here, or rate cut scenario from here? How do you think about how sensitive you want to be?

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

Well, look, we -- we're not a hedge fund, we're a bank and so we are customer-driven, and our asset sensitivity is driven by our loans and our deposits and the activity that our customers do with us. Having said that, we have limits on how -- how much asset sensitivity we want on the upside and the downside, we're within those limits. There may come a point in the future where we would do something to modify the asset sensitivity of the Company. But remember, when you're doing that you're basically replacing the (inaudible) on the future -- future rate of -- future change in interest rates, what if you're wrong? So, again, we're a bank, we're serving our customers. That's what creates the asset sensitivity in the Company. There may come a time we'll adjust that, but right now we feel comfortable.

Q - John McDonald {BIO 21440002 <GO>}

Got it. Okay, thanks.

Operator

We'll take our next question from Glenn Schorr with Evercore ISI. Please go ahead.

Q - Glenn Schorr {BIO 1881019 <GO>}

Thanks. Appreciate it. I know it's within the NII construct that you just gave. But I'm curious, you made a comment on -- in the quarter, the non-interest bearing to interest bearing shift in deposits continued, but you thought it would stabilize as rates do. I'm just looking for some color on how real-time is that, in other words, if we get no hikes for this quarter, next quarter, do you think you see an almost immediate stop in that shift?

A - Brian Moynihan {BIO 1517608 <GO>}

I think -- Glenn, what I was saying was that the -- you got to look at what drives the value of the consumer deposit franchise in the Company and that's the consumer side. And what you're seeing is consumer deposits grew $26 billion and checking grew $24 billion, okay. And so, between non-interest and variable interest checking. So, that's what drives our account. We have 0.5 million more checking accounts than we did a year ago, to give you a sense, in a book of 34.5 million, went to 35 million.

On the non-interest bearing side, the reference was in the commercial side, which, because the way cash management services are priced, when the rates rise, you people have to hold less balances to get the fees, hence [ph] credit rate goes up. When rates stop rising, which really has happened, that stabilizes and we have seen that and expected that to continue.

Q - Glenn Schorr {BIO 1881019 <GO>}

Okay. Maybe that ties into my follow-up on -- maybe small, but the service charges, especially the deposit-related fees are down 4%, or 5% year-on-year. It seems like a steady trend down. Is that a customer behavior thing, or has Bank of America changed anything on how it charges fees?

A - Brian Moynihan {BIO 1517608 <GO>}

We continue to think about and continue to change our policies on overdrafts, which has a downward effect on it. But the real driver of that is the fact that we have primary households. So, the people are above the limits of free checking, for lack of a better term, in that, if you get $250 a month in direct deposit and then you can get a free -- the account is free. The fees are waived if you have $1,500 average balances, et-cetera, et cetera. And so, the profitability of consumer franchise is a combined profitability of the deposit value and the fee value. And together, you saw that revenue grow 7% year-over-year. So, it is not we price on a relationship basis. So, you have to be careful to look at this thing in parts.

Q - Glenn Schorr {BIO 1881019 <GO>}

Understood, thank you. Appreciate it.

Operator

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

Q - Steven Chubak {BIO 18457976 <GO>}

Hi, good morning. So, wanted to ask a question about some of the remarks in the context of an operating leverage line. So, a core tenet of the investment case has been your ability to deliver sustained positive operating leverage. I think Slide 3 actually showcases that quite well. Just given the current outlook for loan and deposit growth and expectations for expenses to increase year-on-year at least for the remainder of '19, are you still confident, given the NII guidance and your ability, to continue that momentum and deliver positive operating leverage even in the absence of higher rates?

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

Yeah, I mean, look, the way I would think about it is, we've given you guidance on expenses, we've told you that in '19 and '20, we expect that our expenses will be approximately what they were for full year 2018 on an adjusted basis. And so, we're going to create operating leverage if we grow loans and grow deposits and grow revenue. I mean it's as simple as that, if we're holding expenses flat.

Q - Steven Chubak {BIO 18457976 <GO>}

Okay, fair enough. And just one follow-up for me on TLAC, Paul, since you gave some incremental color this quarter. I think I asked it on the last call, but I was wondering if you could provide some more detail, since you noted more explicitly that you're operating comfortably above the required levels. Given the much higher interest expense associated with long-term debt, I was hoping you could actually size that excess TLAC cushion, and whether there is any appetite to optimize your TLAC ratios to maybe help reduce that interest expense burden, especially given the tougher operating -- rate backdrop that we're currently operating in?

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

Sure. There's obviously appetite and interest in optimizing. We'll be disclosing in the Q a lot of detail around the TLAC, the different TLAC ratios. I guess a couple of things, as you see those. Remember, we received approval of $2.5 billion of additional buybacks in February. We've also been setting up a new bank entity and a new broker dealer for Brexit, plus we're creating a new broker dealer as part of resolution planning. So, our funding needs are a little bit elevated right now. We need to optimize that over the long term. And we'll sort all that out.

Q - Steven Chubak {BIO 18457976 <GO>}

All right. That's it for me. Thanks very much.

Operator

And our next question comes from Gerard Cassidy with RBC. Please go ahead.

Q - Gerard Cassidy {BIO 1505265 <GO>}

Thank you. Good morning. Paul can you give us some more color? If I heard you correctly, you mentioned that the equity business included a very large derivative client-driven transaction, Can you give some more color on what that was?

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

I'm not sure I would give you more color on the specifics of the relationship or the client. We don't like to comment on individual clients. But, look, it impacted -- I think, if you backed it out, equities would have been down, how much? 13%? 12% instead of the 22%. So, it was a meaningful transaction last year.

Q - Gerard Cassidy {BIO 1505265 <GO>}

Okay. And then second, you guys have done obviously a very good job in holding [ph] the line on expenses. Can you give us some color on where you think the efficiency ratio could eventually get to, and you can operate consistently at that level?

A - Brian Moynihan {BIO 1517608 <GO>}

Well Gerard, I think it's just -- as we said, it continues to drift down. Where stops we don't ever try to give people a number for free, it will stop there, and then not keep pushing. And so our job is to continue to drive it down. So, with flat expenses in a rising NII of -- like Paul described, you're going to see that all just obviously falls to the bottom line. But remember, the NII component is really very marginal from the standpoint, 0.5 million checking accounts on 35 million of consumer, $20 billion more investment assets in Merrill Edge, the wealth management business grows on a very leveraged platform.

So, if you look across the efficiency ratio or the pretax margin, wealth manager, 29% efficiency ratios. You can -- they'll continue to get better. All in, that will help in a quarter where markets are up. You'll see that number drop down quickly in a quarter where markets -- market activity is less, which year-over-year that market activity was less than last year. So, we saw a little deterioration on that side, even though we made 250 basis points improvement overall. So, I don't -- if I say to you guys on this call, or my team will say, oh, we made a goal, so the goals to continue to drive it.

Q - Gerard Cassidy {BIO 1505265 <GO>}

Very good, thank you.

Operator

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

Q - Betsy Graseck {BIO 4799503 <GO>}

Hi, good morning. Couple of questions. Just on the expense question, one more for 1Q. I mean you came in with an extremely low expense ratio this quarter. Do you see that more as a one-off due to the fact that the revenues were a little lighter in the capital markets for the reasons you mentioned earlier? Or, is this a good number that as we look forward year-on-year to 1Q '20, you could improve on?

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

Well, again, let me just take one step back. We've given our perspective on what we think 2019 and 2020 is going to be. We've said, with all the investments we're doing, the increase in technology, the merit, healthcare, everything we're doing, adding bankers, adding financial centers, we think because of digitization, because of all the efficiency, we think we can hold expenses at that 2018 level. So that's how I would think about it. If you just think about Q1 expenses, they were up approximately $150 million for Q4. Q1, obviously included the normal $400 million-ish of seasonality of elevated payroll expenses.

This was sort of partially offset by the timing of some tech initiative spend and marketing costs, which combined were kind of down about $200 million quarter-over-quarter. But we expect both of those to be up for the full year of 2018, as we continue to invest. We mentioned in the prepared remarks the deferred comp issue, which had a quarter-over-quarter effect. We mentioned the Merrill Lynch intangibles, which was about $75 million. But having said all that, for the year is what I would focus on, we think we're going to be at $53 billion and change.

Q - Betsy Graseck {BIO 4799503 <GO>}

Yeah. Okay, that's helpful. And then can you speak a little bit to the loan growth side, because we got the NII overall and understand the NIM trajectory here, but can you just give us a sense as to what's in your outlook there for loan growth and if there's any variance between the different buckets that would be helpful to?

A - Brian Moynihan {BIO 1517608 <GO>}

I think, Betsy just to give you -- for our Company and for the U.S. economy, especially, where we saw some strong -- strong, relatively strong performance was in our middle market business this quarter, in our small business. And those -- that's good, because that means the core tens of thousands of customers in middle market and the millions of small businesses are using their lines and line usage went up by 1% in middle market, small business I think originations were up 7%, 8% year-over-year in the quarter.

So, I think, if you think about the thing overall, that's good news. And so as we think about it long term, the run-off, if you go back to that page and look at the non-core portfolio, it's gotten to a point now where it's small enough, the impact is muted. So, the 1% overall growth and 5% core growth, we'd say the 5% core growth is in line with our expectations. The 1% overall ought to, frankly, start to mitigate, because that number of non-core loans is really just down to a much smaller number. And frankly, we sold -- this quarter we sold off some of the toughest loans, just to kind of get ourselves positioned in case, no matter what happens next. So, expect us to see the core loan growth in that mid-single digits and expect maybe a little bit more, but come through the bottom line as the non-core runs off.

Betsy, just to follow up on your question to Paul on expenses. We are driving the Company hard to continue to re-engineer it on a consistent basis. So, the digitization that you saw in the consumer business, which we talked about a swing through the commercial businesses fairly consistently. The cash per product, the cash per mobile product and things like that are growing. And so that was a very digitized business from sending cash, it is a little different to consumer. But the activity between us and the customer, the paper to electronic -- any -- one form of electronic to another form of electronic frankly saves us expenses, but also put some pressure on revenues, even though the treasury services revenue, as you can see, are up nicely.

So, expect that -- we're going to do everything we can on expenses, we're going to make the investments of $3 billion in technology, we're going to continue to drive the physical plan, the rejuvenation and continue to add people, because it's working. But don't -- don't ever think that we're trying to -- we're not overspending here. We're going to spend what we need to do to drive this Company for you.

Q - Betsy Graseck {BIO 4799503 <GO>}

Got it. Yeah, I mean -- and one point you mentioned something like $5 billion spent annually on storing and moving cash and check, is that still kind of the tagline for that?

A - Brian Moynihan {BIO 1517608 <GO>}

We're chipping away, it's still high. Even check deposits continue to go down in a franchise. Year-over-year in the first quarter they went from about a $140-odd -- $145 million [ph] in last year first quarter, $125 million to $127 million [ph] I think it was this quarter. But if you look at it, the -- and just that changed, the mobile deposits were up $15 million -- 15 million units in the same quarter, where the financial centers are down, excuse me -- the mobile were up a 1 million units in the same quarter, but the financial centers were down about 1.5 million units or 1.25 million units.

So, each year, we are driving that incremental change. So, that's just checks deposit that's not even cash distributed and stuff. So, just that it is a big cost, a lot of it's on the commercial side too and when we continue to try to drive it down, collecting all that coin and currency to the small businesses and people and they collect cash as part of their operations. We continue to try to digitize that too.

Q - Betsy Graseck {BIO 4799503 <GO>}

Okay, that's great. And just one last question from me. I know you've been planning on increasing hiring in the investment bank, especially around the middle market. And I'm wondering do you feel that you are fully baked there with your headcount, or is there still some more room to ramp that, and thinking about what the impact is going to be on the loan growth, as you indicated earlier?

A - Brian Moynihan {BIO 1517608 <GO>}

So, if you look at it, think about this time last year and into the summer, we continue to look at our position, we've been adding people. We still have room to go and add people. It's all in the numbers you see. So as expenses came down, we added more people in that area, in both middle market bankers filling out the franchise in various areas and investment bankers dedicated to that area, the team has been building up. And then frankly rounding out our general teams in investment banking.

And so, Matthew Koder came in and picked it up. We're seeing market share sort of improvements in -- even in markets, which are not as robust as we'd like from our standpoint. But we expect that the middle market one has been growing very fast. It's a matter of just getting more capacity, it's sometimes, -- you look, some of those numbers were up 25% in fees over the last couple of years, we just got to keep driving.

Q - Betsy Graseck {BIO 4799503 <GO>}

Okay. Thanks Brian.

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

Just to give you a sense on progress, if you look at hiring year-to-date versus last year in investment banking and capital markets, commercial bankers, it's at three-times the pace as it was last year. And attrition is down. So, we're definitely making progress.

Q - Betsy Graseck {BIO 4799503 <GO>}

Okay, thank you.

Operator

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

Q - Saul Martinez {BIO 5811266 <GO>}

Hey, good morning guys. On the interest rate sensitivity, you gave the reasons for why the sensitivity moved up long-end rates and deposit assumptions. But at a point in time, what is the breakout of the $3.7 billion between short and long-end right now? Sorry, if I missed that, you broke it out.

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

Yeah, it's 75% on the short end, 25% on the long end.

Q - Saul Martinez {BIO 5811266 <GO>}

75%, 25% still, okay. Also you have been under -- you've had some pressure obviously with higher short-end rates on the sales and trading NII. I assume your 3% growth, does that assume some easing of pressure as rates stabilize here?

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

Well, as rates stabilize, we shouldn't see much change in NII in that business.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. So, it's assuming no rebound, because as assets reprice and funding cost remain stable?

A - Brian Moynihan {BIO 1517608 <GO>}

That's right. That moves pretty quickly through the system, but it -- the 3% includes that as part of the balance.

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

There just isn't a lot of asset sensitivity in Global Markets.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay, fair enough. Just to change gears, on cards, income was down 2% year-on-year, volumes were up only 2% year-on-year. Can you just give a little bit of color what's going on there?

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

Yeah, sure. Look, the first thing I would say is, again, Brian said it, but remember we're focused not on products, but on increasing and deepening relationships. And remember, consumers revenue was up 7% year-over-year and profits were up 25%. To your question, purchase volume growth has slowed, but it was still up 3% year-over-year. We've got high rewards also pressuring revenue, but again, higher rewards are also driving higher deposit balances, which help NII, as well as client retention. We continue to add more than 1 million new cards each quarter, although this is down moderately, as we focus on profitability and re-evaluate applications that are looking to play the rewards game.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay, got it. Then just one final thing. So, you saw -- can you just give us an update where you are in the process and how you're thinking about, when you will give us a day one impact?

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

Sure. So, we've made a lot of progress and our efforts are continuing. We did a parallel run in Q1, which we're still analyzing. But based upon the earlier estimates from that parallel run, we do expect CECL reserves to increase. I think it's important to point out there is still a lot more work to do, but we would currently estimate the impact to be an increase in our reserves of up to 20%. I want to emphasize that sort of any adjustment to reserves will be based upon the composition of our portfolio and the forecast of economic conditions at that time, which is going to be year-end.

In addition, we haven't finalized our methodologies. And, look, if you're thinking about drivers, it's obviously credit card is the primary driver. Relative to others, you got to look at commercial real estate. Those are the things that are affecting reserves.

Q - Saul Martinez {BIO 5811266 <GO>}

Got it. That's really helpful. Thank you.

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

Just so you know, that equates to that 20% -- that up to 20% equates to a reserve increase of about $2 billion.

Q - Saul Martinez {BIO 5811266 <GO>}

Got it. It's not material for your capital. I get it. Okay.

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

Yeah, from a capital perspective, it's going to get phased in over three years.

Q - Saul Martinez {BIO 5811266 <GO>}

Yeah, understood.

Operator

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

Q - Matthew D. O'Connor

Good morning. Any thoughts on the NIM percent going forward? Obviously, there could be some quarter-to-quarter volatility, but just as we think about the underlying direction on NIM, can you hold it stable, or might it bleed down a little bit?

A - Brian Moynihan {BIO 1517608 <GO>}

Look, longer term I think NIM is going to depend on the forward curve. I mean that's the best answer I can give you. In Q2, I guess, I would expect NIM to decline a little bit because of all the items I mentioned earlier in those prepared remarks. It's up year-over-year nicely. I think if you look at the banking book, you can really see the power. It's up to sort of 3.03%, which is up 10 basis points year-over-year.

Q - Matthew D. O'Connor

Okay. And if we just take the forward curve, which is what's in your net interest income dollar guidance, would that imply some underlying pressure beyond 2Q as well?

A - Brian Moynihan {BIO 1517608 <GO>}

No. I think-- again, I think, it's going to be -- it would imply flat, I think, is what I would say.

Q - Matthew D. O'Connor

Okay. And then just --

A - Brian Moynihan {BIO 1517608 <GO>}

Over the whole year.

Q - Matthew D. O'Connor

So, what do you mean by that? So down a little bit in 2Q and then up a little bit like last year [ph] to get back to 1Q? Got it.

A - Brian Moynihan {BIO 1517608 <GO>}

That's right. That's right.

Q - Matthew D. O'Connor

Okay. And then just bigger picture question. Obviously, not just a concern for Bank of America, but as we think about exiting this year and we just take everything at face value that rates stay here and all these other assumptions they will probably change. But let's just hold on that. It does seem like revenue growth is going to flatten out as we get into 2020.

And I'm just wondering like what you're thinking in terms of levers that can be pulled? You had a lot of discussion around expenses. Are there kind of new products or customer segments that you can go after? Essentially, are there revenue opportunities that you can control, independent of the macro, if the expenses are kind of lined up and flat and there is not too much more to do there?

A - Brian Moynihan {BIO 1517608 <GO>}

I think if you think about a growth rate and economy of 2 percentage points or so and you think back about the last decade, we've been at that level more than we've been at any other level. And what did we do? We grew loans mid-single-digit, we grew deposits 3%, 4%, 5% faster. It's now kind of growing at that rate. That adds basically a very advantaged cost of funds and loans that are well priced to our core clients in both the consumer and commercial side and that then grows the net interest margin.

A lot of talk about, over the last few years about what was the contribution rates, half of it came more less from rates and half of it came from hard work and we expect the half that came from hard work to keep coming. And that's -- that leverage in a platform with expenses being flat is pretty good leverage. And then the markets will be what they are. But as I said earlier, remember that the revenue from those two activities year-over-year is up 7%.

Paul gave you the -- an eye view of that. The fees side of that revenue was down deeply. But even with what's happened during the quarter, to think about the wealth management business from the way they're pulling prices off of December into January and things like that, think about the recovery, the fee income, even if it stays flat from here, it will be substantial in wealth management business. So, we feel good just grinding out more customer relationships and more loans and deposits and more wealth management business from them and that will give us a pre-tax -- ability to grow pre-tax in the mid- to upper single digits and then the share count through the capital management.

So, that's the model of the 2% growth economy. If you tell me you are predicting a recession, we'd handle the Company differently as what everybody else, but that's not what we think. And then, as I think about it overall, we just -- this is a great franchise and we're just grinding out the growth that's embedded in it and that will produce, as we've said, mid single-digit, mid upper single-digit operating earnings increase, combined with share count will get you in double digits and that's pretty good.

Q - Matthew D. O'Connor

Okay. All right that was clear. Thank you.

Operator

Our next question comes from Nancy Bush with NAB Research. Please go ahead.

Q - Nancy Bush {BIO 1495529 <GO>}

Good morning. Brian, this is a question about your program to lift the minimum wage from $15 to $20 over the next 20 months. And I can see how this is necessary, as you said "to get the best people in an economy that has the unemployment rates that we do right now". But can you just kind of generally flesh out what kind of productivity improvements you're seeing in the workforce, and whether this $5 raise will be paid for by productivity?

A - Brian Moynihan {BIO 1517608 <GO>}

Yes, it's going to be -- well, it has been, I think, in the last several years, we've gone from probably sub $10 and now to over $15 and it's been paid for every year. So, I think our ability to continue to drive productivity is really driven by the change in customer behavior and the digital capabilities we have. So, more of the activity that would have been done a decade ago or two decades ago, a person handing a check for deposit at the branches would have gone through a person's hands and now goes through a mobile bank deposit -- mobile check deposit and the cost of that is tenfold [ph] different. And yeah, we still have in this quarter alone, $50 million-odd deposits at the financial centers to work on.

So, yeah, the productivity will increase. We've been able to pay for those kinds of increases. We've been able to keep the healthcare costs for the lower compensated teammates flat since 2011, after we cut it in half. And this is all to really have great teammates working with our core customer base and that's where we are focused on. And our average compensation of our Company is 90-odd [ph] -- $120,000 or something like that. So, this is not -- this is to really help drive in the branch and the call centers and the operations groups to continue the efficiency, but overall we continue to manage headcount down to make it happen.

Q - Nancy Bush {BIO 1495529 <GO>}

Okay. Also have a quick question about the credit cycle. Marianne Lake said on Friday that I think there were sort of five loans that came on non-accrual -- five material loans that came on non-accrual at JPMorgan Chase and that was the second quarter that it happened. And she characterized these credits as quote idiosyncratic, not belonging to any particular industry, et cetera. I guess my question is this, has the nature of credit cycles really changed due to the low rate environment? And how will you know if we are entering a "new credit cycle"?

A - Brian Moynihan {BIO 1517608 <GO>}

Well, we continue to -- those are great questions, Nancy, when you think about it in a broader context. But I think the major differences with our Company is that the geographic distribution in the United States, means that we're not susceptible to any regional issues dominating our discussion, as it would have been 20, 30 years ago, even a decade plus ago. I think that the balance in the Company from consumer and commercial has come down has changed substantially. So, we're 50%-50%, I think the secured portion of consumers, the dominant part as opposed to going in the last crisis, so all that sort of gives us a different feel for what we think the credit cycle will be like.

When you go to the commercial side, the underwriting capabilities, the team has then proven through cycles as being very strong, the ratings integrity is strong, when we go through with all the reviews, whether it's SNC or whether it's internal reviews. And so, yes, a Company, like the charge-off, we had in the fourth quarter, can have an idiosyncratic event that causes some damage. But will it be wholly different, it will really depend. If the economy stays bumping along that goes into slight degradation, you're going to see some across the board distress.

But I think so far, as we've seen pieces pop up, oil and gas a few years ago, we put up reserves, and we took most of them back in. The retailing business, we were a major lender in it. We've been able to work through the credits there, because of the nature of the collateral and stuff like that. The consumer side, the charge-off rate stays low. We've worked through, as you know, a lot of mortgage credit that was just -- is still with us and we have been getting that down and that's brought our charge-offs or mortgage back to where we thought they'd be.

So, I'm not sure I would ever say you have to take any credits that happen and say, there's no -- to say it's completely isolated one-off events, because you got to be careful not to fool yourself, but on the other hand, what we see is right now, the fundamentals of the economy in the U.S., on a global basis and the fundamentals of consumers and unemployment being low, as you mentioned, means that credits in good shape and we just don't see that changing a lot.

Q - Nancy Bush {BIO 1495529 <GO>}

All right.

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

I'll just point out, I know, you're asking how will we know, but the one thing I do want to stress is, how much we've transformed the Company over the last 10 years by sticking to responsible growth, by changing the mix between consumer and commercial, by focusing on prime and super-prime. And again, the best place to see that is in the fed stress test results, where you can see that our loss rate over multiple years and we'll see what it is year, has been lower than all peers. And almost 50% lower than the worst nine quarters we experienced during the financial crisis. So, the Company is just fundamentally different.

Q - Nancy Bush {BIO 1495529 <GO>}

Okay, all right. Thank you.

Operator

Your next question comes from Al Alevizakos with HSBC. Please go ahead.

Q - Al Alevizakos

Hi. Thank you for taking my question. You already mentioned about GWIM that it was a really impressive performance. When I'm looking at the numbers, clearly the outperformance, except for the solid revenues just coming from the expense line. And you mentioned a couple of factors during your prepared remarks, including the FDIC and the lower intangible amortization cost.

I was wondering as a first question, whether you would be able to quantify like, what was the lower expense coming from the intangible amortization costs, and then from FDIC, especially in that division? Thank you.

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

So, there was [ph] lower intangibles about $75 million per quarter. And FDIC, I think is a little over $100 milliion [ph] per quarter -- for the whole Company, yeah.

Q - Al Alevizakos

So, not only for the wealth management, just it's for generally all the Company?

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

Yeah, that's -- Merrill's intangibles is $75 million. FDIC for the whole Company is sort of like $150-ish million [ph]. So, Merrill (inaudible) they obviously don't get the whole thing.

Q - Al Alevizakos

Yeah. And as a second question, I think, I missed you at the end, when you were talking about the All Other segment. You guided basically that the Q1 is actually a good indicator for the future, but you also mentioned that there was this tax benefit of $200 million. So, what is actually the run rate? Is it the $50 million loss or the $250 million?

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

Yeah. Yeah, there was a sort of normal seasonal kind of tax favorability that I expect most people had in their models.

Q - Al Alevizakos

Yeah.

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

So, if you adjust for that, you know, a good -- for modeling purposes, I would suggest you use around a loss of around $200 million per quarter. That's a good base.

Q - Al Alevizakos

Okay. Thank you very much.

Operator

Our next question is from Vivek Juneja with JPMorgan. Please go ahead.

Q - Vivek Juneja {BIO 1505553 <GO>}

Hi, thanks for taking my questions. Couple of questions. I hear you on the card purchase volumes and the rewards expense, your card outstanding growth has also slowed substantially. It's gone from up 5% year-on-year last year in the first quarter, then it was in the 4-ish-percent over the course of the year, and it was flat year-on-year in this quarter. Can you talk about -- I heard you say that you are trying to avoid customers giving the rewards side. What about the card outstanding growth? Why has that slowed so much?

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

You're talking about card balances?

Q - Vivek Juneja {BIO 1505553 <GO>}

Yes, card balances Paul, that slowed to flat year-on-year. And if you look over the course of the last five quarters, that's a slowdown from where you have been coming over the last year?

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

Yeah, look, we're -- look I would expect low single-digit year-over-year growth to sort of continue. Right now we are experiencing a little bit of an uptick in the portfolio payment rate that's affecting growth.

Q - Vivek Juneja {BIO 1505553 <GO>}

Okay. And that's just -- you think just temporary that -- what's driving that, that it would only be temporary?

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

Look, I just think it's good economy and we have high-quality customers in our card portfolio and they're taking some of their excess deposits and paying off their balances.

Q - Vivek Juneja {BIO 1505553 <GO>}

Okay. Shifting gears, Brian, a question for you, investment banking. If I look at your -- I hear you on the fact that you've been hiring more bankers, Paul mentioned that too. When I look at your IB fees this quarter, at least based on the results, you have better come out thus far. It seems like you have slipped now to number 5. Any color on why? You used to number 2 a few years ago and it's gone. It's slipped further and further. Is it a risk issue? Is it an expense issue? What is the issue? And what should we expect as we look out, Brian?

A - Brian Moynihan {BIO 1517608 <GO>}

My guess is, we'll end up 4 -- 4, 5 on fees paid, depending on what is going on at the time, It will ebb or flow. If it's more debt capital markets driven, typically we do better. If it's more equity capital markets, we do a little bit differently and if it's advisory we sort of -- depends on sort of what the deals are.

At the end of the day, the team is continuing to work on driving it. We feel good at the progress is being made, and we'll continue to make that progress in the future. But I always tell people to keep in mind, in the Global Banking segment, our Company earned $2 billion, $700 million of which was investment banking fees. So, the key for serving corporate clients is to have a full robust broad relationship and drive the cash management and drive the lending and the investment banking, and not get overly focused on to get 2% of our revenues.

Q - Vivek Juneja {BIO 1505553 <GO>}

Okay, thanks.

Operator

We will take today's last question from Brian Kleinhanzl with KBW. Please go ahead.

Q - Brian Kleinhanzl {BIO 15228405 <GO>}

Yeah, thanks. So, one quick question on the commercial. I guess, you're still kind of constructive on commercial growth. But can you point anything specifically, I think [ph] you're actually seeing an improvement on the commercial side, like line utilization up year-on-year, are you seeing more CapEx spending?

A - Brian Moynihan {BIO 1517608 <GO>}

Yeah, there has been a lot of talk, if you think about the last couple of years, of the economy -- the last year and a half on economy, and commercial loan growth. And I don't get the fantods all over that. In a sense it's a -- things ebb and flow by what's going on. So, I think what you saw this quarter, really a combination of probably three things for us in the core commercial business -- yeah, commercial loans across the board.

One is in terms of the business banking segment, which is a smaller and we've hit sort of an inflection point. We were managing some of the credit risk in that portfolio, that's kind of hit the base and that's a smaller book, but it does impact year-over-year. That was down like over $1 billion and that's now flattened out in terms of core linked quarter impact.

Second thing is as the small business continues to grow, it does a good job in that and you can see that separately. The third most important thing is, we deployed more middle market bankers, they continue to deepen relationships and as we did it, we basically not only did we -- we took down the number of accounts per person, so that they could deepen the relationship to spend the time, that's why you're seeing the treasury service and other revenue grow. But importantly also, even pushing harder on the loan growth side and that's benefited us.

And then, frankly, for years we were kind of running down a little bit of our commercial real estate. On a relative basis, you would have seen other people grow faster. As the market settled in and we liked the credit risk better, we've actually seen a little better growth in the commercial real estate segment, very high and very capable, very strong quality, that's helped us a little bit too.

And then the last thing, which I think is good news, the economy overall, is the line usage went up about a point in middle market, which is -- which means that -- that's across a lot of lines, obviously. But what that really means is that people are using the credits, is the right word. So, the arduous task of doing -- driving commercial loan growth is really down to literally thousands of people out there every day doing the job that Matthew and Alastair and Acer [ph] and Sharon Miller and the team push them to do and we're seeing the benefits of that and that ought to be compounding in the future.

Q - Brian Kleinhanzl {BIO 15228405 <GO>}

And then just a separate question on the card income. I know it has been asked a couple of different ways. But typically, there is some seasonality in the first quarter. Was the seasonality impacts greater than the rewards impact in that linked quarter decline in card income and consumer banking?

A - Brian Moynihan {BIO 1517608 <GO>}

The impact of -- if charges were up and fees were down, obviously, the impact of the rewards, credits and other credits, both to the merchant and everything else exceeded the growth in the revenue. And so, I think that's a given. So, we are up 3% in charged volume, something like that. And then it overall declined slightly.

You remember that we are running our credit card relationship management business different than a lot of people. We run it as an integrated business. And so when you see that $26 billion in deposits growth in consumer, remember a lot of it's coming in large deposit relationships in the context of general consumers and not wealth -- affluent wealth management people customers, is coming because they're bringing to us $10,000 or $20,000 in balances too, that is helping drive our deposit balances and the relationship size, in order to get the reward system.

And so when you look at that, you got to be careful about looking any one line item that we have and look at it in total growth and that's a 7% consumer overall, and the risk-adjusted margin on the card product, I think we show is over 8%. So, it's very high credit quality and the fee is included in that. So, I think it's one of the differences. We're going to look a little different and so, yes, the amount we rewarded our customers to do business with us exceeded the rate of growth and they are charged a little bit. But combined with their deposit balances and how they get the rewards, you saw a consumer deposit level growth of mid-single digits, you saw $26 billion, which is the size of a good bank right there, just in consumer and it was all in checking.

The total other growth, other than checking was like a couple of billion dollars. So, it's all checking growth and all really what we do for people in the card is part of that payments, debit card, credit card and checking are really linked accounts now.

Q - Brian Kleinhanzl {BIO 15228405 <GO>}

Okay, thanks.

A - Brian Moynihan {BIO 1517608 <GO>}

All right. Well, thank you everyone for joining us again. We appreciate your interest. Another quarter, record earnings, strong client activity. We continue to see a good strong solid U.S. economy. We deepened those relationships. We had strong asset quality, and again, at the end of the day, we delivered a 16% return on tangible common equity, 126 basis points return on assets and we did that by driving operating leverage of 400 basis points. So, thank you. Look forward to talking to you in next quarter.

Operator

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