Operator

Good day, everyone and welcome to today's Bank of America First Quarter Earnings Announcement Conference Call. [Operator Instructions] It is now my pleasure to turn today's program over to Mr. Lee McEntire. Please go ahead, sir.

Lee McEntire

Thank you. Good morning. Thanks to everybody for joining us this morning for the first quarter 2017 results. Hopefully, everybody's had a chance to review the earnings release documents that were available on our website. Before I turn the call over to Brian and Paul, let me remind you, we may make some forward-looking statements. For further information on those, please refer to either our earnings release documents, our website or our SEC filings.

With that, I'm pleased to turn it over to Brian Moynihan, our Chairman and CEO for some opening comments before Paul Donofrio, our CFO, goes through the details. Take it away, Brian.

Brian Moynihan

Thank you, Lee. Good morning everyone and thank you for joining our first quarter results. I'm going to begin on slide two. And first, this quarter is another solid example of driving responsible growth at Bank of America. My teammates continue to deliver for customers around the world, and not many companies have the resources we have to help our clients drive the global economy. But with that, we understand responsibility comes with doing this, and we do it in a responsible way. Responsible growth is driving more sustainable returns for you as shareholders also. This quarter, we produced strong revenue growth; we drove cost savings that offset higher revenue related cost; and we managed risk well; and we returned more capital to you, our shareholders through dividends and increased repurchased shares than any period since the crisis.

Turning to slide three. Our Company produced earnings of $4.9 billion after tax in the first quarter of 2017. Those earnings were up 40% compared to the first quarter of last year, driven by 700 basis points of operating leverage. Revenue rose 7% and we managed to keep overall expenses flat. Our earnings per share were $0.41 per share; on a diluted basis that was up 46%. This is the fourth quarter in a row we've exceeded $0.40 of EPS per share. We did that in quarter one despite $1.4 billion of annual retirement-eligible incentives and seasonally elevated payroll tax costs. And importantly, we have done this in a responsible matter, not reaching for growth outside of our established risk and customer framework. And we achieved this in economy which continues to grow in the 1.5% to 2% range. On a year-over-year basis, our average deposits were up $58 billion, average loans were up $21 billion, and sales and trading revenues excluding DVA were up 23% with better client activity.

We saw $29 billion in long-term asset under management flows this quarter within our wealth management business. Asset quality remains strong with provision expense of $835 million. Net charge-offs were down 13% from the first quarter of 2016 but were modestly up from the fourth quarter of 2016 as expected from the normal seasonality especially in consumer credit cards.

Regarding progress against long-term metrics, the first task the Company had many years ago, was to become stabilized; then it was to reduce our legacy costs and simplify the place. And then we drove toward sustainability of results. Once results came more sustainable, we pushed towards generating return on tangible common equity above our cost of capital.

We've now shown that we have a return on tangible common equity in the double digits for last four quarters. And keep in mind we have been doing this where capital continues to build. The next step is to push that towards our 12% target. This quarter, our return on tangible common equity was 10% where return on assets was 88 basis points; these are reported numbers. The efficiency ratio was 67%.

These figures reflect solid progress in this quarter against our long-term targets, but are even closer, if you were to allocate the seasonal aspects of the retirement-eligible compensation costs and elevated payroll tax expenses, across the years, just opposed to putting it all in the first quarter. Even though the quarter one is typically a good capital markets quarter for us, if you just spread those costs, you'll see that across all the quarters, the metrics this quarter would then reflect an efficiency ratio of near 62%, return on assets nearly 100 basis points and return on tangible common equity of 12%. So, simply put, we're getting there.

On slide four, as I mentioned, the key to profitability in this environment is to drive good core customer growth and revenue while controlling our costs to drive operating leverage. We have a established record for the past several years producing quarterly operating leverage on a year-over-year basis. This quarter, you can see on the slide four better revenue growth on year-over-year base across each of our business segments. We were also able to hold expenses overall in the Company flat through the careful management of costs. As you can see on this slide, there's 700 basis points of operating leverage for the total Company.

Some of our businesses like our consumer business have been driving operating leverage consistently for many years in a row now. So, unlike our global banking business, are using operating leverage to drive the Company to the best line of business efficiency ratio among our businesses. Other businesses continue to have leverage opportunities are becoming more clear, this is the case in our wealth management or global markets businesses.

As you turn to slide five, you can see the line of business results. Each business improved their efficiency ratios, each line of business reported returns well above the firm's cost of capital. Consumer banking continues the strong performance and transformation. There is $1.9 billion in after-tax earnings this quarter, growing 7%. And on a pre-tax pre-provision basis, PPNR, which includes the prior year's sizeable reserve release, the PPNR was up 17% year-over-year. The efficiency ratio in this business was down 500 basis points to 53%. Global wealth and investment management improved the earnings 4%, earning $770 million after-tax improving its profit margin to 27%. This is a new record for the business.

Our global banking business produced a record revenue quarter, led by a strong investment banking results and that generated $1.7 billion in after-tax earnings. It remains our most efficient operating business at 44%. Lastly, our global markets business earned $1.3 billion in after-tax earnings, generating a 15% return on its allocated capital. Improved performance in sales and trading revenue combined with strong expense discipline that drove those results.

Our other category shows a loss, driven mostly by the $1 billion in first quarter of FAS 123 cost and related personnel taxes, which gets allocated across the business segments throughout the year. But the reduction in losses year-over-year was driven by improved operating costs in the Company and lower litigation expense.

As you'll see from the slides Paul will walk you through later, our businesses have important leadership positions across the board. We believe they have room to grow both, market share by deepening relationships with existing customers and by winning customers from the competition.

Overall, I'm pleased with the results this quarter. We grew the topline; we grew the bottom-line and we did it the right way, all while making significant investments in people, technology and more capabilities for our customers, and all that will bode well for future growth.

While many of you might focus on rates and our leverage to rising rates, note that the $1.5 billion in year-over-year revenue growth is split 40% for

NII which is driven by rate and by also the growth in loan and deposit balances, and the other 60% was driven through non-interest revenue.

As you know, we remain focused on things we know we can control and drive. We maintain our discipline on both expenses and pricing. Our rates paid has remained steady at 9 basis points on deposits while at the same time we have grown those deposits, 5% year-over-year or $58 billion.

On lending activity, we've been in a lot of discussion regarding a slowdown and our core middle market business representing the broad base of American companies, our business loans grew 7% year-over-year and our smaller business segments business banking and small business were up 3% and small business had the best production quarter in its history.

We assisted our markets clients with their financing needs, which also put capital and system for economic growth. All those growth occurred in the sub-2% GDP growth environment. Our clients stand ready to engage and are ready to grow faster as economy continues to grow and improve.

Now, let me turn over to Paul to go through the other details about the quarter. Paul?

Paul Donofrio

Thanks, Brian. I will start with the balance sheet on page six.

Overall, end-of-period assets increased $60 billion from Q4. The growth was fairly evenly split between two elements. First, we saw higher trading-related assets in global markets business with incremental customer activity following a seasonal slowdown at the end of Q4; secondly, we had higher cash levels, driven by seasonal deposit growth, primarily from tax refunds. Deposits rose $55 billion or 5% from Q1 2016 and are up $11 billion from Q4. Q1 deposit growth was primarily driven by customer tax refunds in our consumer business.

Loans on an end-of-period basis were steady with Q4 as solid commercial growth was offset by seasonal declines in credit card and runoff of legacy noncore loans.

Lastly, common equity increased $1.3 billion compared to Q4 as $4.4 billion in net income available to common was reduced by $3 billion and capital returned to shareholders through dividends and net share repurchases. Global liquidity sources increased in the quarter, driven by higher deposit flows and bank funding. We remain well compliant with fully phased-in U.S. LCR requirements, book value per share rose 5% from Q1 2016 to $24.36.

Turning to regulatory metrics and focusing on the advanced approach. Our CET1 transition ratio under Basel III ended the quarter at 11%. On a fully phased-in basis, compared to Q4, the CET1 ratio improved 20 basis points to 11% and remained well above our 2019 requirement of 9.5%. CET1 capital increased $1.6 billion to $164 billion, driven by earnings and the utilization of deferred tax assets offset by return of capital. The ratio also benefited from an $11 billion -- excuse me, a $14 billion decline in RWA, driven by lower exposure in our global markets business, lower card exposure and legacy asset runoff.

We also provide our capital metrics under the standardized approach, which remains relevant for CCAR comparison purposes. Here, our CET1 ratio is 10 basis points higher at 11.6%. Supplementing leverage ratios both for parent and bank continued to exceed U.S. regulatory minimums that take effect in 2018.

Turning to slide seven and on an average basis, total loans were up $21 billion or 2% from Q1 2016. Loan growth in our business segments was primarily offset by continued runoff in noncore consumer real estate loans in all other. Year-over-year loans in all other were down $23 billion. On the other hand, loans in our business segments were up $44 billion or 6%. Consumer banking led with 8% growth. We continue to see good growth in residential mortgages, although originations slowed in Q1 2017, given the increase in mortgage rates in Q4 and Q1. We saw growth in credit card and vehicle loans. Home equity pay-downs continued to outpace originations.

In wealth management, we saw a year-over-year growth of 7%, driven by residential mortgages. Global Banking loans were up 4% year-over-year. Loans in our commercial business grew 6% year-over-year, despite a slight reduction in commercial real estate. We think these growth rates are responsible given the economy grew around 2% year-over-year. Middle market revolver utilization rates have now climbed back to record levels. On the bottom of the chart, note the $58 billion, 5% year-over-year growth in average deposits, which is driven by 10% growth in consumer banking.

Turning to asset quality on slide eight. The stability of our asset quality and loss trends reflects many years now of disciplined client selection and strong underwriting practices that are foundational to our responsible growth and through-the-cycle performance. Credit quality remains strong. Total net charge-offs of $934 million or 42 basis points on average loans increased slightly from Q4 due to expected seasonality in our credit card products but were down 13% from Q1 2016.

Provision expense of $835 million rose $61 million from Q4 but was down $162 million from Q1 2016. Net reserve releases in the quarter of $99 million was fairly consistent with Q4 and the year ago quarter. Note that Q1 2016 included a significant increase in reserves and global banking for energy exposures that was mostly offset by releases in consumer reserves in that quarter. Our reserve coverage ratios -- excuse me, our reserve coverage remained strong with an allowance to loan ratio of 125 basis points and coverage level three times our annualized charge-offs. NPLs and reservable criticized exposure both declined notably.

On slide nine, we breakout credit quality metrics for both our consumer and commercial portfolios. On the consumer chart, you can see the impact of the seasonal increase in credit card losses. Note that delinquency trends remain low and improved modestly from Q4; commercial losses continue to be low.

Turning to slide 10. Net interest income on a GAAP, non-FTE basis was $11.1 billion, $11.3 billion on an FTE basis. NII improved $730 million from Q4, primarily due to higher rates. The net interest yield increased 16 basis points to 2.39% from Q4 as loan yields improved 17% while the rates we paid on deposits was flat at 9 basis points. Q4 and Q1 increases in long end interest rates resulted in slower prepaids and less premium amortization on our securities portfolio this quarter. Increases in the short end in terms of interest rates caused our variable rate assets to re-price higher while we maintain good pricing discipline on deposits. We also benefited from normal seasonality in Q1 in our leasing business. And in addition, we benefited from less unfavorable hedge ineffectiveness as compared to Q4. But, one can think of the reduction in the hedge ineffectiveness as roughly offset by two fewer days in the quarter.

Now, as Brian mentioned, we remain disciplined around deposit pricing given the investment we have made and customer relationships through preferred rewards and other deepening activities. So, your natural next question is what should shareholders expect for Q2 with respect to NII, given the March rate hike by the Fed?

Based on our models and assumptions, we believe NII should continue to improve, but the improvement is expected to be much more modest than Q4 to Q1 driven by a number of factors. Most notably, the increase in long-term rates in Q1 -- in Q4 and Q1 drove a significant portion of the Q1 improvement. In terms of Q2, think about it this way. Given where we are today with the Fed funds rate hike in March and the long end down since the end of the first quarter, I would focus you on our asset sensitivity disclosures.

As of 3/31, an instantaneous 100 basis-point parallel increase in rates is estimated to increase NII by $3.3 billion over the subsequent 12 months, which is consistent with our position at year-end. Nearly three quarters or

$2.5 billion of this modeling is driven by our sensitivity to short end rates. Given a one month LIBOR rise of about 25 basis points with the March hike and the long-end down, we should focus on the $2.5 billion short-end benefit; dividing that by four, get you a quarterly run rate of roughly $600 million for a 100 basis-point shock; assuming it's only 25 basis points instead of a 100 would get you to approximately $150 million benefit in the quarter. From there, we would expect continued modest growth in NII in the second half of 2017, assuming modest growth in loans and deposits and rates at least above where they are today.

Turning to slide 11, non-interest expense was $14.8 billion. We were able to hold expense flat compared to Q1 2016 despite 9% growth in non-interest income and several other expense headwinds. The efficiency ratio improved 400 basis points year-over-year. And if you allocate Q1's $1.4 billion of incentive for retirement-eligible employees and the seasonally elevated payroll tax across all four quarters, then the efficiency ratio would be 62%.

Our Company-wide simplification efforts and the $110 million in lower litigation costs offset a number of higher expenses year-over-year, including $150 million of higher incentives for annual retirement-eligible employees and seasonally elevated payroll taxes; $190 million of higher incentives associated with revenue growth across wealth management, global banking and global markets, and $160 million of higher expenses due to changes in our share price with respect to accounting from employee stock based awards. The year-over-year swing is caused by the share price decline in Q1 2016 compared to an increase in Q1 2017. We also had a $100 million in higher quarterly costs for FDIC assessments. Finally, note that employees are down 2% from Q1 2016 and we continue to add client-facing associates.

Turning to the business segments and starting with consumer banking on slide 12. Consumer banking had another solid quarter. This segment produced $1.9 billion earnings, growing 7% year-over-year and returning 21% on allocated capital. Note that that 21% return is on $37 billion of allocated capital, which is an increase of $3 billion this quarter, given growth in their loans and deposits.

On a pretax, pre-provision basis, which adjust for the sizeable release of reserves in Q1 2016, earnings rose $559 million or 17%. Year-over-year average loans grew 8%, average deposits grew 10% and Merrill Edge brokers assets grew 21%. That drove revenue growth of 5% led by a 9% increase in NII from Q1 2016. Note that the rate paid on deposits in this business declined 1% -- excuse me, declined 1 basis-point year-over-year to 3 basis points as a result of disciplined pricing.

Non-interest income included improvements in service charges and a small increase in card income that was more than offset by decline in mortgage banking income. The decline in mortgage banking income was due to both lower volumes and less refinancing as well as our strategy of holding more of our production on our balance sheet versus selling it to the agencies. Through continued efforts to drive down costs, the efficiency ratio improved nearly 500 basis points to 53%. Cost reductions also helped drive the cost of deposits down 10 basis points from Q1 2016. Consumer banking credit quality remained solid with the net charge-off ratio declining 4 basis points to 121 basis points.

Turning to slide 13 and looking at key trends. First, as usual in the upper left, the statutory reminder of our strong competitive position; second, as we point out each quarter, while we report NII and non-interest income separately, our strategy remains focused on relationship deepening and growing total revenue while improving operating leverage through expense discipline. So, as you review the top boxes on this page, note that we drove 8% operating leverage this quarter. Also, note that our relationship deepening is improving NII and balance growth while holding fee line flat as we reward customers for doing more business with us.

Average deposits continued their strong growth, up $57 billion or 10% year-over-year, outpacing the industry. Importantly, 50% of these deposits are checking accounts, and we estimate that 89% of these checking accounts are the primary accounts of households. This means these are operational accounts used to pay mortgages and car payments and other bills. So, outflows chasing rates is less likely in our view. We also believe these deposit accounts offer clients significant value in terms of transparency, convenience and safety, which also means they're less likely to move their relationships.

With respect to card, spending levels and new issuances were solid. However, the industry's trend of increasing rewards continues to mitigate our overall card revenue growth. Digitalization and other productivity improvements as well as lower fraud costs continue to lead expenses lower. Expenses declined 3% from Q1 2016 despite increases in the FDIC assessment rate and charges.

Focusing on client balances on the bottom left, you can see the success we continue to have growing deposits, loans and brokerage assets. Merrill Edge continues to attract customers who want a self-service investment option as accounts are up 11% from Q1 2016. We now have more than 1.7 million households that leverage our financial solution advisers and self-directed investment platform. This quarter also included the successful rollout of

Merrill Edge guided investing for clients who want some advice from our CAO office but don't desire a fully advised relationship.

With respect to loans, residential mortgages continue to lead our growth. As expected, the sudden rise in long-term rates in late 2016 caused a noticeable decline mortgage production from Q1. While mortgage originations was down, we continue to hold more of our loans on the balance sheet.

In Q1, we retained about 80% of first-mortgage production on the balance sheet. We believe retaining these mortgages will provide better economics over time plus retention deepens our relationship with these customers.

Consumer vehicle lending remains solid, up 12% year-over-year, and we continue to remain focused on prime and super-prime borrowers. Our net charge-offs at 38 basis points remained not only low, but also lowest among peers. U.S. consumer card average balances grew 3% year-over-year, and spending on our credit cards was up 8% compared to Q1 2016.

Turning to slide 14, we remain a leader in digital banking, and we continue to see momentum in digital banking adoption. Given the rollout of Zelle this quarter, Bank of America customers can now use their online app to transfer money, request money and to put bills person-to-person with more ease than before. While still in its infancy, customers sent $8 billion in payments to our person-to-person apps in Q1, which is up 25% year-over-year.

Importantly, as digital banking adoption rises, particularly around transaction processes and self-service, we expect to see continued improved efficiency and customer satisfaction. Mobile devices now account for one out of every five deposit transactions and represent the volume of nearly 1,000 financial centers. Sales on digital devices continue to grow and now represent 22% of total sales. Still, with all the digital activity, we have not forgotten and remain focused on the 800,000 people walking into our financial centers across the U.S. on a daily basis. Many of these customers still use our branches to transact, but many others use our branches at 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.

We want to encourage that and that's why, we have an extensive branch refurbishing underway. By the way, that's also helping increased customer satisfaction. We're also building new centers in markets where we have never had financial centers but where we have presence across global banking, wealth management or both. These markets include MSAs like Denver, Minneapolis and Indianapolis. In addition, we are testing smart centers, which utilize video assist, video assisted ATMs and other videos with conferencing capabilities in regions where it makes sense.

Turning to slide 15. Let's review global wealth and investment management which produced earnings of $770 million and record pre-tax offering margin of 27%, while returning 22% on allocated capital. These solid results were produced in a period of change for the industry as firms and clients anticipate new fiduciary standards and other market dynamics such as the shift between active and passive investing.

Net interest income rose 3%, driven by loan growth. Year-over-year, non-interest income also rose 3% as 8% higher asset management fees were partially offset by lower transactional revenue. Year-over-year, while total revenue grew 3% expenses grew 2% creating important but modest operating leverage. Also note the $29 billion of long-term AUM flows this quarter reflecting strong client activity, as well as the continuing shift from IRA brokerage to AUM.

Moving to slide 16, we continue to see overall solid client engagement. Client balances climbed to nearly $2.6 trillion driven by market values, solid long-term AUM flows, and continued loan growth. Average deposits of $257 billion were flat compared to Q4, while ending deposits were down, primarily reflecting some movement to investment assets. Average loans of $148 billion were up 7% year-over-year. Loan growth remains concentrated in consumer real estate.

Turning to slide 17. Global banking had record revenue this quarter, up 11% year-over-year led by investment banking activity. Revenue growth coupled with expense management, improved the efficiency ratio 500 basis points to 44%. In addition, provision expense of $17 million in Q1 2017 was more closely aligned with charge-offs, while Q1 2016 included approximately $500 million in reserve increases for energy exposure. This resulted in a 58% year-over-year improvement in earnings to $1.7 billion. Global banking continues to drive loan growth within its risk and client frameworks, albeit at a slower pace. Total investment banking fees for the Company were $1.6 billion which was up 37% from Q1 2016. By comparison, overall industry fee pools were up 19% year-over-year.

A number of items to note given the strong performance. First, this was a record Q1 in terms of revenue from IB fees. Client underwriting activity in the capital markets was quite strong. We also earned record M&A fees this quarter with involvement in 6 of the top 10 completed transactions. Debt underwriting was up 38% year-over-year, led by strong performance in leverage finance. Equity underwriting was up 65% year-over-year.

Expenses decreased from Q1 2016 despite higher revenue related incentives, higher FDIC insurance costs, and cost associated with adding 340 new relationship managers over the past couple of years. Return on allocated capital increased to 18% despite adding $3 billion of allocated capital this quarter.

Looking at trends on slide 18 and comparing to Q1 last year. Average loans were up $14 billion or 4%. Growth was driven by our commercial bank where lending was up 6% despite subdued real estate lending. As Brian said, we feel good about this growth rate, given 2% GDP environment. We stand ready to support clients who want to borrow directly from us or tap the capital markets. One of the benefits of our universal banking model is our ability to deliver for clients across a complete product set and geographies. Average deposits increased 2% from Q1 2016. As expected, we saw a seasonal decline in deposits from Q4. We remain mindful of LCR rules as we grow deposits.

Switching to global markets on slide 19. The business had a strong quarter, which once again benefitted from a breadth of or product and geographic footprint, with leadership positions in a number of areas. This quarter saw a strong issuer activity and tighter spreads across credit products which played well to our strength in mortgage and corporate credit. The business improved operating leverage with revenue excluding DVA growing 27% while expenses increased modestly after adjusting for litigation recovery in Q1 2016.

Global markets earned $1.3 billion and returned of 15% on allocated capital. This includes a reduction of capital of $2 billion given the great work the team has done optimizing the balance sheet and reducing RWA in the past year. It is worth noting that we achieved these results with a lower bar and 6% fewer people than last year. With respect to expenses, Q1 2016 litigation included a sizeable litigation recovery; excluding litigation, year-over-year expenses were up 2% while revenue grew 19%.

Moving to trends on slide 20 and focusing on the components of our sales and trading performance. Sales and trading revenue of $4 billion excluding net DVA was up 23% from Q1 2016. Excluding net DVA and versus Q1 2016, FICC sales and trading of $2.9 billion increased 29%. Within FICC, the year-over-year improvement was driven by improved client activity and corporate credit and mortgage products. Equity sales and trading was up 7% year-over-year to $1.1 billion. Despite weaker cash equity volumes, we saw increased activity in Europe and Asia across all products. We also are beginning to see the benefits of deploying additional balance sheet to meet the financing needs of clients.

On slide 21, we show all other, which reported net loss of $834 million. This was an improvement from Q1 2016, driven by lower litigation and mortgage servicing costs. The only other thing worth pointing out here is a reminder that this is where we book the annual retirement-eligible incentive and elevated Q1 payroll tax before they get allocated out to the line of business throughout the year. The effective tax rate for the quarter was 26% and included approximately $200 million of tax benefit from the deductions on deliveries of share-based awards exceeding the related compensation costs. Our recent change in accounting rules requires booking this difference to the tax income expense instead of directly to equity. The effective tax rate would have been 29.4% excluding this benefit, which is in line with our expectation of approximately 30% for the rest of the year.

Okay. A few points -- few summary points as I wrap up. This quarter shows the value of our businesses as rates begin to rise and as we experience increased capital markets activity. For years, we have stayed focused on growing responsibly, including staying within our risk and client frameworks and making our growth more sustainable by simplifying the Company and improving efficiency.

In Q1, consistent with this strategy, we stuck to our strong underwriting standards while growing loans and trading assets. Asset quality remains strong and net charge-offs low. We grew deposits while managing deposit rate paid. We grew AUM while helping clients adapt to a changing industry. When client activity picked up, we were ready with a breadth of capabilities to raise capital and manage risk in major markets all around the world.

We continue to invest in new technology and capabilities while adding sales professionals in certain businesses. We lowered non-personnel expenses, offsetting some seasonal and other expense headwinds this quarter. We created operating leverage in each of our business segments, and we returned more capital to shareholders than in any quarter since the financial crisis.

These results tell us that responsible growth is working with more to come as the economy continues to improve. Many of you have been waiting patiently for us to approach our long-term targets. I hope you noted that if one allocates annual retirement-eligible incentives and seasonally payroll elevated tax throughout the year, we are basically at our return targets this quarter. We know we have more work to do to be consistently achieving all our targets, but we have more confidence than ever that responsible growth will get us there.

With that, we’ll open it up to Q&A.

Question-and-Answer Session

Operator

[Operator Instructions] And we'll take our first question from Glenn Schorr with Evercore ISI. Please go ahead, sir.

Glenn Schorr

Hi. Thanks very much. First, a very quickie. Did you mention what NPLs you sold during the quarter and if there was any P&L impact?

Paul Donofrio

Small and small. Small sales, small impact.

Glenn Schorr

No problem. I'm curious, I think we've all taken note of the responsible growth, what you've done, heard your comments on it relative to the economy. I'm curious as we watch the industry loan growth come down for a bunch of different reasons, can BofA continue on this path? I don't want to say regardless of what the industry backdrop is, but can it buck the trend of the declining loan growth that we're seeing in most other places?

Brian Moynihan

Glenn, it's Brian. I think at the end of day, banks reflect the economy and help make the economy happen. So, we've been able to grow loans 5%, 6% in the core, so the middle market segment, 7% actually year-over-year. Credit card's been picking up a little bit, home equity's strong and residential mortgage down. So, if you look at it overall, we've been able to outgrow the economy, but we're going to be dependent upon, the economy keep growing, but what we're showing across last couple of years with the discipline we have, driving deeper penetration or customers working hard on our relationships, even with repositioning portfolios, you can see in some of the slides and/or making sure that we maintain great discipline, we've been able to grow the mid single digits as we've told you against the backdrop of economy growing 1.5% to 2%. If that grows faster, we'll grow faster; if that stays in that range, we should be able to continue to grow at that level.

Glenn Schorr

Okay. Maybe on the credit front, as you've mentioned, credit's awesome in most places. And I saw criticized credit came down with energy improving. Are there any areas that are criticized credits increasing like something like retail?

Paul Donofrio

No. Credit looks good across the board, and it's performing as we model and expect.

Glenn Schorr

Okay. Lastly, little one. You mentioned the increase in Zelle activity. Do you make money on that or is that mostly a customer retention tool?

Brian Moynihan

I think, Glenn, think about it this way is the way people pay each other. So, we don't charge for it. It's just service as part of a core DDA account, just like checks or just like an ATM card would be to withdraw. It's just more efficient for the customer, more efficient for us too ultimately, because the payback will be taking cash out of the system. And so, year-to-date we're up about -- even before Zelle is announced, for the first quarter, P2P payments Bank of America of 25% first quarter of 2017 versus first quarter of 2016. So, this is growing fast and will continue to grow. And what we'll do, we'll swap out other payment forms which cost us more to execute, but it's free to customers.

Operator

And we'll take our next question from John McDonald from Bernstein. Please go ahead.

John McDonald

Good morning. Paul, just a clarification regarding the second quarter framework you've provided for net interest income. Does the $150 million potential bump based on disclosures include the benefit of loan growth or was that just a rate impact, and could it be a little better if loan growth continues?

Paul Donofrio

Well, the loan growth is embedded in our 100 basis-point shock. So, theoretically, it includes it. But if loan growth is little better than we think, it could be better, lower, it could be less, that's one of the variables that we have to think about when we think about NII growth.

John McDonald

Okay.

Brian Moynihan

John, just one thing to keep in mind there is, remember, we just capitalized or put in the run rate, for lack of better term, $600 million plus fourth quarter, first quarter, and this is on top of that. So that first benefit you think for the year, that benefit is now locked in and moves its way through the system.

John McDonald

Got it, so that's incremental to the 1Q print? Okay. And then, can you remind us what kind of the project repricing beta you assume in the disclosures, Paul?

Paul Donofrio

Sure. So 100 basis-point rise on interest bearing deposits, and remember we have a large amount of non-interest bearing deposits, but on interest bearing deposits, we're kind of low 50ish but that's full 100 basis points rise. As you can expect, the first 25, 50 of the 100 is going to be a little bit different than the second 25 or 50, and that's about as much that I want to give you, given the competiveness around this topic.

John McDonald

Okay. Separate question on capital, with the CET1 at 11% now versus the 2019 requirement of 9.5%, what kind of buffers are you thinking of holding and what level of CET1 feels like the right target for you longer term?

Paul Donofrio

So, with respect to buffers, I wouldn't want to give an exact number for all sorts of reasons. We put a lot of thought into how we manage our capital and liability structure including buffers. Having said that, we have 150 basis points of cushion right now on fully phased-in minimums and a lot of time between now and 2019. So, maybe we'll talk more about it as we get a little closer but right now we feel good where we are.

Operator

And we'll take our next question from Steven Chubak with Nomura Instinet. Please go ahead.

Steven Chubak

So, I just want to kick things off with the question on the 2018 expense target of $53 million that you guys had outlined on previous calls. Can you just remind us what the revenue growth assumptions were underlying that target? And just giving some of the acceleration that we've seen in fee income growth and the higher incentive comp, is that still an achievable target in your view?

Brian Moynihan

The revenue growth assumptions were like we said, if long-term we believe we can grow faster than GDP that growth, and that's embedded in those assumptions. I think the way for you Steve to think about is look at the global markets year-over-year and what you see there is with that substantial rise in revenue, the expense growth absent, last year we had a credit and litigation issue, we had an expense, so you had a pretty good reversal there; absent that, it was 2% growth and as Paul said, had 6% less people. Comp expenses were up a bit, even though revenue was up quite a bit. So, we can manage against that with the inevitable thing that if revenue grows faster, we may have a little bit more expense pressure. But I think you know we'll be very happy to see that happen.

Paul Donofrio

The only thing I would add for the record is when we gave that guidance around this time last year, we specifically said it was based upon the economic environment at that time and that if things got better, we'd have to adjust; if things got worse, we have to adjust. Having said all that, that's just for the record, having said all that, we're still focused and confident we can get to the 53, approximately 53 for full year 2018. That's what we said.

Steven Chubak

Got it. And then just one question on the provision outlook, just given the continued favorable credit and delinquency trends, how should we be thinking about the trajectory in the near-term. Is the run-rate of just around $850 million plus or minus a reasonable target?

Paul Donofrio

The way I would think about it, in Q2 provision should roughly match net charge-offs. But remember, we're bouncing around the bottom with respect to net charge-offs and commercial, so a material credit can move needle one way or the other. Absent that caution, we will build as we grow loan balances. But we should expect to see that offset perhaps by further runoff of non-core consumer real estate, and we have a high end user.

Steven Chubak

Thanks, Paul. And just one final question on capital return, just touching on John's last question, how should we be thinking about the capital return trajectory given the 150 basis points of excess? And I'm also wondering whether some of the recent rhetoric from the regulators suggesting a disinclination of sorts to have qualitative CCAR failures, whether that informs your approach at all in terms of future payouts?

Brian Moynihan

I think we have been building our capital year-over-year, and you should expect us to continue to do that since we have both the strong cushion under CCAR. We'll see what this year's results, we don't know yet obviously. But from last year, just extrapolating and also our start point is higher, and our run rate of earnings is now very consistent. So, capital returns part of our story, and we'll continue to pursue it.

Paul Donofrio

We've made progress every year, you've seen that. And I would remind everybody that we tapped the de minimis last year as well. So with the stability of our earnings, with the progress we're making on CCAR, as Brian said, we hope to continue to make progress.

Operator

And we'll take our next question from Ken Usdin with Jefferies. Please go ahead.

Ken Usdin

Thanks. Good morning. Just first clarification, just coming back to the NII commentary, does the 150 also incorporate the extra day you get in the second quarter because that's usually pretty meaningful for you guys?

Paul Donofrio

Yes, I would think about the extra day as kind of being offset by the seasonality we have in Q1 for leasing.

Ken Usdin

Okay. So, you've got -- you're saying you've got a benefit in the first and that kind of washes to the second; so really, your net is the 150?

Paul Donofrio

Yes, approximately 150. And as you know, there's a lot of things that go into that modeling.

Ken Usdin

Understood. Okay, great. So, on the consumer fee side, I wanted to just ask, we saw kind of a little bit of a positive turn in both card income and also in the brokers line, which is the first time in a while we've seen both of those move the right way. Any better line of sight at this point on just the trends getting better underneath the surface, whether it's the rewards competition or the fee capture pressures and brokerage kind of starting to get into the run rate, and we can kind of expect to see growth from here?

Paul Donofrio

Look, we've seen modest growth in card balances. We think that should continue. We're adding new accounts; we had 1.2 million cards this quarter. Combined debit card spend was good year-over-year and really good recently. But as you point out, the card income line remains I think in terms of growth, remains muted by competition around customer rewards. I guess what I would point out and just remind everybody is that just focusing on the fee income line sort of ignores some of the key benefits of our strategy, which is attract relatively higher quality card customers and reward them for deepening their relations with us. This strategy, we think is driving incremental deposit growth and making them stickier, and that helps NII. And by the way, these customers have lower loss rates as well as reduced need to interact with call centers, so that helps us lower costs. In terms of the service line or service charges, they've shown some modest growth driven by growth in new accounts, and we expect that probably to continue here.

Ken Usdin

And can you just touch on brokerage?

Paul Donofrio

You mean brokerage…

Ken Usdin

Wealth and brokerage.

Paul Donofrio

Yes. Wealth and brokerage is being driven by the long-term trend that we've been seeing with growth in AUM as transactional brokerage continues to decline. We saw it again this quarter. This quarter, we had significant growth in AUM, which offset that sort of continuing decline in brokerage. I think AUM fees were up 8% this quarter.

Operator

And we'll take our next question from Betsy Graseck with Morgan Stanley. Please go ahead.

Betsy Graseck

Couple of questions. One on the expenses discussion earlier. On page four, you highlighted very clearly the strong operating leverage that you've got year-on-year from various industries, various segments that you run. The question I have is, where should we expect the next leg of improvement on expenses could come from? Because one of the questions I've gotten from people today is this is fantastic operating leverage, but where are the levers to take it further?

Brian Moynihan

I think when we started few years ago at $70 billion operating expenses to bring it down to this level, it was more obvious. Betsy, now, it's everywhere, it's everywhere a little bit, everywhere a lot of hard work. So, headcount generally is drifting down on year-over-year term 4,000 or 4,000 people. That gets harder, but what we're doing is taking out people and putting them into the front-line in the client-facing roles. And so, we're seeing that shift go on, continue to work our real estate portfolio down, again through collocations and cities. So, you'll see us take three buildings in an area and put them in one, and you've seen some announcement in that regard. In our data centers, we're accelerating the process, to consolidate data centers and that helps continue to knock down the number of data centers. It takes $0.5 billion investment to -- or $0.25 billion investment to build one to bring it on, and so you'll see that go on. And then, it's everywhere we turn, every place we look, just keep working at the pieces.

By the end of the day, continue to watch the FTE headcount numbers drift down and also how we move those around from less managers to more client-facing people and less layers in the Company, which we've been after. And so, it is just hard work and across the board using our simplify improvement, what we call organizational health going on in our company, and we're seeing the aspects of that. By the way, I think last year, in 2016, to give you example, I think we invested -- got about $400 million, $500 million in savings from some ideas, but it took us an investment of couple of hundred million dollars to get that. And so, even that investment rate is important to getting the sales out. And so, we're now asking to exclude but there is severance cost in here, there is real estate repositioning costs, all of that, which actually comes down as you get further and further towards the optimization level.

Betsy Graseck

Okay. That speaks to why you can continue the revenue growth, but yet still bring the expenses down, got it. Two other quick ones. One on fixed income, you mentioned that credit was a source of strength this quarter; others have highlighted credit as a weakness. So, maybe you could speak to what you're seeing in your client base that drove such strong credit quarter in fact?

Paul Donofrio

Well, first, I would say look, we've been making a lot of investments on our global markets business across equity, across macro. Credit has always been a traditional strength of Bank of America Merrill Lynch, a lot of very strong bankers combined with strong sales and trading effort. Corporates raised money this quarter in the capital markets; we have strong relationships. So, we saw a lot of increased activity on the primary side which helps your sales and trading on the secondary side. That's one.

Two, with spreads tightening a little bit, with clients activity picking up as they were repositioning given the change in markets, the change in spreads, again we have a strong corporate credit trading desk; we have strong special situations in credit; we have strong mortgage, and they just saw a lot of client activity, given what happened in the quarter. So, when we've often said -- when client activity picks up, you're going to see this business reform. And for us, client activity was more this quarter and it showed up in our results. And again, lastly, it's impressive products, it's significant presence and scale in every major markets around the world. So, it's not just the U.S.; we saw activity in emerging markets around globe and we were there when our clients needed us.

Betsy Graseck

Okay, thanks. And then, lastly, you mentioned on the call during the prepared remarks that you "remain mindful of the LCR rules as we grow deposits". Could you elaborate on your thoughts behind that?

Paul Donofrio

Sure. Particularly on the wholesale side, there are three types of deposits, fundamentally 25%, 40%, and a 100% runoff. And as we think about serving our customers and clients, we're very mindful of their needs. But we're also focused on maintaining those heavy deposits or of the highest quarter in terms of being able to use to lend out to customers. So that means you're going to focus on the 25 and 40 or the more deposits that are much more operational in nature. The deposits that we know are corporate and FI clients are using to run their businesses. We're focused on growing those deposits and we're focused on helping them use those deposits to pay bills and to move their money around, to do FX, all the things you might think an individual does but just on the corporate side. Those are the types of the deposits we're focused on; we're not -- we're respectful of clients who want to give us other types of deposits but we're having conversations about them, about the value of those and therefore what they should expect in terms of pricing.

Operator

And we'll take our next question from Gerard Cassidy with RBC. Please go ahead.

Gerard Cassidy

Brian, when you look out longer term and if you turn back the clock when the industry before the financial crisis typically earned a 120 on assets, 130 basis points on assets and a more normal interest rate environment. What do you see for the long -- and I know ROE is what you're focused on and we all do. But from an ROA standpoint, when everything is going right for Bank of America, the expenses are where you want them to be, the margins are where you want them to be, what kind of ROA do you think this Company is capable of producing?

Brian Moynihan

I think Gerard this is the focus we've talked to you about getting above 100 basis points and with the adjustments of sort of smoothing out the first quarter little bit from the one time, annual expenses occur in the first quarter, you're getting close to that. That is not a aspiration goal which we'll stop at. I think it will improve if the rate structure continues to move up and the economy continues to grow, we'll get above that. But the first order business to get to that sort of we get the returns on tangible common equity and returns on equity where we want them to be. As you're thinking about that just more broadly, remember that we have a balance sheet of $2.3 trillion or so, and think about $500 billion basically being completely liquid assets. That is a far different cry than we were -- when our balance sheet was sort of at the high point, was $2.7 trillion, and we probably had $200 billion or $100 billion to $200 billion of high-quality assets or whatever the moniker we've used back then. That's going to knock around your yields on your balance sheet. And so, we do focus on ROA in our Company; we also --

because basically is the thing that ultimately drive ROE, there is this equity builds, the ROE can be under pressure just from increases in equity. But, if you think about it, the real driver of the yield on the balance sheet has more to do with the amount of asset you are carrying which are under leverage for purposes of liquidity and safety and soundness.

Gerard Cassidy

Right. Okay, thanks. And speaking of the lever on the equity, can you remind us what the risk-weighted assets are now for the operational risk for you guys?

Paul Donofrio

Sure. We have $500 billion in RWA for operational risk, which is if I can go on a little bit, which is one third approximately of the RWA of the Company under the advanced approach and more RWA than we have for our credit.

Gerard Cassidy

Very good. And then, coming back to the combined payout ratio that you guys are striving for, within that, what should we envision, once you get your capital levels to the point where you're very comfortable with, is the dividend payout ratio of 30% to 40% a reasonable expectation down the road when things more normalize?

Brian Moynihan

A couple of things. One is our capital is more than sufficient. We're very comfortable with it with the tangible common equity ratio, Gerard, thinking about before the crisis of 7.9% and a CET1 of 11%. It was a minimum of 9.5%. We're -- we have more capital than the Company needs by the different measures, whether it's a traditional market-based measure or a regulatory measure. So, we're completely comfortable with that. That leads us to return more capital. You should expect our dividend payout ratio -- for the bigger companies, I think there'll be more focus of keeping that to 30% level that's been talked about in the various rules and regulations. And if you go back three or four or five years ago, I spoke to that at one of our industry conferences, I think if you look across time, that level of -- if you think about that level of payout against the earnings stream, there's very low probability that you'll have real danger in the dividend -- continuing that dividend even in tough times. So, our goal is never to keep the dividend stable and then use the excess capital to buy the stock back at around book value, we think it's fair trade.

Gerard Cassidy

Paul, just circling back to your comments about the FICC, the strength in FICC, the client activity was strong. Can you give us some color on the clients? Was it primarily investment clients or pension funds, hedge funds? What type of clients did you see that strengthened the activity?

Paul Donofrio

I think it was -- the only way to really classify it is really across the board. I think we have strength in all of those client sets. It was just a lot of good sales and trading activity driven by client interest and repositioning their investments, but also again driven by prime new issuance of our clients. We just have a very broad and diverse product set in FICC, both from a product perspective and geographic perspective, and that kind of footprint and that kind of diversity when clients want to make changes, we're a natural call.

Gerard Cassidy

Great. Thank you. And Brian, thank you batting cleanup and not lead off; it made a lot easier for all of us today. Thanks.

Operator

And we'll take our next question from Saul Martinez with UBS. Please go ahead.

Saul Martinez

Hi. Good morning and congratulations on the results and on the progress. Couple of questions, first, can you comment on the sustainability broadly of your returns in your markets and banking businesses, 15% return on allocated equity and markets, 18% banking despite the fact that you increased your capital allocation there? Obviously, if you can sustain those kinds of returns, it goes a long way towards helping you hit your 12% RoTCE targets on a sustainable basis. So just can you comment broadly on how confident you are that in your ability to say hit sort of mid-teen returns in those businesses?

Paul Donofrio

We have been getting in global markets a double-digit return now for a number of quarters. It's been 10ish, 11% range for a number of quarters. So, we feel like in global markets, we've made a tremendous amount of progress in improving returns. In global banking -- and remember, this quarter, we made this 15%, but this quarter, I think we had a very strong quarter in sales and trading. Our performance in global markets is going to be a direct result of client activity as we say every quarter. So, when client activity is lower, our results will be lower, but through a number of different quarters now with varying amount of client activity, I think we've been able to get 10% or more return on equity. So that's how I'll answer it from that perspective.

In global banking, again those returns are somewhat dependent on client activity in investment banking, but there I think the global banking segment is less volatile with respect to returns tied to the investment banking fee pool in any given quarter. We've got a diverse product set across treasury service, traditional corporate banking products and investment banking products and then from a client perspective with the full spectrum small, medium sized and large global companies. So there, I would expect us to be able to maintain that return level.

Saul Martinez

Okay. That's…

Brian Moynihan

The thing I'd add to that is if you think about what we did, we took global banking, because we think that is an integrated business, was corporate investment banking with both corporate side and investment banking side or middle market banking what we call global commercial banking again with investment banking capital markets behind, obviously, less than GCIB. We split that out to show you that that business many years ago -- we broke global banking away from global markets to show the distinctness of business, the global banking was more of annuity stream driven by treasury services revenue, lending revenue and then investment banking fees, which ebb and flow based on client activity and returns are fairly consistent et cetera.

The flip side was we also want to show I think doing this five-six years ago when we first did it, and have been doing it at ever since, and we are one of the few companies that does it on the global market side. You can see that there is actually more stability in that business in a lot of people's thought. So if you look on the low end, we might make $600 million, $700 million after-tax and high end we made a $1.3 billion this quarter. But you'll see this range, and if you look across years of quarters and look at comparative quarters, year-over-year because there is some seasonality, you'll see, it's relatively stable. And so, we sort of hit that double-digit level in the worst of quarters and during a year and in the best of quarters, it'll kick above it. That was again how Tom and the team -- Tom Montag and team run the business, the stability to put in. And then most importantly, was brining expense structure down dramatically five or six years ago, Tom and the team did by almost $1 billion in quarter in operating expense of markets business alone and then maintaining it there and continuing to push it down where revenues have stabilized and come back up.

Saul Martinez

I mean, obviously one thing that's has been helpful for returns in banking is very benign credit environment, commercial charge-offs with 10 basis points this quarter. It hasn't really moved much in recent quarters. But, how should we think about more of a sustainable level and is there anything there that makes you think that you could start to see some sort of inflection or some sort of an uptick in terms of credit costs?

Paul Donofrio

Are you referring to more sustainable on the net charge-off side?

Saul Martinez

Yes, exactly on commercial.

Paul Donofrio

I guess how I would answer the question is we have been -- we changed our underwriting standards years ago, we've been focused on responsible growth now for a number of years, we've been sticking with that improved client selection, heightened credit standards. So, the answer is we can't compare to a previous period in the Company's history. We're just going to have to see how this develops, but we're very confident. We don't see anything today as we look at what's going in the marketplace that would suggest we're at an inflection point. It doesn't mean that I won't be talking to you next quarter about having lived through an inflection point. But we're not seeing anything right now that would tell us that we should expect net charge-offs to rise in the near-term. And in the long-term, there is some seasoning going on in the credit card portfolio that we expect and we've talked about before but outside of that, we feel good about where our credit quality is.

Operator

And we'll take our next question from Brian Kleinhanzl with KBW. Please go ahead.

Brian Kleinhanzl

Yes. I just had a quick question. You are saying that both the business or the commercial customers and consumer customers are optimistic still. Did you see a change in that optimism over the course of the quarter and lower at the end of the quarter given what was going on with DC and everything else or was it fairly consistent?

Brian Moynihan

I would say -- I could say consistent and if you look at spending, I think it actually maintained its pace through the quarter, as an indicator of their behavior March was a stronger month and the first two months of the quarter. And now you can get into day counts and movements around which we can solve but just we didn't see any fall off in terms of the behavior in spending which I think is a good indicator how we feel.

Operator

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

Matt O'Connor

Hi. I just want to follow up on that net interest income one more time. I mean, it feels like the 2Q expectation is a little bit less certainly versus what I would have thought. And I guess I was trying to figure out, there is just some conservatism on the deposit or pricing assumption. I mean you talk about 50% but it's been really insignificant so far for the Fed hikes. I am trying to gauge is that conservatism on that; is it the fact that tenure has obviously come in a fair amount or some combination of both maybe?

Paul Donofrio

So, I'm not going to take you through the math again because the math is fairly self explanatory but there are a lot of assumptions or I should not call them assumptions, but there's a lot of things that go into modeling NII. You hit upon one of them. Obviously, we could have deposit daters that are different than what we're expecting as we're doing our modeling. The 50 basis-points obviously is for a full 100% shock. We're talking about a 25% shock. So, it's reasonable to expect that we would be lower than 50% for the first 25. I think the question is how low should we be, and we're just going to have to wait and see. We're very focused on the competitive environment. We're focused on the needs and wants of our clients, and we're focused, we're balancing all of that against what our shareholders would want us to do. So, we're just going to have to see how it develops, but there is lot of things that are go into the modeling of expected NII.

Matt O'Connor

Okay, understood. And then just the impact of long-term rates, I mean, obviously, the comments you made on rate leverages for higher rates and your 75% lever on the short end, as we think about the decline here in loan rates if it holds, how frame kind of the drag on that, and I think it bleeds in over time, obviously not all at once?

Paul Donofrio

Yes. The sensitivity on the long end is a function of being able to reinvest as assets mature at higher or lower rates than the average we have now and what it does to the amortization of our premium on our securities portfolio. The latter is a bigger driver in the short term; the former is bigger driver in the long term. If you think about the Company right now where long-term rates are, we’ve said this on other calls, we’re kind of pleased to be at equilibrium where an asset rolling off the balance sheet was being replaced by assets rolling on the balance sheet at roughly the same yield. I would say, we’re in a little bit more positive place right now, where -- even where rates are having long-term rates have gone up here over the last two quarters. We’re sort of in a position where an asset rolling off the balance sheet on average is being replaced by an asset coming on at slightly higher yield. So, I don’t know if that helps you.

Matt O’Connor

Yes. It’s very clear and very helpful. So, thank you.

Operator

And we’ll take our next question from Marty Mosby with Vining Sparks. Please go ahead.

Marty Mosby

Thanks. Two technical issues on the net interest margin, NII. When you look at the big benefit in net interest margin, it seems like you had several things like the hedge ineffectiveness and leasing that pushed the margin up and even though you can have NII growth, your margin may even kind of just flatten out. Is there kind of a bias towards margin just being little bit higher given some of those moving pieces this particular quarter?

Brian Moynihan

Look, the bulk of the increase from Q4 to Q1, the $700 million, the bulk of it was due to rates. We’d just highlight that there was meaningful improvement that was driven by the leasing seasonality. Think about it that as roughly the kind of improvement we get with an extra day in the quarter.

And then there was, I think, significant improvement driven by the lack of hedge ineffectiveness in the first quarter relative to what we experienced in the first quarter. But the bulk of it was driven by rates. And if you think about the rate impact, more than half of the rate impact was driven by the long end as opposed to the short end.

Marty Mosby

And I would just focus on the margin in the sense like it was rounded up because the things are going to help next quarter going to help NII, which may not help the margin. But then, the second question was when you look at your transfer pricing mechanism, I was curious because it doesn't seem like a lot of banks would have the benefit from rates showing up in corporate other. Is your mechanism where it's still spread some of that -- because that will matter on operating leverage for the business segments. So, are the segments on a benefit as rates go up more than corporate? It does seem like it spread out more than other banks.

Paul Donofrio

I think over the longer -- any one quarter, it could be a little bit lumpy on how the Company overall benefits versus the segments. But, I think over time, over multiple quarters, the segments will benefit. It's just basically a function of how residual flows back to our segments.

Marty Mosby

It is. It just seems like you've got a good methodology that pushes to the segments, which is helping operating leverage in each of those segments as you're getting that benefit. Thanks.

Operator

And we'll take our next question from Andrew Lim with Societe Generale. Please go ahead.

Andrew Lim

Hi. Good morning. Thanks for taking my questions, another NII question actually. I'm just trying to understand the mechanics of how your guidance for 4Q for $50 billion uplift in NII for 100 bps shock has come down to about $3.3 billion there. If I understand correctly, the long end has increased. So, that reduces your guidance going forward, is that the way to think about it?

Paul Donofrio

Yes. I think if you look at our disclosures, you'll see that the 100 basis-point rate shock at the end of the year was basically the same as it is right now. Here we're showing to what we reported at the end of Q3 being 4 points something. And that decline in benefit we experienced as rates rose, and that went into our run rate of NII as Brian mentioned earlier.

Andrew Lim

What I've got difficulty understanding is why a past movement in your loan rates should affect your future guidance going forward. So, if I think about hypothetically let's say the yield curve did actually go up by 100 basis points shock in the fourth quarter, then your guidance going forward will actually be zero -- is that the way to think that or am I missing…

Brian Moynihan

You have to go back. If you look -- you can follow up the way afterwards. But if we think about -- we told you in the fourth quarter from the third to the fourth quarter, I think you maybe off a quarter, from the third to the third quarter, what we said is you basically capitalize into the earnings run rate that $2 billion difference is now in the earnings run rate. And that's what you are actually seeing and that's the benefit of the lift in rates especially in the short-term side. And so that's relatively stable now because the -- that piece went through it. So, Lee can follow up with you and take you through sort of the calculation. But it's because -- the good news is it showed up and earnings this quarter as we said it was.

Andrew Lim

No, absolutely. I can see that. Just trying to see how that moves depending on the shape of the -- the shift in the curve.

Brian Moynihan

Well, because the future investment rate on the long-term rates as it comes down, as you'll recall we talked about, affects our yields on our securities portfolio going forward. So, as we reinvest $20 billion plus a quarter. So, I'll get Lee to call you afterwards and take you through that.

Andrew Lim

Okay. Thank you.

Operator

And we have no further questions at this time. I'd like to turn it over to Mr. Moynihan for any closing remarks.

Brian Moynihan

Well, thank you all of you for your time. Just to remind you, this is a quarter where we showed our responsible growth coming through. Revenue growth of 7%, flat expenses, 700 basis points of operating leverage across our franchise, good client growth in each of the business and our asset quality remains strong. So, we look forward to talking in the next question. Thank you for your time and attention.