Operator

Good day, ladies and gentlemen and welcome to the Bank of America Fourth Quarter 2017 Earnings Announcement. Currently all phone lines are in a listen-only mode. Later there will be an opportunity to ask questions during the question answer session. [Operator Instructions]Please be advised today's program maybe recorded.

It is now my pleasure to turn the program over to Mr. Lee McEntire. You may begin, sir.

Lee McEntire

Good morning. Thanks to everyone for joining this morning's call to review our 4Q 2017 results. Hopefully everybody's got 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 will turn it back over to Brian for just a few thoughts from the company as we head into 2018 before we open up for questions. Brian, take it away.

Brian Moynihan

Sure, Lee. Thank you and thank 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 twelfth 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, driving revenue, controlling expenses combined with strong relationships in sales production. Full year revenue is 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 a responsible growth operating model where there is a clear recognition throughout the company of who our targeted customers are and how we manage risk 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 have 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 impacts 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 earn more than $11 billion and grew 14% while our Global Banking and Global Markets business together generated about $10 billion and they are up 7%.

Excluding the Tax Act impact, our return on tangible common equity was 11% and our 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 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 an improved CCAR plus our additional 5 billion we'll continue to make progress in this area.

At the core of our model is [indiscernible] group of teammates, our best assets, therefore we continue to invest heavily in making our company the best place for our teammates to work, [indiscernible] continue to rank high in overall list of the best companies to work for, we rank in the top 50 list the best workplace to show diversity, for parents, for working mothers and Hispanics among others.

You can see some of these accolades on the couple of the appendix slides we added to the packets this time. This year we also invested heavily in our teammates for improvements and starting minimum wages at where we have put them at $15 this time last year. We had more – we introduced Sabbatical, family leaving increases, leave policy extensions and wellness initiatives.

The 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 the future success of the expected benefits of the tax savings.

As Paul will explain, this added about a $145 million in dividend expenses in the fourth quarter. We've been also investing to continue to lower the cost to make - so we can make more money in our franchise. We also lowered cost so we continued our investments in digital capabilities for security protection for our customers; we show in our online and mobile banking leadership rankings.

We also rolled out digital shopping capabilities in auto and in home. We are also heavily investing in capabilities and 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 apps in the Apple App Store to be certified by J.D. Power.

We know there is 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 are approving, that we can win and do it the right way through driving responsible growth and we plan to do that in the future.

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

Paul Donofrio

Thank you, Brian. I want to go back to Slide 2 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 from the Tax Act. Our estimated impact came in just shy of $2.9 billion lowering EPS by $0.27.

Remember, the Tax Act is complex with several novel provisions. Any [current filing] [ph] guidance for new information could affect our estimated impact. As noted in our materials, the impact was recorded in two 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 benefits of this $950 million charge, plus the new value of certain deferred tax liabilities associated with these renewable energy investments.

In total, the tax line includes $1.9 billion aggregate expense with the multiple impacts of the Tax Act including the tax benefit of the charge for new energy investments that I just mentioned as well as the revaluation of our deferred tax assets and deferred tax liabilities.

In our materials, we've provided charts reflecting results on a basis that excludes the Tax Act impacts. We believe this provides a more clear comparison to Q4 2016. On that basis, net income was $5.3 billion with EPS of $0.47 per share growing 20% year-over-year. Return on 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 with the shared success bonuses in late December that Brian mentioned, plus an acceleration of planned charitable contribution in late December as we looked to share some of the future tax savings with our teams and the communities we serve.

Provision expense was $1 billion, up $227 million, driven by a $333 million impact from the charge-offs and reserve build 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 non-performing 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 up $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 markets 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 remains strong with average global liquidity sources of $522 billion and we ended the quarter with a liquidity coverage ratio of a 125%.

Equity decreased $4.8 billion from Q3. This quarter, through the purchase to both the purchase of our 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 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 twelve months.

Remember, this quarter where we see the pull 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

2016 as earnings over the year including the Tax Act impact offset share repurchases and dividends, as well as the convergence of Berkshire preferred stocks 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 run-off 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% and the standardized ratio declined 52 basis points to 11.7%, both ratios remain well above our 9.5 requirement and supplementing leverage ratios continued to exceed U.S. regulatory minimums.

Turning to Slide 5. On an average basis, total loans increased to $928 billion. Note that the Q2 sales of UK cards, which was a quarter than all other, impacted the year-over-year comparisons of average loans by $9 billion. In Q4, we also sold our remaining student loans and manufactured housing loans totaling to 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 run-off of non-core 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 cards and vehicle loans. Wealth management's strong growth of 7% was driven by mortgages to structured lending. Origination of new home equity loans continued to be outpaced by pay downs. Growth in global banking loans and leases remains solid, up 4% year-over-year.

Switching to average deposits and looking at the bottom right, growth was $43 billion or nearly 3.5% year-over-year. This growth was driven by consumer banking which increased by a $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 2017 and $227 million from Q4 2016.

Provision expense included a $236 million net reserve release. The net reserve release reflects continued improvement and our legacy consumer real estate and energy portfolios. Our reserve coverage remains strong with an allowance to loan coverage ratio of 112 basis points and a coverage level of 2.6 times 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 2017 storm-related payment deferrals and seasonality.

The Consumer credit card net charge-off ratio increased to 2.78% as the portfolio continues its expected seasoning. Consumer NPL of $5.2 billion declined from Q3 and or at the lowest they've been since Q2 2008 and 45% of our Consumer NPLs are current on their payments. Commercial losses, excluding the one large credit already discussed were stable. Reservable criticized exposure was down more than $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 2016, GAAP NII is up $1.2 billion or more than 11% driven by the spread improvements in our asset yields and funding cost.

Partially offsetting the spread improvement is the lack of interest income associated with the UK card portfolio which was sold in Q2 2017. The increase year-over-year was also driven by both the home and the securities 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 2016 to 2.39%. Compared to Q3 2017, 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 cut and the deferrals.

With respect to deposit pricing, we raised rates modestly on selected wealth management products as well as for certain commercial clients. Consumer rates paid remains stable. NII on a full year basis grew $3.6 billion or 9% to $4.7 billion.

In 2018, we expect solid NII growth driven by loan and deposit growth in 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 UK card business that we sold. This will be a significant offset to NII growth in 2018.

In 2018, we also don't expect the same full year benefits from the reduced premium amortization experienced in 2017 given the increase in rates that borrowers have already experienced. More short-term, as you think about NII in Q1 2018, we expect to benefit from the December rate hikes. Having said that, remember, there will be two 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 growth up will be lower. However, remember, NII growth up on an FTE basis is completely offset by higher tax expense resulting in no change in earnings.

Still, on an FTE basis, NII is expected to decrease by approximately $120 million each quarter. On a GAAP basis, again, NII is not impacted. With respect to asset sensitivity as at 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 two-thirds 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 for 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 four quarters. Prior periods in this quarter's supplemental materials have been restated for this change.

Non-interest expense of $13.3 billion was down $140 million or 1% from Q4 2016. Note that this amount includes the two actions which totaled approximately $200 million than in the prior year to share pretax savings with lower paid employees and the communities we serve. Excluding these discretionary actions, expenses were down 2%.

In addition to cost savings associated with the sale of our UK Card business, year-over-year improvements in non-interest expense will be broadly distributed across expense categories as we continue to focus on SIM, understanding 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 cost and potentially increases in investments. Compared to Q3 2017, expenses declined by $120 million despite the late quarter discretionary spend. The decline was driven by a lower mortgage servicing cost and lower revenue-related incentives in our global markets business.

Excluding the Tax Act's impacts on revenue, our efficiency ratio of 62% was above our target reflecting the typical seasonal weakness in our sales inflating 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% on allocated 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 were 9%. Average deposits grew 8% and Merrill Edge brokerage assets grew 22%. Cost of deposits which reflects non-interest expense as a percent of average deposits increased modestly because of year-end discretionary actions mentioned earlier to share future tax savings with low pay employees and the communities we serve.

Net charge-offs increased $107 million from Q4 2016 as we continued to experience modest and expected seasoning of our credit card portfolio and loan growth. Provision expense increased $126 million in Q4 2016. The net charge-off ratio remains low 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 bond declines. In Q4, we retained about 90% of our first mortgage production on balance sheet.

Looking at revenue more broadly, we believe our relationship deepening, Preferred Rewards program is improving NII and growth of balances and allowing cost savings. These benefits are more than offsetting headwinds in the non-interest 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 the one-time 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 and 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 at a 10 point scale. Focusing on client balances, on the bottom of the page, you can see the success we've continued to have growing deposits, loans and brokerage assets. We remained focused on prime and super prime borrowers with average book FICO scores of at least 760.

Expenses were up 4% compared to Q4 2016 as the year end special bonus impacted this business more heavily than others. Otherwise, investments in renovating branches and technology initiatives modestly outpaced continued optimization and 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 3400 ATMs.

Turning to Slide 12 and focusing on the continued improvement in digital banking trends. As you can see the year-over-year growth in these metrics continues to be impressive. We remained the leader in digital banking. We now have nearly 35 million digital users including 24 million accessing their accounts through mobile devices.

We process 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 payments relative to non-digital ebb 1% as customers continue to migrate from cash and checks helping us improve efficiency and reduce risk. In particular, note P2P payments increasing. They doubled from Q4 2016 as day deduction 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 users 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 all 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 out 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, Q4's earnings of $742 million, up 17% from Q4 2016, 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 revenues. 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 technologies.

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 the reviews of previous quarters, clients started to more oppressively move deposits into cash investment alternatives within AUM and brokerage starting early in the year.

In the second half of the year, trends improved as we increased rates paid on certain products. Average loans of $157 billion grew 7% year-over-year continuing the 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 2016. Return on allocated capital was 17% and stable with last year despite an increase in allocated capital.

I want to talk about full year results for a moment behind 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%, a 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 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 IBCs 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 2016 as a result of a 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 remains fairly consistent with 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 repatriate 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 one basis point compared to Q3 2017 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 2016 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 2016. Advisory fees hit a new record. For full year 2017, we ranked number three 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 DDI. 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 in trading results, higher technology investment spending and provisions.

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 non-core asset recorded in other income. Sales of trading revenue held up better from the middle of the quarter end through the end of the year than it did in the prior year.

Sale of trading of $2.7 billion declined 9% from Q4 2016, fixed sales and trading of $1.7 billion decreased 13%, with this effect 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 2017 was 5% higher than Q4 2016 as lower revenue-related incentive cost 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 total trading revenue has been fairly consistent over the last three years at $13 billion to $13.6 billion. And note that we have achieved this stability while reducing our expensed RWA.

Now, the launch and rolled over last few years and that change was reflected in activity and volatility that very greatly, from both a product and regional perspective over the last three years. Still, we were able to cruise relatively consistent revenue and 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 the $0.4 billion tax benefit from the restructuring of certain subsidiaries. Revenue from early Q4 2016 excluding the impact of taxes were down a little more than $130 million year-over-year. Remember when comparing year-over-year, Q4

2016 included expenses and charge-offs for the UK card portfolio sold in 2017.

The tax rate this quarter was impacted by the negative impacts of the Tax Act as well as the benefit of the unrelated subsidiary restructuring. With respect to tax rate in 2018, prior to tax reforms, 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 rate on an FTE basis, the difference in GAAP and FTE has now narrowed from two basis points to one basis point.

This reflects the preliminary analysis on the non-deductibility 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 for Q&A.

Brian Moynihan

Thanks, Paul. As we wrap up, we thought it'd be useful to hit a couple questions from the top that Paul and I've been fielding and is a tactic one has become more reality. The first question we get often is, how do our clients that how do we feel about the tax reform and the client activity. It's clear from what our clients tells that tax reform be a positive for our clients and customers in nine states.

There are two key elements from the standpoint of Corporate American Tax Reform, first the lower competitive tax rate and second the territorial system and both these were accomplished in the tax reform. This coupled with the continued regulatory reform agenda to balance regulation how well received by businesses and this increased confidence will ultimately make it and undoubtedly make it into the business plans.

And as one of the largest banks in nine states, we will benefit that – with that as our customers grow and invest. That being said, those customers justice 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 activities to help grow our company and achieve even more competitiveness.

The second question I get is, there is our focus change and we run the company differently given a lower tax rate and end of day is no. We are going to remain focused on driving responsible growth, continually trying to connect that 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 will 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 are also continuing to drive our share return model and we expect that largest portion has benefits from tax will be reviewed by 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 consistently responsible growth.

Third question is, do we think that the impact of tax reform will affect loan growth. Near term it will be tougher to tell that people repatriate money or receive more after tax cash flow. The question is will they pay it on our loans and perhaps they will. However in the medium to long-term, more after tax cash flow came from real estate 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 the general economy and how it's growing and less about the tax rate. Another question we often get is this tax reform change or come into $53 billion goal for 2018. I'll start out by pointing out that if you look our expenses in fourth quarter, we effectively reached a runrate 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, if you multiply that times four and that's 52 and a quarter or so billion.

If you add $400 million in these FICO related tax to come in the first quarter, and throw on top there a couple hundred million dollars of potential incentives due to fourth quarter being a lower trading quarter, you get around a $53 billion runrate. So effectively you've reached your goal.

In the second quarter of 2016, we first announced the scope, I want to remind you that there is the expenses that were trailing at that time of $56 billion. It was on our business plan to hit that $53 billion in 2018, it's still is. But as we look forward, we have no doubt, as I said earlier that business is including our company, we'll have to look to take advantage of some of the tax savings to invest and improve their business and compete as faster as they would have done before the tax reform act.

So we continue to evaluate options for longer term value creation along the dimensions of the investments we have been making in branches, in technology and people. We will continue to assess this as we go through the year. However we'll be clear we'd expect most of the benefits and 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 efficiencies that will continue to play to our benefit over time.

The next question I get is around capital return expectations, or will they change given the tax reform. The simple answer to that question is, yes. In 2017, we reported net income available to common shareholders is $16.6 billion and returned $16.8 billion back through share repurchase and dividends. WE don't need to make any acquisitions in the company in fact in nine states, the deposit acquisition is not legal.

So our 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. That brings us the last question here for investors.

How are we performing to return targets and do they need to increase for the tax savings implied in 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. In addition, either 12%, and 1% targets that we laid out few years ago. Going forward the benefits in tax reform will easily mathematically accelerate those and we'll reach those targets.

The potential lift in returns to be seen by just adding the benefits of the lower tax rate assuming 100% of the benefit is still at the bottom-line. This will equate to something north of 150 basis points of increased return on tangible common equity and more than ten 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 that up, we will stay focused on responsible growth in 2018. That'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 about the company.

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

Question-and-Answer Session

Operator

[Operator Instructions] And we can take our first question from Betsy Graseck with Morgan Stanley. Your line is now open.

Betsy Graseck

Good morning.

Brian Moynihan

Good morning.

Paul Donofrio

Good morning.

Betsy Graseck

Brian, I just wanted to follow-up on one of the comments you made around the expenses. As you indicated in the prepared remarks, the expense improvement has been fantastic and 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 are 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 are 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 networks?

Brian Moynihan

Sure, I think, what we are saying is that, just the – base principle, the vast majority of any increased after-tax cash flow will go to the shareholders. The question that we have to look at, Betsy as you reference is, is there an amount of investment that we may accelerate some of the things we are doing especially around consumer business but across all the business to accelerate the branch build out and some of the cities that's proven to be very successful that we are doing over five years you want to speed it up a little bit.

We will 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 treasury services business. So, the debate is, is there some amount that you'd invest to help accelerate growth whether it be along the dimensions that we've been doing and will just improve our ability to get them done and speed it up it would be modest I think, is the best way to say.

Betsy Graseck

Okay, and then on the consumer business, the operating leverage has obviously been extraordinary in the last two years. Is there more to come this year?

Brian Moynihan

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 at the company as a whole and each of the businesses and consumer can continually get operating leverage. They've done a great job and you see the branches have done a hundred and some year-over-year.

The digital transactions continue to go up, but there is a lot of room to go still even though we think we've made great progress in digital than 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 adapt these new and exciting technologies, we'll see more operating leverage, but it's been – the team has done a great job there, and I think they'll continue to improve it.

Likewise, you are going to see some of the transformation we are doing in the wealth management business continue to grow and Terry and Andy and Katy and the team are doing a great job. We need to – that business is growing, but we need to start to drive some of the digitization techniques that we use in other businesses including commercial business into that business which we'll see and that will help the operating leverage there.

And then the commercial business, that's very efficient. So it's very hard fought to get much expense, but even then they've still done a good job of taking the expense leverage through the changes and the underwriting ways we do business. This is how we underwrite centrally versus decentrally and things like that. So, it will be across the board and we expect more on the consumer.

Betsy Graseck

Okay, thanks. And then just last question on the dividend payout ratio, realize that earnings up with the lower tax rate, do you expect you'll keep that dividend payout ratio flat or how are you thinking about the dividend and then overall capital return?

Brian Moynihan

We may see us that we are moving toward the 30% payout ratio of earnings and I think that would mathematically follow what you just laid out the Tax - tax earnings go up it will be a higher number, so.

Betsy Graseck

Thank you.

Brian Moynihan

We are not quite there yet, but we're pushing towards that direction.

Betsy Graseck

Okay. Thanks a lot, Brian.

Operator

And we can take our next question from John McDonald with Bernstein. Your line is now open.

John McDonald

Hi, good morning. Brian, thanks for the comments on expenses and how you are thinking about some of the tax impacts and maybe accelerating investments. So, I guess, kind of just coming back to that if we think about, you got to this $53 billion, you are kind of there now. Is this a level where you feel like you could run the company and you kind of have some kind of maybe just core inflation associated with the economy.

Are you still reinvesting cost saves, but you are still taking out cost some places, reinvesting 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?

Brian Moynihan

I think the – as we said before, the key is to drive operating leverage as Betsy referenced John and continue to drive across the businesses. Couple things we've been clear that leave aside the discussion about the investment on 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 creep up on you. And so, we had a pretty good dynamic going and 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 of years. So the basic principle is around the company relatively flat through continuing investments and cost effectiveness is, we still got a lot of room ahead of us.

I always come back, John, and you've followed our company closely, we have – we will continue to have the same rigor around the way we'd run the company just because the tax rate is lower doesn't change how we are going to do it. So we are going to be driving that analysis that says, how much can we invest and build this operational excellence campaign we're on.

We just see tremendous opportunity to keep applying digitization to paper and the work in the company and continue to drive that. So, a lot of the – some of those investments will be branches or people or sales people and have been and the businesses, but on the other hand we are investing tremendously in the effectiveness in the company and we'll continue to do that.

John McDonald

Okay, and 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 continuation or drag on deposit fees that might come from the new overdraft policy or is that impact maybe fully in the fourth quarter numbers yet?

Paul Donofrio

I would say, you are going to see that next year if I were modeling that you probably want to sort of low single-digit impacts.

John McDonald

Relative to...

Paul Donofrio

They came in part way through the fourth quarter, so, you just had to, the good chunk is in there, John. So there will be a modest impact beyond that.

John McDonald

Beyond that, okay. Thank you.

Operator

And we can take our next question from Steven Chubak with Nomura Instinet. Your line is now open.

Steven Chubak

Hi, good morning. So, wanted to start with a question on credit outlook. Liquidity trends remain quite favorable. Brian, you noted that NPL has declined both consumer and commercial. I am 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 to maybe somewhere in the range of like $900 million $1 billion, is that a reasonable expectation?

Paul Donofrio

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

Steven Chubak

All right, and just one clarifying question for me on the expense side. I know that that changed. You 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've alluded to the fact that you expect expenses to be flattish in 2019. I know you are very focused on digitization, automation. I just want to confirm whether that's still a reasonable expectation just because it looks like most people are contemplating some expense ramp from 2018 to 2019.

Brian Moynihan

We’d say that, we’d expect that all things being equal, they would be flattish and that’s what we told you. The question is, we took a little bit of money and accelerate investments and kind of run through a couple of years and probably drop back off.

But it be very modest and a greater context lot of investments get capitalized with the near term P&L impacts differ but basically from a conceptual framework, we think we can run the company in the low $53 billion approximate $1 billion on a consistent basis over the next couple of years with a caveat that we may look to invest part of the tax savings on top of that and we’ll be very clear when we do that.

Steven Chubak

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

Brian Moynihan

Yes, I think, we are at 27 this quarter, 26, 27, - 26, we gone from that. It’s a target to get to. I think it is – mechanically there is some things to help us over the next couple years in terms of some stuff running that pushes this up. So, we continue to do that. What we are talking about is a more fundamental reset on a couple of things.

Obviously, in a lower end – lower affluent business we are driving Merrill Edge and things as more efficient platform by definition. And secondly, there is a lot of paper in this business and lot of work and even advice themselves there is a lot of automation work they do that will make that easy for them do that, they could become more efficient, handle more clients and handle them well.

But if you think about the core pretax margins, it will move up and they can get it, we still believe we can get up around 30 in the deposit side helps us that as the arbitrage from rates goes through that business.

Steven Chubak

Excellent. Thanks for taking my questions.

Operator

And our next question comes from Glenn Schorr with Evercore ISI. Your line is now open.

Glenn Schorr

Hi, thank you. Hopefully, this is simple that I know you can't talk for the regulators, but all else equal have you thought through to how the Tax Act might impact the CCAR process meaning I see just a lot higher PP&R and it shouldn't impact anything else in a vacuum, but just curious if I am missing something there?

Brian Moynihan

I don't think you are missing anything. This is 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 are going to be in a better position to return more capital to shareholders in the form of dividends and buybacks.

Glenn Schorr

But – and then just switching over to wealth management, couple little questions on like, number one is, where is all the growth coming from, meaning you noted the strong flows, curious what's current versus new clients and you also noted advises are up 3%. Is that training or is that recruiting, just curious?

Paul Donofrio

Look the SA 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.

Brian Moynihan

I'll just remember, just to be clear, we have changed our recruiting – we now said six months ago, where we have been recruiting sort of the traditional way. So most of the growth is coming through our advisor training platform which we consolidated between the work – the people who work in the branches and people who work in the Merrill offices brought into one day training, product training program again for effectiveness and we think that has great prospects. That will take the figures with that to play out obviously.

Paul Donofrio

So, it just seem that the – about the numbers it's just AUM growth, which is being driven by market levels, it's being driven by increased flows. It's being driven by some new households and we are very focused on that. That's offset by some – little bit of spreads compression and decline in transaction revenues that we've been seeing now for a couple peers.

Glenn Schorr

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, the thought process and experience so far.

Brian Moynihan

I'll say, it's been the experience so far has been relatively modest in terms of anything as people have been changing opinion, but, we continue to model the market and we'll figure out what we want to do, but we haven't changed our position yet.

Glenn Schorr

Okay. Thank you.

Operator

And we will take our next question from Matt O'Connor with Deutsche Bank. Your line is now open.

Matt O'Connor

Good morning.

Brian Moynihan

Hey, Matt. How are you?

Matt O'Connor

Good, thank you. I was hoping to follow-up on the outlook for net interest income for the full year and you mentioned some of the drags from the card business. So 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 new value growth year-over-year.

So I was trying to get a little better sense of maybe the magnitude of net – that you are looking for and then if you want to give us the bond premium amortization, how much benefit that was this year versus last might be helpful in the pieces.

Paul Donofrio

Yes, look, we expect solid NII growth in 2018 from continued, sort of NIM expansion as well as loan and deposit growth. I think this dice 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 the deposit rate pay.

With respect to bond premiums, what I would point out was that in 2017, we had a benefit of approximately $700 million from the 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 are not going to get the same decline in the future of prepayments fees. You noted and I would also note that 2017 included half of UK card and then you got to factor in FTE. But all that said, we feel good about 2018 NII growth, it is just going to be solid as it's going to be back to basics on loans, growing deposits, managing deposit rate paid.

Matt O'Connor

Okay, that's helpful. And then just separately on the retail deposit side, you mentioned, essentially no repricing there. It's consistent I think with what we are seeing for low figure big peers, but just wondering what your thoughts are in terms of when they – start seeing little bit of upward pressure there and being the biggest deposit player as you might be one of the setters of the price there as we think about rates going forward.

Paul Donofrio

Yes, I am not sure how helpful I am going to be to you, I would just make a couple of points that we've made many times and that the industry really hasn't seen on the retail side deposit rates increasing sort of much or at all on traditional accounts. And I think it's important just to remind everybody that Bank of America delivers a lot of value to depositors.

You've got transparency, convenience, safety, mobile banking, nationwide network, advising council. I think all of this plus the lack of market pressure so far has kept deposit rates relatively low. You've seen rates rising in GUM and global banking. Look at some point rates are going to rise and my guess is we are getting close to that point given the expected fed fund rate hikes here in 2018.

We just don't know though, what all I can tell you is that we are going to balance our customer needs and we are going to balance the competitive marketplace with our shareholders interest and we are going to do the right thing for all the parties.

Brian Moynihan

Paul, I'd just add a couple of things. One, the pricing strategy in consumer has already driven the relationships 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, the reward deposit balance along with – 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 other things, what hold us down is if you look at the deposits year-over-year, and 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 with the run off of CDs and so, that dynamic is always going to lead to all-in deposit price four basis points looks lower, but it's the quality of the checking franchise and core franchise we have. I think we had, the average checking balance in consumer reached $7000 this quarter. They are all prime, core transaction accounts of the household which means the pay checks coming in – that's what's driving the overall structure of the business and we'll continue to do so.

Matt O'Connor

Okay, thank you very much.

Operator

And we will take our next question from Mike Mayo with Wells Fargo. Your line is now open.

Mike Mayo

Hi. What is your total technology spending, say for 2017, how that compared to 2016, where do you expect that to be for 2018?

Brian Moynihan

Well, we – to be comparable, yet to understand what you are – what the components are, but the component most people focus on is what we call technology initiatives or code and new program and that's about $2.7 billion bucks and relatively flat.

Mike Mayo

Relatively flat 2016, 2017, what about for 2018?

Brian Moynihan

Relatively flat for 2017 and 2018. We are getting even in the way we program at a little bit efficiency as the nominal number for 2017 would be higher than that. The number for 2018 will be lower than that, but it's largely getting the same amount of work done to little less efficiency. A little less cost per dollar for programming unit for the lack of better term. So, that's been fairly cautious across time and we continue to evaluate that level of spending at all times.

Mike Mayo

So, going back to Slide 12 for the consumer banking digital trends, are you spending more money in those areas as you get more traction? I mean, you see 23% mobile deposit transactions that are digital. I mean, where do you want to take that 23% number and do you need to spend more to get there?

Brian Moynihan

Well, I think, when you talk about technology, the consumer bank has benefited by a lot of technology spending across the lot of dimensions including the way we distribute the environment t the branches – use of tablet type technology in the branches to integrate the customers, better call center technology. It is a tremendous investment in the consumer.

On the digital side, specifically, we will travel with the customer and we were getting the customers to understand the value of –instead of going to the ATM deposit, do with their phone or instead of going to branch deposit, do it with their phone, but we take it ahead of them we have to walk with them and help them do it and help them grow that 23% number up from three or four years you'd see on the page like the 12%.

It was a meaningful amount that it's about a 1000 branches of activity goes through the phone. So, we will continue to drive that, but I think, yes, we have invested, but it's not necessary what we've done for this year, it's $1 billion we probably invested in mobile technology over the last five, six years to get us here that now we are taking advantage of it and as you know it comes out the Merrill Edge capabilities continue to be improved to helping that affluent – mass affluent America.

So there is a lot of step behind it, but, so think about spending $2 billion, $2.5 billion to $3 billion in technology, think us having done that for a long time and think of some of those benefits now coming through. So it's not like the ethics are expanding to get the mobile behavior, it's actually a change in customer behavior which is less about the technology, it's more about getting the customer over the behavior.

Mike Mayo

You guys have said, take a look at all of these trends collectively on Slide 12, but don't look at one in isolation. So, what sort of metric should we monitor externally to gauge your progress? Would it be, for example, the consumer banking efficiency ratio or is there one all-in compassing number or how would you suggest that we think about this?

Brian Moynihan

Well, I think, the efficiency ratio and the team tell us they are going to get it, - they have done the 50 and they are going to get below 50 and they take great solace in that. I tell them, don't take great solace and that of course could be, we don't know how low it could go. But the one I think that I'd argue though is that we've always looked at the – if you look on Page 10, like the average cost of deposits.

So if you take the entirety of running this system as a percent of deposits which you can benchmark people relatively clear than the industry, you'll see that we run about a 160 basis and we set the phones, the mobiles, the technology, the people and all that stuff against the deposit base, that has come down over the last seven, 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 timeframe, the customer scores have risen as Paul said earlier to record heights. It's that we can't get ahead of the customer and we can't push the customer due to something that we want to do and the challenge is keep that cost efficiency at 161 basis points to get the benchmark while improving customer experience.

Paul Donofrio

And Mike, you got to focus on operating leverage. That's a key thing that we are looking at all the time and holding people accountable to in addition to efficiency and all the other individual metrics across mobile adoption and digital sales.

Mike Mayo

My last follow-up, just on that last point Brian, a lot of investors have raised concerns that all the internet digital banking will be the demise to deposits, that deposits will flee more quickly and what's your short answer to that concern?

Brian Moynihan

I think, year-over-year the consumer business grew $47 billion of organic deposit growth. I think that's what it speaks for itself, Mike.

Mike Mayo

All right, thanks.

Operator

And we will take our next question from Ken Usdin with Jefferies. Your line is open.

Ken Usdin

Thanks, good morning. I think I'd follow-up on the loan side, 6% year-over-year in the core business. Pretty decent rate and you are seeing growth across, just wondering what your expectation is for loan growth are as you look out and in a bigger sense, any sense of just the movement in commercial and corporate America in terms of starting to think about investing more in their businesses?

Paul Donofrio

Loan growth, we feel very good about loan growth. So, excuse me – 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 is new more investments here because we have leveled the playing field. So, medium, long-term, even short-term, I think we are very optimistic about loan growth.

With the slight caveat that people are repatriating some funds, so we are going to see what a factor is in the short-term on really our large corporate international kind of borrowers. On a more – at a more detail level, we feel like we've been growing well in mortgage and we are going to – that will be offset by home equity run-off.

Card has been growing well in the fourth quarter. I would note that seasonally card balance is 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 are still holding our own there and expect slight modest growth next year. And on the commercial side, we've been growing loans at mid single-digits and again, so good to, we have to repatriate funds here in the short-term. I don't see any reason to change our expectation around loan growth.

Ken Usdin

Paul, is there any change in the rate of run-off in the all other bucket from that $71 billion bucket? How fast are you expecting that to still run-off?

Paul Donofrio

It's been running off, the way we haven't characterized as going forward it's going to run-off sort of 5 to 6 per quarter, call it five.

Ken Usdin

Okay. One quick one, just mortgage is 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 couple hundred million dollar negative was in the other part of mortgage and if that's recurring or just a one-time thing?

Brian Moynihan

Yes, sure you are talking about the NBI line right?

Ken Usdin

Yes.

Paul Donofrio

Yes, 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 that reflected lower production volume in a smaller mortgage market as well as lower servicing income as the ties 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 the reps and warranty of $200 million to resolve the claims, if you take a look at the litigation line this quarter it was a little lower than normal. So, we are resolving claims sometimes they show up in litigation, sometimes they show up in reps and warranty, but there is a little bit of geography there.

Ken Usdin

Got it. Got it. All right, thanks a lot, Paul.

Operator

And we will take our next question from Saul Martinez with UBS. Your line is open.

Saul Martinez

Hi, thank you. Saul Martinez. Couple questions. Just wanted to go back, Brian to the comments on ROTCE and your ROA targets obviously with the bump from tax reform. You hit and 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 right size your efficiency, you 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 the mid to high teen ROTCE and ROAs well in excess of one. But do you have a view on where you think your ROTCE can get to over the next couple of years and where ROAs can get to over the next couple of years as banks progress as you think they might?

Brian Moynihan

I think that you and your question sort of stated for itself which is, yes, there will be a mathematical bump that will make it quote easy to get there at the 12 when you are running around that now. But what we are trying to say earlier is, we don't look at 12 as being, geez, let's - we've made it now we can stop.

The answer is we'll drive that number as high as we can driving responsible growth and as we start to get rid of more equity than we earn, because we have excess equity that will help, we continue to improve the earnings that will help us drive operating leverage all the things you cited will help. So, we are going to do it on a sustainable basis.

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

Saul Martinez

Okay, fair enough. I guess, just the 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 knew, sent a letter indicating that management should look not only at maximizing profitability and return to 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 am curious if you have any thoughts on that and whether you think there is a trade-off between maximizing profitability and doing good for society and other stakeholders and with the tax windfall, do you feel like maybe there is or there will be greater pressure to invest in things or to provide products or take actions that you may not have taken if tax reform has happened?

Brian Moynihan

I don't think it will change the way we run the company. We've been running it on a responsible growth with the four elements, got to grow no excuses, got it – do it with it on a customer focused organic basis, got to do it with the right risk and got to be sustainable along the best place for people to work drive share our 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 our success with communities is not new for banking. I mean, it goes back to – we were, our banks, all those legacy banks that came together all were formed to help communities grow and so we had a long history investing because if we were only successful with economy and the communities we do business within are successful.

So, I don't think it's a major change in our industry frankly $200 million a year share, we are getting 2 million volunteer hours, billions of dollars of building modern housing investment earnings and $1 billion plus out to the CDFIs, we can rattle off all the stuff $100 billion and half way through.

These are things we are doing long before tax reform came and we will do long before tax reform when tax reforms goes away some day or something that else changes, these are things that makes this company great and as you said, it's a philosophical viewpoint, but it's also the public role of banking system with a difference.

Saul Martinez

Okay, great. Thanks a lot. Appreciate the answers.

Operator

And we can take our next question from Marty Mosby with Vining Sparks. Your line is now open.

Marty Mosby

Thank you. Wanted to drill into the expenses just a little bit to get some clarity. It seems like there was two kind of not unusual, but kind of standout $200 million worth of compensation that would have been in the first quarter now is accelerated into the fourth quarter and then, Brian, you were talking about $200 million of the charitable foundation and the extra bonus payments. Just want to make sure those were two separate items and those numbers were correct?

Brian Moynihan

Marty, I think we've got to look to it, so, given the fourth quarter and the $13.3 billion expenses, there is about a $145 million, $150 million of a one-time $1000 bonus to people under $100,000 $150,000 in our company plus we accelerate the $50 million of charitable donations in the fourth quarter 2017. That's the $200 million.

That's what we are talking about, the $13.3 billion becomes $13.1 billion if you back up those two items and then did the math multiplying in times four. I think the acceleration, I think, I still in the way you talk about there as the change to FAS-123 which is that, the simple way to think is, we used to take $1 billion in the first quarter, now we take 2.50 per quarter.

It moves around little bit, but that's the phenomenon we announced earlier this quarter that we are going to – last quarter we are going to take. And so that number is in that $13.3 billion also the 2.50 for that. It's not an acceleration, it's just the way, we've done all in one quarter and now spread across four quarters.

Paul Donofrio

We made that change in the quarter, so you are seeing in the fourth quarter numbers.

Brian Moynihan

And the earlier numbers when we stated, so the relative difference year-over-year is the same. Does that help Marty? Just to make sure I've got your question.

Marty Mosby

I want to make sure those were two separate items and that reconciles where I was getting to. And then, if you look at the securities portfolio, you had two things that kind of popped up, one you took at just a very modest or slight loss in security sales.

And 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 in capital anyway and taking those losses as you have the opportunity to kind of round up earnings. So, just I was curious how aggressive you wanted to be in that – kind of in that push?

Paul Donofrio

The short answer is no. We are not in any way restructuring our securities portfolio. There was a – it'd be very modest, but you find there $22 million loss on some securities we sold in the fourth quarter. That was basically just some legacy stuff. We got to a nice price that affects our CCAR results and we wanted to get rid of it and we can get to the trade-offs.

Brian Moynihan

It's not – it wasn't related, Marty, the core of sort of – like we invest the excess deposit proceeds in a given quarter. This was legacy stuff we are just trying to clean up.

Marty Mosby

Gotcha. It just done. One of the things I was anticipating is that banks can actually accelerate the benefit as we do get uptick on the back-end of the curve, but doing some of that aggressive restructuring. So just was curious if you had been kind of thinking of that, or kind of moving in that direction?

Paul Donofrio

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

Brian Moynihan

And Marty, always remember the reason why we have a securities portfolio is because we have the deposit franchise. We are growing $40 billion, $50 billion year-over-year loans growth at a more modest rate especially due to run-offs. So you just have to put the money to work and we put it into an investment portfolio to extract the value that creates deposit franchise.

Paul Donofrio

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

Brian Moynihan

Operator, we have another question?

Operator

Certainly. We will move to the next question, it comes from Gerard Cassidy with RBC. Your line is now open.

Gerard Cassidy

Thank you. Hi, Brian.

Brian Moynihan

Morning, Gerard. How are you?

Gerard Cassidy

Good, thank you. 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 are 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. Anything that you can identify that you guys are just keeping an eye on?

Brian Moynihan

I think, Gerard, obviously, the parade of horribles that you can go through whether it be geopolitical risk, whether it’s markets changing risk, whether it’s credit risk, because unemployment levels rise, they are 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 are doing today. In fact, it's what we've been doing over years to stay in that high prime quality in the consumer business, balancing the consumer versus the commercial exposure, maintaining our tough discipline in commercial credit in this situation this quarter obviously is always a wakeup call that some things don't turn out well and we got to go back and whether lessons learned and what did we do right or wrong in that and how we avoid that in future and the team has spent significant time doing that.

We weren't happy with it from the top of the house through to the actual people who are involved in it, but, even with that credit cost year-over-year relatively flat and the team is doing a good job. So we think about all those risks and with cyber risk, you know the list as well as I do, but 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.

Gerard Cassidy

Okay. Thank you. And then, you guys mentioned that your commercial customers were optimistic about the future. Can you share with us in the investment bank what the pipeline looks like at the end of the fourth quarter coming into 2018? And then second, within the investment banking division, I think you mentioned you hired 400 bankers. What sectors are you really doing well, and is it healthcare, technology, financial?

Brian Moynihan

Those factors are in the commercial banking segment. So there are middle markets and…

Gerard Cassidy

Okay.

Brian Moynihan

Banking, just to be clear, they aren't successful, but they are across all industries. Paul, you want to talk about it?

Paul Donofrio

Sure, the investment banking pipeline ended the year lower than Q3 mainly due to the completion of some large transactions in Q4 combined with the postponement of or cancelation of some other large transactions. Having said that, again, I think we are 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 in raising capital. So, down a little bit, but that's kind of normal for clean up at the year-end. Your other question regarding sectors, we are number three globally and when you look at across all of our industry groups, we are plus and minus around that range pretty consistently, obviously, you have couple of groups that are doing than others, but we feel like there are no weak spots in investment banking and all the groups are very strong.

Brian Moynihan

Gerard, one thing, I thought you are going to go through was – what the consumers feel. It was interesting that the spending into the full year of 2017 whether it's credit cards, debit cards, ACH, wires, payment of bills, cash out ATMs over-the-teller line, checks written. Whether it's 6% growth over 2016 and 2016 to 2015 was a little under 3%.

So the consumers are feeling pretty good in spending very strongly out there and it is broad as in just the credit and debit card spending. That is up 6%,7% as Paul had said earlier but it's the broader use of cash which shows that consumers are putting money out there spending on things. So we feel good about the consumer side and the month of December was faster than the year in terms of being growth with 7% versus 6%.

Gerard Cassidy

That's a real good insight. And 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?

Brian Moynihan

I think we'll have to think about that when we get there. I am not sure for us barriers of largest banks are not going to always be a little more circumspect or whatever the right way would it be in terms of governing our dividend.

They just don't want us to ever have to cut our dividends and as you do look at it mathematically across time periods, the idea of us not earning 70% of our earnings therefore, i.e. being able to pay for the dividend at a very low probability and that's where they came up with that number and I think let's just be, it will see play out, I don't know what they'll do, but our strategy inside the company is continue to move up the dividend on a rational basis along with the earnings to get closer to that number.

Gerard Cassidy

Great. Appreciate it, thank you again.

Brian Moynihan

Thanks.

Operator

And our next question comes from Vivek Juneja with JP Morgan. Your line is open.

Vivek Juneja

Hi, thanks. Couple of questions for you folks. Paul, you mentioned that NII, you gave some puts and takes, let's not tie them all together and say net-net do you – I mean recognize the day count issue in Q1, would you expect some growth going from Q4 to Q1 given the December rate hike even adjusting for the day count?

Paul Donofrio

I think it's too early to give you that sort of guidance. I've given everything that I want to give you at this point. Again, we got two fewer days. We've got the card loans which using 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 the LIBOR anticipation of the rate increases.

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 what I am not really willing to telling you higher or lower because, I just don't know how deposit pricing is going to play out over the quarter.

Vivek Juneja

Okay, okay, thanks on that one. Brian, a question for you. One of your peers set a goal of 2% of net income for corporate philanthropy, are you thinking of resetting anything like that?

Brian Moynihan

We have what you call as pure charity. We have kept our levels consistent from before the crisis now about $175 million, $200 million a year and we'll expect to keep it there. In addition to that we did tremendous volunteer work, 1 million hours a year and other things. We feel comfortable with that level. I'd say, 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 with ebbs and flows depending on what's going on at the moment, but I don't expect us to change that dramatically.

Vivek Juneja

Okay. Thank you.

Operator

And we will take our final question from Brian Kleinhanzl with KBW. Your line is open.

Brian Kleinhanzl

Thanks. Yes, I know you don't want to give any commentary about deposit betas in the quarter and that, but what's the ability that you have to remix and as sales there was up to 125%. So, to the extent that you want to get as competitive on deposit rates, I mean there is still plenty of opportunity to remix from short-term into loans?

Paul Donofrio

On deposits, just, it's a very sophisticated question of how you price. We price literally by every market, by every product, by every customer sets. And so, as Paul mentioned earlier, in the Wealth Management business, we moved pricing up because people with $10 million in investment assets whether it's obviously check the cash in their accounts as an investment as it is opposed to in the retail business it be there will daily flow.

So, it's a very sophisticated question and you are seeing us work that question across time and you saw us raise rates in Wealth Management business, Consumer business raised rates albeit it's smaller. The corporate business respond more instantaneously, 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, so - but we have to be conservative in our modeling for NII and other purposes.

Brian Kleinhanzl

Okay, and then just maybe just one follow-up on the expenses in the 2019. I mean, is there a big opportunity to do investments? I know you said you give further details later on as you look across, maybe pull forward some investments and lower expenses, but it seems like, if you were to go and some kind of accelerated investment, maybe there will be a chance to get below that $53 billion in expenses in 2019 and is that's still possibly something you're actively pursuing?

Brian Moynihan

What we told you guys is we got to $53 billion for 2018 be relatively flat thereon absorbing 6% medical care cost increases raises and things like that and that comes through ability to continue to investment effectiveness and efficiency. So, we don't –that's an operating strategy level and exact number that we are focused on and we continue to focus on that.

So I don't – there is 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, as I said and we'll look at across time, you have to be able to get the value of those investments. We've been – one of the caller's questions reference 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 to speed. So you have to make sure they are coming in and we use techniques to divide the portfolio to give them deeper client penetration to get the customers for the products for customers. That takes time and you just can't snap your finger.

So, the ability to accelerate those investments are largely based on what we think we can do that will be modest in a sense that, even a step of fair increase and 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 within 12 quarters in a row and we'll continue to do that going forward and that's good for shareholders.

Brian Kleinhanzl

Okay, thanks.

Operator

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

Brian Moynihan

We thank at all of you for joining us. We had a good 2017 and we look forward to a great 2018 and we can do that by driving responsible growth, delivering value for our customers and for you our shareholders and we continue to do that. Thank you again, and we look forward to talking to you next time.