**Operator**

Welcome to today's program. [Operator instructions.] It's now my pleasure to turn the program over to Lee McEntire. Please begin, sir.

**Lee McEntire**

Good morning to those on the phone or joining us by webcast. Before Bruce Thompson and Brian Moynihan begin their comments, let me remind you that this presentation, available at bankofamerica.com does contain some forward-looking statements regarding both our financial condition and financial results, and that these statements involve certain risks that may cause actual results in the future to be different from our current expectations. And please see our press release and SEC documents for further information.

With that, let me turn it over to our CEO, Brian Monynihan.

**Brian Moynihan**

Thank you, Lee. Good morning everyone, and just to start off, let me remind you of what our focus is and has been for some time: on capital generation, on managing our risk, on continuing to reduce our costs, and on addressing the legacy issues so that we can drive our growth strategy by simply doing more with our customers and clients.

This quarter shows very clearly how the focus is paying off, as we earned $4 billion. We built our company over the last several quarters to maintain stability, and we'll continue to make progress to withstand the volatility that we saw in part again this quarter while delivering for our customers and shareholders.

And that came true, even as mortgage demand has decreased, we still had a 40% increase in retail production over last year, and an increase over the last quarter. Even as interest rates rose, we were able to add to our capital ratios. And keep in mind, with our trillion-dollar deposit book, rising rates will continue to increase the value of those over time.

We have leading capabilities in the areas where our customers want us to be. We do more business with them and we're gaining momentum across every customer group. And while we're doing that, our balance sheet continues to strengthen, our capital ratio has again moved higher, and just as importantly, we've begun the process of returning capital to our shareholders.

Our credit quality continues to improve. Expenses are down by $1 billion from a year ago. LAS, or Legacy Asset Servicing, expenses, excluding our litigation, are down by nearly $800 million on a quarterly basis, from the peak only a couple of quarters ago, and are ahead of our projections.

Our loans and our deposits continue to grow. All the businesses produced solid, stable revenues in the focus areas where we are growing that grew their revenues. And we're seeing growing activity levels across all our customer and client groups.

So as we look forward, we're closely following recent regulatory proposals around capital and leverage, just as you are. Obviously we have already taken significant steps in our company to build our current strong levels of capital and liquidity, and we maintain a comfort level here that Bruce will take you through the numbers later.

The good news in all this is that we're seeing in our business as reflected in our improved economy. The economy continues to improve across all areas. That benefits our company across multiple fronts, but most importantly, with an improving economy, it strengthens and creates opportunity for the people, companies, and investors that we serve, and that opportunity will continue to provide opportunity for us to capture and to connect all our capabilities to help those that we serve realize their financial goals.

With that, let me turn it over to Bruce.

**Bruce Thompson**

Thanks, Brian, and good morning everyone. I'm going to start on slide five of our presentation materials. Total revenues for the quarter were very solid at $22.9 billion, and we earned $4 billion, or $0.32 per diluted share, which is up significantly both from the first quarter of this year as well as the comparable period in 2012.

We made significant progress in all of our primary businesses this quarter, and on a linked quarter basis, we had growth in four out of the five businesses. Consumer activity levels were solid, as mortgage production increased, credit card loan balances stabilized, and both deposits and brokerage flows increased from the previous quarter.

Global wealth and investment management reported another quarter of record revenues, as well as earnings. Global banking revenue showed continue strength, driven by increased lending in both our commercial as well as our corporate bank, and investment banking performance remained strong and close to record levels.

Total noninterest expense of $16 billion represented a significant improvement in expenses, both relative to the first quarter of this year as well as the comparable quarter in 2012, and asset quality improved significantly as our provision expense declined to $1.2 billion this quarter.

On slide six, we give some balance sheet highlights. First, the overall size of the balance sheet came down this quarter to about $2.125 trillion. Importantly, customer activity remained strong, with loans, led by our commercial loans, up $10 billion.

Period end deposits were down, driven by seasonality associated with tax payments. However, our average deposits did experience modest growth. And also call out on the page the tangible book value per share remained relatively flat from the first quarter of this year. That's significant in the context of our $4 billion of earnings largely offset the negative after-tax impact from accumulated other comprehensive income, driven by the increase in rates that we saw during the quarter.

Also helping our tangible book value per share in the quarter was the return of roughly $1 billion of capital through the repurchase of 80 million common shares at a price below tangible book value. And as we look forward, we have an additional $4 billion available for common share repurchases.

The combination of the earnings that I discussed on slide five, as well as the work that we did on our balance sheet, led to a return on tangible common equity of just under 10% for the quarter, and a return on average assets of 74 basis points.

On slide 7, we walk through some of the different regulatory capital ratios as far as where we ended up at the end of the second quarter. If we start with Basel 1 tier one common ratio, we ended the quarter at 10.83%, up 34 basis points from the first quarter of this year and 45 basis points on a pro forma basis at the end of 2012.

Moving to Basel III, fully phased in basis under the advanced approach, and based on final rules, our tier one common ratio was 9.6%, showing progress from the first quarter of '13, despite a 32 basis point negative impact from the change in OCI during the quarter.

Risk-weighted assets under Basel III were $1.31 trillion, or $43 billion lower than the first quarter of '13, due to an improvement in both the composition as well as the overall credit quality on the books.

If we move to the proposed supplementary U.S. leverage ratio requirement, which will kick in at the beginning of 2018, our preliminary analysis indicates that at the holding company, our leverage ratio for the second quarter of

2013 was in the range of 4.9% to 5%, which positions us very well relative to the 5% minimum.

If we look at our primary bank subsidiaries, which we have two, BANA, our primary banking subsidiary, and FIA, our card subsidiary, during the second quarter of 2013, both of those were in excess of the 6% proposed minimum. So net-net, from a regulatory capital perspective, we feel like we've made very good progress across all of the different measures that will be required to operate within.

On page eight, funding and liquidity, you can see long term debt during the quarter declined $18 billion, as maturities outpaced issuances during the quarter. Our global excess liquidity sources did decline during the quarter. It was expected as a result of our reductions in the long term debt footprint, our preferred stock redemptions, as well as the seasonal deposit outflows that I referenced earlier from tax payments.

At the parent company, liquidity remains very strong at $95 billion, due to capital returns from our subsidiaries during the quarter. Time to required funding increased to 32 months, up from 29 months in the first quarter of '13, and well above our target of approximately 24 months. And as we've indicated before, over the next four to six quarters, we will look to move that time to funding towards the 24 months as we repay the upcoming debt maturities in 2013 and 2014.

On net interest income, if you look at slide 9, net interest income on an FTE basis was $10.8 billion, down just about 1% from the first quarter of 2013. If you adjust our net interest income for market-related items, it was $10.4 billion, which was less than $100 million below our guidance, as our trading-related net interest income declined as a result of reduced balance sheet utilization in our global markets business during the last month of the quarter.

On the positive side, we benefited during the quarter from lower long term debt, higher levels of commercial loan balances, as well as one additional day of interest in the second quarter relates to the first. On the flipside, in addition to the negative impact of lower asset balances on the trading books, we also had slightly lower consumer loan balances and yields, driven by our runoff portfolios.

As we came into the second quarter of 2013, our interest rate sensitivity as we disclosed in the first quarter 10-Q, estimated a $1.6 billion annual benefit to net interest income from a 100 basis point instantaneous [long end] steepening if rates remained at that level.

During the second quarter, the 10-year rate did increase by more than 60 basis points, and we realized $300 million of that benefit immediately through the impact on FAS 91. We expect to realize the balance of the benefit, approximately $700 million, over the course of the next 12 months.

As a result of those different factors, we do expect net interest income, excluding any market related impacts, to build off of the second quarter of 2013’s $10.4 billion adjusted level as we move forward during the balance of 2013 and into 2014.

If you look at the work that we did on expenses, on slide 10, total expenses were down significantly, on both a linked quarter as well as a year over year basis as we continued to deliver on the expense reductions that we discussed within our legacy assets and servicing area, as well as the ongoing cost savings from our new BAC initiatives that we’re implementing in the other businesses that we operate.

Our number of full-time equivalent employees in the quarter ended at just over 257,000, which was down 2% from the first quarter of 2013 and almost 7% from the comparable period a year ago.

Total expenses did decline $3.5 billion from the first quarter of ’13 as we benefited from a $1.7 billion decline in litigation. Our LAS expenses ex-litigation were down roughly another $250 million. Our retirement eligible costs, which we only incur during the first quarter of each year, were down $900 million, and all other expenses were down approximately $600 million.

As we look at the progress that we make on our LAS expenses, from the fourth quarter of 2012, when they peaked at $3.1 billion, we are now down approximately $800 million from that peak. And we did all of that within the last two quarters.

As a result, we previously had said that our LAS expenses, ex-litigation, would be approximately $2.1 billion by the end of 2013, meaning in the fourth quarter of 2013, and with the progress that we’ve made, we now believe our fourth quarter LAS expenses will be below $2 billion in the fourth quarter of ’13.

And keep in mind that as we work through these, the realization of these savings can be somewhat lumpy. In addition to our LAS expenses, the $600 million improvement in all other cost was driven primarily by lowering incentive compensation costs during the quarter as well as our new BAC efforts. We remain on track to achieve $1.5 billion of new BAC quarterly savings by the fourth quarter of 2013.

On slide 11, we give some information on the trends from an asset quality perspective, and as you can see, credit quality once again improved significantly during the quarter. Net chargeoffs declined to $2.1 billion, an improvement of 16% on a linked quarter basis, and 42% relative to the second quarter of 2012.

Our second quarter of 2013 net loss rate of 94 basis points is the first time that we've been below 100 basis points since 2006. Given the improving trend in delinquencies and other metrics, we now expect our net chargeoffs will come in below $2 billion in the third quarter of 2013.

Provision expense of $1.2 billion this quarter does reflect a reserve reduction of approximately $900 million, reflecting improving credit trends. The allowance coverage remains strong, and given the pace of improvement in credit quality, we do anticipate continued reserve releases, particularly in our consumer real estate portfolios.

Let's now move to a discussion of the performance within our lines of business on slide 12. Before we go through the results, I do want to highlight a technical change that this quarter we did move our direct and indirect auto and other specialty lending into the CPB business from global banking given that it more closely connects with consumer lending activity. This book does include $37 billion of loans, and we have adjusted prior periods to have this data be comparable.

Earnings in the business were relatively stable compared to the first quarter of '13, and up 15% from the prior year, driven by both expense improvements as well as lower credit costs. We do continue to do more business with our core customers.

Our average deposits were up almost $9 billion from the first quarter of '13, excluding the transfers that we had from the wealth management business. Loans declined a modest 1% as a decline in our credit cards was mitigated by our balance growth in both small business as well as auto lending.

There's been a lot of discussion on our U.S. credit card balances. Those balances appear to have stabilized and at the end of the second quarter were at $90.5 billion, up from $90 billion at the end of the first quarter of this year. Our card issuance remains strong in the second quarter, and is at its highest level since 2008.

U.S. consumer credit card retail spend for average active account was up 9% from the same quarter a year ago. We continue to optimize our delivery network, and usage within the mobile channel continues to increase. And lastly, expense levels reflect both the benefits of the network optimization as well as the investments to build out our specialty sales force.

If we move to consumer real estate services, on slide 13, we address home loans, one of the two businesses within our CRES segment. First mortgage retail originations were $25 billion and were up 6% from the first quarter and 41% compared with retail originations in the year ago period.

Our market share in the retail mortgage space improved. We broke through 5% versus below 4% just over a year ago. We do anticipate some slowdown in mortgage production resulting from recent increases in interest rate, and that is seen by the 5% reduction in our mortgage origination pipeline at the end of June relative to what we had seen at the end of March this year.

While production has experienced a nice trajectory over the last year, we, like the industry, have experienced compression on margins that affects revenue. While these margins do remain high relative to historical periods, the compression is most notable when you look at our year over year production revenue.

We continued to add mortgage loan officers during the second quarter, primarily in the banking centers, as well as other employees in our sales and fulfillment area, in order to deliver a first class mortgage experience for our customers. These actions did contribute to higher expenses in the quarter.

On slide 14, we moved to legacy assets and servicing, which still did report a loss in the quarter, but showed significant improvement from the first quarter, which included the MBIA and RMBS litigation settlements as the reduction in expenses more than offset a decline in the revenues.

Revenues were negatively impacted by a servicing revenue decline of $175 million, as the servicing portfolio declined 17% and we had less favorable MSR hedge performance. That was partially offset by higher sales volume of loans that returned to performing status.

As you look at LAS, several key takeaways from this slide. The first is our level of 60-plus day delinquent loans, which is one of the primary drivers of the elevated cost, dropped below 500,000 units at the end of June, a 27% decline from the results at the end of the first quarter of ’13.

Recall our number of 60-plus day delinquent loans peaked at almost 1.4 million units at the end of 2010. Looking ahead, we now expect our amount of 60-plus day delinquent loans to come down further than we originally expected to below 375,000 units by the end of 2013. As we continue to reduce these loans, the number of employees and contractors will come down, and you can see that by the decrease of 5,000 people during this quarter.

Expenses, ex-litigation, once again were down roughly $250 million from the first quarter to $2.3 billion.

Global wealth and investment management, on slide 15, had a great quarter, with our results once again reflecting records in revenues, earnings, as well as pretax margin. Year over year, revenue increased 10%, and net income grew by 38%.

Our second quarter pretax margin of about 28% benefited from strong revenue performance as well as improved credit costs during the quarter.

Long term AUM flows were solid at nearly $80 billion in the quarter, more than double the flows that we saw in the prior year ago period.

Ending loan balances grew $5 billion in the quarter to record levels, while ending deposits declined $5 billion due to the seasonality of tax payments.

Global banking, on slide 16, experienced strong loan growth and slightly higher investment banking fees compared to the first quarter of 2013, both of which helped drive $1.3 billion in net income and a 22% return on allocated equity.

The investment banking strength kept fees near record levels and we retained our second place ranking in net investment banking fees. Within the investment bank, underwriting fees continued the momentum from near record levels during the first quarter of ’13, and were up 53% from the second quarter of 2012.

Equity underwriting fees grew 10% relative to the first quarter of ’13, and up 86% from the comparable year ago period, due to the strong global IPO market, as well as our focus on continuing to grow capabilities within this space.

On the balance sheet, average loans increased by almost $12 billion from the first quarter, driven by growth in both corporate C&I as well as commercial real estate. As you look at that loan growth, I think it’s important to note the strong diversity in lending to our global customer base, as the U.S. represented approximately 40% of the growth, with the balance outside the U.S.

We switch to global markets, on slide 17. We earned roughly $1 billion during the quarter, on revenue of $4.2 billion, which is up significantly from the second quarter of 2012 results, but down from the first quarter of ’13. The business during the second quarter generated a 13% return on allocated equity.

Sales and trading revenue, if we back out DVA, was $3.5 billion, solidly above our 2012 results. Fixed sales and trading was down versus the second quarter of ’12, as well as the first quarter of ’13, given the rate volatility and spread widening that we saw during the last month of the quarter.

Equity sales and trading had a very strong quarter, actually the best that we’ve seen since the first quarter of 2011. Results, ex-DVA, were up 53% from the second quarter of 2012, and 4% over the first quarter of ’13, as we continued to gain market share and cash equities, improved our performance in equity derivatives, and had higher client balances in our financing area.

If you look at the balance sheet, trading asset levels did decline as we reduced risk during the end of the second quarter. Average VAR, at a 99% confidence level, was $69 million in the quarter, down from $80 million in the first quarter of last year.

On slide 18, we walk you through the results of our all other segment, which includes global principal investments, our non-U.S. consumer card business, our discretionary portfolio associated with interest rate risk management, insurance, as well as our international wealth management area.

Gains on the sale of debt securities were $452 million in the second quarter of ’13, compared to $67 million in the first quarter and $354 million in the second quarter of 2012. That, coupled with the prior quarter costs for retirement eligible compensation, lower litigation expense, higher equity investment income, and lower provision for credit losses, due primarily to the improvement in the residential mortgage portfolio, drove the significant improvement in earnings in this segment compared to both the first quarter of this year and the prior year ago period.

Before we leave this slide, two things I would note for modeling purposes as it relates to preferred dividends and taxes. The first, preferred dividends, we expect our preferred dividends to drop from $441 million this quarter to about $280 million in the third quarter, and then settle in around $260 million per quarter as we move forward. These declines are the result of the reduction of the $5.5 billion of preferred stock this quarter.

If we move to taxes, the effective tax rate for the quarter was 27%. As we look out during the balance of the year, we would expect the rate to be approximately 30% plus or minus any unusual items like the U.K. tax rate reduction.

As we’ve disclosed previously, this year’s expected U.K. corporate income tax rate is likely to be reduced by 3%, and will be enacted in the third quarter of this year. As a result, for modeling purposes, you should include a charge of approximately $1.1 billion associated with the writedown of our U.K. deferred tax assets in the third quarter of this year. But keep in mind, given where we are from a DTA disallowance position, this will not impact our Basel I or Basel III capital ratios.

And before we wrap up and take questions, I'd like to leave you with a couple of thoughts about the second quarter performance. We achieved many of the objectives that we laid out for the quarter. Revenue was solid, costs came down significantly, credit continued to improve, and our capital ratios remained strong and improved despite the change in both OCI as well as the initiation of our share repurchase program during the quarter.

The higher rate environment, to the extent it stays with us, allows us to improve our net interest income going forward, and we plan to continue to drive forward, execute on our strategy, and deliver on the earnings capability of our company.

And with that, operator, we'll go ahead and open it up for questions.

**Question-and-Answer Session**

**Operator**

[Operator instructions.] We'll go first to the site of Betsy Graseck with Morgan Stanley. Your line is open.

**Betsy Graseck - Morgan Stanley**

A couple of questions on improving RWAs. You mentioned that credit helped drive the RWAs down a little bit. Could you give a little bit more color on how much of the HPI improvement has already come through the RWAs? Is there any more to come from what's happened so far in your 3Q and 4Q outlook?

**Bruce Thompson**

When we referenced the improving credit quality, you can look at it in three different buckets. The first, which you've already pointed out, clearly HPI under Basel III as home prices go up, there's benefit to that. And that improvement accounted for roughly a third of the improvement we saw during the quarter.

The other two things that we benefited from was at the end of the quarter we had less risk on the books, so that obviously the reduction in risk provided some benefit. And then third, the overall credit quality of the wholesale book that we had seen also improved. So within that credit quality characterization, it was those three things.

As we look forward, any further improvement that we have with respect to risk-weighted assets is going to be a function of home prices. Obviously the [prints] that we've seen during this quarter continue to be strong, and to the extent that the improvement continues, we would expect to benefit from that.

The other thing that is noteworthy, and you see this, is that we do continue to run off a fair bit of legacy positions within the consumer mortgage portfolio, and you saw that the home equity lines of credit reduced by about another $3.5 billion during the quarter, and that obviously provides some benefit as well.

**Betsy Graseck - Morgan Stanley**

And then a follow up on your comment regarding the outlook for NII, where you indicated that NII excluding market related items could build from the $10.4 billion at 2Q '13. Could you describe how you're thinking about that? I've had a lot of conversations over the last quarter about what you put in your Q, which is a 100 basis point back up in rates, meaningful increase in EPS. That's got to come more from reinvesting the cash flow of the securities portfolio. Can you give us a sense of how you drive higher NII?

**Bruce Thompson**

Well, in the Q we put out two different numbers. The first is the 100 basis point parallel shift, which at the end of the first quarter I believe we said was either $3.6 billion or $3.7 billion, and then we had the steepening, where just long rates went up, and we had had the $1.6 billion that I referenced.

Obviously as we look at net interest income in the future, we've not seen a parallel shift at this point, we've just seen a steepening. And that's why, in my comments, I referenced the $1.6 billion. But as we look forward and look forward from a net interest income perspective, to the extent that long end rates are higher and we are investing excess liquidity at the company, we will benefit from being able to invest at higher rates.

The other two items that we have that will benefit net interest income going forward is we do continue to take down the debt footprint. And you can see that commercial loan balances are moving up as well. And we'd expect the combination of those things to more than offset some of the declines in both balances and yields we've seen on the consumer side.

**Brian Moynihan**

If you think about, sort of over the last several quarters, we've been fighting the runoff portfolios. And the impact of those going forward continues to mitigate. So if you look at some of the information, the card balance is actually growing quarter to quarter, whether even the home equities, the size of the runoff portfolio in mortgage is lower. You assume those had higher yields in the general case, so the stuff coming out and replacing now helps replace those yields and is better in securities. So that gives us confidence that we're starting to see the growth that helps drive the core NIM up.

**Betsy Graseck - Morgan Stanley**

And would you be looking to shift some of the liquidity pool into securities? Obviously it would be longer duration on the liquidity pool.

**Bruce Thompson**

As we've always said, the first places we continue to build liquidity that we're looking to place it is within the lines of business to fund loan growth from those customers. And if you look at this quarter, and you look at the balance sheet, you saw some of that in that our overall securities balances I believe were down about $18 billion, whereas our average overall loans were up. So clearly the lines of business, to the extent that we continue to originate well-structured, well-priced loans that return the way that we'd like, that's where the liquidity is going to go first. The excess liquidity is invested, and in this environment we continue to be very mindful of the OCI risk and will manage with the mindset of mitigating that risk.

**Betsy Graseck - Morgan Stanley**

And then just lastly on the [unintelligible] pretax margin, pretty strong number this quarter. And I know last quarter you called out some one-timers. Were there any one-timers in that this quarter?

**Bruce Thompson**

The only one-timer that I think jumps out is if you look at it you can see that we actually had a negative provision of about $15 million for the quarter. A more normalized provision number within that business is probably $25 million to $50 million, but not unlike the balance of our consumer real estate portfolio, the consumer lending with respect to mortgages in that segment benefits from the increase home prices we've seen. That's probably the one anomaly that [unintelligible]'s mentioning.

**Brian Moynihan**

John Thiel and David Darnell, John runs the business, along with Keith Banks at U.S. Trust, have done a good job. If you look at the [unintelligible] year over year, I think there's a 10% increase in expenses. Went up 3% in the business, which as you know has high sensitivity to compensation increases. So they just have been doing all the hard work and the new BAC work like everybody else. And so as the markets rose, they've benefited dramatically from it.

**Betsy Graseck - Morgan Stanley**

And so what's the targeted pretax margin there?

**Bruce Thompson**

Over time, as we look at where we are, and I want to highlight over time, we think that can get to a margin of 30%. But at the same time, as you've accurately called out, we were at 28% this quarter, and we did have some benefit from the provision line.

**Betsy Graseck - Morgan Stanley**

Over time includes the higher interest rate environment?

**Brian Moynihan**

Yes. But they've got a lot of loans, deposits, and lending in there too, that benefits those rates.

**Operator**

We'll go next to the site of Matt O'Connor with Deutsche Bank. Your line is open.

**Matt O'Connor - Deutsche Bank**

Within fixed income trading businesses, obviously June proved to be a tough month, I think, for a lot of folks, and it seemed like the trends were maybe a little bit weaker than we're seeing elsewhere when we factor in some of the charges you had in the first quarter.

**Bruce Thompson**

A couple of things on the fixed income business. Let's look at it year over year, because this business probably has the most seasonality with respect to the first quarter. If you look at year over year, and if you looked within the businesses, within both the rates and currencies area as well as the different credit trading areas, which we look at investment grade, high yield, as well as our loan sales and trading, the performance year over year was actually pretty good.

Where we had weakness in the second quarter of this year is in three areas. The first is that we continue to run off the structured credit trading book and you had a pretty significant decline during the second quarter of ’13 relative to the prior year from the continued runoff of that book. From a P&L perspective, it’s largely runoff at this point, so we’re not going to have to discuss that much going forward.

The other two areas on a relative basis that were weaker, we have a very significant business that’s got number one market shares in the municipal finance space, and if you look at the prices in the spread widening, it was very dramatic during the month of June in the muni space. That negatively affected us. And then in the mortgage space, obviously the market widened out significantly there, and we had some lumpy items in the second quarter of 2012 as well.

So I think as you look at the quarter, and you look at the fixed income business, once again we run it as a holistic business between new issue and sales and trading. The new issue business had a great quarter. Those areas where the markets were good, rates and currencies, credit trading across the board, actually performed pretty well in the three areas that I mentioned. One, because it’s running off and two, given the market dynamics, didn’t perform as well as we would have expected.

**Matt O’Connor - Deutsche Bank**

So just as we think about [unintelligible] going forward, maybe a little bit of a lower run rate as you ran down the structural trading, but also hopefully less volatility given that.

**Bruce Thompson**

I think that’s fair. And just to give you a sense, the structured credit trading book this quarter was less than $100 million, so as you look at the go forward basis, there’s just not much left.

**Brian Moynihan**

As you look at slide 17, what Tom Montag and team have been able to do is to continue to take advantage of opportunities. Of the equities business, last year we were still a work in progress, but they have rebuilt that business and it’s doing well. The fixed income, Bruce just ran you through that. But look at the ability to drive the profit by getting the expenses lined up well. So on a year over year basis, the profit increased by $460 million, because we were able to maintain expense discipline at the same time as the revenue went up.

And so I think the key there is that we're trying to manage that business in the context of who we are as an entire company, in the markets business, and Tom and team continue to drive where the opportunities are and pick a side. I think they had a very good quarter, but when you step back and look at it holistically, their ability quarter after quarter to drive a good return on capital, even in more volatile spaces where we got obviously hit a little bit and [unintelligible] in the latter part of the quarter, is very solid.

**Matt O'Connor - Deutsche Bank**

We do see good core trends in the [high] banking fees and of course the equities business you mentioned. And just separately, if we look at loan loss provision expense going forward, you gave us some components of chargeoffs and then just kind of big picture some more reserve release. But any thoughts on just the specific level of provision expense going forward? I think you had been targeting 1.8 to 2.2, which obviously you broke through that now for a couple of quarters.

**Bruce Thompson**

I think it's a good question. What I would point to is that credit quality across the board, and particularly as you look at early stage delinquencies, as well as what we're seeing as we move some of the consumer real estate out, is quite strong.

As we've said, we think the chargeoff number will come below $2 billion in the third quarter. And as you look at the reserve release, the reserve release this quarter roughly 650 of it was from core reserves and roughly 250 of it was from PCI. We can't project PCI, but I think if you look at the core 650 and take the chargeoff guidance that we've given, absent any change in home prices, you get a sense as to where we're trending.

**Operator**

We'll go next to the site of John McDonald with Sanford Bernstein. Your line is open.

**John McDonald - Sanford Bernstein**

I was wondering if you had any sense of where we might think of legal expense going forward. It came down a lot this quarter. You got some things behind you. How should we think of that number going forward?

**Bruce Thompson**

As we look at legal expense, it's always a little bit difficult to predict, but the just under $500 million that we saw this quarter, it's clearly at an elevated level from what we'd expect long term. At the same time, within the $500 million, there was nothing lumpy from the quarter. So I always hesitate to say too much on that, because it is lumpy, but the $500 million number as it relates to a base level, at least what we can tell in the near term, is probably not a bad level to keep.

**John McDonald - Sanford Bernstein**

And putting expenses all together, the $16 billion is probably a pretty good jumping off point for us to think going forward starting in the third quarter?

**Bruce Thompson**

That's correct.

**John McDonald - Sanford Bernstein**

And then on the quarterly LAS trend, you mentioned getting below $2 billion by the end of this year. Any thoughts on what your destination might be by the end of 2014? Ultimately you want to get that number down to $500 million, right?

**Bruce Thompson**

We previously said we'd get a billion out this year, and a billion in 2014. We will be at a lower level at the end of '13, as we've said today, and I don't think it's unreasonable to think we'll get another billion out in '14 relative to that lower level.

**John McDonald - Sanford Bernstein**

And just separately, you mentioned the DTA. I assume the DTA consumption is still helping drive up your capital ratios. Can you remind us how much DTA you have right now and how much is disallowed?

**Bruce Thompson**

Right now, on a disallowed basis, under Basel 1.5, it's in the zipcode of $15 billion to $16 billion. I think the important thing to keep in mind is during the quarter we didn't get the benefit that you would think from the DTA, because the impact of OCI offset that.

**John McDonald - Sanford Bernstein**

But normally, you'd probably be building at close to the pretax rate you said before?

**Bruce Thompson**

Absolutely.

**John McDonald - Sanford Bernstein**

Last thing for me, on the NII, can you just review that again? The benefit you talked about, that's a benefit from the 10-year moving up. And did you say that you received $300 million of that benefit that's already in the 10.4 that we see this quarter?

**Bruce Thompson**

No, the 300 was in the 10.8. The 10.4 backs out to 300.

**John McDonald - Sanford Bernstein**

So the benefit, the 700, that's to come over the next 12 months?

**Bruce Thompson**

Yeah, the 700 would be the benefit, all other things being equal, off of that $10.4 billion number. And that's just the benefit from the move in rates, not anything else to do with the balance sheet.

**John McDonald - Sanford Bernstein**

Okay, but you're thinking of that as helping the core number grow, right?

**Bruce Thompson**

That's correct. The 700 that's left is all core. The 300 was in the pre-adjustment number that we reported of 10.8 this quarter.

**John McDonald - Sanford Bernstein**

And you have additional benefits beyond that if short rates rise? Is that the point you were making earlier?

**Bruce Thompson**

That's correct. And that's the important point. And I'm just going to speak to what we had in the first quarter. The difference between 100 basis point parallel shift and a 100 basis point on the long end is an incremental $2.1 billion, which is to your short end question.

**Brian Moynihan**

The power of the deposit franchise and the short rate rise, because the mix is so transactional and core oriented, that's where there's a lot of lift left that's not shown up yet, obviously, because of the steepness of the curve.

**Operator**

We'll take our next question from the site of Brennan Hawken with UBS. Your line is open.

**Brennan Hawken - UBS**

I just want to confirm. I believe you guys said in the past that when we look at the revenue declines from the sales and the MSR, in the LAS business, versus the corresponding reduction in expenses, we should kind of count on a lag on that front. Is that right?

**Bruce Thompson**

Yeah, there's always a lag of three to six months from when the work goes away to when the actual employees that are working on that, as well as the expenses associated with it, leave the income statement.

**Brennan Hawken - UBS**

And in your experience, generally what is the MSR purchase market like at this point? Are you guys still out there shopping MSRs? And how sensitive are those buyers to home prices?

**Bruce Thompson**

I want to make sure we clear up on question that we get a lot on this. We worked hard to enter into the MSR sales that we entered into at the end of 2012. And a lot of the goal associated with that was to be able to reduce the work so we could take the expenses out of our legacy assets and servicing area. We entered into a number of transactions in the fourth quarter of 2012 and those will close throughout 2013. The most significant sales have already closed, and there will be some smaller sales that close during the balance of this year.

Outside of the closing of those sales, any activity that you see from an MSR perspective will only be because it makes so much sense, and it results in getting out loans that are very difficult to work out. But going forward, you should not expect to see any incremental MSR sales. And all the guidance we've given you with respect to expense, as well as 60-plus day delinquencies, is solely based on us doing the work that we control.

**Brennan Hawken - UBS**

And then on your AFS portfolio, I think you guys have indicated in the past it was of roughly two-year duration. Given your allocation to RMBS in that portfolio, did we see an extension of that duration? Can you help us get an idea about what the impact might have been during the quarter?

**Bruce Thompson**

As you look at that, at one of the conferences we spoke at, the comment that we had made at that point was that as you look at the impact of OCI relative to net interest income, that it took between 2.5 to 3 years to be able to earn back the OCI that's lost through net interest income. And you're absolutely right that durations do widen in mortgage backed securities, so as we leave 2012, it's more in the context of 3 years to earn it back as opposed to the 2.5 to 3 years that we've spoken about previously.

**Brennan Hawken - UBS**

And then last one from me, the results in GWIM have definitely been impressive. Can you guys speak to any change we've seen in high net worth risk appetite, or behavior, over the last year or so, and how sustainable you view that?

**Brian Moynihan**

I think if you went a little shorter than that, in the first quarter the markets moved, people started putting money back in the market on a high net worth retail level. And I think that trend has continued. But there's still a lot of cash out there, and so if you look at some of the deposit dynamics, you can see that repositioning. So we [feel people are] constructive.

We've got our research experts that can give you their view of the S&P levels and things like that, but from a general trend, from both in our private banking clients and their willingness to borrow money and put it to work for private banking and wealth management clients, and their investment patterns, we've seen their willingness to take risks go up.

And you've seen growth in our lending across the board, and that indicates that people are willing to take risk. I think if you looked back a year ago, people were not using lines, and were not asking for a lot of lines, and that's changed in the last couple of quarters.

**Operator**

We'll go next to the site of Paul Miller from FBR. Your line is open.

**Paul Miller - FBR Capital Markets**

Switching to the mortgage banking side, you've got 5% market share, which you really built back in market share over the last year, year and a half. But most of them are refis. With rates going up, where do you think that market share goes to? Or do you think you've done a pretty good job building up your purchase sales force to maintain that?

**Bruce Thompson**

As you step back this quarter, our purchase percentage of our overall total went up to 17% from what I believe was right around 7% during the first quarter. So we started to see the purchase share go up. And as we look forward, we have roughly 12% deposit market share throughout the country. And if we're doing this business as well as we believe we can, we clearly would expect over time that that mortgage market share can grow from the 4 that we started at a year ago to the 5 that we're at today, up to a high single digit market share.

And as we look at where we are today, relative to going forward, and as we look at what some of our peers have said, the 5% decline in pipeline, end of second quarter currently versus the first quarter, is reflective of the fact that we are picking up share. Because the pipelines aren't down as much as some others.

**Brian Moynihan**

The other thing is about 70-odd percent, 72-74% I think it is, of the activity that we do in mortgage is really off the customer base. And so we now have more than half the mortgage loan officers that we had working through the branch retail stores, on teams of people along with the financial advisors, what we call FSAs, in the branch, and personal bankers and small business bankers.

And so that business system is really taking hold. And the amount they're producing continues to grow, and that's where we placed a lot of the growth year over year. I think we're up to 700 to 800 or so mortgage loan officers, and mostly in that platform. That platform performs well from both real referral basis plus direct to consumer basis. And so we think that will serve us well as the market ebbs and flow between refi and purchase.

And then when you look at our purchase statistics, you also have to remember that we still have probably more than other of our peers, a lot of the government related refinancing business going through, which we identify for you. So if you sort of back that out, you see a more representative picture of how we're doing in the purchase market. But we've got to make that transition happen, and the team will work hard at it.

**Paul Miller - FBR Capital Markets**

Rates have really moved up. Gain on sale margins you know are coming down, but can you give some color on where you've seen gain on sale margins so far into the quarter? Or is it too early to tell?

**Brian Moynihan**

For the third quarter?

**Paul Miller - FBR Capital Markets**

Yeah.

**Brian Moynihan**

I think it's too early to tell. We've only had a couple of weeks of activity, obviously. But they came down in the quarter.

**Bruce Thompson**

Yeah, they were down roughly 50 basis points during the second quarter relative to the first. And as Brian indicated, it's too early to tell this quarter.

**Brian Moynihan**

Remember this is a business which ebbs and flows, and you know as well as anybody. Our goal in this business is to serve our customers well, and I think we've rebuilt the platform to do that, and that's why we're having success. And so as the margins come in, they're still strong, we still make money in the business, but we've got to monitor as we go forward. It doesn't mean that we'll have to take expenses down like everybody else will if the volumes are not there.

**Paul Miller - FBR Capital Markets**

And did you disclose what your HARP percentage is? If you did, I missed it.

**Brian Moynihan**

I don't know it off the top of my head.

**Bruce Thompson**

It's in the 40s.

**Operator**

We'll go next to the site of Guy Moszkowski with Autonomous Research. Your line is open.

**Guy Moszkowski - Autonomous Research**

Thanks for the disclosure on the supplemental leverage ratio. I was wondering if you had any assessment of what the impact might be of the BIS proposal for add-ons on disallowed repo and CDS products sold and disallowed derivatives collateral.

**Bruce Thompson**

I think this at this point, we've worked hard, given that these rules came out at the end of last week, to be able to get to both the parent, as well as to be very specific about our two primary banking subsidiaries. The best that we can tell in the different releases, that's what the U.S. regulatory framework has focused on. There are obviously some different views that were put out in BIS, but we don't have a number for you on that.

**Guy Moszkowski - Autonomous Research**

That's fair. I know that's early days. And stipulating to the fact that, clearly, based on what you've told us, and some stuff that we've done, you are pretty much where you would need to be on the supplemental leverage ratio per the U.S. take. How would you think about managing your off balance sheet lending commitment to the extent that they do drive the denominator there?

**Bruce Thompson**

It's one of the questions, and as we have different discussions that you raise, that as policy gets set on this, there is a concern that some of the policies out there possibly have an impact on the availability of undrawn credit.

And so directly to your point, to the extent that over time you're required to hold capital, in this case in the form of a leverage ratio, for committed, undrawn facilities, by definition the cost of those facilities, to have truly committee facilities, will need to migrate up over time so there's a fair return that's generated on the capital that needs to get held for those.

To the extent that they're not committed, obviously the percentage that you need to hold is much less, but across the industry, to the extent that you need to hold capital for those in greater amounts, the cost will need to change over time. Keep in mind that doesn't kick in until 2018.

**Guy Moszkowski - Autonomous Research**

Fair enough. And to the numbers you gave, you obviously don't have a lot of pressure to do anything there. But you're right. It would seem like pricing of those facilities probably had to get rationalized.

On the shares, you did initiate the share repurchase. You talked about that. But there was still a fairly meaningful amount of share creep in the quarter. Was that just employee grants? Or I would have expected to see those more in the first quarter. And should we expect that we're, at this point, kind of at a high for the year in terms of the share count? Or should it head back down to where it was, say, in the first quarter?

**Bruce Thompson**

If you flip back to the balance sheet data that we present on page six, you can see that the actual number of outstanding shares for the quarter came down by 80 million, which is the 80 million shares that we told you we repurchased. The only variation in the supply chain on a fully diluted basis is the treatment of the 700 million shares that were associated with the Berkshire investment. And depending on the price of the stock, as well as where the preferred shares are, that fully diluted share count can bounce around a little bit. But on a pure shares outstanding, we came down by the 80 million that we show on slide six.

**Guy Moszkowski - Autonomous Research**

When do you expect, at this point, to have completed the rationalization of the branch system?

**Bruce Thompson**

As you go back through the guidance, and what we've spoken about, we wrapped up and did the new BAC for the consumer businesses at the beginning of 2011. And we had a plan to work through and to rationalize that branch network down to in the zipcode of 5,000 branches by the end of 2014. And beyond '14, at this point, we'll continue to evaluate and optimize the branch network going forward.

What we've been very pleased with as we look at that optimization of the network is two things**.** The first, as we've rationalized the network in the markets that we operate, we've been very pleased with our retention of both consumer deposits as well as overall relationships, and that is we've rationalized that network. Our customers have continued to do business with us and just use a different branch.

And the second thing that I would mention is that you've seen some announcements that in some of the more rural markets, we've actually been able to sell those branches and generate decent premiums as we've sold those. But in the near term, we've got the plans through 5,000, and we'll continue to optimize based on the environment we're operating in.

**Guy Moszkowski - Autonomous Research**

But it almost sounds like, based on the success that you've had, that you've outlined, that might encourage you to take it a little bit further? Or would that be reading too much into it?

**Brian Moynihan**

If you look at page 12, you have to sort of look at all the dynamics in there. So deposits up $50 billion from last year second quarter, the branch count down about 270, and the rate paid on deposits from 19 basis points down to 12 basis points. But importantly, look at the mobile banking customer, and the uses behind that. So this is a matter of continuing to optimize, as you said, the distribution system. But it's going to be led by the customer behavior change.

In other words, we are seeing, because of our customer base, and because of our capabilities, like our online banking system is rated best in the business nine years in a row and things like that, the mobile banking system gets great feedback from our customers, seeing constant improvement, that our ability to do this is still in front of us, because we've got to watch the customers behavior and how we change.

There will be some point where the core store level will probably settle in, but you're seeing it work through, that if you sit there and have 10% more deposits and 5% less branches, and 30% more mobile customers, that's a pretty good dynamic in terms of expense base of the platform. And we'll continue to optimize it, but it's going to be led by our customers.

**Operator**

We'll go next to the site of Chris Kotowski with Oppenheimer & Company. Your line is open.

**Chris Kotowski - Oppenheimer**

I'm looking at the supplement on page 23, where you go through the consumer real estate services, and looking down the column that says home lending, year to date you have nearly $2 billion of revenues and only $94 million dropped to the bottom line. And I'm wondering, is that lack of profitably some vagary of segment accounting? Or is the business just kind of marginally profitable? And if so, then why be in it?

**Bruce Thompson**

The big thing there, remember in the home loan space that the only activity that's reflected within that is the front end or the origination side, as well as a small amount of the home equity book that's held there. Keep in mind, relative to our peers, all of the servicing assets and the profitability that comes out of the servicing asset for what I would characterize as the ["gooder"] current servicing is all based within the legacy assets and servicing segment. So a little bit of apples to oranges relative to our peers as to how we report it.

**Chris Kotowski - Oppenheimer**

I'm sorry, the servicing revenues are in the LAS?

**Bruce Thompson**

That's correct.

**Chris Kotowski - Oppenheimer**

And this is just origination?

**Bruce Thompson**

Correct.

**Chris Kotowski - Oppenheimer**

Okay. And is that kind of historically the norm, that origination is sort of a loss leader almost?

**Brian Moynihan**

I wouldn't say loss leader. You've got to do it to make some money, but the value tends to be extracted through the servicing over time. But the reality is that we've been building this up and investing in it, and as we sort of reach a level to where the investment is paying us back, we still have a lot of efficiency to get in this business too, on the front end.

**Chris Kotowski - Oppenheimer**

And then overall, in terms of liquidity, it looks like your non loan earning assets were down by almost $40 billion this quarter. How much further do you suppose you can run those down as you reduce your debt footprint?

**Bruce Thompson**

On the liquidity side, keep in mind a big chunk, $18 billion, of what you saw was a result of what we saw in running down the debt footprint. And as we've said, we've got $13 billion of maturities left in the balance of '13, and just under $40 billion during 2014. So we will continue to be a net reducer of our debt balances, and we'd expect that to continue to benefit the net interest income line.

**Operator**

We'll move next to the site of Moshe Orenbuch with Credit Suisse. Your line is open.

**Moshe Orenbuch - Credit Suisse**

Could you talk a little bit about whether you either have - it doesn't look like it - or are planning to kind of retain mortgage loans in the second half of the year?

**Bruce Thompson**

I'm not sure I understood.

**Moshe Orenbuch - Credit Suisse**

Well, you know, you said in terms of the investment portfolio you'd kind of be cognizant of the AOCI impact. You know, you could achieve a similar objective without that by retaining residential mortgages.

**Bruce Thompson**

Okay. So we would expect, and if you look at during the quarter, and you look at the composition, keep in mind that you do have loans repay. But during the quarter, as it relates to the origination activity that we had with our core clients, that there were about $13 billion of residential mortgage loans that were originated through the core platform, roughly a third of which were through our wealth management area, and the balance through our CPB segment. So there is an origination of activity.

And as I said, the investment portfolio is there to invest the residual of what's used. There will be some incremental investments during the year, but I don't think in the aggregate you should expect to see the overall level of securities balances change dramatically between now and the end of the year.

**Moshe Orenbuch - Credit Suisse**

And given that you've been kind of ahead of or meeting, at least, regulatory capital levels faster than some of your large peers, what are the areas that you think could benefit from incremental capital investment, or where they might be divesting? Are there any opportunities there?

**Bruce Thompson**

You've seen two different levels of activities amongst our peers, you've seen some looking to deploy and to invest in those areas where there are things that are being sold. And I think you see some of it as you look at our commercial loan activities. We're very much focused, given the capital and liquidity that we've built, in using that capital and liquidity within our core customer segments.

And so when you look at that liquidity, you look at our wealth management business, you'll see that the loan balances were up $5 billion Q1 to Q2, because of what we're doing from a securities lending perspective and a mortgage lending perspective. You look at the commercial loan balances. And so they were up $10 billion. That's not from buying loans or doing anything else.

I do think, though, to your point, some of that comes from being able to lend where other people are pulling back. So you're not going to see anything inorganic that we're doing. What you will see, and what you should expect from us, is to continue driving that growth in those customers areas where because of the dynamics that you mentioned, other people may be doing less.

**Brian Moynihan**

If you link this question to the last question about the efficiency of the mortgage business, year over year we deploy about 5,000 people, about 25% increase, to make sure that we can close mortgages on time and meet the demand of the customers.

So at the same time the headcount of the overall company is down significantly, we've had that kind of investment go on. We have more commercial bankers today than we had a year ago. We have more small business bankers, financial services advisor branches. So we continue to make the investment.

It's not really about capital, I think, because we still have so many loan portfolios that are running off, that if we replace them it would be good core growth to replace them. It's more about expense dollars redeployment. That's where we make the judgments right now, and so this [a returning of] cost of capital on the allocated capital, which is regulatory minimums or above. But it's really a question of where to put the expense dollars, and that's what we're focused on in the core business, and we have the best opportunity.

**Moshe Orenbuch - Credit Suisse**

Do you have a number in mind as to how much you would look to reinvest of the expense savings that you're generating?

**Brian Moynihan**

It's a net number, so we don't give you a number that doesn't take account. But for this year, just to give you an example, we'll spend $1.1 billion in connection with the new BAC ideas, which are expense revenue and improving our company basis, that is on top of the $2.5 billion we spend otherwise in pure systems development initiatives to help drive this company. So there's investment going in.

But all the numbers we give you are net of all the investments we're making. So we're giving a net number, but we are investing significantly at the same time. And that was what Bruce and the management team set out a few years ago, was we had to make sure we progressed the core franchise at the same time we brought the expense base and headcount down.

**Operator**

We'll go next to the site of Nancy Bush with NAB Research. Your line is open.

**Nancy Bush - NAB Research**

You've made gains in market share and mortgage, and you said that you have stabilized the credit card. Are you going to be able to gain share in credit card? And how do you look to do that?

**Brian Moynihan**

I think we're in a position for the first time in a long while… We've been stabilizing credit card for a couple of quarters, because we've seen it sort of settle in. We divested some portfolios, as you know. We sized out of some of the business that we didn't find attractive.

In this quarter, we saw the increase for the first time I think in almost five years. And so the team produced about 975,000 new cards this quarter, up from 950-ish last quarter. That is a multiyear high in production, I think goes back to 2008. So we should see this go on.

Now, you have activity levels. You've got to be careful in the summer and things like that. But overall, the baseline is set now, that restructured portfolio which we've shown you guys, I think started at $15 billion to $20 billion several years ago, and it's now down to a few billion. So the underlying demand is there, that we should be able to grow the business and hold our share.

And if you look over the last couple of quarters, we're basically flattish sharewise, and card balance is a little bit down, but in line with the peers. And so we feel good that we finally have reached this point after five years of hard work of restructuring that business.

**Nancy Bush - NAB Research**

Is it a business where you want to gain share? If you could just sort of give your overall philosophy on the credit card business right now?

**Brian Moynihan**

We will continue to drive share among our customers. We have low penetration in certain segments and low usage of our cards in other segments, and so we're driving it through three or four core products, the Cash 123 product for people who feel that's what they want in a card, through the travel rewards and other awards products, and we're seeing the cards come in through those core products and we're driving them. And yes, we want to grow share in the context of our customers in the select affinity teams that we work with across the country.

**Nancy Bush - NAB Research**

The second question I have is somewhat imprecise, and I apologize in advance. But I think what everybody is waiting for with your stock, and with the earnings outlook, is for this massive deposit gathering network to get profitable. And we understand that that is a function of short rates going up. Can you kind of walk us through this? Is there an ideal yield curve? Is there an absolute level of short rates? I mean, what do we have to see to begin to see the branches get massively profitable?

**Bruce Thompson**

The first thing, to your point, if you go to the supplement, during the second quarter the deposit segment within CPV did make $500 million during the quarter. As we look forward, though, more directly to your point, to the extent that the overall yield curve shifts up, and this is once again in our first quarter Q, that the benefit from a net interest income perspective on a 100 basis point parallel shift, as of the end of the first quarter, was over $3.5 billion, the lion's share of which is going to flow through the consumer segment.

So as it relates to where we are now, it is profitable. We've made almost $500 million. We continue to optimize and reduce the expenses to make it more profitable. And you're correct, once rates go up, it will become much more so.

**Nancy Bush - NAB Research**

If I could just finally ask a corollary to that question, because of all the issues that you've had in the past few years, with closing branches, changing branch models, several different sort of programs to change the retail footprint of the company, is there going to be a need as rates go up to give more of that benefit to your customers? In other words, are you going to have to act differently in deposit pricing this time around than you have in previous rate cycles?

**Brian Moynihan**

I think a lot of the adjustments we made on the fee side for the general consumer have already been made, and I think the customers have benefited dramatically from our position, and how we do overdrafts and other types of fees. So I think that is the payback to the customers. As rates rise, we will meet the market and grow the market as we've been doing.

But interestingly enough, remember the constitution of our deposits across the last three years, we have run off a lot of CDs and other things which are not advantage products. And it's really become more and more core every single quarter. And that will play to our benefit, because transactional deposits, checking accounts are noninterest at this point, because as rates rise, there's no extra cost.

**Operator**

And we'll take our final question from the site of Mike Mayo with CLSA. Your line is open.

**Mike Mayo - CLSA**

I have three real small questions and one bigger question. What tax rate should we assume to be normal?

**Bruce Thompson**

At this point, 30% is a reasonable effective tax rate for the last two quarters of the year, realizing you need to add about 1.1 billion to that for the U.K. tax. And as we go into 2014 and 2015, that 30% migrates into more of a 32%, 33% effective tax rate based on what we think we will be earning as we go into ’14 and ’15.

**Mike Mayo - CLSA**

And then secondly, the GWIM margin of 28%, I’m just trying to compare that to the old Merrill Lynch wealth management margin, and you have the asset management and U.S. Trust in there. Can you just give us some estimate where that 28% margin would be? Would it be 26%? Or 25%?

**Bruce Thompson**

Where it would be?

**Mike Mayo - CLSA**

Excluding U.S. Trust and excluding asset management, in other words, just the pure brokerage business, what kind of margin did that have? I’m trying to see if this is the highest brokerage margin ever, perhaps, if you can go back to the old Merrill Lynch.

**Bruce Thompson**

We don’t disclose the difference. I think what you’re asking is is the margin in U.S. Trust materially different than what it is in the traditional Merrill Lynch wealth management model. And you should not assume that the margin improvement and the 28% is driven by a mix. Virtually all of that margin is driven by overall what we’re seeing in what you’ve characterized as the traditional wealth management business of Merrill Lynch.

**Mike Mayo - CLSA**

And then as far as net interest income, you said you had a $300 million benefit this quarter from the increase in the 10-year. So am I just doing the math right? You had $10.5 billion of net interest income, so it added 3% just this last quarter? Or really in the last month. It just seems like a lot. That’s a nice benefit.

**Bruce Thompson**

If you flip to slide nine, we show both the reported as well as the actual number. And the reason why that increase in interest rates led to the improvement in NII is because you need to adjust the way you look at premium securities when rates go up to reflect the slowdown in the rate at which you'd expect to be paid back. So that is more of a life of loan type adjustment, and that's why it's $300 million. It's the reason why we show you the number both ways.

**Mike Mayo - CLSA**

And then lastly, the legal expense came way down. You expect to stay around $500 million. But I'm still focused on the $8.5 billion settlement, and I go down to the courthouse in lower Manhattan, and what I think I hear - and again, correct my thinking - some lawyer say, that Bank of New York rubber stamped the $8.5 billion agreement, therefore throw the $8.5 billion deal out. And what I think the Kathy Patrick side say is, accept the $8.5 billion deal. It's the best economic alternative out there.

So my question is, you have $8.5 billion of reserves to the $8.5 billion settlement. Your disclosures say if the judge does not approve the deal, your reserves would go higher. So my question is, how much higher would your reserves go if the judge does not approve the deal, and what part of my logic would you like to perhaps correct?

**Bruce Thompson**

The first is we're not going to comment on the ins and the outs of the $8.5 billion, because as you know, technically we're not a part of that. The second thing as it relates to that that I would say is, and I think if you go back and look at one of the comments that was made, we accrued the $8.5 billion assuming that all 424 trusts were at the point where they got to the 25%, to where there was a negotiation.

So at this point, to comment whether or not we think the reserves would be higher or they could be lower is really not appropriate, because right now there's an $8.5 billion settlement that's going through the process. We've accrued based on what 22 of the largest investors said was a fair deal, and as you know, when we set up the reserves, we applied that same methodology to a variety of our other exposures. And to speculate or to comment before then, given where we are in this, I just don't think is appropriate.

**Mike Mayo - CLSA**

Sure. I think last quarter you thought it would all be wrapped up by now. Any sense of when this might be wrapped up, when you might have this behind you?

**Bruce Thompson**

I’m not sure that we ever said that we thought it would be wrapped up in the second quarter. What we do know is what you know now given how you’ve followed the case. I believe there’s a court schedule set up through the 26th of July. It’s not clear whether or not it will be wrapped up by the 26th or it will go beyond that. And we’ll just have to see how the process unfolds.

I believe at this point we’re through all the questions, so thank you very much for joining us this morning, and we’ll look forward to talking to you next quarter.