Operator

Good day and welcome to the Bank of America Earnings Announcement. [Operator Instructions]

It is now my pleasure to turn the conference over to Mr. Lee McEntire. Please go ahead, sir.

Lee McEntire

Good morning. Thanks for joining us this morning for our third quarter 2017 results. Hopefully everybody's got a chance to review the earnings release documents that are available on the Bank of America website.

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

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

Brian Moynihan

Thank you, Lee. Good morning everyone and thank you for joining us. This was another strong quarter across the board for Bank of America. Response for growth is delivering for our customers and for you our shareholders with strong operating leverage, strong credit results, and strong expense management. We earned $5.6 billion or diluted EPS of $0.48 per share this quarter that is up 17% from the third quarter of 2016.

So thinking back and talking to a lot of you over the last year or so, as we met with you you've asked three basic questions. Can Bank of America actually go, whilst sticking to its responsible growth principles? Can we achieve the $53 billion 2018 expense goal? And can you meaningfully invest in the company at the same time you are reducing the cost?

So what I thought I would do is use the summary on Page 2 to answer a few of those questions. So on the first question; you can see on Page 2, will responsible growth work? I would point you to several of the metrics there. We've been operating under this model for some time.

First if you look at this quarter compared to year ago revenue grew 1% on a reported basis. And looking at the core lines of business without other we grew revenue 4% despite the tough comparison of Global Markets. If you move to Global Markets, you can see that the core annuity oriented businesses of Consumer Banking, wealth management and Global Banking grew revenue at 7%.

If you look at what drives that revenue growth, average loans and business segments grew 6% year-over-year. Average deposits grew 4% year-over-year, led by our consumer business which grew its deposits 9% year-over-year. The assets under management business reached $1 trillion this quarter and flows into the assets under management were $21 billion in the quarter bringing year-to-date flow to almost $75 billion plus.

Our mobile usage continues to grow. We had $1.2 billion mobile interactions this quarter alone, up nearly 20% from last year, it is double than the last three years. Our investment banking fees were up 14% through the nine months this year. And we all did this the right way. With net charge operations still bouncing on decade low as we are growing with our risk framework and driving our strong risk culture.

Nonperforming loans at the lowest level since first quarter of 2008 and our market risk remains low. We are growing responsibly. The second question we get asked is, can you get to your expense target? In the second quarter of 2016 we committed to achieving a goal of approximately $53 billion in total expenses by 2018, and that's all in reported expense. At that time our 12 months leading up to that point was running around $56 billion in expense.

So that means we had to take out $3 billion in cost. This reduction meant we also had to overcome the couple of years of normal merit increases, revenue-based incentive compensation increases, healthcare cost increases, and other inflationary cost such as lease renewals etcetera. And we had to do all this while our volume increased because we were doing more with our customers and have more clients and customers to do business with, and we remain on track. This quarter you can see we reported a little more than $13.1 billion in expenses.

Our efficiency ratio moved below 60% on an FTE basis. By the way that is the lowest level expense since the fourth quarter 2008. That was the last quarter before we bought Merrill Lynch. So we reduced the cost in our company equivalent the entire cost structure of Merrill Lynch over those years.

Headcount is now down to $210,000 since down again this quarter. So the third question is, can you continue investing in the franchise, while reducing those cost? So the first thing to think about there is for the first nine months of the year we spent nearly $2.25 billion on technology initiatives. That's on pure initiatives. Look no further than branch in your pocket for evidence of that.

Customers using our mobile have increased 47% in the past 12 months. Mobile deposits account of 21% of all check deposit transactions. Digital sales account for 22% of all consumer sales. In this quarter, Zelle came forward, the latest offering we have in mobile area. Bank of America’s volumes alone, our volumes through Zelle this quarter were $4 billion in the third quarter.

We processed nearly 14 million transactions and the growth continues. We recently processed $0.5 billion in a single week. Our customers are using Zelle and we look forward to further growth in that area. We’re also continuing to innovate. We’re rolling out auto-shipping across the country, home loans, mobile deployment is following that and as we roll through the next couple of quarters our artificial intelligence offering Erica will come out.

We continue also to invest in our physical network by refurbishing nearly all our existing financial centers, which is well underway and we will complete over the next couple of years. We have been and we will continue to open centers and markets where you have a strong commercial banking wealth management client base that lack financial centers due to historical issues.

We continue to enhance our online brokerage offering benefiting consumer and wealth management clients. For our global banking customers we have added the availability of cash pro on our mobile devices. We are using artificial intelligence to efficiently prospect business clients and offer client receivables management alternatives to our clients. We are investing also in an enhanced wholesale of credit underwriting operating model, and in our markets businesses we are redoing the training platforms in total.

In addition to the technology investments, we have added 2000 primary sales professionals over the past 12 months, whether relationship bankers, financial advisors, commercial and business leaders. So yes we are doing both, investing and finding ways to be more efficient to pay for, and therefore lowering our overall expense. Now we did all this in an economic environment that still feels very constructive, consistent with growth 2% plus.

We expect moderate economic growth to continue this year and we expect the US to grow a little faster next year above 2% and outside of US is growing in the mid-3s. For the year-to-date, interesting in our consumer payments we are seeing consumer activity pickup. Consumers are spending, whether it is checks written, cash taken out of the ATM's, P2P payments, and all the debit and credit cards, 5% more through the first nine months of

2017 than they did in the first nine months of 2016. That’s up faster growth rate than it has been in prior years.

Debit and credit card spending were up 7% for the first nine months of the year showing a strong consumer activity. Our commercial clients continue to perform well. They continue to remain optimistic. They continue to look forward to continue implementation of a pro-growth agenda, particularly focused on meaningful tax reform. Housing starts home prices continue to remain on positive trends. Employment is strong and employers continue to search for skilled workers. So that leads to a solid atmosphere and we see no near-term indications of any change to it.

As we move to Slide 3, we show that growing responsibly is not new and is showing sustained progress. As you can see on Slide 3, we have delivered positive operating leverage on a year-over-year basis every quarter for the past three years. By the way, not every quarter had revenue growth. And those quarters reduced expenses more than revenue decline. So that remains our focus, continue to drive growth, but on occasions where capital markets might be slower and might be less growth and revenue, we have to manage our expenses well. And we have to do all that while we make to continue to make the investments. That consistent operating leverage shows up in our businesses.

All total, we earned $15.7 billion in the first nine months of 2017, up 19% from the first nine months of 2016. On Slide 4 you can see how the businesses contributed those results. The businesses are driving earnings improvement and returns above the firms cost of capital, and they continue to drive their efficiency ratios lower. As you can see global market results are actually down year-over-year for the nine months on a reported basis.

Excluding some DVA and prior year recovery, earnings will be up modestly on consistent revenue growth despite low volatility and low activity. But as you look at the other businesses, beginning with the consumer bank, the years of hard work the team has put in is now clearly showing. The business is driving operating leverage as we optimize our delivery network continues to digitize the business and follow the customer's behavior and as it changes over time.

In our wealth management business the teams continue to do a good job and you see earnings were up 10% on a year-to-date basis. We have industry-leading margins in the business at 27%, and the leading brands of Merrill Lynch and US trust. And ahead of us we have a lot of work to continue to deal with the industry-wide dynamics and margin pressures. Global Banking had a record-setting $15 billion in revenues year-to-date and has the company's best efficiency ratio as you can see.

So as you think about that, all that sums up in allowing us to return more capital to your shareholders. For the first nine months of 2017 we have repurchased $7.9 billion in common shares and paid $2.8 billion in common dividends. This totaled $10.7 billion comparing to $5.6 billion for the same period in 2016.

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

Paul Donofrio

Okay. Thank you, Brian. I'm starting on Slide 5, as Brian said, we earned $5.6 billion in Q3, up 13% from Q3 2016, EPS of $0.48 per share, up 17% year-over-year as we reduced dilutive shares by 3% over the past 12 months. Revenue of $21.8 billion was 1% higher than Q3 2016 as NII improvement and higher asset management fees outpaced decline in sales and trading, and mortgage banking income.

Expenses of $13.1 billion were 3% lower than Q3 2016. We generated more than 3% of operating leverage. The efficiency ratio of 60% for the second consecutive quarter now 59% on an FTE basis. Provision expense was $834 million, down modestly, compared to Q3 2016 and we see continued improvement in consumer real estate and energy. Return on assets this quarter was 98 basis points and return on tangible common equity was 11.3%, improving both on a year-over-year and a linked quarter basis.

Turning to the balance sheet on Slide 6, overall compared to June 30, end of period assets increased $29 billion, driven by strong deposit growth that funded an increase in loans to customers with the remainder invested in securities and cash. Loans on an end of period basis were up $10.5 billion from Q2 led by commercial activity, while consumer loan growth was mitigated by the continued run-off of legacy non-core loans.

On the liability side, long term debt increased $4.7 billion during the quarter as we took advantage of favorable credit spreads to pre-fund upcoming maturities. Given that we are now compliant with TLAC requirements our debt issuance over the next few quarters will likely be more opportunistic. Liquidity remains strong with 517 billion in global liquidity sources and our liquidity coverage ratio was 126%.Common equity increased more than $4 billion compared to Q2.

During the quarter, Berkshire Hathaway converted its Series T preferred stock into 700 million shares of common stock for the terms of their 2011 investment. As a result of this conversion common equity increased and preferred stock decreased by the 2.9 billion book value of their Series T preferred stock. This issuance does not impact diluted EPS in this or subsequent quarters as the effect of this conversion was already accounted for in diluted EPS.

The remaining increase in common equity reflects $5.1 billion in net income available to common, partially offset by the return of capital totaling $4.2 billion through both common dividends and share repurchases. Tangible book value per share of $17.23 was modestly higher than Q3 2016, but decreased 3% versus Q2 2017 as a result of the Series T conversion.

Turning to regulatory metrics and focusing on the advanced approach. Our CET1 transition ratio on the Basel III ended the quarter at 11.9%. On a fully phased-in basis compared to Q2, the CET1 ratio improved 40 basis points to 11.9% that remains well above our 2019 requirement of 9.5%. CET1 increased $4.9 billion to $173.6 billion, driven by earnings and the Berkshire Hathaway conversion.

The CET1 ratio also benefited from a modest $3 billion decline in RWA as growth in loans and low RWA density assets was offset by continuing optimization of the balance sheet. We also provide our capital metrics under the standardized approach RWA increased $15 billion from Q2, driven by loan growth, but increases in capital more than offset asset growth resulting in a CET1 ratio improvement of 20 basis points to 12.2%.Supplementary leverage ratios for both the parent and bank continued to exceed US regulatory minimums that don't take effect until 2018.

Turning to Slide 7, on an average basis total loans increased to $918 billion, note that the sale of UK card, which was recorded in All Other impacted year-over-year comparison of average loans by $9.3 billion. Adjusting for the sale, average loans were up $26.8 billion or 3% year-over-year. Loan growth continue to be dampened by the run-off of non-core consumer real estate loans and All Other, year-over-year loans in All Other including the sale of UK card were down 28 billion.

On the other hand loans in our business segments were up 47 billion or 6%. Consumer banking and wealth management both experienced solid loan growth of 8%. Both businesses continue to see good growth in residential mortgages. Consumer banking also saw growth in credit card and vehicle loans, originations of new home equity loans was solid, but overall loan growth continues to be outpaced by pay downs.

In wealth management, growth was also aided by structured lending. Global banking loans were up 4% year-over-year led by CNI growth in the US and abroad. On the bottom right, note that we grew average deposits by $45 billion or nearly 4% year-over-year. This growth was driven by consumer segments, deposits increasing by $53 billion or nearly 9% year-over-year.

Average deposits declined year-over-year in our wealth management segment as clients sought alternatives for their cash within brokerage or AUM. Deposit outflows here largely abated in Q3 and ending deposits were slightly up from the end of Q2. Deposits in global banking experienced strong growth in Q3, driven by rate actions taken in the quarter to win and defend relationship deposits.

Turning to asset quality on Slide 8, credit quality continues to be solid with net charge-offs, NPLs and reservable criticized exposure all showing improvement from Q2. Total net charge-offs were 900 million or 39 basis points of average loans decreasing modestly from Q2. Provision expense of 834 million included 66 million net reserve releases. Provision expense was in-line with the prior year, but increased $108 million from Q2 as a result of less net reserve releases. Our reserve coverage remained strong with an allowance to loan ratio of 116 basis points and a coverage level three times our annual charge-offs.

On Slide 9, we break out credit quality metrics for both our consumer and commercial portfolios. With respect to consumer net charge-offs were down from Q2, included in the quarter were recoveries on the sale of some consumer real estate loans, partially offsetting this recovery benefit was the negative impact of clarifying guidance from the regulators on bankruptcies, which increased our consumer losses this quarter.

The net effect of all these pluses and minuses was minimal. Consumer NPLs of $5.3 billion were the lowest they have been since Q2 2008. NPLs came down from Q2 levels and keep in mind 45% of our consumer NPLs are current on their payments. Commercial losses were up modestly from Q2, driven by a couple of names, while reservable criticized exposures and NPLs declined. With respect to the impact of hurricanes, first let me say that our focus has been on those impacted by the storms, including our employees and customers.

One decision we made early was to provide a payment deferral to many of our customers in the impacted areas, delaying some potential net charge-offs in Q3. Since then we have and we will continue to engage with consumers and businesses in the impacted areas to better understand how we can assist them. As it relates to credit, we have not seen any material impact. Our overall net reserve release for the quarter did include a modest build related to the storms for losses that are probable and it goes without saying that we believe we are adequately reserved today.

Turning to Slide 10, net interest income on a GAAP non-FTE basis was $11.2 billion, $11.4 billion on an FTE basis. Compared to Q3 2016, which has the same day count and seasonal factors, NII is up 960 million or more than 9%

driven by an improving spread between our asset yields and deposit pricing. The year-over-year comparison also benefited from loan growth and excess deposits deployed in security balances.

An additional benefit was higher long-end rates from Q3 2016, which drove lower prepayments and therefore lower bond premium write-offs. The full quarter effect of the sale of UK card negatively impacted the comparison focusing on net interest yield it improved 18 basis points from Q3 2016 to 2.36% after adjusting for the impact of UK card. Compared to Q2 2017 NII increased 175 million as the benefits from an increase in short-end rates and an extra day of interest, as well as loan and deposit growth was mitigated by a number of factors.

First, we lost the two months of interest income associated with the UK card book. Second, we raised rates broadly across our wealth management business to offer clients a competitive deposit alternative to cash alternatives within brokerage and AUM. Third, we experienced a decline in long-end rates in Q2 and early in Q3, which impacted reinvestment rates, as well as increase the write-off of bond premium as mortgage prepayment speeds accelerated.

I would note that we also increased deposit pricing for some commercial clients, which had a modest impact on NII in the quarter. Looking ahead to Q4, assuming no changes in interest rates, NII growth will be dependent on loan and deposit growth and pricing. If we get a late 4Q hike, as expected by the market, this should mostly benefit NII in Q1 2018.

With respect to asset sensitivity as of 930 [ph] an instantaneous 100 basis point parallel increase in rates is estimated to increase NII by 3.2 billion over the subsequent 12 months. This is largely unchanged from June 30 and continues to be predominantly driven by our sensitivity to short-end rates.

Turning to Slide 11, our teams continued to deliver on cost management. Net interest expense of $13.1 billion is down more than $300 million or 3% from Q3 2016. Productivity improvements were driven by our focus on digitizing processes and lowering our cost to deliver for our customers. Keep in mind that we are seeing these expense declines while investment in technology and new sales professionals remains robust.

Compared to Q3 2016, in addition to overall operating cost improvements we reduced personnel expense, which included costs associated with our UK card business, as well as non-personal expense, which included lower litigation expenses. Compared to Q2 2017, expenses declined by $600 million with half of that decline driven by, Q2 2017 charge in anticipation of the sale of several data centers.

Q3 also included modest declines from lower severance, as well as revenue related incentives. The remaining reduction reflects broad-based improvement as we drive operational excellence. The efficiency ratio hit our 60% target again this quarter. With respect to headcount, we are down from the prior quarter and continue to see a shift from non-client facing associates to primary sales professionals, which now make up more than 21% of our headcount. We have added more than 2000 primary sales professionals over the past 12 months.

Okay. Turning to the business segments and starting with consumer banking on Slide 12, earnings were $2.1 billion growing 15% year-over-year and returning 22% on allocated capital. The business created over 800 basis points of operating leverage on revenue growth of 10%, which outpaced expense growth of 2%. Year-over-year average loans grew 8%, average deposits grew 9%, and Merrill Edge brokerage assets grew 21%.

Revenue growth was led by NII, driven by increases in client balances. Revenue was modestly impacted this quarter by the Hurricanes as we took steps to help customers in the impacted areas. We expect the dip in fees and interchange weakness to be temporary as impacted communities begin to recover and rebuild. With respect to expenses, through continued efforts to drive operating leverage the efficiency ratio improved over 400 basis points to 51%.

Cost of deposits and rate paid, which when combined represents cost of goods sold from a deposit perspective remain steady at a combined rate of 160 [ph] basis points in the quarter. Consumer banking credit quality reflected moderate seasoning and portfolio growth, which drove reserve build of 168 million in addition to the 800 million in net charge-offs. The net charge-off ratio declined modestly from Q2 to 1.18% of loans.

Turning to Slide 13 and looking at key trends, as I said 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 our strategy of holding more originations on balance sheet instead of selling to the agencies, as we like the economics of holding these high quality originations. In Q3, we retained about 80% of first mortgage production on balance sheet.

Looking at revenue more broadly, we believe our relationship deepening prefers reward program is improving NII and balance growth, while mitigating industry pressures on fees as we reward customers for doing more business with us. This is why we continue to emphasize total revenue as opposed to fees and NII separately. Having said that spending levels on debit and credit cards were up 7% year-over-year and new issuance of credit cards were solid at $1.3 million.

Spending levels on cards drove revenue increases, but were again largely offset by the rewards to customers. We saw modest year-over-year improvement in card fees, as well as service charges. Focusing on client balances on the bottom left you can see the success we continue to have growing deposits, loans, and brokerage assets. With respect to loans, residential mortgage continued to lead our growth, but we also saw good growth in auto, as well as better growth in card than we've experienced in quite some time.

We remain focused on prime and super volume borrowers with average booked FICO Scores of at least 760. Client brokerage assets were up 21% year-over-year, driven by strong client flows, as well as market performance. Net new accounts grew 6% from Q3 2016. At the bottom right, you can see deposits broken out. Our 9% year-over-year average deposit growth continued to outpace the industry, while the rate paid remained low and stable.

Importantly, 50% of these deposits are check-in accounts and we estimate that 90% of these check-in accounts are the primary accounts of households. Expenses were up modestly compared to Q3 2016 despite strong revenue growth as optimization and digitalization savings were more than offset by investments and refurbishing branches and technology initiatives.

Turning to Slide 14, let's look again this quarter at digital banking highlights as they continue to shape the way we do business with our customers. As you can see, the year-over-year growth in these metrics is impressive. We remain the leader in digital banking. We now have nearly 24 million mobile users and another 11 million online with us. Within the 639 billion and in total payments shown here note how digital continues to grow as customers move away from cash and check. This migration is helping us lower expenses and reduce operational risk.

Further, digital growth of credit and debit card usage is accelerating as ecommerce grows and more payments are taking place within merchant applications like Uber and Starbucks. Within total payments, it is person-to-person and I want to spend a moment on Zelle as Bank of America has been one of the lead banks introducing this P2P capability for customers. Note the steady adoption by Bank of America customers of this online app, which makes it easier to spend, request, and even split person-to-person money transfers.

Also note on the bottom left the growth in mobile channel usage, this quarter we saw nearly 1.2 billion logins, which is up 19% versus Q3 2016 and more than 21% of all check deposit transactions are now done on mobile devices. This represents the volume of 1,100 financial centers and while important in terms of how we transact with customers, mobile has also become important in terms of how we connect with our customers.

One example of that is the reduction in our call centre volumes, which are down 13% over the past three years, and we continue to innovate. This quarter we rolled out an app in several states for mobile auto shopping, which will soon be followed by a mortgage shopping and fulfillment app - mobile auto shopping, which will soon be followed by a mortgage shopping and fulfillment app. That we call home loans navigator. Still, even with all this digital activity it is important to note that we still have 775,000 people a day walking into our financial centers across the US.

Many of these customers still use our centers to transact, but many use the centers as financial destinations where they can learn more about products and services, work face-to-face with the specialized professional and generally improve their financial lives. That's why we continue our multi-year branch refurbishment program, and it is also why we continue to add new financial centers in markets where we have never had a Bank of America Center, but we have a strong presence in other lines of business. This quarter for example, we opened centers in Denver, Minneapolis, and Indianapolis. In addition, we are testing the advanced centers, which utilize video assist ATMs and other video conferencing capabilities in areas where it makes sense to do that.

Turning to Slide 15, let's review Global Wealth and Investment Management. We had produced earnings of 769 million, up 10% in Q3 2016, a pre-tax profit margin of 27% and a return on allocated capital of 22%. The market and client activity once again provided a tailwind for asset management fees, while at the same time transaction revenue continues to face headwinds as the industry evolves and adapts new fiduciary requirements, and the increasing adoption of passive investing.

In All, revenue grew 6% year-over-year led by NII and a 13% increase in asset management fees, partially offset by lower transactional revenue. We saw nearly 21 billion of AUM flows this quarter continuing the strength of 57 billion in the first half of the year. Year-over-year expenses were up 4%, driven by revenue related incentives, other expenses were managed well creating modest operating leverage in this segment.

Moving to Slide 16, we continue to see overall solid client engagement, capital balances rose to nearly 2.7 trillion, driven by higher market values, solid AUM flows and continued loan growth. Average deposits $240 billion were down $5 billion from Q2. The increase in deposit rates at the end of the second quarter helped to mitigate the movement of client balances from deposits to other cash investment alternatives within AUM and brokerage.

The decline in NII from Q2 to Q3 reflects the cost of this rate increase. Average loans of $154 billion grew 8% year-over-year and reflect the continued trend of investment clients deepening their relationship with us. Loan growth remained concentrated in consumer real estate, as well as structured lending.

Okay. Turning to Slide 17, Global Banking earned 1.8 billion. This was a 13% increase from Q3 2016. Return on allocated capital was 17% and stable with last year, despite $3 billion increase in allocated capital. Year-over-year revenue growth of 5% was driven by improved NII reflecting solid loan and deposit growth, compounded by rising short-term interest rates.

We also grew IBCs modestly year-over-year led by debt and advisory fees. Revenue improvement coupled with lower expenses created operating leverage of 650 basis points and an efficiency ratio of 43%. This expense comparison versus Q3 2016 reflects savings offset by continued technology investment. We also added new bankers, while keeping overall headcount relatively flat over the year.

We're also deploying more AI capabilities in this business. The focus so far has been on improving client prospecting and more intelligent receivable processing for clients. Provision expense of $48 million remains low and is down from Q3 2016 on improvements across most of the portfolio, particularly energy. Global Banking grew loans 4% year-over-year. As Brian mentioned, our loan growth in global banking has been pretty consistent over the past three or four quarters at 4% to 6% on a year-over-year basis.

When compared to Q2, I would note an increase in loans near the end of the quarter drove end of period balances meaningfully above the average. Looking at the trends on Slide 18 and comparing to Q3 last year, average loans of 346 billion were up nearly 12 billion. With the exception of CRE loan growth was fairly broad based with slightly elevated growth in Asia. Loan spreads were stable compared to Q2 2017, but compressed compared to the year ago period.

Average deposits rose [ph] 3% compared to Q3 2016 with most of it concentrated in Q3 given the rate action this quarter. Total investment banking fees of $1.5 billion were up modestly from a strong Q3 2016. Debt underwriting remained strong, while equity underwriting was down from a year ago, growth and advisory fees also benefited the year-over-year comparison. Year-to-date we remain ranked number three in investment banking fees with fees up 4.6 billion, which is up 14% from 2016.

Switching to Global Markets on Slide 19, the business had a solid quarter although it is a tough comparison against a strong Q3 2016 for the reasons you all know. Global Markets generated $3.9 billion in revenue and earned $770 million after adjusting for a modest impact from DVA. Given that some tough comparison, we view this quarter as solid, despite the fact that sales and trading revenue of 3.2 billion, excluding DVA declined 15% from Q3 2016.

Excluding net DVA and versus Q3 2016 fixed sales and trading of 2.2 billion decreased 22% within fixed the decrease was driven by less favorable market conditions across credit products, especially mortgages combined with lower volatility in rates, products in the current quarter. Equity sales and trading was up 2% year-over-year to a little less than a billion benefiting from growth in client financing activity, lower volatility also drove lower secondary market activity in equities.

With respect to expenses, Q3 2017 was 2% higher than Q3 2016, driven by increased technology investment in our trading platform, as well as numerous regulatory requirements such as Mifid2, Volcker, and UMR among others. Moving to trends in Slide 20 and focusing our attention or your attention on the components of our sales and trading performance on a year-to-date basis for just a moment.

While the quarter is down from Q3 2016 as you can see on the lower left box, sales and trading revenue has been fairly consistent on a year-to-date basis for the last three years at roughly $10.5 billion. And note that we have achieved the stability while reducing VAR and RWA. And just as important, if not more important, this revenue consistency reflects the value to our clients of our diverse product set and sales and trading capabilities in every major market across the globe. Without this strength in diversity, one would have seen a lot more revenue volatility as client activity shifted from a product and market perspective over the last three years.

On Slide 21 we show All Other, which reported a net profit of $217 million. This is an improvement of roughly 400 million, compared to Q3 2016. This quarter included lower litigation expense, while reps and warranty expense increased a little more than 100 million over Q3 2016. Reps and warranty provision is recorded as contra revenue in mortgage banking income and with the result of advanced negotiations with certain counterparties to resolve several outstanding legacy issues.

Also note that mortgage banking income in Q3 2016 included a benefit of roughly $300 million and net MSR hedge results. And also remember that this is the first quarter without the UK card business, which was sold in June. So, in addition to two months of approximately 250 million in normal quality revenue generated from UK card, Q2 also included a 795 million benefit from the sale of UK card that was mostly offset by tax expense in that quarter. And when making expense comparisons remember, in addition to lower litigation Q2 also included a 295 million impairment charge on three datacenters that we are in the process of selling.

Lastly, note that the effects of tax rate for the quarter was 29%. Okay. Just a few summary points to wrap-up. Again this quarter, we created positive operating leverage by growing revenue, while lowering expenses. And as Brian pointed out, this continued a trend of many quarters of positive operating leverage. For years we have been focused on growing responsibly, while improving operating efficiency and making our growth more sustainable. And importantly, we have stuck to and not compromised our client and risk frameworks while doing so.

NII growth is benefiting from the value of our deposit franchise and continued loan growth and a modestly improving world economy. Asset quality remained strong as net charge-offs, NPLs, and commercial reserve-like criticized exposure all declined. We continue to invest in new technologies and capabilities, while adding sales professionals in certain businesses and we did all this on nearly doubling the amount of capital we returned to shareholders this year versus last year. This tells us that responsible growth is working and that we are well positioned to continue to invest in and grow with our customers and clients as the economy continues to improve.

Thank you, and with that we will open it up to questions.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] And we will go first to the line of Nancy Bush with NAB Research. Please go ahead.

Nancy Bush

Good morning. Brian I have a question on digital banking, I guess right after the crash when you guys sort of first began to emphasize digital and mobile banking, you were sort of the leader in the industry in that regard and do you still feel that you have that leadership position, is it important that you keep it and what are your thoughts about what you need to do to do that?

Brian Moynihan

I think we have leadership position if that's told just by other people and how they rate people in terms of activities and capabilities and things like that, but most importantly it's how your customers use you, and what you see going on. So, if you look at the Page 14 that Paul took you through, you can see the growth in transactions and trends in activity, and while you mentioned that the drive after the crisis, but the reality is the drive started before the crisis, and we were one of the first apps available on Smartphones way back to the start of the iPhone, and so that helped us grow quickly, but it is a core platform for us.

The question is, how do we drive all its feature functionality? The deposits that go through on a daily basis or equivalent of thousand branch activity and deposits to give you examples so its smooth major amounts of activity. We are excited about the Zelle payment levels because at the end of the day we have $5 billion that we spend a year on the cash currency, checks moving around our company and the system that the way we are going to get there is by coming, you know digitizing those and eliminating cash and driving that, and so things like Zelle, whether small numbers compared to all the other payment forms today the pace that they are growing at with the digital wallets and other things will help drive it there

So, we feel we are a leader. We expect to be a leader. The activity grows faster, and I think you put it against any kind of mobile digital person out there, 1.2 [ph] billion customer interactions in the quarter shows you that people believe that it must be pretty good.

Nancy Bush

Is there a direct relationship or is there any kind of quantification that you've done or 'x' mobile transactions means why fewer branches, is there that direct a relationship?

Brian Moynihan

Yes and no. Yes in the sense that we know the cost of the various things, you know a branch transaction for deposits is 10 times more than a mobile transaction, but remember at the same time we're investing heavily in the high touch side of our house. 2000 more salespeople, a lot of those in consumer, refurbishing all the branches, building out branches, and things like that because at the end of the day 20% odd of sales were on digital and mobile, but 80% aren't and because of the nature of the intimate customer discussions because of the nature of what customers want to discuss and have face-to-face help on the branches are critically important to that.

So the real question is, you have to have both be successful. The model doesn't works, it solely one or the other in the mode of having both works and that’s where you can see the activity growth. Think about the deposit growth year-over-year and consumer of 50 odd billion dollars and start to think about that in the context of activity.

Nancy Bush

Okay. And just one quick follow-up for Paul, Paul you mentioned in global banking that all categories of loans grew except CRE, is that a self selection or could you just expand on that a bit?

Paul Donofrio

Yes, sure. We instituted - a year ago now, it is not longer, we pulled back a little bit on CRE, so we are still servicing customers there, we are still making loans, but we’re not, we're just being a little bit more cautious, and so you're not seeing a lot of growth in our CRE balances. And I would point out that, that kind of makes a 4% growth all that more kind of interesting, given our stance there.

Nancy Bush

Okay. All right. Thank you very much.

Operator

Thank you. We’ll go next to the line of Glenn Schorr from Evercore ISI. Please go ahead.

Glenn Schorr

Hi, thanks.

Brian Moynihan

Good morning, Glenn.

Glenn Schorr

Good morning. Little drilling down on your comments on deposit costs rise. So we go from, I guess, 8 basis points last year to 24 basis points this, or 11 basis points to 24 basis points over the last quarter. How much of that increase is what you mentioned in Wealth Management? I heard your comment on the - bringing them a competitive cash alternative. I’m just curious, is it CD versus money market? Is it all coming from current clients? Thanks.

Paul Donofrio

Mostly in Wealth Management and it’s - I wouldn't say, it's in one place or another, it's kind of across a lot of the different deposit products we offer to that community of investors and depositors.

Brian Moynihan

Glenn, if you go to Page 10 of the supplement package, you can see the comparison of the third quarter last year to this year, and I start to think about some of the numbers you were citing. But if you look at the different categories, you're going to see that most of the move is in the now Money Market, which is - that's where the Wealth Management business is, and then the $240 billion odd number in there, about $140 billion of it is really people’s invested cash. And so if we make an allocation like we did in the second quarter to less cash and more equities that actually brings deposits out and then people are obviously thinking as investment cash. These are accounts that might have $5 million in securities in it and $500,000 of cash.

So, obviously, the rate structure moves in that. But if you think about it across a year, there's about a 75 basis point increase in Fed funds, and you start to put these numbers against and even Wealth Management is relatively modest in terms of the change in the overall. The other thing that drives our profitability is, if you look at that page go down and you remember that’s non-interest bearing account, the deposits are still zero, and they grew - they’re $436 billion of non-interest bearing accounts. If you look in the consumer side there, that drives the profitability and that's where it comes from.

Glenn Schorr

Gotcha. So there’s - a competitor too had put out some high price or high rate CDs in an effort to gather new client money that this is more of just compensating clients for being good clients sharing a little bit of the level?

Brian Moynihan

Yes,. I would not say we’re - CDs are down $4 billion at Bank of America year-over-year.

Glenn Schorr

I appreciate that.

Paul Donofrio

This is about providing our GWIM clients with an alternative - a deposit alternative, if they want to take it. Since they have options in AUM and brokerage for some other excess cash.

Glenn Schorr

Okay, cool. And I'm just curious to follow-up on the comment you guys have in the slides on targeted growth in client financing activities and equities. Is that just growing PB with the clients?

Paul Donofrio

We talked about that last quarter where we made a decision to add some balance sheet to our equities business. We see an opportunity there. We've made a lot of investments in technology. We've got great relationships, and there's an opportunity to add a little bit more leverage to that business. So we provided some balance sheet, so we did that last quarter and we continue to do that this quarter, and it's having an effect. Like you said, it's PB, but it's also synthetic PB in Europe, so it's both synthetic and physical.

Glenn Schorr

All right. Thanks very much.

Operator

Thank you. We'll go next to the line of John McDonald with Bernstein. Please go ahead.

John McDonald

Hi, good morning. I want to ask about expenses, the magnitude of the improvement was nice - surprise this quarter. I think you were targeting kind of $100 million year-over-year improvement and you've got something closer to $300 million or more. Just wondering where did you kind of outperform your own expectations on expenses this quarter? And is this run rate, I mean, ballpark kind of a good jumping off point, Paul?

Paul Donofrio

Yes, I would say, we feel great about the work we did. We've always talked about expenses not being a straight line, the same line every quarter. This quarter, we did maybe a little better than other quarters. You're right it was down about $300 million year-over-year, and those expense reductions were broad-based across personnel and non-personnel.

John McDonald

And in terms of next year when you think about the $53 billion target doesn't look like you might need it. But do you have any expectations that the roll off of the FDIC Special Assessment kind of help you get to that target and just maybe a reminder of how much that expense stepped up for you?

Paul Donofrio

Yes. Look, we - it’s a good question. We - I think the industry was assuming that that would end in the second quarter. It looks like it may extend to the third quarter, because we're not going to get to the level they need to get to. So that actually hurts us. And that's why we always say, we're going to get to approximately $53 billion for full-year 2018. There’s a lot of things could happen. I don't know the exact amount. Is it roughly $100 million quarterly?

Brian Moynihan

Yes.

Paul Donofrio

It’s around $100 million quarterly. So it's a material number.

John McDonald

Okay.

Paul Donofrio

I think it’s a little more than $100 million, frankly, but I can get back to you on that.

John McDonald

Okay. And then I guess just on capital return, Brian, with that CET1 growing nicely, anything that you could see now that would stop you from approaching more of a peer capital payout next year? And then can you just remind us what kind of CET1 ratio would be a good target for you in knowing what you know now about regulatory minimums?

Brian Moynihan

A couple of things. One, we would expect to keep moving up the ladder in terms of capital management this year 88% [ph] I think is a number and you expect us to keep pushing forward. And to - on the levels where 9.5, you’d add 50, 75 basis points on top of that, the SIFI buffer levels can bounce around on you. But you think about somewhere around 10 to 10.5, and if you subtract that from the 12, that's a pretty good amount of excess capital.

John McDonald

Okay. And just one quick follow-up Paul on that FDIC expense roll off. That's in the numbers now. You're kind of running close to almost 13 per quarter, it's almost at 53 annualized. You're just saying that if you didn't get that step down, it gets a little tougher to get to the target?

Paul Donofrio

Yes, I'm just -look, we've - the target now goes back to the middle of 2016. We said at that time, we would achieve approximately $53 billion for full-year 2018. So, obviously, if - it's a little harder if FDIC doesn't roll off in the second quarter and extends in the third quarter, but we're going to get there either way.

John McDonald

Gotcha. Okay, fair enough. Thanks.

Operator

Thank you. We'll go next to the line of Betsy Graseck from Morgan Stanley. Please go ahead.

Betsy Graseck

Hi, good morning.

Brian Moynihan

Good morning, Betsy.

Betsy Graseck

A couple of questions. One, as we go towards the $53 billion, can you just give us a sense as to the source of the improvement consumer versus corporate?

Brian Moynihan

Betsy, I think, if you look at the quarterly progression across all expense categories, it comes from everywhere. And so, comes from the data center configurations that we took a charge and moved a lot of stuff last quarter. It comes from continuing to shed real estate occupancy cost, it comes from lower headcount that was down of 1,000 this quarter. It comes from taking out expense and layers for things we called organizational health.

But if you think of it more strategically, it comes from basically applying technology and digitizing processes. And so across the - with our wholesale banking and credit underwriting initiatives I talked about, we've been able to save about 20% of the headcount there by consolidating our activities and bringing their activities together. We will have another big chunk as we go to apply the technology that we are developing that is not yet deployed.

And so it's a thousand ideas. It's little, I mean, thousands of ideas. It's literally across the Board, and the team does a great job of just going after piece by piece by piece. And then we can manage the, sort of repositioning cost by getting ahead of it and doing it on a rational basis. So that attrition - we'll hire 8,000 people this quarter to maintain headcount sort of neutral or down a bit. So we have a lot of chances not to hire people and continue to shrink the company when we apply this technology.

Betsy Graseck

I'm just thinking about the digital efforts, obviously, you've put a lot of time in the call on the…

Brian Moynihan

Yes.

Betsy Graseck

…consumer side, just wondering rate of change on corporate is that where you think the digital efforts are picking up?

Brian Moynihan

Yes, there'll be more there because of like trade finance. We'd start digitizing more processes. And if those processes prove out, we'll drive it. There's a lot in the back office of the securities clearance capabilities that is going on. So there are - the numbers are - the consumer always dominates in terms of numbers in a lot of ways just if you think about it.

But GWIM has a bunch of digitization efforts, a bunch that saves statements and we set up 12 statements, if we get people to take e-statements that saves 12 times a year times whatever it cost for that particular statement. So these things are never - if there's something - if there's some silver bullet, you could shoot and take care of it all at once, we would have shot it already, this is just hard work.

Betsy Graseck

So then, the follow-up is, question I get from people all the time, which is, we get the expense improvements? Are there any fee pressures that we should also be baking in here when you talk about cash management, fee rate, some of the Fintech disrupters look at these peoples and say, oh, this is too high, I'm going to go after that, I'm assuming that you're staying ahead of that thread. I'm just wondering, is there a fee rate that we should be making sure that we're including when we give you the expense side?

Brian Moynihan

Yes, I mean, I think we've given the guidance on the expense side. If you think about something like another global transaction service platform cash management, as people call it, there has always been this loss and revenue that you're fighting against when paper - which people pay us more to process turns to digital, we lose revenue, but we save expense at a faster rate. That has been going through the numbers over the last several years.

So the revenue growth we see in cash management takes that all into account. So it’s more customers, more activity fighting off, whether customers are converting cash to digital. So, yes, that's a part of it, but you're seeing in our run rate. There's nothing sort of ahead of us, it’s unusual compared to the quarter-to-quarter sort of picking away at us that goes on in that regard.

Betsy Graseck

And then consumer expense ratio 51% that - as you're getting more people onto your Zelle platform, et cetera, is there a line of sight to that going sub-50 at some point?

Brian Moynihan

I think through both the revenue lift they get, as the rate structure rises and good expense management, we’d expect that it should move down below 50 at some point. But we never say to people where do we think you can get to some big target, or the consumer team has set some targets. I said don't give people targets, because I don’t think that that’s success. We don't know where it goes.

In other words, over - I’m not talking about next quarter, but over multiple years, when you continue to drive the revenue expense play here, because the 2 million of core transaction deposit account and getting it from $2,000 over the last 8, 10 years to $6,000 per account is a tremendous revenue lift by focusing primary accounts as the number of accounts actually fell by

10%. And so that dynamic is what we're after. So, yes, it'll move down, but I wouldn't - we never put that success, because then people will quit working.

Betsy Graseck

Got it. Thanks, Brian.

Operator

Thank you. We'll go next to the line of Mike Mayo with Wells Fargo Securities. Please go ahead.

Mike Mayo

Hi.

Brian Moynihan

Good morning, Mike.

Mike Mayo

Yes, your branch account continues to go down, I guess, down 3% year-over-year, but deposits are up 4% year-over-year. And I'm trying to get a distinction between retention of deposits for your closed branches, retention of customers, because according to your 10-K from 2015 to 2016, the number of accounts declined by about 2%. But at the same time, deposits continue to grow just like the entire decade. So my question is, what is your retention rate of deposits, and what is your retention rate of customers when you close a branch today and why the difference?

Brian Moynihan

The deposits to consumer just, Mike, which are more and small business, which are more related to your thing, we're actually up 9% year-over-year, not 4%, that's the overall incorporate level, including GWIM commercial. But if you look at across time, it really depends on where you're closing a branch obviously and what's nearby, but the retention rates continue to go up. The - over time, because the physical plan becomes less dominant in the relevance to the customer.

And so what we're doing is fine tuning the branch account and often consolidating into a bigger branch that we've invested heavily into the quality of the branch itself, but the numbers of people there. So our branches are getting bigger in terms of numbers of people in them and smaller in terms of account. When you think about the customer falloff in terms of number of accounts was really continuing to focus on our primary account.

So as we do that, the balances are up twice in the accounts, I think, over the last seven years or something like that and account numbers are down from 34 million to 31 million, that was all driven by our view that we had to get to the primary account, because that's where the profit could be made in the core transaction capabilities there. So we closed a lot of people, people ran off who were using us as a secondary or third bank just because they loved our distribution of ATMs and things like that and basically we have emphasized primary account sales.

Mike Mayo

I'm not sure if you disclosed this. So what is the retention of deposits when you close a branch today and what was it…?

Brian Moynihan

We don't disclose it. We don’t disclose it separately, Mike, that’s all in there. So, in that 9% growth is everything we did, so…

Mike Mayo

Okay. And just the last question. You mentioned, I mean, digital banking is up, mobile banking is up, you mentioned 1,100 branches that’s equivalent of it, that’s good. So have you reached a specific point where you can go from 4,500 branches down to 3,500 branches or 4,000, how far can you go?

Brian Moynihan

That always depend on the customer behavior and other factors. We are deploying new branches, hundreds of them over a multi-year period in the places we didn't have branches before located more strategically given circa 2017 beyond banking. So we don't put a - again, it's not another number, we target a number. What we target is a more and more efficient system.

And so, each day three quarters of a million people come into our branches and our teammates serve them well and our scores of those branches are all-times high in terms of satisfaction, and 80% of the sales go on in that space. So, I wouldn't want to cut them back at one branch more than the customer wants us to do it by - evidenced by the behavior.

Mike Mayo

All right. Thank you.

Operator

Thank you. We'll go next to the line of Steven Chubak Nomura Instinet. Please go ahead.

Steven Chubak

Thanks. Good morning. I had a follow-up question regarding the discussion earlier about GWIM deposit competition and just some of the efforts that you cited to compete with other cash alternatives. I was hoping you could quantify the actual magnitude of deposit price increase that we saw in the quarter? And maybe just give a little bit more context as to what prompted the action? And, Paul, I know you gave some color here. I'm just trying to get a better understanding as to whether this is really driven by increased competitive pressures, or is it more a function of the DOL, which actually requires that some clients receive reasonable compensation on some of their assets, including cash?

Paul Donofrio

I don't think - it's not a function of the DOL, it's a function of our desire to give our customers an alternative to leave their money in a deposit account at Bank of America as opposed to seeking other alternatives within our AUM and brokerage platforms. So that's what's driving this. It's a meaningful increase, but it's nothing - when you think about the 100 basis points that we've seen here, it's not a significant amount.

Brian Moynihan

Just philosophically, we say to our team, you have to maintain the operating leverage, given a relative pricing against the rate curve, because the rate curve, we got to zero fullers for so long. And so they have to grow faster in the market 4% or 5%, at least, you've got to go deposits and you've got to maintain a pricing discipline. What happened at GWIM frankly is, they got a little behind the curve and they had to move in a single quarter and they did. And so what you see in the period-end deposits, even though the average I think is down, period-end actually is up.

And so they were able to shutdown some of the runoff as, Paul just described, but it's really localized in the GWIM business, and it's really driven by a subset of those deposits, which are in asset management accounts and in brokerage accounts that are part of an investment strategy that that is different than transactional checking accounts and things that are driving both in our commercial business and our consumer business. And so that's why you see, if you go look at Page 10 and kind of sort through it, you'll see there's differences and it's really narrowly in the area that has to do with really investment cash rather than transitional and transactional cash.

Steven Chubak

Thanks for that color, Brian. And so my understanding then is that, if we do see rate hikes from here, because much of this increase was a function of your efforts to catch up with the competition that - should we see the NIM introductory increase, or how should we think about the outlook from here if we get additional rate hikes?

Paul Donofrio

Well, first, let me say that, our outlook on NII absent any change of rates. Is going to be dependent on loan and deposit growth, offset by deposit rate pay, which is mostly going to be driven here by competitive factors. So, if we get a 25 basis point rate hike in December, again, most of that will see in the first quarter, the benefit, and it's going to depend on what our customers need and want and what the competitive dynamic is. I mean, I don’t know how else to answer that question. We don't know yet what we're going to do. We have to see how the market develops.

Brian Moynihan

Secondly, in the $3.2 billion for 100 basis points is modeled in a rate of change relative to that interest rate change for deposit pricing. We have better debt and because of the power of the franchise and things, we would expect to continue to maintain that discipline.

Steven Chubak

Got it. And just one more for me on the credit side, the trends there continue to be quite positive and appears to be doing a lot better than many of your peers in that regard. I know the guidance you've given previously, at least, in the near-term, was that provision should approximate net charge-offs? We did begin to see some healthier building consumer. I'm just wondering how we should think about the near-term provision trajectory from here?

Paul Donofrio

We still think provision is expected to roughly match net charge-offs. You could see some modest increase as we bounce around the bottom with respect to net charge-offs in commercial and as we build allowance in support of loan growth. However, these factors may be offset by the release of non-core consumer, real estate and energy as we sort of been experiencing here over the last few quarters. So, no change there.

Steven Chubak

Okay. I mean, is 900 million as like a charge-off run rate, at least, in the near-term, a reasonable expectation?

Paul Donofrio

Over the last five quarters, the average has been 900 million.

Steven Chubak

Got it. Thanks so much for your help.

Paul Donofrio

Yes.

Operator

Thank you. We’ll go next to the line of Matt O'Connor from Deutsche Bank. Please go ahead.

Brian Moynihan

Good morning, Matt.

Matt O'Connor

Good morning. I was wondering if you could just elaborate a bit in terms of what you're seeing on the loan demand side, both on the commercial, corporate, as well as the consumer and obviously, the industry has slowed down overall, you made some comments about seeing more activity in pockets of consumer, and then along with that just your outlook for loan growth in the near-term here?

Paul Donofrio

We've been - look, we've been experiencing solid long growth in consumer and GWIM and in - on the wholesale side and global banking you saw that again this quarter. We don't - so we talk about loan growth for the whole company being driven by deposit growth. And so if you think about our deposit growth and the size of our deposits relative to our loans, every quarter we grow deposits and we put as much of that to work as we can in loan growth and whatever doesn't go to loans and client growth goes into the investment portfolio or cash.

So, if you're growing deposits sort of mid-single digit that means you're going to grow total loans low-single digits, we don't think that's going to change, given the current economic environment. But as you've seen, because we have a significant run off portfolio and All Other that has translated into mid single-digit loan growth in our business segments and that's what we're comfortable with.

Matt O'Connor

And then, as we think about the deposit growth driving the balance sheet growth, you've got the flatter yield curve, and some people - my personal view is, if you get additional increase in the short end, you might have further flattening. I'm just wondering the thought process to keep building the securities book and the mortgage book, you're seeing some banks shrinking the securities book and building cash instead and obviously there's a cost of doing that. But just the thought process to keep building securities here, as the curve has flattened pretty meaningfully?

Paul Donofrio

Yes. Look, we are always thinking about the trade-off between earnings liquidity and capital, where we have risk framework that we operate in with respect to the securities portfolio. But remember, when you're growing deposits in consumer, 8%, those are we believe high-quality deposits. So they have a meaningful duration, and you've got to find investments on the asset side to match what you believe the duration of those deposits are.

So, we're very thoughtful about it and we think about it all the time. We haven't made a lot of change into our operating. We're operating within our risk framework, and we feel good about kind of what we're doing there.

Brian Moynihan

I think one of the things to remember is that as you think about deposits, so - in our trillion plus of deposits, we have significantly more consumer personal deposits than anybody else does, which then if you think through the resolution planning and how those are treated now as stuff. Those deposits are extremely valuable. If you think of the consumers, it was 4 basis points last year and 4 basis points this year, you're going to continue to grow those, because unless the curve flattens out in a way that would be below 4 basis points plus the FDIC, you start to think of it, which - no one thinks it is going to do.

It's still very valuable idea to generate more customers and generate more deposits. But if we continue to really push that with - it's almost $900 billion in deposits in our GWIM consumer businesses, which are tremendously valuable in terms of what drives this franchisers profit. So there's no way we're turned down more customers with a good core deposits.

Matt O'Connor

Yes, just a point I was getting at is, you're paying up a little bit on the deposit side in the Wealth Management business. You're paying up a little bit on the global banking side. And on the one hand you can afford to pay up to help out the customers and keep them assuming our products. But at the same time with a flatter yield curve, it just makes it less economical to do so other bank?

Brian Moynihan

Yes, but I mean think about the all-in cost and it's still much - it's still very advantage, because a $600 million a quarter for the $1.2 trillion in deposits in total just think about that a second, and if you think that there's a lot of advantage in any yield curve.

Paul Donofrio

Question is obviously focused on the right thing, it's focused on the economics. But remember, these are our customers, and we want to make sure that they have the right alternatives for them to make good decisions about where they want to keep a deposit, or whether they want some other alternative.

Matt O'Connor

Okay. Thank you very much.

Operator

Thank you. We'll go next to the line of Brian Kleinhanzl from KBW. Please go ahead.

Brian Kleinhanzl

Yes, good morning.

Brian Moynihan

Good morning.

Brian Kleinhanzl

My first question was on the first mortgage production that you mentioned. You said that you're putting most of that on the balance sheet. Could you just give kind of a description of the type of paper that it is? Is it just two-year conforming? I mean, was that due to the duration of the loan book for that consumer?

Paul Donofrio

These are our customers who are originating mortgage either through purchase or refinancing. And we like the risk profile, we know them. We're all focused on prime's and. super prime. And we - so it's mostly non-conforming, but there is some conforming in there. We still are selling some to the agencies and obviously that would - that has duration to the asset side to the extent, that starts to gain a lot, but we'll manage that and remember we're adding deposits.

Brian Moynihan

Also don't think that we don't manage that - we manage that rate risk through a whole bunch of things, including derivatives and stuff too. So it's not like we just sit there and throw the long assets on and leave them there.

Brian Kleinhanzl

Okay, thanks. And then you did call out the hiring of the sales staff about 2000 year-on-year, I mean, how do we measure the success of those hires? Is - how much of that is already in the run rate? I mean, was it an opportunity to take market share, or were you understaffed in certain areas? I mean, how should we think about the increase in sales staff?

Brian Moynihan

We have a - how you should think about is that, you can't grow in a business, which is largely driven by face-to-face interaction for the Wealth Management business and the Commercial business in total and a large part of Consumer business. If you don't grow your sales force, you can't grow your production. If you don't grow your production, you can't grow your balances. And so all those balances were growing, loan balances and deposit balances and are all driven by having more sales capabilities.

And so unless you assume your team isn't working hard, which is absolutely not the truth. The Bank of America team works very hard, you got to add more capacity and to serve the customers and we have tremendous opportunity. So whatever metric and you can stun yourself with the opportunity, the number of customers who have their banking accounts that are in our Wealth Management business and other banks, hundreds of billions of dollars of bank deposit balances, loan balances, the amount of middle market investment banking goes to competitors from our middle market clients is 70%, 80% of their activity, which we should be capturing a lot more of. So we added middle market investment bankers.

So that capacity is acquirement. We look at all the markets, 90 markets in the U.S. We look at the relative market shares. We look at what we should be able to do. We look at how the team works together and we deploy those people in units and between six - five or six core business of operating markets to make sure building markets. So they can play off each other and then they work to get business together and refer business back and forth. So without that sales force build, you won't have growth in the future.

Brian Kleinhanzl

All right great. Thanks.

Operator

Thank you. We’ll go next to the line of Ken Usdin from Jefferies. Please go ahead.

Ken Usdin

Thanks. Good Morning.

Brian Moynihan

Good morning.

Ken Usdin

Paul, I want to follow-up on consumer credit. There has been last day or so a lot of concern about card. Your card losses have been up a little bit, but very manageable. But I did notice you did, and you mentioned you built the card reserve to now 3.5%. I'm just wondering what kind of normalization are you expecting on the card losses to follow, to start, sorry?

Paul Donofrio

Yes. So we've been growing our card book. We have a back book that is well seasoned. We have a front book that we're growing and that is seasoning like any other normal portfolio card and you're seeing, I think that across the industry. So we feel really very good about our card portfolio. We're focused on, again, prime and super prime. We're focused on our customers. We did see a modest pickup in NCOs year-over-year, but that was fully expected and planned for. So, nothing here from our perspective unusual.

Ken Usdin

All right. So just expected gradual seasoning and that you're not expecting any kind of vintage major shift in the recent growth?

Brian Moynihan

If you think about the whole card business as we reshaped it over the last 10 years quite frankly has been a move to more and more relationship customers whose credit statistics are relatively consistent over time. And so, while we have a year-over-year increase in card charge-offs, linked quarter, it fell back down. And so you should expect this thing to see - bounce around in these rates.

But it's because of the nature of the way we originate the cards as core relationship customers. And then our focus is not necessarily getting a lot more cards out there, it's really to get people to use their card as a primary card out of their wallet at Bank of America customer, the Bank of America card and using it and that's where we're driving the business.

So, I don't think you expect - the strategy is responsible growth. So the balances grew $1 billion or $1.2 billion - a couple of billion here over the last year. But we know it's going to steady as you go and drive it, so you shouldn’t see major changes in terms of nominal dollars of charge-offs.

Ken Usdin

Understood. And then as a follow-up to that in terms of the new preferred rewards card, how will that work through? Will there be any type of amortization of rewards cost, et cetera that we should think about in terms of like the card fees line? How - or is that just also kind of already been as part of the spending you've been doing?

Paul Donofrio

Yes. So let me just take a step back, because there’s a lot of people on the call and just review what we did. So we did launch it last month. It's a card that we launched, because we were listening to our customers and we wanted to design a card that rewarded them. We rewarded those who wanted to deepen their relationship with us even further. And importantly, we also wanted to give them the flexibility to use their rewards the way they wanted to use them.

Similar to all our other cards, we are very careful to balance the customer value with the shareholder value rewards that are very clear and transparent. We've been up and from seeing this card that we're not waiving. So we've been very mindful of the profitability of the product, and we don't expect any significant impact at this point anyways. We'll see how it goes, but at this point any significant impact to card income from existing upfront.

Ken Usdin

Okay. Thanks a lot, Paul.

Operator

Thank you. We'll go next to the line of Jim Mitchell with Buckingham Research.

Jim Mitchell

Hey, good morning.

Brian Moynihan

Hey, Jim.

Jim Mitchell

Maybe a quick question on rate sensitivity, it looks like it didn't change despite absorbing another rate hike this past quarter. Is that sort of indication that you've gotten slightly more asset sensitivity, asset sensitive as the quarter went on, or how do we think about your flat rate sensitivity?

A - Paul Donofrio

I mean, if you look at rates at the end of last quarter and you look at rates where they are now, there really wasn't - hasn't been a lot of change. So that that's - it's the rate structure, both existing at the end of the quarter versus existing then plus what the forward path look like at both of those points that drives that asset sensitivity disclosure and they were kind of similar at both points.

Jim Mitchell

Was there any change in the short versus long end sensitivity?

Paul Donofrio

Not really, it's still around two-thirds short end.

Jim Mitchell

Okay. And maybe just a broader question on consumer credit, I mean, I think that's a big issue. I heard your comment on cards. But maybe just taking - looking at the consumer as a whole, do you feel like there's any stress points out there that that gives you some pause? I think that's really what's going on in the industry, or at least in a lot of investors' minds worrying about, is this the start of a new upward cycle in consumer credit costs and how do you think about that?

Paul Donofrio

Look, we - again, we’re focused on prime, super prime.

Jim Mitchell

Yes.

Paul Donofrio

We’re focused on our customers and we're just not seeing it in that group. I'm looking at a page here, it's got residential [ph] on it. And after you adjust for the OCC bankruptcy and the repossession, if you look at card, if you look at auto, if you look at consumer vehicle lending and you make an appropriate adjustment net charge-offs, they haven't really gone up linked quarter or versus Q1. So, we're just not seeing it yet in our net charge-offs.

Jim Mitchell

Is there any reason….

Brian Moynihan

That’s a multi-year discipline. This is not something that happened this quarter. This is - multi-years of changing the underwriting standards and sticking to it and not varying those standards as we move through time. So we changed the mortgage underwriting standards in 2007 and 2008. We changed the card standards about the same time, which, the auto standards have always been high. We’ve always made that a business that we took very little credit risk in.

And so when you think about it, we just don't see it, but it's - a lot of it's just sticking to the netting over the years in and to the responsible growth strategy and the team finding the growth in the customers. And so the debates always been, can you grow? And the answer is, yes. But you've got to grow in a rational responsible basis, so and that's what's playing out in us this quarter relative to other people, I think.

Jim Mitchell

Right. Okay, great. Thanks.

Operator

Thank you. We'll go next to the line of Gerard Cassidy with RBC.

Brian Moynihan

Good morning, Gerard.

Gerard Cassidy

Hi, Brian, how are you?

Brian Moynihan

Good.

Gerard Cassidy

You'd mentioned, Brian, on the call about going into different markets with de novo expansion of your retail branches. Can you give us some color on how long it takes to get to those branches to break-even? And then second, how long does it take to get them to a level of profitability that's similar to your legacy branches?

Brian Moynihan

Well, I think the - it takes a while to build them up to the level of deposits obviously. But what we've seen so far and that's going to be one of the things you test every quarter is the - some of the branches we opened in Denver quickly moved into the top 10% of sales and stuff.

Now, why is that different than the de novo branching? A, we have a nationwide brand. B, we have Wealth Management and Commercial businesses in all these markets. C, we have card customers and mortgage customers and its markets that were - that we've had for years. And so you’re - a lot of times you’re converting a deepening proposition as opposed to I'm opening a store and seeing what comes in. And the fourth is, we strategically locate them near where the rest of our teammates are and drive it.

So they're getting up to speed faster. I won't give you the exact date that we target and things like that, because it’s proprietary. But you just assume that they're getting up to speed faster. And you should assume that we're smart enough that we're not going to build them if they don't work.

Gerard Cassidy

Very good. And then second, we're all familiar with the treasury white papers that have come out about where they think regulation as you go through the banks. When you guys review what has come out, what are the top one, two or three items that when you sit down with the new Vice Chairman of the Fed, Quarles, what are you going to talk to him about? And as part of that answer, can you share with us your thinking on where is your operational RWA? And is that a big issue for you to talk to the regulators about changing in the future?

Paul Donofrio

Sure. So on the first point on the white papers and all the other stuff that you’ve been seeing, look, as an industry, I think, it goes without saying that we really have a vested interest in regional regulation that, but that also promotes safety and soundness. So we are very focused on that. I would say that, we are for regulatory refinement that promotes economic growth while protecting its financial stability.

There has been a lot of discussion out there, a lot of white papers, a lot of great points that are being made in those papers. But we would be in favor sort of generally in the type of refinement that allows us more access and control over our capital and liquidity in support of responsible growth that we've been talking about all throughout this call, in support of the economy and the communities where we live and work, and for lending and for capital return.

We've talked about the - how large our buffer is. We'd also like to see a little bit more efficient regulation driven by amortization across the regulatory bodies. So, we're going to work with whatever parties we can to see some of this get refined in a responsible way. On your second question was on RWA, oh, on operational risk capital, yes, one of our favorite subjects.

Yes, look, we have a third of our advanced RWA is operational risk RWA, it is a floor that has been given to us by regulators. That 500 billion is 33% more than our next closest competitor has in operational risk RWA. That 500 billion is more RWA than just about all the European banks have in total RWA. So, we would like to make progress on that. The advanced approach is something we used to manage risk at the company, so it’s important to have an accurate amount of RWA as we think about how we are managing the company.

Having said all that, I would point out that at least in the United States with the Collins amendment, we have to have an amount of RWA that is the higher of standardized and advanced and as we continue to make progress on optimizing how we deliver the customers and clients, we are optimizing our advanced RWA and it is getting closer and closer to standardize. So at some point standardize will likely become our binding constraint. That doesn't mean that the operational risk capital is not important, it is, but it - but to generalize, at some point it will become our binding constraint and make that a little bit move.

Gerard Cassidy

Very good, and then just finally, Paul, you mentioned I think on the call about the higher rep and warranty expense. Can you guys kind of frame for us what's left there? And obviously, I'm assuming we're towards the tail end, but do you guys know about what's left?

Paul Donofrio

Look, we don't really go through them line by line. I think you guys know all the big ones. I will happy to sort of list a couple of those if you want. What I would say is, if you look at our disclosures we still have 2 billion in reserves for reps and warranties and we have got another 2 billion leased as of the end of the second quarter in the RPL for reps and warranties. So we are going to work through things and we are going to see over time how all that plays out.

Gerard Cassidy

Very good. Brian, we will see you in Boston. Thank you.

Operator

Thank you. We will take our final question from the line of Saul Martinez from UBS. Please go ahead.

Saul Martinez

Hi, thanks for taking my question. I want to ask about a follow up on efficiency and cost performance beyond 2018 and where do you think your efficiency ratio can go to, so you've obviously, you have brought down you efficiency ratio to 60%. If you get to the 53 billion whenever that is 18 or whenever you there around 18, you drive down your efficiency ratio even further to [indiscernible], so you are pretty close to, sort of, your competitors despite the fact that your business mix is one that has more wealth management and which has a higher efficiency ratio, so how should we think about your ability, the opportunity set to continue to drive positive operating leverage over a multi-year period and get your efficiency ratio down even further to the mid-to-low 50% range and I know it's a difficult question to answer, and it depends on a lot of things, but with technology and AI and cognitive computing and digitization and mobile banking, can we see efficiency ratios that maybe a few years ago we wouldn't have even thought for a bank like Bank of America.

Brian Moynihan

Well I think there are a number of things. Number one, you've got the general picture right, which is, we're getting it down to 53 that puts us in the level, we have a higher procession of wealth management, which has revenue related compensation that obviously is 27% pretax margin, you flip that around 83% efficiency ratio and it is a meaningful amount of dollars, but it is a great return on capital business and last thing you want to do is not grow it. So that creates a dynamic around, you know the aggregation of all these numbers and you look at the other ones in their 50-ish type of numbers across the board.

So we're going to drive that. When you think about it in the future the way we talk about it is the 53 billion is the 18 target, we try to hold it flattish after that, you know sliding [ph] to apply technology all things you talked about, more digitization and the earlier callers - the earlier questioners talked about and using that to offset, you know the fact that medical care premiums go up 6%, 7%, something else goes up, the rents go up and things like that and pay for all that, and merit increases and bigger bonus pools because our teammates are doing a good job.

So all that, you're fighting that and if you keep it flattish and then a question of what scenario you are playing into, your rates rise a little bit that [indiscernible] and that is what we told you guys before and that's what we will tell you in the future. There is no additional cost to that. If it comes through wealth management fee generation, it's going to have more expense attached to it. So it is a little bit of what's your scenario you're playing into.

We don't target - the efficiency ratio is a result of all the hard work that goes in to keep expenses flat, down to 53 billion and flattish after that. That will then produce an efficiency ratio based little bit on the revenue scenario, which could be on the economics and what's going on out there, but you should, rest assured, after $20 billion expenses in the last five years taking out of the company that there is no team that is more focused on this than the team that works for me.

Saul Martinez

Okay great. That's very helpful. Thanks a lot.

Operator

We would like to go over to Mr. Moynihan for closing remarks.

Brian Moynihan

Thank you, Operator. Let me just wrap up quickly. Thank you all for being on the call today and thank you and look forward to talking to you next quarter. As you think about Bank of America for the quarter three of 2017 it's pretty straightforward, responsible growth. It is evidence across the company in all different fashions, whether it is [indiscernible]. We got to grow no excuses, you saw that in balances and revenue, you got to do with the right customer focus, got to do with the right risk, and we got to do it and be sustainable.

When we say sustainable that means we got to do it and keep investing in the future and you saw us do that also. When we do that right we can take more capital and deliver back to you through dividends and share buybacks and as we told you earlier we nearly double that year-over-year. So, thank you and we look forward to talking to you next quarter.