**Operator**

Good day, everyone, and welcome to today's Bank of America 2017 Second Quarter Earnings Announcement. [Operator Instructions]

It is now my pleasure to turn today's program over to Mr. Lee McEntire. Please go ahead, sir.

**Lee McEntire**

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

Before I turn the call over to Brian and Paul, let me remind you we may make some forward-looking statements. 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. Over to you, Brian.

**Brian Moynihan**

Good morning and thank you for joining us for our second quarter results.

This quarter represents another solid example of driving responsible growth here at Bank of America. We're staying the course and executing against our responsible growth mantra has allowed us to gain market share and grow revenue.

That mantra drives the way we manage our cost effectively while at the same time making continued large investments in people and technology for the long term value of this franchise. That mantra allows us to manage risk well, whether it's credit, market, operational or reputational risk. That mantra also drives an appropriate pace of growth and a modest GDP environment while holding credit cost down.

All of this has resulted in significant operating leverage, leading to strong earnings growth and supports our plan to deliver more capital back to shareholders. Through the first six months of 2017, we have more than doubled the amount of net share repurchase and dividends to shareholders compared to the first half of 2016.

As a reminder, with successful CCAR results behind us, we announced plans on June 28 to deliver $17 billion in capital back to shareholders over the next 12 months through higher dividends and net share repurchases.

For the quarter we produced net income of $5.3 billion after tax, growing 10% compared to last year's second quarter. Now that was driven by continued strong operating leverage across the franchise. Our efficiency ratio reached - touched 60% this quarter. In addition to the net income improvement, a 2% reduction in diluted shares resulted in a 12% improvement in diluted EPS.

Year-over-year net interest income improvement of nearly $900 million drove revenue growth proving the value of this deposit-rich franchise. We continued also to make progress on our returns and our return on tangible common equity moved above 11%, the first time despite increasing capital levels.

As we look at the next slide on first half line of business results, I'm going to let Paul talk about the details of the quarter in a minute but I wanted to highlight basically two things. First, momentum in the businesses has comparing the first half of this year versus the first half of last year, and second, a focus a bit on our Consumer business as it reached $2 billion in after tax earnings this quarter.

So the broad statement each business segment grew earnings and capital and it had its reporting returns well above our cost of capital. Consumer banking produced $3.9 billion in after tax earnings for the first half of the year growing 14% from 2016. This was achieved with good revenue improvement in controlling costs and driving operating leverage while maintaining great credit quality.

Our Global Wealth and Investment Management business recorded first half earnings of $1.6 billion, up 9% year-over-year with a 27% profit margin. Both of these are records for this business.

Our GWIM business has seen assets under management flows at $57 billion in the first six months of the year. This strong performance considering an industry is navigating many changes, both from the customer side and the regulatory side.

While we've been growing and having strong margins, we've been investing in Merrill Lynch one platform, our Merrill Edge platform and other many investments who are providing great transparency for clients allowing us to lower our cost.

Our Global Banking business serving commercial customers and commercial lending Treasury Services investment banking produced first half profits of $3.5 billion after tax. Earnings up 36% from last year with strong operating leverage on operating basis and lower credit costs. And even though this is our most efficient business at 43%, we continue to make investments in both technology and people.

This quarter for example, this year we've rolled out our cash for customer interface for mobile devices making that cash management services more convenient for our clients. And over the last few years, we've embarked to increase our local market coverage by just simply hiring more bankers. We've hired nearly 400 bankers over the last couple of years and we have continued to hire more and we'll hire 200 more by the end of next year.

And finally, when you look at our Global Markets business, they're in $2.1 billion in the first half and generated 12% return on its capital. We grew our sales and trading revenue, excluding DVA in the first half of 2017 versus the first half of the prior year in this case 2016 for the first time in five years, the first half grew faster than the previous year's first half. This growth combined with continued expense discipline drove that improvement.

So in general, all our businesses continue to improve, and now I want to focus a second on our Consumer business and you can see that on Slide 4.

So given the $2 billion earnings milestone, I want to talk about and focus on the multi-year effort this business is going through. This change really began around 2009, when we had more than 6,000 financial centers, 100,000 associates and about one-third less deposits.

And at the time, we had some digital banking capabilities but nothing near what we had now. The team has worked hard over an extended period to produce the result you see today. Not only have they significantly reduced headcount. We've done that while adding more and more sales and relationship teammates.

We've not only reduced financial centers, but we've invested and refurbish many and added others in markets we didn't previously serve. And we've continuously invested heavily in technology to drive innovation to keep up a customer behavior changes, and all during this our customer experience continues to improve.

As you go to Slide 4, you can see some of the trend of results just for last four years. In 2014 due to all the changes that you're all familiar with, the revenue had decline in this business because the regulatory changes into focusing more on our direct business to our consumers as opposed to some indirect businesses.

As you can see also from the crisis forward, we had focused on underwriting prime and super-prime customers and you can see that in the change in total net charge offs that occurred prior to 2014 and it remains in good stead over the last four years.

At the same time will this credit costs have come down, our risk adjusted revenues have been improving. Also you can see our expenses in a lower right hand side continue to drive tremendous operating leverage leading to that net income growth.

Today's business operate to the 52% efficiency ratio and with continuing to drive the customer behavior changes, continued investments for further cost improvements, we expect that to go lower.

Continuing on Slide 5, you can see some of the other changes in the business that have enable us to make this change happen. How do we make this happen? We do it by optimizing and driving technology and enhancements for our customers, for our teammates, and ultimately for the benefit of our shareholders.

This sustained level investment's is also validated by the top tier rankings by third parties, whether it's in digital banking or mortgage bankers Zellman operations or Merrill Lynch, and they continue to enhance these offerings.

This quarter we launched new capabilities for car shopping and financing of those cars through mobile and add new person to person features through our partnership with Zelle.

We've also rolled out small business capability to respond fast to the needs of the small businesses we serve across America. We can't emphasize enough of the positive impacts of all these investments especially in mobile and digital have made an improvement.

As mobile banking users, you can see have grown to $23 million at the end of the second quarter. Rapid adoption in digital is shown on the charts, you can see on the interactions on a lower part of the page. This quarter we broke through the 1 billion interactions digitally with our customers. That's 1 billion in a new quarter.

When you look at deposit transactions you can see the 21% of our deposits are made through mobile devices today. That's the equivalent of what a thousand financial centers does. That's important for client satisfaction. It is also important because those costs one-tenth of what it cost to do it over the counter.

Once customers got used to transacting, we're now using devices in a broader sense. You can see in the core of 370,000 the points were set up on a mobile device to come to the branch. When they come to the financial center, we're in better shape to serve them because they know what they're coming for, and we know what they need. In addition, sales and digital devices are up to 22% of our account in loan sales.

So then we switch the payment side. Payment volumes have been increasing over this time period, but electrification payments shows increased adoption of mobile banking and other digital payment methods.

You can see the lower part of the page on the left hand side of what payments have grow 4% overall, digital has grown as 8% pace where non-digital is relatively flat.

Our latest push that we made, a lot discussion about with all of you has been person to person. This is an important payment stream that we are driving. It's already sizable, but it still only accounts for 3% of the total payments in our consumer business this quarter. It's still an early adoption, but P2P customers sent $18 billion in payments for our platform of quarter two. This is up 20% percent year-over-year. So people focus on all the digital activity, but the same time, we have 100,000 customers today come into our financial centers.

These financial centers serve those customers well, not only helping them transact when they need too, but more importantly, help pay for their financial needs and by serving where the products and capabilities that we have with a face to face specialized professional.

We're continuing to invest in that branch structure and that's all on the run rate you see today. We have now built or refurbished 290 centers over the past 12 months, and expect to have completed more than 1500 by the year end 2019. In addition, we have upgraded our ATMs or are planning to upgrade all ATMs and we'll finish that by the end of 2019 as well. That's 16000 new teams over three or four years. All that has led to customer satisfaction levels which has reached the highest level in our history.

So for the end of the day, our consumer business is an example of drive responsible growth, growing with no excuses, doing it on a right way the customer, doing it and managing risk well and importantly doing on a sustainable investment basis investing in the future or producing great returns in the current.

With that, I want to turn over to Paul for some more details about the quarter.

**Paul Donofrio**

Thanks Brian. Good morning everybody. I'm starting on Slide 6.

As Brian said, we earned $5.3 billion or $0.46 per diluted share with EPS increasing 12% percent versus Q2 '16. Revenue of $22.8 billion is 7% percent higher than Q2 '16 and expenses of $13.7 billion was 2% higher than Q2 2016.

The quarter included a few noteworthy items. First, we completed the sale of our U.K. consumer card business during the quarter resulting in a small after-tax gain. The transaction added roughly 12 basis points to our advanced CET1 ratio through both additions to CET1 and reductions in RWA.

A pre-tax gain of roughly $800 million recorded than all other reflects a number of factors, including a premium on credit card receivables sold and the monetization of goodwill. It also reflects the recognition in other income of currency hedging gains and transaction losses from currency fluctuations that were previously recorded in OCI. Lastly, we recorded tax expense associated with the currency hedging gains, which drove our effective tax rate higher in Q2. After tax, the gain added about $100 million to earnings.

The sale completes the transformation of our consumer credit card business from a multi-country, multi-brand business to a single brand business serving core retail customers in the United States. As usual, we also note DVA for you. This quarter net DVA was a negative $159 million, which was similar to Q2 2016. We also recorded a couple of charges and expense that are worth mentioning.

The first is a $300 million impairment charge related to a few data centers we are in the process of selling. The second is severance costs which were approximately $100 million higher than Q2 2016

Provision expense 726 million compared to 976 million in Q2 2016, as net charge-offs of 908 million improved versus Q1 and year-over-year. And as Brian mentioned, ROA and ROTC approached our financial targets improving both on a year-over-year basis and on a linked quarter basis.

Turning to the balance sheet on Slide 7. Overall, end-of-period assets increased a modest $7 billion from Q1 despite the sale of assets totaling $11 billion associated with the U.K. card business.

We increased assets associated with our trading business as we continue to invest in our clients, particularly in our equities business. These increases in assets were offset by a decline in cash driven by seasonal deposit outflows associate with tax payments and a shift from deposits to a AUM brokerage and our Wealth Management business.

When looking at deposits on a year-over-year basis, they are up $47 billion or 4% from Q2 2016 driven entirely by our consumer banking business.

Loans on end-of-period basis were up $11 million from Q1 as broad based growth across consumer and commercial loans was modestly offset by the run off of legacy non-core loans. It's worth noting that this loan growth excludes U.K. card. These card loans were move from the assets of business held for sale when we announced the transaction in Q4 2016.

On the liability side, long term debt increased $2.5 billion during the quarter to $22.4 billion as we increased issuance to meet TLAC requirements. Given our progress in the first half toward the requirements, we currently expect to issue less debt in the second half of 2017 as compared to the first half.

Global liquidity sources were $515 billion this quarter and we remain compliant with fully phased in U.S. LCR requirements. The asset composition of our global liquidity sources is materially the same as high quality liquid assets as defined under the U.S. LCR rule.

However, HQLA for the purposes of calculating LCR are reported not at their fair market value, but at a lower value which incorporates regulatory haircuts and exclusion of excess liquidity held in certain subsidiaries. Therefore, the HQLA on a net basis when reported will be lower than our current GLS number.

Common equity increased $2.8 billion compared to Q1. This increase was driven by $4.9 billion of net income available to common and improved OCI of $700 million offset by common dividend and net share repurchases totaling $2.8 billion in the quarter. Tangible book value per share of 17.78 increased 6% versus Q2 16.

Turning to regulatory metrics and focusing on the advanced approach. Our CET1 transition ratio under Basel 3 end of the quarter at 11.6% on a fully phased in basis compared to Q1 the CET1 ratio improved 50 basis points to a 11.5% and remains well above our 2019 requirement of 9.5%. CET1 increased $4.4 billion to $168.7 billion driven by earnings, utilization of differed tax assets and less goodwill deductions given the U.K. card sale. These improvements in CET1 were partially offset by return of capital.

The CET1 ratio also benefit from a $34 billion decline in RWA driven by continued optimization work including model improvements as well as the sale of U.K. card. We also provide our capital metrics under the standardized approach, while our RWA reduction was lower under the standardized approach. Our CET1 ratio still improved 40 basis points to 12%. Supplementing the leverage ratios for both parent and bank continue to exceed U.S. regulatory minimums to take effect in 2018.

Turning to Slide 8, on an average basis total loans were up $15 billion or 2% from Q2 2016. Note that the sale of U.K. card lowered average loans by $2.9 billion. So you may want to adjust for that when studying growth trends. As usual loan growth was reduced by the continued runoff of non-core consumer real estate loans in All Other.

Year-over-year loans in All Other were down $24 billion. On the other hand, loans in our business segments were up $39 billion or 5%. Consumer Banking led with 8% growth. We continue to see good growth in residential mortgages. We also saw growth in credit card and vehicle loans. Home equity originations are up nicely but continue to be outpaced by pay downs.

In Wealth Management, we saw year-over-year growth of 7% driven by residential mortgages as well as structured lending. Global Banking loans were up 3% year-over- year. There was a lot of Capital Markets activity this quarter and this may have impacted more than usual loan growth among larger corporates as a number of funded bridge loans were paid-off and as borrowers substituted bonds for loans in a flattening curve environment.

On the bottom right, note that we grew average deposits by $44 billion or 4% year-over-year. This growth was driven by our Consumer segment which grew deposits by 9% year-over-year.

Turning to the asset quality on Slide 9. As I have emphasized before the stability of our asset quality and loss trends reflects years of disciplined client selection and strengthened underwriting standards along with an improving economy. While there is room in the industry for other strategies, we remain focused on responsible growth.

Credit quality continues to be solid with net charge-offs, NPLs, delinquencies and reservable criticized exposure all improving from Q1. Total net charge-offs were $908 million or 40 basis points of average loans decreasing $26 million from Q1.

Provision expense is $726 million declined $109 million from Q1 and was down $250 million from Q2 2016 driven by lower losses in consumer real estate and improvements across most of our Commercial portfolio particularly energy. Our reserve coverage remained strong with an allowance to loans coverage ratio of 120 basis points and coverage level three times our annual net charge-offs.

Turning to Slide 10, we break out credit quality metrics for both our consumer and commercial portfolios. Asset quality metrics in consumer real estate continue to improve. Well net charge-offs were down overall. There are a few small items to bring to your attention.

Within consumer, we had a small recovery on the sale of a legacy consumer portfolio. And note that one-third of the quarterly U.K. card losses went away with the June 1 sale. While U.S. card losses increased from seasoning they remain low. Consumer NPLs of $5.3 billion are at the lowest level since Q2 2008.

NPLs came down from Q1 levels. And keep in mind that 43% of our consumer NPLs are current on their payments. Commercial losses were up modestly from Q1 driven by a couple of names.

Turning to Slide 11. Net interest income on a GAAP, non-FTE basis was $11 billion, $11.2 billion on an FTE basis, compared to Q2 2016 which has the same day count and seasonal factors. NII is up 868 million or 9% driven by an improving spread between our asset yields and deposit pricing in an environment where both short-end rates and long-end rates increased.

We also benefited from loan growth and excess deposits deployed in security balances. Compared to Q1 2017 NII was relatively flat, as the benefit from an increase in short-end rates was offset by a number of factors, including lower long-end rates in the quarter. First, we increased client financing activities and balances in our equities business to support clients and drive growth.

Some of the products we use to accomplish this created interest expense with no interest income, instead they drove trading account profits recorded in non-interest income. Second, the U.K. card sale closed June 1. That was earlier than we expected. And so the quarter's comparisons the previous ones are negatively impacted by one-third of U.K. cards interest income.

Third, we saw a decline in leasing interest from the seasonality we see in Q1, but that was offset by one additional day in interest in Q2 versus Q1. And then lastly, we experienced some negative debt hedging effectiveness. As a reminder, accounting rules require us to measure changes in the value of debt differently than changes in the value of a swap we use to hedge, creating temporary ineffectiveness that will revert to zero over the remaining life.

As a general comment on deposit pricing, overall, we held pricing relatively stable in Q2. However, we did increase pricing for some commercial and wealth management clients late in the quarter, and this will impact Q3 NII.

While holding pricing relatively steady, we were able to grow deposits 9% year-over-year in our consumer segment.

Looking forward to Q3, please keep three additional things in mind. First with respect to rates, the most recent June short-end rate hike should benefit Q3 NII subject to continued stability and industry deposit pricing. But the Q2 decline in long –end rates will have a negative lag effect in Q3 with respect to the write-off of premium associated with prepayment of mortgage-backed securities.

Second, we will benefit from one additional day of interest. And third, going forward, we will also feel the effects of the full quarter loss of interest income from U.K. card equating to about $225 million. Having said all that, we would expect NII to be up compared to Q2 if the forward curve is realized and if we have some loan and deposit growth.

With respect to asset sensitivity, as of 6/30, an instantaneous 100 basis point parallel increase in rates is estimated to increase NII by $3.2 billion over the subsequent 12 months, which is broadly in line with our position at the end of the first quarter and continues to be predominantly driven by our sensitivity to short-end rates.

Turning to Slide 12, non-interest expense was $13.7 billion. As I mentioned earlier, Q2 included roughly $400 million in higher costs from the combination of impairment cost associated with the sale of few data centers and higher severance costs. Otherwise, litigation and other operating costs were lower. We feel good about our expense progress this quarter, especially in light of our continued investments in sales professionals and new technology.

Also remember, we have 100 million in higher quarterly costs from FDIC assessments compared to Q2 2016. The efficiency ratio hit our 60% target this quarter, improving 300 basis points year-over-year. With respect to associate levels, on a full-time equivalent basis, we are down modestly from the prior quarter.

Please note that we have changed our disclosure on employees from FTE to headcount this quarter. By the way, that was the same idea from one of our associates. FTE is much more complicated to calculate and less relevant today given our shift from part time associates, as you can see the headcount is down more than 4,000 from Q2 2016. Half of that decrease is driven by U.K. card and half by Consumer Banking optimization.

Note, the continuing shift from non-client-facing associates to primary sales professionals, which now make up 21% of our headcount. Compared to Q1 2017 the release of associates from the sale of U.K. card was offset by bringing on 1,500 summer interns and hiring 1,000 primary sales professionals. Just a quick observation on these interns, we selected these 1,500 students from a 13,300 applications, as we continue to be an employer of choice. From a diversity perspective, 42% of these interns are female and 53% are ethnically diverse.

Turning to the business segments and starting with Consumer Banking on Slide 13. Consumer Banking recorded their highest earnings in a decade. Earnings were $2 billion growing 21% year-over-year and returning 22% on allocated capital. The business created 900 basis points of operating leverage holding expenses flat while growing revenue 9%.

Year-over-year, average loans grew 8%. Average deposits grew 9%, and Merrill Edge brokerage assets grew 21%, improvement in NII drove the 9% revenue growth, which was driven by an increase in the value of deposits given the rise insurance rates as well as solid loan growth. Note that the rate paid on deposits in this business remains low at 4 basis points, as we remained very disciplined in pricing.

Non-interest income included improvement in service charges and a small increase in card income that was more than offset by decline in mortgage banking income. Through continued efforts to drive costs down, the efficiency ratio improved nearly 500 basis point to 52%. Cost of deposits fell below 160 basis points in the quarter. Consumer Banking credit quality remained strong with a net charge-off ratio of 121 basis points.

Turning to Slide 14 and looking at key trends. Our strategy remains focused on relationship deepening and growing total revenue while improving operating leverage through expense discipline. The concept of total revenue is important, as you evaluate NII and fee movements.

Mortgage banking income is lower driven by our strategy of holding mortgage originations on our balance sheet instead of selling to the agencies, we believe retaining these mortgages on our balance sheet provides better economics over time. In Q2, we retained about 90% of our mortgage production on balance sheet.

Also note that our relationship deepening preferred rewards program is improving NII and balance growth while holding fee line flat as we reward customers for doing more business with us.

Spending levels on debit and credit cards were up 6% year-over-year and new issuance of credit cards was a solid at $1.3 million, spending levels on cards drives revenue but are largely offset by rewards given back to customers.

Focusing on client balances on the bottom left, you can see that the success we continue to have growing deposits, loans and brokerage assets. At the bottom right, you can see deposits broken out, our 9% year-over-year average deposit growth continues to outpace the industry while the rate paid remains low and stable. Importantly 50% of these deposits are checking accounts and we estimate 90% of these checking accounts are the primary accounts of households.

With respect to loans, residential mortgage continues to lead our growth. We also saw growth in card and auto. Client brokerage assets are up 21% year-over-year, driven by strong client flows as well as market performance, new accounts grew 10% from Q2 2016.

The digitization efforts that Brian discussed earlier and other productivity improvements continue to drive expenses lower, expenses were stable compared to Q2 2016 despite strong revenue growth and increases in the FDIC assessment rate and charges. We continue to remain focused on prime and super-prime borrowers with average book FICO scores of at least 160, excuse me, of at least 760.

Turning to Slide 15, let's review a global wealth and investment management, which produce record earnings of $804 million, a pre-tax margin of 28% and a return on allocated capital of 23%. The industry continues to evolve as firms and client anticipate do fiduciary requirements and other market dynamics such as the shift between active and passive investing.

At the same time, the financial markets continue to provide a tailwind to client activity and balances. We saw $28 billion of AUM inflow this quarter, continuing the strength of $29 billion in Q1, net interest income rose 14%, driven by an increase in the value of deposits given the rising short-term rates as well as an increase in loans.

Year-over-year non-interest income improved 3%. However, note that in Q2 '16, non-interest income included a $60 million gain from the sale of a cash management capabilities as we transition from proprietary products to open architecture. Adjusting for the prior period gain, non-interesting income improved 5% as 10% higher asset management fees were partially offset by lower transactional revenue.

Year-over-year expenses were up 3% from revenue related incentives as well as higher FDIC costs. Revenue growth outpaced revenue related expense producing solid operating leverage.

Moving to Slide 16, we continue to see overall solid client engagement. Client balances now exceed 2.6 trillion, driven by higher market values, solid

AUM flows and continued loan growth. Average deposits of $254 billion were down $12 billion from Q1, reflecting both normal seasonality from tax payments as well as client shifts to investment in AUM and brokerage. Average loans of $151 billion were up 7% year-over-year. Loan growth remained concentrated in consumer real estate as well as structured lending.

Turning to Slide 17. Global Banking earned $1.8 billion in Q2. Earnings increased 19% from Q2 '16 driven by good results across investment banking and treasury services. Return on allocated capital was up year-over-year to 18% despite an increase in capital allocated to this business.

A number of results to note, given the strong performance, record revenue in the quarter, record advisory fees, record first half revenue and net income, and year-to-date, we remain ranked number three in investment banking with fees of $3.1 billion.

Year-over-year revenue growth of 7% coupled with flat expenses drove operating leverage of 600 basis points. Provisioning expense of $15 million in Q2 '17 is down $184 million, driven by improvements across most of the portfolio particularly energy.

Global banking loan growth was 3% year-over-year. The pace of loan growth remains good, but has slowed, driven by both capital markets disintermediation as well as reduced demand from clients as they look for more certainty of economic growth. With respect to disintermediation, clients are using bond issuance to pay down loans and pay off funded bridges. Global banking held expenses relatively flat compared to Q2 '16 as savings offset higher technology investment.

Looking at trends on Slide 18 and comparing to Q2 last year, average loans were up $11 billion or 3% with the exception of CRE, loan growth was fairly broad based with C&I loans, up 5% in middle market lending.

Average patterns were stable relative to Q2 2016, NII growth grow the 7% year-over-year revenue increase. NII increased $286 million from Q2 2016, driven by an increase in the value of deposits, given the rise in short term rates as well as increase in loans, partially offset by modest spread compression on loans.

Total investment banking fees of $1.5 billion were up 9% from Q2 2016, finishing strong in the last few weeks of the quarter. As I mentioned, record M&A fees drove the increase. Within debt capital markets we saw a solid increase in investment grade fees while leverage finance declined.

Switching to global markets on Slide 19. The business had a solid quarter earning $830 million or $928 million, if one excludes net DVA. Global

Markets generated a 10% return on allocated capital. Earnings were down relative to Q2 2016, which if you remember was uncharacteristically strong, given a rebound from a weak Q1 2016 and the Brexit vote.

Just to complete the picture, remember Q3 last year was also a typically stronger than Q2 2016. 2017 has followed a more typical seasonal pattern so far this year while Q2 was solid, sales and trading excluding DVA declined 9% from Q2 2016.

But comparing the first half results of 2017 to 2016, sales and trading ex-DVA increased 6%. This is the first time in the past five years that first half performance is up year-over-year. With respect to expenses, Q2 2017 3% higher than Q2 2016, driven by increased technology investment.

Moving to trends on Slide 20 and focusing on the components of our sales and trading performance. Sales and trading revenue of $3.4 billion excluding net DVA was down 9% from Q2 2016 finishing ahead of our mid-quarter expectations. Excluding net DVA and versus Q2 2016, FICC sales and trading of $2.3 billion decreased14%.

Within FICC, the year-over-year decline was driven by stronger rates in emerging markets in Q2 2016. Equity sales in trading was up 3% percent year-over-year to $1.1 billion benefiting from growth in client financing activity offset by slower secondary market revenue.

On Slide 21, we show all other, which reported a net loss of $183 million. This includes the $100 million after tax gain associated with the sale of U.K. card. Revenue here also includes to roughly $800 million pre-tax gain from the U.K. card transaction which was almost entirely offset by related tax expense recorded here as well.

Non-interest expense includes datacenter impairment charge, I mentioned earlier, which was mostly offset by lower personnel and other operating costs. When comparing expenses and earnings to Q1 2017 remember Q1 2017 includes seasonal retirement elevated incentives and elevated payroll tax expense of $1.4 billion.

The effective tax rate for the quarter was 37.1%, which includes approximately $700 million of tax expense recorded in conjunction with the sale of U.K. card. We continue to expect an effective tax rate of approximately 30% for the rest of the year absent unusual items.

Okay. A few summary points to wrap up, again this quarter we created operating leverage by managing expenses while improving revenue. For years, we have been focused on growing responsibly including staying within our risk and client frameworks as well as simplifying the company to improve operational efficiency all aimed at making our growth more sustainable.

In Q2, consistent with this strategy, we stuck to our strong underwriting standards, while growing loans and investing in our clients in global markets. Asset quality remain strong as net charge offs, NPL's, delinquencies and commercial reservable criticized - and commercial reservable criticized exposures all declined.

Several of the businesses set new records or revenue earnings. As we grow with our clients and manage cost well. Importantly, we continue to invest in new technology and capabilities, while adding sales professionals in certain businesses and we significantly increase the amount of capital we returned to shareholders and announce plans to increase that even more.

These results tell us the responsible growth is working and that we are well positioned to continue to invest in and grow with our customers and clients as the economy continues to improve.

With that, we'll open up the 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.

**Glenn Schorr**

I appreciate all the detail on the net interest income discussion. One piece of it on the repo borrowings part of it, financing - the equity financing side. I'm curious if you think of that as a little episodic and you just go with the flow. Or is it more a permanent part of the strategy where you are using your strong balance sheet to help grow? The tag along to that is if it is more permanent why do it through repo? Is that more expensive?

**Brian Moynihan**

I think it's a little bit of both. So we did make a decision to invest more on our equities business this quarter. That's going to go up and down depending on client activity in every quarter. We could always change our mind. But generally we've made a decision to add more balance sheet to equities because we see an opportunity there and because our customers would like us to do that.

In terms of how we add that balance sheet that definitely can change one quarter to another. This quarter it was a lot of synthetic which tends to happen when you have clients overseas who have some demand. Next quarter it could be more plain OPB and that does change the mix of NII when that happens. But it's based upon client demand not necessarily how we want to manage one part of the our P&L versus another.

**Glenn Schorr**

And the tagalong for net interest income guidance is, as you mentioned, very low deposit beta on the consumer side, just two basis points up in the quarter. Is there a point in time where you expect that to accelerate over the next couple hikes? I know we all kind of ask the same thing each quarter, but it's amazingly low.

**Paul Donofrio**

Yes, look we're watching it closely. I guess I would point out that Bank of America and the industry really haven't increased as you point out deposit rates on traditional bank accounts. I think we believe we deliver a lot of value to depositors. Transparency, convenient safety, mobile banking, online banking, nationwide network, rewards, advice and counsel. There's some real value to having a relationship with us and I think there's value plus the fact that there's been a lack of market pressure so far. There's a lot of on traditional accounts to leave rates relatively flat.

We are starting to see some rate increases on some account types in GWIM and in Global Banking. And if you look at our models, they anticipate that we're going to have to start raising eventually based upon historical experience.

But the bottom-line is, we're going to balance our customer needs and the competitive environment with our shareholder interest and do the right thing. So we'll just have to wait and see.

**Brian Moynihan**

Glenn, I would just add, when you dig into the supplement and other materials and sort of look at similar business and even the GWIM business, we have to focus on the core checking balances in the consumer on a $650 billion deposit base or $320 billion.

And so that is 10-years of hard work of driving core operating accounts the consumer with a core checking balances in the primary account record run near 90%, up from the 60s and 70s many years ago. And those are zero interest and they'll remain zero interest because that's the nature of the beast. So we will see other areas like CDs year-over-year down again 10%.

And so, we have been driving this business to be core, core, and core and that's what's happening. And GWIM, you're seeing the pieces that were functionally investment equivalent move faster but we feel good about it. We feel good about how we're driving both the value to the consumer for the total of our services relative the interest rate paid on certain types of deposits and frankly relative to the non-interest-bearing deposits.

**Operator**

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

**John McDonald**

Just to follow up on the NII, Paul, it sounds like when you net a few positives and negatives in terms of your NII outlook for next quarter you are expecting a modest increase in the third quarter as of now. Could you put any size parameters on that?

**Paul Donofrio**

No, I think we want to get out of the game of putting size parameters on it. I've given you all the inputs I can run through them again, if you'd like. But look we feel good about where we are that we had some transient kind of things this quarter. There are a lot of variables that go into this.

One of the biggest one is by the way predicting people's behaviors, predicting customer. So I wouldn't want to give you a number, if you want to be happy to go through kind of all the different ins and outs again, if you want, but…

**John McDonald**

No, that's fine. Maybe you could just remind us how much the Fed hike itself - what your estimate of how much that helps the June hike. And then also just how much the lower 10-year hurt in the second quarter? How should we think about the 10-year impact going forward? So the short and the long end impacts would be helpful. Thanks.

**Paul Donofrio**

Look, they - again, I won't give you a number, but the - we had a significant improvement in NII from the short-end, but the long end also did significantly impact us, relative to what we were expecting. Because, as you know, we have a securities portfolio and as rates change their customer behavior changes and we can amortize more or less of that premium.

**John McDonald**

Okay. And then just on expenses could you help us think through the expense trajectory for the back half of the year? And more importantly, your current thoughts on the target for the $53 billion next year. And how some of the - maybe the tech consolidation you did this quarter, how does that impact either the timing or just confidence level on delivering expense saves?

**Paul Donofrio**

Sure. We feel good about our goal. I'll remind everybody that some time ago now, we said that our full year 2018 expense would be approximately $53 billion. A lot has changed since then. Good, bad, or whatever, a lot of things have changed, but we're still very confident in that goal. To get there we feel like we need to run in a normal quarter at around kind of $13 billion and then you've got, into the first quarter that has $1 billion or so more in retirement eligible and FICO.

If you look at our expenses this quarter, right, we reported 13.7. Last year we reported 13.5. If you back out the data center on the elevated severance, would be at 13:3. So we think we made pretty good progress year-over-year and we just have to continue to make that type of progress over the next few quarters and we'll get there.

**Brian Moynihan**

Effectively, John, it's about a $100 million step-down over the next couple of quarters, which has been relatively - very consistent with what we've been doing. Over the past several quarters, we used to have the major drops as we get a position, but it's going to have been $100 million-ish year-over-year step-down from the prior year, and so you'll see that kind of play out, we think.

**Operator**

And we'll take our next question from Jim Mitchell with Buckingham Research. Please go ahead.

**Jim Mitchell**

Maybe getting back to the deposit question. You guys are growing 9% in the consumer book better than the industry, despite holding low obviously reflecting your mix. How far do you think - A, I guess can you give your sense of what you think is driving that market share? And is this something where you are willing to test the patience of your customers to lag deposit rates until growth slows more materially? How do we think about what your decision-making process is in terms of rates in the consumer book?

**Brian Moynihan**

Yes. I would make it. Jim I'd look more to the broader aspects of your question. Some of the statistics that I talked about earlier, what is been driving? This has been in end of the day to get ourselves position as the core transaction - in a transaction side of the consumer business is a core transaction provider to every household.

And we have our checking account numbers are growing now couple of hundred thousand that new checking accounts this quarter type of numbers, but have been falling from $37 million and this small business consumer combined down to about 34-ish. And so we had run off a lot of stuff that were extra checking accounts and things like that starting 10 years ago frankly.

And so that's what plays your benefit here because in the end of the day as rates continue to rise, if they continue to rise, the value of the consumer deposit franchise as being around this industry for a long time is going to be driven by the advantage and the checking balances and then some of the other balances will help, but there will be more rate sensitive. So it comes more from the operating business than it does from any strategy on actual pricing because those are free balances and remain free.

So the question is how do you gain share and what you see is if you think about it year-over-year our Consumer Business grew about $60 billion and deposits around about half of that was in checking account balances, one half of that.

And that is driven by the innovation I talked about a billion digital interactions this quarter $22.9 million active digital mobile customers 30 odd million active digital customers more and more capabilities there and becoming more and more embedded in everything that consumer does. And that that means you're gaining share against people don't have all those capabilities in our minds.

And so as you think about it that's what's going to drive a lot of deposits value and if you look at some of the rates and volumes charts, even you get to be interesting things, we look at the corporation overall, year-over-year our deposit costs on interest-bearing not non-interest-bearing up $100 million, 60 of that was in the U.S. and 40 of it is on 10% the interest-bearing deposits outside the U.S. So there's not even that much movement on the interest-bearing part.

So we feel good about the franchise and where we need to price because it's more investment orient say in the GWIM business. We've priced to maintain those balances. Half of went out of GWIM this quarter was us putting people into the market based on our allocation methodology. So irrespective of the rate that went into the market as opposed into other cash. So it really comes from all the different advantages we've been driving out to drive this franchise for 10 years.

**Jim Mitchell**

Maybe, Brian, a follow-up on regulation. Obviously the treasury report seemed pretty favorable for the industry. You are not really leverage constrained. Is there any aspect of the recommendations that you would find most helpful to your business?

**Brian Moynihan**

All of that would be helpful. There's a good amount of work that's gone in by all the industry groups, all the individual companies, and the administration to come up with a list of things that, our belief is we want responsible, clear, transparent, and regulation that helps maintain the safety and soundness and capabilities in this industries.

There's no question, but in areas where things have gotten too far you've got to bring them back a little bit and that lottery list is really there to provide it. So while some are more important to our franchise than maybe other people's franchise and vice versa. The end of day a careful revisiting of some of these things to ensure that we maintain the safety and soundness while getting good regulation is critical, and I think hopefully the ball is moving forward on that.

**Operator**

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

**Ken Usdin**

If I can ask questions on the card business, first of all I noticed that the card losses were up first to second. They are typically down. I am just wondering if you can help us understand just where we are in the seasoning of the portfolio, also noting that the risk-adjusted margin continues to slip as well.

So what do you think about card losses going forward and when do we see that bottoming of the card margin? Thanks.

**Paul Donofrio**

Sure. So let's start with NCOs, charge-offs this quarter were 287, there were 266 last quarter, last year I should say. Both of those numbers and that delta is completely within kind of our expectation and modeling for the portfolio while within our risk parameters.

As you think about what's going on here, we've got a portfolio, we've got a back book that is in great shape, that's getting smaller every day. And we've got a front book that we're growing that is seasoning.

So that's what's driving up the NCO's in a natural way, very gradually, also a little different phenomenon going on sort of this year, obviously, there's some seasonality as you go throughout the year.

So just think about the future, next couple of quarters we've got seasonality, which is going to be all else equal for the years normal it's going to be lowering the net charge-off rate. But you've got some season that's going to be increasing it, so we'll just have to see how that plays out over the next couple of quarters. What was the second part of your question?

**Ken Usdin**

Just on the risk-adjusted - the card risk-adjusted margin.

**Paul Donofrio**

Well, sure. I mean, a couple of things. One, I tend to think of it as opposed to the margin as put just the dollars that we're producing there. And we've got modest growth in the number of cards outstanding. We've got good growth in debit and credit cards spend. And just focusing on the margin, I think overlooks some key benefits of our strategy to attract relatively higher quality card customers and reward them for deepening their overall relationship with us.

That strategy is driving incremental deposit growth and making those deposits a little bit stickier, so that it helps NII. It also - if you think what these customers they have lower loss rates and they tend to reduce their interaction with the call center. We also have a model that has lower acquisition cost in terms of those new cards.

And that's how we think about it. If you just want to focus in on the risk adjustment margin that's going to - I think perform well in line with the industry and probably just a little bit lower, but we're more focused on total revenue.

**Ken Usdin**

Understood. And if I can just ask one big picture one, all the points you made earlier, all the credit metrics are going the right way otherwise, NPAs, inflows, etc. Coming back into this point about where card is going and then just not seeing anything else, you guys have been at 40 basis points of losses. Any reason to see that changing really? And then do you still have some room for release as well given that?

**Paul Donofrio**

Look absent some change in the world in the economic situation, we don't see a reason why that necessarily changes materially. I don't want to give you guidance, but that's kind of our view. In terms of releases, we are building. I just point out we're growing loans. We're growing card. Things are seasoning that seasoning.

So we may have some releases, but I would more think of those releases as potentially offsetting some of that growth.

**Operator**

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

**Betsy Graseck**

Brian, two questions. One on the consumer banking efficiency ratio. You mentioned that there still is room for that to fall from the 52%, which is obviously very efficient as it stands right now today. And you indicated all various opportunities to drive incremental revenues at a much improved expense ratio with all the digital that you outlined earlier. But could you speak to how the branch network could also impact those numbers? I mean, your branch has been coming down about 3% the last couple of years. Is that the kind of pace that you think you are going to continue? Or does the digital improvements enable you to move even faster there?

**Brian Moynihan**

Well I think Betsy be careful. There you have to go back to the broadest context which is the 6100 to 45. We got after this relatively early, and - and so we've got to down a level.

We don't know where it goes from here, because it will be based on customer behavior demands. But if you go back, if you think about it, over the last several years, we've been adding branches in places like Denver and we'll continue to build out there. We have been refurbishing branches heavily across the whole franchise. That's all in this run rate you see.

And that will continue in this is in - in an expectation I'm talking about. So we'll - think we'd have to down 15, 17 branches linked quarter, a 100 odd year-over-year, that'll continue to happen. But I think what you would expect is the efficiency of that system continues to improve dramatically.

So let me give you an example, in Chicago we had to build one of these old big branches and what we've done is create a call center in there to and we have 70 teammates going to work in a call environment just to use up the physical space to keep the branch open as opposed to call closing the branch.

So, if you think about it from that scheme because of the telephony capabilities that exist today, you could actually distribute phone calls down to individual people based on the number coming in and things like that local call.

So we've done that in three or four markets. We continue to use up the excess capacity. So you wouldn't see a branch decline there but you'd see 80% of its real estate goes for a different purpose.

So it's a very complex thing, and I don't like to get caught by numbers. I'd say that you seen us manage it well and we would expect to continue to manage it well in the future but we're not going to get ahead of the customer and create any disruption to the growth we're seeing in the core channel.

**Betsy Graseck**

And then separately, you've spoken before about the op risk RWA burden that you guys have. We had some questions come in on how you are thinking improvements there could help you given that it's not directly in the CCAR stress test. But maybe you could give us a sense as to how you think any changes could help you given that it's not a constraining factor.

**Brian Moynihan**

Right. I think you've seen them start to make improvements and changes have gone through in the overall advanced RWA operas being a portion of that. The change had been more in other areas quite frankly. We'll expect to see further, but you have to be careful at some point standardized been backs into your - and your constraint. And, so this will be a toggle between for a long time standard advanced was our need in over the years now it's coming down in advance.

And so standardized at some point will kind of avail the improvement overall. And then we'll go to work on standardized quite frankly. So expect us to continue to work on optimization of balance sheet, really at the end of day, opening up the difference in our GAAP capital levels for lack of a better term in our regulatory cap levels so we're down RWA on advanced based down 30-odd billion this quarter.

Expect that to continue improve but be careful at some point it hits the other side in a world we have so much excess capital as this kind of an interesting exercise. But in a world where we actually start returning that capital through our earnings we're going to have to continue to optimize both sides of that equation.

**Betsy Graseck**

And then just lastly, you had a nice increase in the dividend. Could you just speak to how you are thinking about dividend payout ratios? Do you feel like you are where you should be given the business model? Or is there more room and if there is more room what the drivers are to affect that change?

**Brian Moynihan**

We've always been clear that we in the guidance still relative the large banks is out there sort of 30% percent earnings to dividends and 70% to share buybacks. We think that the shares are a tremendous value and will continue to do that. And with $17 billion over the next 12 months we can make some headway.

So think about 30/70 split for us in the large bank category I think that's a responsible place to be. Right now we're moving up towards that but we're not quite there.

**Operator**

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

**Gerard Cassidy**

In looking at your ROE, your returns on allocated capital in the Consumer and the Wealth Management businesses are very strong, well over 20%. Global Bank is 18%, Global Markets about 10%. Can you share with us how you are going to get the 8% ROE up let's say above your cost of capital let's say 10%? Is it going to be more coming from the Global Markets area or management of the capital or somewhere else?

**Paul Donofrio**

Well, the first thing I would point out is that we have a goal to get our ROE up and we have a goal on return on tangible common equity. 1% ROE we're making a lot of progress return on tangible common equity. We want to get the 12%. We are at 11% to this quarter.

And we've been making steady progress and if we stay focused on operating leverage and doing the right things for our customers, we know we're going to get there. I would make a point to Brian, what Brian was talking about earlier with about our excess capital.

So if you just look at the 11.2% return on tangible come equity we have this quarter. If we were the company at 10% capital instead of 11.5% that would still be above our regulatory minimum we'd have a 50 basis point buffer that would have increased that return on tangible common equity to 12.6%.

So we're at our goal right now from an operating standpoint, if we could just continue to make progress on the amount of excess capital we have at the company. In terms of ROE, look we've got a lot of goodwill. We could tomorrow just wear-off all that goodwill. But nothing would change at the company, ROE would just go up to your return on tangible common equity.

**Gerard Cassidy**

Very good. And then coming back to the mobile users, I think you guys pointed out you had just shy of 23 million mobile users. What percentage of your customer base are mobile users? And where do you see that number going to in the next two to three years?

**Brian Moynihan**

I say this can't go up because we're starting to - at some inflection point where you've got penetration it continues to go up. So I think we had 30 odd million checking holder. So think about the delta between those two being available for lack of a better term.

You've got 34 million digital users. And so you still have some digital on users who don't use the mobile phone just because they do it which means they come through the website instead of an approximately for example. And so each year we think it's not going to - you are starting to hit possible inflection point that goes up 10%, 15% year-over-year. And so I think there's headroom ahead of us.

So I think of us to having 30% or more that we could get just easily and we're growing the customer base and we'll drive it. And as you see norms change you'll see that penetration continue to increase.

The important thing isn't necessarily only that 22.9 million users. The important thing is how people use it. And so just take the P2P payments even though we do $18 billion this quarter even though it's been a product we've had for a while even though we're going to be launching we'll see how --we'll see how that will drive it. It's still 3%.

And even though all the wallets for the SaaP or Samsung or Android or etcetera all those are out there. There's still 1.5% of payments. And so in the end of the day we had a lot of work within the customer base and how they use all the form factors to get more efficient and more effective for them.

On top of what you think is more usage more penetration so to speak. So we've got a long way to go on penetration. Only 22% of sales are done. So we'll continue to drive that but importantly for the team Tong and Dean and the team is to drive that usage up and that's where we're starting to see some good pickup but there's a lot of room to go there.

**Gerard Cassidy**

Brian, you mentioned Gazelle. Any early read on what you are seeing there and when do you expect to have a broad launch of that product if you haven't done it already?

**Brian Moynihan**

No, its Zelle not Gazelle. But - I don't want to violate anybody else's trademark here. But sure the - it's still pretty early. The nice thing is that the industry has been a network among all of us that allows us to operate very easily among us of all the companies.

And so, I think the better time talking about me in six months or so after we've gotten everybody up and upgrading and driving it through. But previous this we're already driving that was up double digits year-over-year.

And so there's sort of just awareness and with the students signing up for accounts from now to the fall, you'll see a lot of embedding this in our marketing and our capabilities. So maybe next quarter we'll have a better.

**Operator**

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

**Q - Matt O'Connor**

Just a couple of quick follow-ups. Did you guys disclose the debt hedge ineffectiveness drag that was in net interest income this quarter?

**Paul Donofrio**

We didn't disclose the amount. It was meaningful, not like huge amount, but it was meaningful. And again, I'd remind everybody that over time is just going to reverse itself.

**Q - Matt O'Connor**

Okay. Does that show up in the 10-Q or - I can't remember where we got that from.

**Paul Donofrio**

No. I don't think so.

**Brian Moynihan**

Matt, at the highest level, remembers we ate up. If we go back and think about where we started the quarter, where we ended it, we took out about half of what we thought to increase was going to be due to the card. The rest of us all the factors Paul is talking about ins and outs and chewed up the other half of the projected increase, so give you a sense of dimension.

**Q - Matt O'Connor**

Okay. And then just separately the expenses related to the U.K. card business that go away, how much is that?

**Paul Donofrio**

Sure. Look, let me just run you through the whole picture, okay. If you want to build any models, but on the revenue side, it's primarily interest income, think about $10 billion of receivables at 9%, plus you got a little small amount of card income I think that was around 30 million in the second quarter. The efficiency ratio for that business is around 40%.

If you look in our supplement, you can see I think the net charge-offs ratios it's been running a little bit less than 2% call it $40 million, $45 million per quarter. I think that probably gives you just everything you need to model it. I would remind you that when we sold it, we did get 12 and 15 basis point improvement in our CET ratio on a advanced and standardized perspective respectively.

**Operator**

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

**Steven Chubak**

So Brian, I appreciate the helpful commentary you've given on capital ratios and the continued effort to optimize your RWAs. And just given the significant capital cushion that you are operating with today, I'm just wondering how you are thinking about the payout trajectory over the next couple of years. And maybe just to help us frame it from an ROE perspective, because you did note that your excess capital continues to be a drag on returns, what do you believe is a reasonable spot capital target for you to manage to through the cycle?

**Brian Moynihan**

Well, if you take that the 9.5 as the place we're at, we'd have 50 basis points or so of cushion on that at all times and so that gives you a sense where we are, and we're running 11.5 and that difference is available, so you'd expect more. That's assuming that we have 2% growth environment and continue to grow and there's no big recession that comes, we continue to ask for more capital return.

I think, keep you focused in the near term. We've got $17 billion-plus that we've got to take out in the next four quarters which is a pretty healthy chunk. And then we'll go through next year CCAR process and you'd expect us like the industry to keep stepping that up to start to work against that excess.

Against that, when Paul talked about the last question, the U.K. Card, remember that the thing that people have to think about is not only does it give you current capital benefit, but also - and the stress - the losses and stuff are out of the system so you can also pick that up.

So, I'd say, simply point the next 12 months we're going to return more capital we earned in 2016, to give you a framework. And we'd expect to ask for - as we earn more in 2017, we'd expect to ask for more for the next task and keep driving that forward, and everything contributed better asset quality, better earnings, and better modeling and everything else.

So our CCAR losses continue to come down, and we continue to drive the responsible growth. So just think about that is a framework to say more in the future. But we've got a nice pick up just coming in the next four quarters.

**Steven Chubak**

Got it. And then just on some of the expense initiatives, Brian, that you outlined. I'm getting quite a few questions on how we should think about it from a timing perspective. I know that you have the $53 billion expense target that's out there, but just given some of the efficiency opportunities that you identified, should we expect that progress to continue beyond 2018?

**Brian Moynihan**

You asked me what have you done for me lately, we're getting to 53 first, Steven, and then we'll move from there. But the idea is that, if you sort of think about an expense base of a financial services firm, and Bank of America in particular, about two-thirds of the cost are people cost, the cost of salaries and wages, incentives, et cetera, health care cost rising at 6%, 7%, 8%, 9% a year and so our job is to figure out how to pay our teammates fairly and more, for more productively and what they do to drive for your shareholders and if you just lock in a growth rate on that just that part of the expense base, you're locking 2% growth.

So what we do through all these issues is figure out a way we can turn that into being on a core basis year-over-year sort of flattish. And so what is $53 billion keeps coming down or stays flat or revenue keeps going up both - that will produce further operating leverage. And so we haven't made projections past that 53 more just because we got a lot of initiatives coming in.

But you should expect that we will be just as disciplined and thoughtful about how we both invest and invest to take out expense that we've been so far. And I think that are down to our benefit in terms of keeping those expenses relatively flat as revenues grow in the future.

**Steven Chubak**

And just one more quick one for me just on the DoL fiduciary rule. You had outlined your strategy previously for stopping or no longer engaging in retirement brokerage activities. But just given the potential for that rule to be repealed, I'm wondering if your thinking has evolved around that?

**Brian Moynihan**

I'd say let's see what happens. I don't think it will change our thinking. We have accommodated customer's larger balances and some of the areas and some cash IRAs and things that get a little bit different, but just out of necessity. But the overall trend of driving towards the model products and driving towards the effectiveness and offsetting demands for lower and lower cost structure. The customer pays and fees to get higher and higher service and the capabilities from us is what's driving this. The fiduciary rule is only a part of it. And so I don't expect to change our course.

**Steven Chubak**

Thanks for taking my questions

**Operator**

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

**Saul Martinez**

Hi, good morning. First wanted to follow-up on the net interest income. The 100 basis point - the benefit of $3.2 billion you get from a 100 basis point parallel shift in the yield curve, you mentioned it's primarily sensitive to the short end. I think last quarter you gave sort of a 75/25 split between short and long and is that still a good rule of thumb to use?

**Paul Donofrio**

It's changed a little bit. We are a little bit more sensitive on the long-end of interest rates went down, the asset sensitivity in the short-end hasn't changed so much.

**Saul Martinez**

Okay. So a little bit more skewed to the long end than the disclosure in 1Q?

**Paul Donofrio**

It's like two-thirds, one-third.

**Brian Moynihan**

Just look at back up the first half of the year we think about the rate environment it's really changed on the short-end just to give you sense how it works, we've got $1.5 billion, $1.4 billion to $1.5 billion pick up in first half NII versus last year. And so, that gives you a sense. It really is driven 60%, 70% depending on the quarter by the short-end.

**Paul Donofrio**

I think, what's important point, I mean, again we picked up that $1.5 billion, and you haven't seen the sensitivity change much. So that tells you kind of what was embedded in the pass through in the first half of the year.

**Saul Martinez**

Moving on - just to discuss capital deployment strategies a little bit. You've talked about your excess capital position, obviously you upped your returns in the CCAR cycle and you will keep going forward with that. But is it too early to talk about acquisitions as part of the capital strategy? And how would you think about M&A in terms of opportunities whether from a product strategy, geographic segmentation standpoint? How do you think about M&A in the context of your capital strategy?

**Brian Moynihan**

We don't think about M&A in the context of capital strategy. We are organically growing this company, including opening up in markets, investing in bankers, investing in branches, investing in things, and the capability - and investing in cash management capabilities, we built out a lot in Asia. Tom Montag and the team driving our global franchise, we just don't need the distraction.

**Operator**

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

**Marty Mosby**

Thanks, I've got three bigger picture kind of questions. First, Brian, you've turned the corner on the customer growth and business growth. That was one of my main concerns after so many years of having to deal with the overhang issues to be able to re-energize and get that - business segments growing again. What are the couple of things that you could say have helped go through that inflection point as quick as you've been able to do that?

**Brian Moynihan**

I think, depending on the business, at the end of day if you go across a businesses in the relation of business it's been just deploying more and more relationship management team mates, and being able to pay for that while bringing expenses down across the board.

So, that's what this US trust or Merrill Lynch, the preferred business and consumer, the business banking, global commercial bank, of course, investment banking and driving that always had great products.

We just literally had to add more sales teams behind that has also been a deployment and technology helped our sales teams. We used an artificial intelligence to prioritize their work in terms of targeting their efforts.

And then if you look in both the markets and the markets business separate from the commercial side of it in a true markets business. When you look in the mass market consumer business what we call retail, you see that the nice thing about the retail business the mass market as we are now growing and making money in a business which was a little bit tricky and that's largely because electrification, digitization has been driving it.

And if you go to markets the team and equities and fixed income has done a great job to reposition that business and its gaining share.

So in each case its investments in people, technology, better customer experience and that all sounds like you say it all the time, but it has been relentless focus and just driving that and investing behind that at all time taking out some extraneous costs including credit costs through very disciplined client selection and credit underwriting capabilities.

**Marty Mosby**

Paul, one of the - sort of the second question to look at, we've talked about the core, core, core and that the Company has taken actions to try to drive that. But really we've had an historical shift in the liquidity premium coming out of the financial crisis and just having rates at zero.

So hasn't a lot of this shift been related to just the environment more than really Company actions? And what we are seeing has been the derisking. Now that GWIM deposits are starting to move out, is that the first sign of the rerisking or are the customers willing to take a little bit more risk and drop that liquidity premium? So I'm kind of watching for that first sign of the customer behavior beginning to change.

**Paul Donofrio**

I think Marty across all the years since the crisis there has been ebbs and flows in customers' views about where they want to invest and the cash portion of our balances has come up and down. But I think the consumer and the investor are very bullish on America and they continue investing in consumers through their spending and activity and investors on a personal side through their investments and you've seen those investments in equities and risk products continue to rise almost without fail.

And then when there's real market disruption concern you see a pullback a little bit, but basically without fail has been a steady investment and that's why we've had assets under management levels of record levels at this point.

**Marty Mosby**

It just seemed like there's a little bit of a change sitting there. You will see it ripple into some of the other business maybe later. But a third question was with what's going on in the mortgage business, you are retaining 90% of loans. In the past, I don't know the number, but I bet you were securitizing before the financial crisis probably 90% of the loans. How do you look at that business different? That is such a paradigm shift that you really are now a portfolio lender much more than you are a securitization. Are there any other dynamics that we should look at separately?

**Brian Moynihan**

Well, you have to. The business that in pre-crisis that came out of some of the other firms and et cetera was driven by a basic view of generating more and more mortgages as opposed to customers and penetration of customers and giving mortgage to the customers.

And so one of the way - the major way it did it 75% of its production was bought from third-parties either its correspondents or brokers or whatever the methodology. All of that's gone.

And so, if you had that size of production that was bought in a secondary market through wholesale trades of production, you would have to go off-balance sheet because you wouldn't have the capacity. During the 2004 to 2008, we generate $2 trillion of mortgages or something like that. So you have to go off balance sheet.

Now where we're now we're a quarter production runs $13 billion, $15 billion. And this huge deposit franchise that needs to be invested. You can put those mortgages on a balance sheet.

The odd thing would be, in the past we were setting them off and then buying back mortgage backed securities, the answer is, we just retain the mortgages and frankly the credit card of ours is not worth paying the insurance.

But it really came by focusing on what we call direct-to-consumer where our market share continues to be solid and really saying, we're in this business. It's always been a tough business. It's priced on a commodity basis. It's on your screen every day. And the MSR assets always had interesting issues of how you could hedge them and make them work.

Our goal as a company was to take all that volatility and up and down out and just focusing on getting mortgages to start customers of high credit quality. And then why wouldn't we keep them because any other day we've got to invest our deposits somewhere and these are great investments.

**Paul Donofrio**

They're our customers. It's not like we're trying to find somebody else's underwriting. These are our customers. We know these customers. We were over underwriting these loans and while pay the insurance.

**Marty Mosby**

And it's not just you all, I mean it has been across the industry where you are seeing much more in retention than you are seeing in securitization. So I just didn't know if there was any operational or other issues that gives you more flexibility on pricing or product development. It's a very different market than what it used to be when we ran it before.

**Brian Moynihan**

I agree it's a different market and I think a better one because of that.

**Operator**

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

**Brian Kleinhanzl**

I just had a question first on the lending environment overall. Could you give an update of the pipelines? And I know last quarter you said middle market revolver, you were at record levels there. Were you able to increase utilization rates there? Just give a sense of where your clients are if optimism is waning?

**Paul Donofrio**

We feel good about long growth unless the economy changes significantly we wouldn't expect much change from the past quarters. We did see a little bit of dissemination this quarter in commercial that could slow growth in the future.

But having said that, we haven't changed our medium term outlook on our ability to grow loans, we expect total long growth for the company to be a low single digit. And we expect to grow mid-single digits in our lines of business. That obviously excludes the headwind from loans and all other mortgage one-off and now U.K. card is gone.

So with respect to each segment, we're anticipating modest growth in consumer led by mortgage. We'd also expect to grow a card and auto, although auto growth is probably slowed a little bit but we still expect a little bit growth. That growth is going to be partially offset by continued run off from home equity loans.

In commercial, again well, things have slowed a little bit our outlook still remains favorable led by middle market. You saw middle market loans grow 5% year-over-year. And I would note that quarter - growth in any quarter in commercial can bounce around a bit because you've got acquisition, financing thrown into the mix. All of that, I think is consistent with responsible growth.

**Brian Kleinhanzl**

And then just a question on wealth and investment management. You did see the financial advisors increase two percentage points quarter on quarter. Is that a trend now that you think you can - or back into a hiring phase where you can actually grow the number of financial advisors? Because productivity also increased as well. So there was no drag from hiring those advisors.

**Brian Moynihan**

We have a tremendous customer base that is underserved in the investment management area and so we're going to continue to grow our financial advisor team to serve that customer base whether it's the teams that work in the branches, the teams that work in the Merrill office, the team that work in U.S. Trust and we've been after that and growing that.

And so you should expect that number to continue to go up with Terry Laughlin, NEC, Keith Banks and team are driving it. And so that's - it's a unit of production for lack of a better term. It's your team that really has the core customer interface and will drive that.

Meanwhile, on the non-financial advisor side you saw the assets in edge up 21%. So that means that we're also facing off against the customers, who choose to go about at a different way.

**Brian Moynihan**

All right. I think operator that's all the call. So I want to thank everyone for joining us again this quarter. I think if you think about this quarter it's a quarter which shows you responsible growth it's all about. It's solid earnings growth, very solid operating leverage. Each business grew first half of this year versus first half of last year and did it the right way, did it while maintaining great risk and did it while we invested heavily in technology and invested in our people. So we look forward to next quarter and talk to you soon.