Operator

Good day, everyone, and welcome to today's Bank of America earnings announcement. At this time all participants are in a listen-only mode. Later you will have the opportunity to ask questions during the question-and-answer session. [Operator Instructions] Please note that this call may be recorded. I'll be standing by if you should need any assistance.

It is now my pleasure to turn the conference over to Mr. Lee McEntire.

Lee McEntire

Good morning. Thanks to everybody on the phone, thanks for those that are joining us on the webcast as well. Welcome to the fourth quarter earnings results presentation. Hopefully, everyone has had a chance to review the earnings that we released. It is available on the Bank of America Investor Relations website.

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

So with that, I will turn it over to our CEO, Brian Moynihan.

Brian Moynihan

Thank you, Lee, and good morning. Thanks to all of you for joining us this morning to discuss our fourth quarter results. Before Paul Donofrio takes you through the details of the quarter, I just want to provide some overall context on our progress in 2015 and the opportunities and challenges ahead.

As you know, for the fourth quarter, we reported $3.3 billion in earnings or $0.28 per diluted share. For 2015 we had net income of $15.9 billion, that's the highest net income we've had in a long time. Full year return metrics were 74 basis points for ROA and 9% for return on tangible common equity.

During 2015 we continued to drive our 8 lines of business forward. We've focused on driving responsible growth across all our businesses and as you look at the annual earnings of the company and see how they fell, you can see how they came through.

Our consumer and wealth management businesses serving mass market customers all the way to the wealthiest Americans delivered $9.3 billion in net income this year. Our Global Banking business which provides services to small, medium and large companies around the world, produced $5.3 billion in net income this year.

Within our institutional investor clients our markets business with its market leading research capabilities and the top tier platform across the globe delivered $3 billion in earnings after adjusting for DVA in a very challenging market.

What's clear in these earnings despite the gyrations of markets especially at the end of the year last year is annuity nature that we get from our franchise by driving customer and client flows. That's the power of our company, it’s balancing the scope and a strong customer base and we aim to continue to improve it every day for our clients and customers and our shareholders. These results reflect the work we've done over the past several years to develop a more straightforward and simplified operating model and focus on responsible growth.

As you see on slide 2, across the variety of measures, loan growth business activity, capital liquidity, credit losses and cost management, we've made meaningful progress and believe we are positioned for a variety of economic cycles. At the foundation of all this is a strong capital and liquidity base. We added to our record liquidity levels in 2015 and we believe we are well positioned against the 2017 LCR requirements with total global excess liquidity sources now at over $500 billion. This amount represents nearly a quarter of our balance sheet and we now have enough [indiscernible] liquidity to last more than three years before we need to tap the market for funding.

Now our liquidity levels were driven by strong growth in deposits this year and we were able to put that funding to work to grow loans on an absolute basis for the first time in several years. Loan growth was all driven by organic activity and is consistent with our risk posture.

Our tangible common equity of $162 billion is at record levels as well. We returned $4.5 billion to shareholders this year in common dividends and share repurchases. Our tangible book value per share improved 8% in the past 12 months to a new high of $15.62. Our responsible lending focus also shows in our underwriting results. Our net charge-offs were down just $4.3 billion this year, consistent with 2014 but much lower than previous years.

Commercial charge-offs increased off a very low base mostly from oil related charge-offs while consumer losses as a core continued to improve. This reflects further responsible underwriting as continued improvement in our legacy portfolios.

And finally we get to the cost management side. At the heart of our work has been improving expenses which you can see are down sequentially from last year mostly on lower litigation costs, but also on improved LAS and other operating costs and these have improved steadily across the last several years.

We began new a BAC in 2011 and completed it in 2014. Since then we have been using our Simplify and Improve initiatives to find savings that more than offset increased compliance, merit and other inflationary costs. But most importantly those savings fund investments in our business whether it is in technology or sales force growth or other infrastructure costs.

As we move to slide 3, we included a few examples of trends, business activity in our consumer side of the house and wealth management side of the house. As you can see, we grew average deposits in consumer banking and wealth management business is $52 billion or 7% comparing year-over-year fourth quarter periods. These deposits were up over $105 billion in core deposits at the end of 2012.

This strong organic growth is the result of hard work in improving the customer satisfaction in our franchise by making it easier for customers to do business with [indiscernible] and strong product management simplifying the product set. All this has been done, where we've optimized our delivery networks, reducing our financial standards, divesting certain markets and also expanding our award winning mobile capabilities in the customer base that uses that.

As you can see this work also extends to our wealth management business. We had long-term net flows every quarter for six and a half years in wealth management. We have record loan levels and significant higher deposit levels, good products and [advisers] [ph], a growing sales force and two of the leading brands in business positions us well here..

Let me move to our global banking markets area. You can see on the institutional side of the [house] [ph] that’s set out forth on slide 4, we saw solid activity in 2015. Loans to commercial and corporate clients around the globe are growing nicely. Client demand has been good and our bankers have met our challenge to capture market share responsibly. This focus allows us to demonstrate a strong 12% growth in loans through global banking in the past 12 months and you can see the deposit growth has been strong here in the last year as well.

If you look at the markets business Tom Montag and team have done a good job of reducing assets and lowered the risk and still are generating relatively stable revenues. Despite the recent market challenges we remained quite profitable in this business and well positioned around the globe with both a strong [FICC] [ph] and equity platform.

As we step back we remain focused on our core customer strategy. We will continue to invest in the future and even as we continue to address the legacy issues of the past. We've been able to grow even as operating and economic environment remains in a low growth mode. Our model is solid but there is still plenty of work to do, but also there is plenty of opportunity ahead for us.

Overall I am pleased with the progress made in 2015 and we have more to do in 2016. In 2016 you should expect us to continue to focus on responsible growth. We will continue to drive the investments made in our franchise to deliver the value to you the shareholders. We will continue our sharp focus on risk management and we will continue our cost discipline as we look to continue to improve return on capital – capital metrics of our company.

With that, let me hand it over to Paul.

Paul Donofrio

Thank you, Brian, and good morning everyone. Starting on slide 5, we present a summary of the income statement and returns for this quarter as well as the fourth quarter of last year which had similar seasonal aspects. We earned $3.3 billion in the quarter compared to earnings of $3.1 billion in 4Q 2014. Earnings per diluted share this quarter were $0.28, up 12% versus a year ago.

The results include two significant charges that were previously announced and impacted EPS by $0.06. First, we recorded a pretax charge of $612 million associated with trust preferred securities which phased out of tier two capital at the end of 2015. Second we had a tax charge of $290 million associated with the UK tax changes that were enacted during the quarter.

Lastly we had a few other items that benefited the EPS this quarter by a penny on a net basis. These included a negative net DVA impact in sales and trading that was more than offset by positive impacts of market related adjustments in net interest income and some one-off tax benefits.

Revenue on an FTE basis was $19.8 billion this quarter up 4% from Q4 2014. Expenses were $13.9 billion approximately $300 million or 2% lower than a year ago driven by good expense discipline across the company.

We also provide returns and a few other metrics on this page, I would remind you that client activity and revenue in our global market segment tend to be lower or lowest in the fourth quarter affecting returns on other statistics.

Lastly, as many of you are aware, there was a recent accounting change that required certain unrealized debit valuation adjustments to be recorded directly to OCI rather than through the P&L. We early adopted this change effective as of the beginning of 2015. The slide and the supplemental earnings material that was in 2015 results have been adjusted.

Turning to slide 6 and focusing on the balance sheet, we grew deposits by $35 billion from Q3 and we used these increased deposits to fund responsible loan growth. In total assets climbed $9 million as increases in loans and security balances of $30 billion were more than offset by reductions in trading related assets and cash.

Liquidity rose to just over $500 billion, a record level, and time to required funding remains over three years. Tangible common equity of $152 billion improved modestly in Q3 as earnings were offset by both the return of $1.3 billion in capital to common shareholders and negative OCI driven by security values. Tangible book value per share increased to $15.62, another new record high.

Turning to regulatory metrics we began recording regulatory capital under the advanced approaches for the first time this quarter, and the CET1 transition ratio under Basel 3 ended the quarter at 10.2 and really has no comparable metrics as transition ratios in prior periods were reported under the standardized approach with lower RWA levels. On a fully phased-in basis, CET1 capital improved modestly to $154.1 billion under the advanced approaches compared to Q3 2015 pro forma estimates the CET1 ratio increased slightly to 9.8%. RWA was essentially flat as growth from commercial exposures was mostly offset by lower activity and balance sheet levels in our global markets segment.

We also provide our capital metrics under the standardized approach. Here our CET1 ratio was flat at 10.8% with modest improvements in capital offset by modest increase in RWA. In terms of the supplementary leverage ratios we estimate that as of 12/31 we continue to exceed U.S. rules applicable beginning in 2018 at both the parent and bank.

Turning to slide 7, we had strong loan and deposit growth this quarter. Reported loans on an end of period basis increased $15 billion from Q3. This is the third consecutive quarter of recorded increases in total loan balances. We continue to see solid loan demand in our primary lending businesses partially offset by runoff in LAS and all other.

Excluding declines in LAS and all other, ending loans in our primary lending segments increased $22 billion from Q3. $8 billion of this increase was in consumer loans as GWIM increased mortgages and security based lending. Consumer banking also saw good loan growth in mortgages as well as vehicle loans.

We also had some seasonal growth in credit card partially offset by selling $1.7 billion of card receivables at the end of the quarter. Commercial loans grew $15 billion spread across multiple industry groups.

Turning to deposits, on many basis they reached nearly $1.2 trillion this quarter growing $78 billion or 7% in Q4 2014. Growth was solid across the franchise. Consumer led the way growing 9% year-over-year while global banking and GWIM each grew at 6% pace.

Turning to asset quality on slide 8, while still strong we did see net charge-offs increase modestly from recent levels. Total net charge-offs increased $212 million versus Q3, $144 million was from consumer items previously reserved for and lower recoveries on the sale of NPL in the fourth quarter versus Q3. We also saw a $73 million increase in net charge-offs from our energy portfolio. Outside of these two areas, net charge-offs were stable compared to Q3.

Provision of $110 million in Q4 was relatively flat with Q3. Reserve releases in consumer real estate and credit card were partially offset by reserve builds in commercial which was driven by increase in criticized exposures as well as loan growth. Reserve releases excluding the previously reserved items I mentioned earlier were roughly $200 million.

On slide 9 we provide credit quality data on our consumer portfolio. Net charge-offs increased $137 million. The two items of note that make up this increase were reserved for in prior periods and did not impact the provision expense in the quarter. $119 million was the result of collateral valuation adjustments. In addition, we had some small charge-offs associated with our 2014 DOJ settlement. We expect to complete our commitments under this settlement in the first half of 2016.

Adjusting for these two items, consumer net charge-offs were relatively flat versus Q3. Delinquency levels and NPLs continue to decline and reserve coverage remained strong.

Moving to our commercial side, on slide 10, net charge-offs increased $75 million primarily from losses in our energy portfolio. Outside of the energy portfolio, commercial losses remained very low. Given the focus on the impacts of low oil prices on companies in the energy sector, we want to spend a minute to describe our energy portfolio and provide some perspectives.

The pie chart break down our $21 billion utilized exposure to the energy sector. This represents a little more than 2% of our total loan balances. Within that $21 billion $8.3 billion or less than 1% of the total loans is loans to borrowers in two subsectors, Exploration and Production as well as Oil Field Services. We consider these two subsectors to have significantly higher risk than the rest of the energy portfolio.

Of our $8.3 billion utilized exposure to these two higher risk subsectors $2.9 billion has already been downgraded to criticized. So 35% of the higher risk subsectors has already been downgraded to reservable criticized exposure thereby driving a portion of the reserves. And allowances for loan losses for the entire energy portfolio is approximately $500 million or 6% of the funded exposure of these two subsectors.

The company in the vertically integrated subsector represents $5.8 billion of the energy portfolio. We believe this subsector has a better ability to withstand lower oil prices. Nearly 100% of the companies have a market capital of $10 billion or more or they are sovereign owned and the average company has a market cap greater than $60 billion. We believe the remaining exposure in Refining and Marketing as well as other is also less dependent on oil prices.

As part of our standard risk management process, we stress test our credit portfolios including our energy portfolio. Our stress analysis of the energy portfolio includes various sustained low oil prices over extended periods. As an example, if we held oil prices at $30 per barrel for nine quarters we estimate our potential losses on the energy portfolio would be roughly $700 million.

In energy and across our commercial sector, we continue to support clients while managing lending limits and actively engaging with stressed borrowers. Before moving from asset quality I want to refocus on total provision expense and how one should think about it over the next couple of quarters. As we continue to assess and react to future changes in the energy sector we could see lumpiness that could potentially drive provision expense over $900 million.

Turning to net interest income on slide 11, on an FTE basis NII was $10 billion increasing roughly $300 million from Q3. NII included a negative $612 million charge associated with three trust preferred securities. These securities were scheduled to be completely phased out of tier 2 capital as of January 01, and with 7% to 8% coupons became expensive debt. NII also included a $150 million of positive market related adjustments to the amortization of bond premiums under FAS 91.

NII excluding market related adjustments and the charge on the trust preferred improved $188 million from Q3 to $10.5 billion. This improvement was driven by increased deposit balances which we used to fund growth in loans and securities.

As we move into the first quarter, please note the following: first, we will have one less day of interest. Second, recent changes by Congress will lower the amount of dividends we receive from the FRB by approximately $50 million a quarter. Having said that, if the forward curve is realized and if we have some modest deposit and loan growth we still expect to show some growth in NII in Q1 2016 relative to our adjusted NII of $10.5 billion.

With regards to asset sensitivity, at the end of the fourth quarter our overall asset sensitivity decreased slightly as a result of increases in long-end rates as well as security balances. As of 12/31 an instantaneous 100 basis points parallel increase in rates is estimated to increase NII by approximately $4.3 billion over the subsequent year. Although more than half of that improvement comes from the increases in short-end rates and a little less than one quarter of the benefit comes from market related adjustments.

Turning to expenses on slide 12, non-interest expense was $13.9 billion in Q4, $300 million lower than Q4 2014. This was driven by good expense discipline across the company. Litigation expense was a little higher this quarter at $428 million exhibiting some lumpiness as we work to resolve legacy issues. Keep in mind that annual litigation expense decreased from $16.4 billion in 2014 to $1.2 billion in 2015. Legacy asset servicing cost excluding litigation finished Q4 a little better than our targets of $800 million. As we have said, our net goal is $500 million per quarter.

Expenses excluding litigation and LAS were $12.6 billion and represents the fifth quarter out of the past six below $12.8 billion. We continue to look for ways to streamline and simplify how we do business. This is important because it allows us to invest in growth while maintaining relatively flat core expenses and a sluggish revenue environment. And importantly this relevant flatness continued even as we invested in additional sales professionals and improved technologies.

Looking towards expenses in 2016 let me remind you, in the first quarter we will record as normal approximately $1 billion in cost for retirement eligible incentives. In addition, the first quarter strictly includes seasonably higher payroll taxes of roughly $300 million. And if we experience traditional rebound in Q1 sales and trading revenue, this would also increase incentives and other associated costs.

Turning to the business segments and starting with consumer banking on slide 13, consumer earned $1.8 billion, 9% greater than Q4 last year. These results reflect good operating leverage on increased customer activities. The segment generated a strong 25% return on allocated capital. Revenue of $7.8 billion was up modestly from Q4 2014.

Net interest income benefited from higher deposit and loan levels. Noninterest income was down slightly from lower mortgage banking. The decline in mortgage revenue reflects selling fewer nonperforming loans as we hold more on our balance sheet. In addition there was absence of $30 million in quarterly from the Q3 sale of the small noncore appraisal business.

Expenses declined 2% from Q4 2014 as the savings from reduction in financial centers and personnel more than offset higher product costs and investment in increased sales specialists. The cost of operating deposit franchise remains low at 177 basis points. Operating leverage drove improvements in the efficiency ratio of 56% as we continue to experience shifts in customer activity away from branches towards self-serve options.

Mobile banking users increased to 18.7 million which is up 13% from Q4 2014 and deposit transactions from these devices now represent 15% of deposit transactions.

Slide 14 presents consumer progress across a number of customer activities. I will highlight activities in three areas, loans, deposits and brokerage assets where we continue to grow responsibly. These three products are at the core of our rewards programs where we share benefits with customers who deepen relationships with us. Average loans grew $12 billion from Q4 2014 in mortgages and vehicle lending. And in deposit growth was strong at $48 billion or 9% from Q4 while the rate paid declined to 4 basis points.

Regarding brokerage assets, Merrill Edge assets levels of $123 billion are up 8% from last year even with declines in equity markets this year. Total mortgage production was up 13% from Q4 last year and stable with Q3.

Looking at card activity which includes GWIM, card issuance was strong at $1.3 million. Average U.S. card balances of $89 billion were down modestly from last year, but up seasonally from Q3 2015. U.S. card credit quality was strong as net charge-offs remained at decades low levels of 2.5% with risk adjusted margin of 9.4%.

Credit spending volumes finished on a high note as Q4 spending was 5% higher than last year outpacing what we believe to be total market spend levels. Debit spending was strong as well. For example, on Christmas Eve day we saw record debit credit spending of more than $1 billion.

In our consumer segment we expect technology adoption by customers to continue to be a cornerstone of not only improved customer satisfaction, but also efficiency gains and operating leverage. The latest examples of this are around digital selling and appointment setting. Digital sales in the fourth quarter were up more than 31% from last year. Digital appointments reached more than 16,000 recently. We expect these adoption trends to play an increasing role in future performance in customer satisfaction as we continue to advance online and mobile capabilities.

Turning to slide 15, global wealth and investment management produced earnings of $614 million. Results were down from Q4 last year driven by lower transactional revenue and the impact of the market decline on asset management fees.

Transactional revenue continues to be impacted by the shifting of activity from brokerage to managed relationships as well as market uncertainty. NII benefited from solid loan growth and solid deposit growth but was offset by the company's ALM activities leaving NII relatively flat with Q4, 2014.

Non-interest expense was modestly higher than the year ago period. Investment in client facing professionals continues while lower revenue caused a decline in incentive compensations that was more than offset by amortization of stock awards issued in prior periods. Pretax margin was 21% down from Q4, 2014. Beginning in the first quarter of 2016 we will benefit from lower expense resulting from the completion of amortizations related to advisor retention awards given at the time of the Merrill Lynch merger.

Moving to slide 16, despite the volatility and market levels we continued to see solid client activity and we continued to invest in the business growing wealth advisors 5% from Q4 last year. Long-term AUM flows were $7 billion and remained positive for the 26th consecutive quarter. Deposit flows were strong, growing end of period balances $15 billion from Q3. By the way, this may have been driven in part by client concerns of market volatility. Loans continued to grow improving 10% from last year. This is the 23rd consecutive quarter of average loan growth in this segment.

Turning to slide 17, global banking earned $1.4 billion down 9% from Q4, 2014 but still generating a 16% return on allocated capital. The earnings decline from Q4 was driven by higher provision expense. Provision expense was up $264 million from Q4 last year driven by higher energy related charge-offs and reserve build to loan growth and energy related risks.

Revenue increased modestly from Q4, 2014 while expense declined modestly. Driven by higher loan balances NII improved despite spread compression and the allocation of the company's ALM activities including higher liquidity costs. Non-interest income benefited from higher treasury services revenue, higher leasing revenue and a small gain from the sale of its foreclosed property, partially offset by lower IB fees.

Looking at trends on slide 18 and comparing to Q4, 2014, IB fees of $1.3 billion were down 17% as leverage finance and equity issuance was partially offset by advisory fees that were at second highest level since the Merrill merger.

From a market share perspective we maintained our number three global fee ranking. Looking at the balance sheet loans on average were $320 billion up 12% year-over-year. The growth was broad based across C&I, real estate and leasing. We continued to experience some spread compression although it has moderated relative to a year ago.

Asset quality of new loans was consistent with the overall portfolio. On deposits we saw good performance with average deposits increasing by $16 billion or 5% over Q4, 2014. The mix of these deposits remained very good with less than 5% classified as 100% runoff of balances.

Switching to global markets on slide 19 and comparing to Q4 last year, we are pleased with the results here given challenging market conditions as the teams increased revenue while using lower asset levels and less VAR. Global markets earned approximately $200 million but we think one should consider results excluding DVA. On that basis adjusted earnings were $308 million which was relatively flat to Q4, 2014 on a similarly adjusted basis. Note that our net DVA loss this quarter was $198 million and compared to a loss of $626 million in Q4 2014 which included an initial FVA adjustment.

Total revenue excluding DVA improved $330 million or 10% from the fourth quarter last year on improved FICC sales and trading. Outside of sales and trading global market's share of lower investment banking fees was offset by a gain on the sale of an equity investment. Non-interest expenses increased 9% in line with revenue improvement.

Moving to trends on the next slide and focusing on the components of our sales and trading performance, sales and trading revenue are up $2.6 billion excluding net DVA was up 11.5% in Q4 of 2014. Compared to Q4 last year FICC sales and trading of $1.8 billion improved 20% reflecting improvements across most products notably in rates and credit related products. Equity trading of $822 million declined 3% reflecting lower client activity. Average trading related asset levels were down 9% in Q4 2014 while VAR was down 14%.

Turning to legacy assets and servicing on slide 21, this segment lost roughly $350 million in line with the prior year. Focused areas here are mortgage banking income, the number of delinquent loans and expenses all compared to Q4 2014. First, mortgage banking income which improved slightly was driven by three factors, revenue warranty provisioning improved $237 million to provision of $9 million this quarter. That favorability was offset by a decline in servicing fees of $108 million as the units service declined as well as a decline in net MSR hedge performance of $152 million.

Next the number of first mortgage loans that we serviced that are 60 day delinquent continued to decline and are now at 103,000 units. And last, the team did an excellent job lowering expenses. Excluding litigation we achieved our goal of $800 million moving costs down $309 million or 28%.

On slide 22, we show all other which reported a loss of $289 million. This was an improvement of $86 million from Q4 2014. This loss was driven by $612 million pretax charge associated with our trust preferred as well as the impact on the UK tax law changes. This was partially offset by gains on debt security sales as well as reserved leases on consumer real estate loans booked in all other.

[Audit Start]A comment or two on taxes before wrapping up. The Company's effective tax rate for the quarter excluding the UK tax charge was 25% reflecting reoccurring tax benefits plus a few small one-off benefits. We would expect the tax rate to be in the low 30s for 2016 excluding unusual items.

Before closing, I want to cover our early adoption of DVA accounting in more detail. In January of this year the Financial Accounting Standards Board issued an update to allow early adoption of a new rule regarding recognition of DVA on financial liabilities from changes in our own credit spreads.

The update means that these types of debit valuation adjustments will now flow through OCI instead of the income statement. We believe this change makes our earnings comparison more meaningful and easier to understand, therefore we adopted early. We restated all periods this year per FASB rules and those numbers are contained in the supplemental package.

This had no impact on capital as it moved on between retained earnings in the OCI but it did impact revenue, earnings, taxes and EPS in the first three quarters of 2015. The changes reduced previously reported EPS by approximately $0.02 each in Q1, Q2 and Q3. This accounting standard adoption did not impact DVA on derivatives which continued to flow through trading account profits .

Okay let me conclude by offering a few takeaways. Although the U.S. economy is improving slowly, revenue growth remains challenging. This quarter we continued our progress on those things we can control and drive. These include delivering for clients and customers within our risk framework and driving client and customer activity that will result in sustainable profits and returns. Our results reflect this focus.

We maintained a strong foundation of capital and liquidity. We grew loans, deposits and investment flows. We continue to invest in our franchise by adding sales professionals and improved technology. Our strength, global capability and experience allowed us to deliver for clients in a challenging market environment and we did all of this while closely managing expenses. With that, we'll open it up for Q&A.

Question-and-Answer Session

Operator

[Operator Instructions] We'll take our first question from Matt O'Connor of Deutsche Bank. Your line is open.

Matt O'Connor

Good morning.

Paul Donofrio

Good morning, Matt.

Matt O'Connor

Can you talk about the outlook for the core cost beyond some of the lumpy items in 1Q and then specifically maybe comment on how you feel like your markets business is sized? We have obviously seen some cost savings announcements that your U.S. and non-U.S. peers and want to get sense of how you feel you're positioned for the markets?

Paul Donofrio

This quarter the fourth quarter I think represents as I said in the comments, the fifth out of six that we have been below $12.8 billion. As you know, I think we've been talking about maintaining core expenses below $13 million. So we feel really good about our progress. And to remind everybody that we are maintaining those core expenses at those levels while we're investing in front office professionals, while we're investing in technology, while we're absorbing the natural increase in pay for employees and fraud cost and CCAR costs and other things. So I think we feel good about the work we're doing there. In terms of global markets, what was the question?

Matt O'Connor

Just in terms of the staffing and the positioning there, how you feel for, I don't know about the current environment, but just not bouncing back in a big, big way and obviously we're seeing reductions being announced at some of your U.S. and non U.S. peers. So how are you thinking about the sizing of your business for the environment you expect?

Brian Moynihan

Matt, in the fourth quarter we did reduce headcount in the business, the markets businesses and the related capital markets business, we didn't make big announcements, but that led to the $130 million in severance in the fourth quarter numbers you see. So it will continue to adjust that headcount. Tom and his team will continue to adjust, as they made an adjustment headcount for the quarter just did not make quite the press other people's did.

Paul Donofrio

The other thing I will add Matt is my focus is on core expenses. We're still – we're going to see core expenses I think continue to come down as we work on LAS and continue to hopefully see some moderation in legal expenses.

Matt O'Connor

And just on the timing of the LAS getting to that below $500 million, you did disclose a big drop in the headcount if we look year-over-year and obviously there is a delay in terms of the cost in sales coming down, but what's the timing of getting to that $500 million or below?

Paul Donofrio

Okay. I think we've made great progress in terms of getting expenses down I think we started at what $3.1 billion quarters ago, but we've made great progress getting down to $800 million. We are – our next milestone is $500 million per quarter. That's going to be a little bit harder, as you get lower and lower it will be more unpredictable and so we're not really giving up a target at this time, but we're going to get there as soon as we can.

Matt O'Connor

Thank you.

Brian Moynihan

You should expect us to make good progress, Matt, towards this year and so as you look towards the end of the year we should be getting there.

Matt O'Connor

Okay. Thank you.

Operator

We'll move next to Betsy Graseck of Morgan Stanley.

Betsy Graseck

Hi good morning.

Brian Moynihan

Good morning, Betsy.

Betsy Graseck

I just wanted to dig in on a couple of things, one was on energy since it's flavor of the day, you gave a lot of color there and you indicated that those $30 holds for nine quarters that is a loss of $700 million. I just wanted to understand is that already reserved for or is that over and above – case if we go below $30 what you've got baked in? Because I don't it's linear, I was just wanting to understand how you are thinking about it?

Brian Moynihan

Sure, look as we said in comments we have got reserves against that energy portfolio of $500 million, that is 6% of the high risk subsectors and we developed reserves on incurred basis, we developed them by looking at loss give default, probability of default, exposure to default. We go loan by loan we have lot of imprecision, other factors if you look at imprecision, we put judgement on all of that. One of the things we look at when we come up with our judgment of what we should be is our stress testing and so that's how that gets factored in, to our reserve which again has to be on an incurred basis.

Betsy Graseck

Right, so when you indicated that if $30 holds for nine quarters your models suggests a loss of $700 million that's already reserved for or is that on top of what you already have reserved?

Brian Moynihan

In part that because the idea is it can only incur what you see through today in terms of the operating structure these companies and asset based on lending, these are asset based loans, these are based loans. [Audio Gap] if you are nine quarters from now and oil is still at that price you'd have to have a reserve for what's left of the portfolio of the exposures been coming down, it will come down during those nine quarters, by losses you took at least in resolving this credit. So it's in part covered, but not fully because that's an estimate of our future that we as Paul said it's an incurred view of the portfolio.

Paul Donofrio

… we got $500 million reserve, as we go theoretically goes to the nine quarters if that $700 million would come true of our model is perfect, it would go against that $500 million to be building reserves as you went through that process. So if you told me what you want at the end of nine quarters, that if you want to end at $500 million you can do the math if you want it to end up that more or less it's going to be more or less in terms of you kind of built.

Betsy Graseck

And then could you talk a little bit about the reserve release that's still possible from the other portfolios, you have $200 million reserve release this past quarter, just wondering what the lags are on that, we've seen other institutions, they essentially finish up the reserve release? I know you had a big legacy book so maybe there is a little more lags there, I just wanted to understand how you're thinking about the trajectory there?

Paul Donofrio

I think you got it, I think we have a legacy we have a large legacy portfolio on the consumer side as we continued to work through that. And if home prices continue to stay where they are and improve the economy stays we're already improved. I think you are going to continue to see reserve from us in 2016, our reserve releases as I should say from us in 2016, but they are going to moderate from what they have been in the past.

Betsy Graseck

Okay, so there is still some lags, but at decelerating pace ?

Paul Donofrio

Yes, that some of that swings over to the commercial book, yes as we saw this quarter, Betsy. So we have come down from a lot of reserve releases last year, $800 million or so in the fourth quarter last year $7 million or $8 million or so in the fourth quarter last year certainly is heardings down to the two couple hundred million is expect that to kind of mitigate during the course of 2016.

Brian Moynihan

Yes and we've built reserves in the commercial.

Betsy Graseck

All right. Thanks.

Operator

We'll move next to John McDonald of Bernstein. Your line is open.

John McDonald

Hi, good morning. Paul I was recalling I think you had for a goal as you had to generate positive operating leverage. I was wondering how you feel about the ability to achieve that, what kind of revenue environment are you planning for and how will you managed expenses try to get some positive operating leverage this year?

Paul Donofrio

I think we feel good about the operating leverage we achieved in 2015. You can see that with the revenue growth relative to the EPS growth and I think we are looking to continue that trend. We have a little bit of a tailwind here on rates we're going to continue to manage expenses carefully. So in terms of our EPS in 2016 we don't give estimates, but in terms of EPS growth in 2016 I think it will be more of the same revenue growth with some hopefully expense discipline that will get us a some operating leverage.

John McDonald

Okay and Brian, could you talk a little bit about what your goals will be with your 2016 CCAR submission are you looking to make some progress on both the dividend and buyback potentially and do you may be can share some thoughts about that?

Brian Moynihan

John, we have not seen a scenario as yet and stuff like that, so I think it is probably premature to discuss that. Our goal is long term is to return more and more capital to shareholders through dividend and stock buybacks, at this price obviously stock buybacks are favored, but when we see the scenario and play that out it would be getting ahead of the process and talk about today.

John McDonald

Okay and Paul one quick follow up on the NII, is there a benefit from the paid down of trust preferred that you will get in 2016 is that why you're able to grow the core and NII bit in 2016?

Brian Moynihan

I won't say don't say that's why, but honestly there is a benefit from paying off those trust preferred they had I think with the $175 million in quarter and so there is a benefit there. But the way I would think about those is we're not going to "replace them" because they don't count toward our regulatory capital, so why would we replace them? We're going to have a capital structure that meets our regulatory requirements which requires a certain amount CET1. We are going to have the appropriate amount off preferred and something that's and - of course we have to meet – so that's how I would think about it.

John McDonald

Okay and so it's really just the loan growth and pretty stable rates driving some core NII growth?

Brian Moynihan

John, if you look at it – what was affecting us '13, '14 was we've continued to run our portfolios that yield to them. And obviously the reinvestment rates on the investment side of the house as we ran those off were flattish. That is kind of all run through the system, so now what we're seeing is $80 billion of a period deposit growth from fourth quarter last year and this year and the overall pay rate for that is in the low single digit basis points all for, all the consumer wealth management and driven by middle market and the banking business. So that is the deposit funding side. And the asset build is now good core loans that have reasonable yields to them and you start to see it and then pick up just a hair from that. And we expect it to drive in our core as long as the economy continues to grow a couple of percent.

John McDonald

Okay, thank you.

Paul Donofrio

Hey, John just real quick, I want to correct one thing I said, the 175 is full year.

John McDonald

Okay.

Operator

We'll move next to Paul Miller of FBR and Company. Your line is open.

Paul Miller

Yes, thank you very much, on your NPAs, you have really good disclosure , you are getting it down to 103,000, did you sell any this quarter or is that all workouts through your servicing?

Brian Moynihan

We thought a little bit, but not as much as we had in the past, that not as much as we had in the past.

Paul Donofrio

It is very incremental at this point on the sales side.

Paul Miller

And then when do you, I mean like, at this point when do you think you can get that down to I guess this is not a normal level because you've just got to run this whole portfolio off. I mean could you have any idea when that will be over with?

Brian Moynihan

Well, Paul definitely three is the total portfolio. So there is a normal piece in that and an abnormal piece of that that we should be driving it down to the 60 days 103, across both portfolios that number should come into I don't know pick up a percent or percent and a half of the service loan unit. So it still got some room to go and that's the key that I think Matt has pointed out earlier is the FTE headcount in LAS we had a 2000 person headcount drop in the company overall in the fourth quarter about half LAS have the rest of the company.

The LAS percentage rate is with 8 percentage points not annualized for the quarter at 30% is still dropping its headcount but is getting flatter now we get all the old cost drive out of the portfolio. So, in terms of thinking about real estate, old systems and stuff and so that's what takes a little more time now than just the people cost .

Paul Miller

Thanks you very much.

Operator

We'll move next to Jim Mitchell of Buckingham Research.

Jim Mitchell

Hey, good morning may be just a quick question on deposit behavior since the rate high, have you seen anything unusual I would assume will be more in the institutional side where you've seen movement at this point and then maybe you can kindly give some update on how you're thinking about the deposit data this year?

Paul Donofrio

Sure, the short answer is that we have seen no real movement of course we're very focused on making sure that we paid appropriate deposit rate, but so far there has been no movement and we have been modeling deposit betas on our interest building deposits in the high 40s.

Jim Mitchell

And you still think that makes sense or do you think that's relatively conservative?

Paul Donofrio

We think that makes sense and given the quality of our deposit base as Brian sort of kind of walked through already the portion we have in our consumer and GWIM franchises, the number of primary checking accounts even on the wholesale side if you look at our deposits less than 5% of them are 100% runoff deposits. So we feel good about our $1.2 trillion deposits we took even this year the deposit rating came down another basis point to 4 basis points for the all deposit, so we feel good about that modeling.

Brian Moynihan

And Jim, remember that modeling is not 40% of everything. It is a lot nothing and a lot less for the first couple of months. So I think that's what you're thinking about, so if we continue along with one or two rate raises, there will be a lot more captured than as it gets on to the higher.

Jim Mitchell

Right, it will be more backend weighted?

Brian Moynihan

Exactly, if that's what you're asking.

Jim Mitchell

Okay. And just one last question maybe on the expense side, if we look at, I mean you guys have done a good job, but if you look at your core expenses normalized for all the puts and takes it still seems like your efficiency ratio would be sort of in that 63%, 64% range and lot of your peers are well below 60%. Is this sort of you grow into the improving efficiency ratio with the revenue as you reinvest or is there do you think you can get there more quickly? Just trying to get a sense of how you get the trajectory into more in line with the peer group on the efficiency ratio side?

Brian Moynihan

Well if you look at the full-year 2015 and you do those puts and takes for the things that we've talked about for the year and you make any sort of a reasonable guess as the progress we're going to make around LAS, we're sort of in the kind of 65ish range, we're going to continue to focus on growing responsibly and working on our total expenses as we have talked earlier and so with a little help from growth and some more work on expenses we think we're in shooting range .

Paul Donofrio

As we model ourselves and look at sort of the peers and so that average efficiency by business units and model against our business mix we're going to be little higher, high level wealth management in our business relative to total. But look three things on this, number one we will continue to drive – drive it down and funding all the growth in FTE for sales side we get 6% growth in consumer FTE sales side, 3% wealth management, 6% or 8%, maybe 8% global banking year-over-year. So we're paying for all that – paying for all the incentives attached, we are paying for all the infrastructure attached to it. So we're going to continue to drive it down. So just rest assured that is.

And then we are not satisfied in the mid-60s efficiency ratio of the company and we should be able to drive that down and it will come from both, its hard work as we say with the rate lift and stuff which affects -- we're still affected a little bit more by the low rates structure and other people we should pick it back up. But don't think we are complacent on this.

Jim Mitchell

Okay. I appreciate it, thanks.

Operator

We'll move next to Glenn Schorr of Evercore. Your line is open.

Glenn Schorr

Hi thanks. So I think you put the heat on a little bit on loan growth over the last couple of quarters and if you looked at lending in your primary lending segments it's picked up and I think that's good. The question I have is with new information that we have, I mean the markets digesting and anticipating, I don't know if I'll call it recession, but a lot of fear around recession on lower oil and China related fears. The question I have is, if you look at the core loan growth are you still okay running it at this level, do you feel like your customer base that you're making these new loans too are a little more insulated to the world that the market is fearful of?

Paul Donofrio

We are - outside of energy, we are not seeing asset quality change nor are we see a reduction in appetite for our credit. I would remind everybody that we look we're very, very focused on our customer framework and our risk framework, but within that framework we continue to see a lot of opportunities that help our customers grow their businesses.

If you look at this quarter and you just focus on the core, we had 3% quarter-over-quarter growth or an annualized growth rate of little over 12% or $22 billion, I'm not going to sit here and tell you that is what is going to be next quarter, but we're not seeing material decline in conversations with our clients about how that thing grows.

Brian Moynihan

I think to give additional color, if you think about it, if you go back a couple of years we grew the international business because we had to round out that franchise. We sort of slowed that down 24 months ago that started to drop in terms of growth rate and so because of the client selection criteria there is very high levels - very high clients multinational clients et cetera, but we slowed it down just to keep the company in balance and that's been on watch.

If you think about the consumer you know there was a prime no longer FICO scores if you look at the coming on FICOs are higher than the portfolio still which is almost hard to believe, the charge-offs, delinquencies and both home equities, delinquencies across the wide score are going to continue to come get lower every year. This year was the lowest they have been, probably a long time in both the credit card and in home equities.

And if you look at the client selection U.S., a couple things, one is you're adding officers in the middle market business, but they are going after our target clients and this is not go find the industries etcetera. So whether it is the way you land a commercial real estate which is down – which is very high end real estate developer etcetera, the way we land in this middle market is very strong.

So if you look across it is client section in the middle market business has been strong. The best that we're seeing is things in our business banking, small business portfolio are actually starting to see growth there sticking to our credit risk which is the first time in many years we had to run off some stuff it came in through style Merrill and everything else that we are finally seeing nominal growth.

And so I think it is client selection, we slowed down international. It sort of follows watching and in fact using your stress to make sure you stay balanced and if you look at us, yes we feel we're pretty balanced between the consumer and commercial sort of 50-50 and there within the consumer we're really sticking to our knitting which is very strong high quality, above that credit worthy borrowers.

Glenn Schorr

Great, one follow up on the FA growth you noted a 5% year-on-year I'm just curious, that is not a heck of a lot of core growth in that business. I'm just curious how much is coming from your training programs versus recruiting both traditional and non-traditional sources?

Brian Moynihan

It is coming from both. The reality is that the number one issue they are facing in the wealth and investment brokerage services revenue line is the decline in transactional revenue, and it has gone from two years ago probably $600 million a quarter -- even in not robust market times down to $300 million, $400 million in a quarter in net debt and that is part of the pay down for the annuity streams, even though they are having record net flows, it is just the pay, the revenue rate on that is less, and so that's the factor.

So, it is not to do with really recruiting, and the production per FA continues to be solid at 1 million plus. It is really that core fundamental issue that they're facing and that transition is overall gone through. It is getting to the point where it is becoming less material and, i.e. material to the total revenue line from the transaction side.

Paul Donofrio

I would just remind everybody that we've got significant positive loan base in that business, and so again if rates rise, we are going to see some benefit there.

Glenn Schorr

All right, thank you very much.

Operator

We'll move next to Steven Chubak of Nomura.

Steven Chubak

Hi, good morning.

Brian Moynihan

Good morning Steven.

Steven Chubak

So, I actually had a quick followup to the topic that Glen was just addressing relating to GWIM and just some of the margin pressures that we have been seeing over the last couple of quarters. I wanted to get a better sense as to how much of that do you think is cyclical versus secular, whether it be DOL related pressures or just intensifying competition for advisors, and along those same lines whether a 30% margin target is still achievable once we get to a more favorable rate backdrop?

Brian Moynihan

Let me start with the last one and pick up on just some comments Brian made again. The decline in margin has been because of decline in transactional revenue. In addition, over the last couple of quarters, there has been a lot of market volatility. The markets have ended down in certain months, and that affects what we make on asset management. We were hoping a better market environment. We would see some improvement in some aspects of the transactional business because there is a lot of selling of mutual fund products and other products there.

And then again, as I pointed out, we've got a business here with close to $140 billion in loans and $240 billion, $260 billionish of deposits, and as rates move, we're going to start seeing some benefit from that with which the payout ratio is quite different than on the more traditional asset management products. So, that I really do think is the revenue story that will affect margins. And again, in the first quarter of this year, we're going to see $100 reduction in expenses because of the run off of compensation programs we put in place around the Merrill merger. So I think that's what I would say about margins. What was the second part of the question?

Steven Chubak

Can you just tell me about to what extent if you could at least segregate the secular versus cyclical headwind components on the revenue side, but I think that you adequately addressed that in your response.

Brian Moynihan

Yes, just I think people have to think about, Steven, the margin has come down, we think it's flooring out here and will start to pick back up in part because of some of the unfundamental changes in the ATP program running off and stuff, but we have invested in a PMD program, it cost a few hundred million dollars of drag to do that, that's the right thing to actually build advisor base over time to service the clients.

And the team; if you look at it underneath, the U.S. -- the flows and stuff are strong in the U.S. trust business. It is having some of its best quarters ever just because of the difference, and that it didn't have the secular run off you referred to in terms of the fee based business. So it's a good business, it does a good job to its clients. We expect more out of it and that is the job for John and Keith, and Andy and Terry to go forward.

Steven Chubak

Thanks Brian. And maybe just switching over to the credit side, I appreciate the detailed disclosure you guys have given on the energy book, and we're just hoping you could provide both exposure and reserve levels maybe some area - other areas of the commodities complex, specifically metals and mining.

Brian Moynihan

We are - we feel good about our mills and mining exposure. It is about $8 billion, but most of that exposure is much more short dated and much more collateral, so we feel good about that exposure.

Steven Chubak

Okay. And then just as a follow-up to the initial provision guidance you've given, just thinking about it from a modeling perspective, is it the right way for us to be thinking about the provision rate for 2016 taking that $800 million to $900 million on quarterly run rate plus whatever additional energy driven reserve building we should be contemplating which presumably is incremental?

Brian Moynihan

Yes, that's not a bad way to think about it. Again remember our guidance from last quarter we said $800 million to $900 million for the first two quarters of 2016 and the way I will think about those two quarters would be, we'll see some lumpiness. But the one thing overall is that as you look at the question on the exposure that we're also paying close attention to is it sort of a demand or supply issue for oil prices, and if it's a supply issue that affects these companies and related companies demand and demand from, but if it is a demand in the broadest context, i.e., economies need to continue to slow down and that's the broader concern.

So we're looking at not only the impacts in all the portfolios, thinking about who gets the benefits on our portfolio basis from low energy cost which are serious benefits to the consumers and companies that consume energy versus those producing it. And so, there is a balance here that we've got to think through right now that's pretty isolated the energy companies, and even if you look at consumers who work for them in our basis by ZIP code and unemployment levels and stuff, we've seen relatively modest deterioration in the consumer side before employing these businesses.

So, I think as you are thinking about it, the real question is going to come down to you for 2016 in terms of all our industriesare we in a demand driven issue, i.e., general economic issue, is the United States going to plug along and if it does, then false guidance is the right one. If you are in the supply, it is going to all be localized on these industries.

Paul Donofrio

Yes, I mean if it is not demand, it's again worth emphasizing. There are a lot of people who are helped by low oil prices that helps our asset quality, not only on the consumer side but also in places like India and manufacturers all around the world.

Steven Chubak

Okay. All right thanks guys, very helpful and thanks for taking my question.

Operator

We'll move next to Eric Wasserstrom of Guggenheim.

Eric Wasserstrom

Thanks very much. I was just wondering if you could help me think through a little bit your GAAP and risk weighted assets over the first half of the year given the growth dynamics that are pretty robust in some of the run-offs and then also some of the changes that are going through on the RWA calculations?

Paul Donofrio

So you're talking about the first half of 2016?

Eric Wasserstrom

Correct.

Paul Donofrio

Well on a standardized basis, I think you're going to see RWA trend up if we're able to grow deposits and loans. On an advanced basis, there's all sorts of puts and takes there. I don't think you'll see as much growth as you would on a standardized basis, on an advanced basis yes, as you were on a standardized basis as we continue to work on RWA.

Eric Wasserstrom

Okay. And so what are the -- kind of what are the implications of that then for your regulatory capital ratios?

Paul Donofrio

Well we need to get to regulatory from a CET1 under an advanced basis. Our goal is to get to 10% plus or above by 2019. So we're at 9.8, I feel like we got the time to do that. We're certainly not going to need to take all that time. We would expect to get there soon, but it is impacted changes in rates, changes and OCI, we are returning, we are hopefully returning capital, but we're not - we feel like we're on track to get to 10% plus an appropriate buffer there.

Brian Moynihan

And the only other thing I would add is, we still have some opportunities to optimize RWA from an advanced perspective, that's in two fundamental areas. It's always tough. You can do in markets and other areas, but in two fundamental areas, one is the extra RWA we got on the wholesale side when we exited parallel run, that is not a permanent thing. We need to work on – work with our regulators and hopefully over time we can make some improvements there.

The other one is operational risk, we have $500 billion of RWA operations with some of the advanced approach. That is 25% more net higher to bank and that operational risk is for businesses that we are no longer in it with products we no longer sell, it's for a risk profile that we no longer tolerate. So again that will take time, but that is another opportunity for us to lower RWA through an advanced perspective.

Eric Wasserstrom

Thanks and if I can just sneak in one more, and when you talk about an appropriate buffer are you thinking in method one or method two as a baseline?

Brian Moynihan

I think a buffer to the capital, we're thinking we're basically thinking we need to be above the 10%, we would say 25 to 50 basis points would be where --

Eric Wasserstrom

Got it. Okay, thanks very much.

Operator

We will move next to the site of Ken Usdin of Jefferies.

Ken Usdin

Thanks good morning. Just a quick follow-up on the loan growth side, I know you talked about the credit quality underneath the commercial side, but after 13%, 14% loan growth a year, do you think you can maintain that type of pace of growth given some of the concerns we've seen underlying even if quality is holding up? So just I guess your general outlook for loan growth rates and can it match or maintain what you did last year? Thanks.

Brian Moynihan

Yes, look I'm not sure we are in the business of giving guidance on loan growth. We think we can grow if we're looking for some perspective from us, I wouldn't even call it guidance, mid-single digit is what we hope we can accomplish.

Ken Usdin

Okay. Continue to be driven by commercial would you say?

Brian Moynihan

I think it's going to be, continued to be driven by commercial, but you're going to see growth in consumers as well.

Ken Usdin

Yep, and just a quick second one, you've been growing the mortgage business again, what is your outlook for continuing to take share in the mortgage business and kind of -- have we seen the bottoming of results on the fee side of mortgage?

Brian Moynihan

Well, we are - in our mortgage business, I think we are focused on originating prime and sort of non-conforming loans. I would - there has been good progress, I think if you look over the last year, the number of non-conforming loans that we are originating has increased meaningfully. And I would remind you that those loans we booked on our balance sheet. So that's NBI when you're booking, when you're selling less loans, it is going to affect your NBI income, but it is going to come through [indiscernible] on a more annualized basis.

Ken Usdin

Absolutely.

Paul Donofrio

From a broader -- leave aside the fees because of the geography and how the accounting works and when you put 60%, 70% loans on balance sheet, in terms of overall production we expect to continue to make progress because you can see that numbers that we're going to – as other people are flattening out, we continue to have lots of opportunities with our core customers setting out and still that are creditworthy in our customer base, we are still getting to move it elsewhere and that is what the team is chipping away. And it is never going to be the hugest business of Bank of America compared to things like the Merrill Lynch business consumer, the credit card business in consumer, but we expect to get broader market share from each of the segments.

Brian Moynihan

Yes, I think it is interesting, I am considering entirely this is directly 100% correlating we've done all the work, but we've added sales professionals in our branches that are focused on originating mortgages that are more prime oriented. We've got them working with our GWIM specialists. That client group is generally more prime oriented, and we see progress, we see the prime loans growing.

Ken Usdin

All right. Thanks guys.

Operator

We'll move next to Brian Foran of Autonomous Research.

Brian Foran

Hi, good morning. I guess on commercial, if you could follow up on the ex-energy comments, in you experience what are some of the best leading indicators for the commercial credit cycle and what kind of trends have you seen, again ex-energy and those leading indicators over the past couple months that gives you confidence that thinks you're stable?

Brian Moynihan

Well, I would think about that. We spend a lot of time. Our credit people do spend a lot of time just homing [ph] through that portfolio and looking at cash flows from the companies and making sure we understand the collateral, making sure we fully understand our structures, so I think it's just a lot of locking and tackling and talking to clients and making sure we understand what's going on with their businesses in terms of the energy portfolio. I would emphasize again that outside of the energy portfolio, we are not seeing movement in NPL and criticize in our assets. Our NPLs continue to come down.

Brian Foran

And then if I could ask a follow up along the same lines on the consumer side, I guess two parts, one you made the point that even in energy heavy geographies, you are not seeing any adverse change in the consumer? In parts specifically just since it is such a big credit line are early delinquencies still coming in better than expected or are they stable or how would you characterize the current early delinquency trends and then on home equity since again that's another big outsize portion of the reserve, is there any update you can give us on how the first wave of HELOC recasts or switches to amortization schedules have performed versus what you had modeled?

Brian Moynihan

Sure, so in terms of the card, we look at our credit losses. They are at low points, historic low points, and they have been bumping around at that level. We've seen a little bit of increase the last couple of quarters, but that again I think is just a reflection of things that's bumping around at really low levels.

In terms of the home equity end of draw, based on the volume we've seen to-date, which we've seen a lot of volume, the portfolio is performing in line with our expectations and we continue to monitor the end of draw portfolio and continue to work with our customers to manage the risk. And I just would remind everybody that these borrowers have paid through the downturn, and this portfolio continues to improve as home prices improve. The risk is an ongoing part of our reserve process and we think we're all reserved.

Brian Foran

Thank you very much.

Brian Moynihan

Just on card, and yes it was 30 days, delinquency or 90, they came down during the course of -- from the end of '14, all the way through '15, and in both cases is running at multiple year lows in both percentage wise and nominal amounts, so we're seeing no deterioration of credit in either of those and the same with of the home equities. It is just in the home equities, we just have a little more clean up because of the legacy portfolio in there.

Operator

We'll move next to Brennan Hawken of UBS. Your line is open.

Brian Moynihan

Brennan?

Operator

And for your interruption we lost Mr. Hawken. [Operator Instructions] We'll move next to Mike Mayo of CLSA. Go ahead please.

Mike Mayo

Hi, I have one question for Paul, one for Brian. Paul, lower energy prices you said can help certain segments such as consumers. Can you give any examples of that and also on the energy topic, if oil stays at 30 then your provisions for energy would go up by how much, I didn't understand the answer from before?

Paul Donofrio

Well, let me take the last one first, so we've got a reserve on our energy portfolio of $500 million. That is 6% of those two filled factors that we can call high risk and we have done modeling, stress test modeling at various oil prices. The one we have been talking about on this call has been at $30, and that's over nine quarters, and so if oil stays at $30 for nine quarters, we would think that our losses over those nine quarters would be $700 million. Again that will go against the $500 we already have reserved, and one would presume we're building reserves during that time period to make up the difference.

Brian Moynihan

So Mike when you look at consumer benefits from the oil and gas, just to give you a simple thing, if you look at our card base in the fourth quarter of '15, the spending on debit, credit cards rose 4% from the fourth quarter of '14, and if gas prices would have been stable, they would have grown at 5.7%. And so what that means is consumers had effectively on that base of 1.7% to-date received the benefit of year-over-year. If you translate that to dollars, round numbers as $20 million a day is less spending on gasoline by our consumers in our portfolios per day.

And from like $90 million down to $70-ish million or something like that, that is the benefit they get, and so for a large number of consumers median income, the cash flow increases and that gives them more money to spend.

Mike Mayo

Okay, do you think people are being too negative on the decline in oil prices, you're implying it has a nice simulative effect, but people sure aren't taking that these days.

Brian Moynihan

I think Mike, it comes down to a question whether you think this is a - the oil price is a reflection of a broader issue of growth in economies, we're going to get slow growth 2.5% in the U.S. and IMF [ph] said I guess 3.5% in the world. If you're going to get that in '16, it is going to be isolated. This negatives could be isolated, the oil companies and related commodity producers just because of slow growth environment. If you are saying this is going to be a much different economic scenario than most [indiscernible] so called consensus predicts. It's a broader based problem, but right now it's really an oversupply of oil driving prices down, and that's impacting the people in the industry and rest of the consumers, that means corporate customer and consumers that use oil and energy are getting a good benefit.

Paul Donofrio

And again Mike, the only thing I would say is, I mean Brian is spot on, but the demand issue is kind of we are going to see it in other parts of the economy, however, we have not seen that yet, we have not seen change in our asset quality outside of energy.

Mike Mayo

And then if I can shift gears Brian, I know I have asked this question in other years, but I know you are not satisfied with the mid 60s core efficiency ratio, and I know you're not satisfied with a single-digit ROE. So what is your specific financial target for efficiency and ROE and what is your timeframe to get there?

Brian Moynihan

As we said, we ran about 9%, it has just been travelling about 9.5% for the year and return to annual common equity. We believe we have a path to get that to 12. Rates get us part of it and hard work on expenses and core revenue growth and driving gets us the rest of it, and so LAS expense drop-in, and we're chipping away that, if you look from '14 to '15, we made substantial steps, and we will continue to drive away. We haven't put a specific timeframe on it. It's just a goal to keep driving, and we will drive beyond that.

On efficiency, it follows that - as an efficiency, it follows that sort of math. Right now, we are operating 66%, 67%, probably normalized for 2015 and between LAS we can drop that down to 65%, and that is just hard work and we're grinding away every day. You're seeing loans grow, you're seeing deposits grow, and so you should see improvement in 2016.

Mike Mayo

Any expense initiative plan Paul since you've had a couple of quarters now to take a look at that? Are we looking for like an extra billion or kind of like a new BAC program or what are you thinking about there?

Brian Moynihan

Expenses are on our mind every day at Bank of America. We have - everybody focuses on expense discipline that's translating to our culture under our simplified and improved program where the teams are always coming up with ideas to make it simpler for our customers, to make it simple for our employees, and improve the expenses of the company, that is how we're going to achieve our objectives around core expenses that we talked about on this call. We're all very focused on expenses.

Mike Mayo

All right. Thank you.

Operator

And it appears that we have no further questions at this time. I'd like to return the program back to our host for any concluding remarks.