BANK OF AMERICA CORP /DE/
Form 10-Q
May 02, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
[ü] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2016
or
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number:
1-6523
Exact name of registrant as specified in its charter:
Bank of America Corporation
State or other jurisdiction of incorporation or organization:
Delaware
IRS Employer Identification No.:
56-0906609
Address of principal executive offices:
Bank of America Corporate Center
100 N. Tryon Street
Charlotte, North Carolina 28255
Registrant's telephone number, including area code:
(704) 386-5681
Former name, former address and former fiscal year, if changed since last report:
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ü No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ü No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one).

Large accelerated filer ü	Accelerated filer	Non-accelerated filer (do not check if a smaller reporting company)	Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2).
Yes No ü

On April 29, 2016, there were 10,271,915,653 shares of Bank of America Corporation Common Stock outstanding.

Bank of America Corporation
March 31, 2016
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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report on Form 10-Q, the documents that it incorporates by reference and the documents into which it may be incorporated by reference may contain, and from time to time Bank of America Corporation (collectively with its subsidiaries, the Corporation) and its management may make certain statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements can be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements often use words such as "anticipates," "targets," "expects," "hopes," "estimates," "intends," "plans," "goals," "believes," "continue" and other similar expressions or future or conditional verbs such as "will," "may," "might," "should," "would" and "could." Forward-looking statements represent the Corporation's current expectations, plans or forecasts of its future results and revenues, and future business and economic conditions more generally, and other future matters. These statements are not guarantees of future results or performance and involve certain known and unknown risks, uncertainties and assumptions that are difficult to predict and are often beyond the Corporation's control. Actual outcomes and results may differ materially from those expressed in, or implied by, any of these forward-looking statements.

You should not place undue reliance on any forward-looking statement and should consider the following uncertainties and risks, as well as the risks and uncertainties more fully discussed elsewhere in this report, including under Item 1A. Risk Factors of the Corporation's 2015 Annual Report on Form 10-K and in any of the Corporation's subsequent Securities and Exchange Commission filings: the Corporation's ability to resolve representations and warranties repurchase and related claims, including claims brought by investors or trustees seeking to distinguish certain aspects of the New York Court of Appeals' ACE Securities Corp v. DB Structured Products, Inc. (ACE) decision or to assert other claims seeking to avoid the impact of the ACE decision; the possibility that the Corporation could face increased servicing, securities, fraud, indemnity, contribution or other claims from one or more counterparties, including trustees, purchasers of loans, underwriters, issuers, other parties involved in securitizations, monolines or private-label and other investors; the possibility that future representations and warranties losses may occur in excess of the Corporation's recorded liability and estimated range of possible loss for its representations and warranties exposures; the possibility that the Corporation may not collect mortgage insurance claims; potential claims, damages, penalties, fines and reputational damage resulting from pending or future litigation and regulatory proceedings, including the possibility that amounts may be in excess of the Corporation's recorded liability and estimated range of possible loss for litigation exposures; the possible outcome of LIBOR, other reference rate and foreign exchange inquiries and investigations; uncertainties about the financial stability and growth rates of non-U.S. jurisdictions, the risk that those jurisdictions may face difficulties servicing their sovereign debt, and related stresses on financial markets, currencies and trade, and the Corporation's exposures to such risks, including direct, indirect and operational; the impact of U.S. and global interest rates (including negative interest rates), currency exchange rates and economic conditions; the possibility that future credit losses may be higher than currently expected due to changes in economic assumptions, customer behavior and other uncertainties; the impact on the Corporation's business, financial condition and results of operations of a potential higher interest rate environment; the impact on the Corporation's business, financial condition and results of operations from a protracted period of lower oil prices or ongoing volatility with respect to oil prices; our ability to achieve anticipated cost savings, including, but not limited to, our ability to achieve anticipated decreases in the amount of noninterest expense, excluding litigation expense; adverse changes to the Corporation's credit ratings from the major credit rating agencies; estimates of the fair value of certain of the Corporation's assets and liabilities; uncertainty regarding the content, timing and impact of regulatory capital and liquidity requirements, including the potential adoption of total loss-absorbing capacity requirements; the potential for payment protection insurance exposure to increase as a result of Financial Conduct Authority actions; the impact of recent proposed U.K. tax law changes including a further limitation on how much net operating losses can offset annual profits and a reduction to the U.K. corporate tax rate which, if enacted, will result in a tax charge upon enactment; the possible impact of Federal Reserve actions on the Corporation's capital plans; the possible impact of the Corporation's failure to remediate deficiencies identified by banking regulators in the Corporation's Recovery and Resolution plans; the impact of implementation and compliance with new and evolving U.S. and international regulations, including, but not limited to, recovery and resolution planning requirements, the Volcker Rule, and derivatives regulations; a failure in or breach of the Corporation's operational or security systems or infrastructure, or those of third parties, including as a result of cyber attacks; and other similar matters.

Forward-looking statements speak only as of the date they are made, and the Corporation undertakes no obligation to update any forward-looking statement to reflect the impact of circumstances or events that arise after the date the forward-looking statement was made.

Notes to the Consolidated Financial Statements referred to in the Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) are incorporated by reference into the MD&A. Certain prior-period amounts have been reclassified to conform to current period presentation. Throughout the MD&A, the Corporation uses certain acronyms and abbreviations which are defined in the Glossary.

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Executive Summary

Business Overview

The Corporation is a Delaware corporation, a bank holding company (BHC) and a financial holding company. When used in this report, "the Corporation" may refer to Bank of America Corporation individually, Bank of America Corporation and its subsidiaries, or certain of Bank of America Corporation's subsidiaries or affiliates. Our principal executive offices are located in Charlotte, North Carolina. Through our banking and various nonbank subsidiaries throughout the U.S. and in international markets, we provide a diversified range of banking and nonbank financial services and products through five business segments: Consumer Banking, Global Wealth & Investment Management (GWIM), Global Banking, Global Markets and Legacy Assets & Servicing (LAS), with the remaining operations recorded in All Other. We operate our banking activities primarily under the Bank of America, National Association (Bank of America, N.A. or BANA) charter. At March 31, 2016, the Corporation had approximately $2.2 trillion in assets and approximately 213,000 full-time equivalent employees.

As of March 31, 2016, we operated in all 50 states, the District of Columbia, the U.S. Virgin Islands, Puerto Rico and more than 35 countries. Our retail banking footprint covers approximately 80 percent of the U.S. population, and we serve approximately 47 million consumer and small business relationships with approximately 4,700 retail financial centers, approximately 16,000 ATMs, and leading online and mobile banking platforms with approximately 33 million active users and approximately 20 million mobile users (www.bankofamerica.com). We offer industry-leading support to approximately three million small business owners. Our wealth management businesses, with client balances of nearly $2.5 trillion, provide tailored solutions to meet client needs through a full set of investment management, brokerage, banking, trust and retirement products. We are a global leader in corporate and investment banking and trading across a broad range of asset classes, serving corporations, governments, institutions and individuals around the world.

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First-Quarter 2016 Economic and Business Environment

The U.S. economy continued to expand in the first quarter of 2016, much as it had during the final quarter of 2015. Consumer spending rose but at a slower pace for a second consecutive quarter, while consumer confidence remained at levels near the highs of the economic recovery period that began in June 2009. Business spending continued to be constrained by the impact of sustained low oil prices. Residential construction advanced steadily, reflecting continued low mortgage rates and solid employment gains. The net export gap widened, negatively impacting domestic economic growth, as weakness in foreign economies and the strong U.S. Dollar for most of the first quarter decreased export demand.

Payroll gains continued, but at a slower pace than the preceding quarter. The unemployment rate also edged lower. Labor force participation scored solid gains, indicating that the stronger labor market is attracting new candidates, and average hourly earnings showed tentative signs of increasing. Prices for finished energy products such as gasoline continued to fall during the quarter, suppressing headline consumer inflation (which includes certain items that may be subject to frequent volatile price changes, such as food and energy). Core inflation gained slight momentum, matching its year-over-year maximum for the economic recovery period as measured by the Consumer Price Index, but remained well below the Board of Governors of the Federal Reserve System's (Federal Reserve) longer-term annual target of two percent.

After its initial rate increase in December, the Federal Open Market Committee (FOMC) left its federal funds rate target unchanged, showing concern about very low inflation and weak economic conditions abroad. In January, the FOMC cited lower market-based measures of break-even inflation rates (rates that would leave an investor indifferent between holding a Treasury inflation-protected security and a Treasury security) and hinted at increased risk to the economy. In March, FOMC members' assessments of future federal funds rate levels fell appreciably. These signals indicated greater restraint in tightening monetary policy by the Federal Reserve. In response, Treasury yields fell during the quarter. Credit conditions tightened early in the quarter with widening corporate spreads and falling equities. However, both asset classes recovered late to remain relatively unchanged for the quarter.

International concerns remained a key factor in the Federal Reserve's resistance to raising rates. Internationally, other central banks generally increased monetary easing. Responding to sustained below-target inflation, the European Central Bank lowered its deposit rate further into negative territory and increased its volume of security purchases. The issues of the influx of refugees related to the war in Syria and the possibility that the United Kingdom could elect to leave the European Union remained sources of political uncertainty for the region. The Bank of Japan eased its monetary policy further, also introducing negative rates for the first time. Among emerging nations, Brazil faced a political crisis along with a deep recession and high inflation, while the Chinese economy continued to expand but at a somewhat slower pace.

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Recent Events

Resolution Plan

On April 13, 2016, the Federal Reserve and the Federal Deposit Insurance Corporation (FDIC) provided firm-specific feedback to eight systemically important, domestic banking institutions on their 2015 resolution plans. For additional information, see the Corporation's Current Report on Form 8-K as filed on April 13, 2016.

Capital Management

During the three months ended March 31, 2016, we repurchased $800 million of common stock in connection with our 2015 Comprehensive Capital Analysis and Review (CCAR) capital plan, which included a request to repurchase $4.0 billion of common stock over five quarters beginning in the second quarter of 2015, and to maintain the quarterly common stock dividend at the current rate of $0.05 per share. Additionally, on March 18, 2016, the Corporation announced that the Board of Directors (the Board) authorized additional repurchases of common stock up to $800 million outside of the scope of the 2015 CCAR capital plan to offset the share count dilution resulting from equity incentive compensation awarded to retirement-eligible employees, to which the Federal Reserve did not object. In connection with the additional authorization, the Corporation repurchased $200 million of common stock during the three months ended March 31, 2016. For additional information, see Capital Management on page 45.

Selected Financial Data

Table 1 provides selected consolidated financial data for the three months ended March 31, 2016 and 2015, and at March 31, 2016 and December 31, 2015.

Table 1
Selected Financial Data

	Three Months Ended March 31	
(Dollars in millions, except per share information)	2016	2015
Income statement		
Revenue, net of interest expense (FTE basis) [1]	$ 19,727	$ 21,129
Net income	2,680	3,097
Diluted earnings per common share	0.21	0.25
Dividends paid per common share	0.05	0.05
Performance ratios		
Return on average assets	0.50 %	0.59 %
Return on average tangible common shareholders' equity [1]	5.41	7.19
Efficiency ratio (FTE basis) [1]	75.11	74.91
	March 31 2016	**December 31 2015**
Balance sheet		
Total loans and leases [2]	$ 901,113	$ 896,983
Total assets	2,185,498	2,144,316
Total deposits	1,217,261	1,197,259
Total common shareholders' equity	238,434	233,932
Total shareholders' equity	262,776	256,205

(1)

Fully taxable-equivalent (FTE) basis, return on average tangible common shareholders' equity and the efficiency ratio are non-GAAP financial measures. Other companies may define or calculate these measures differently. For more information on these measures and ratios, and a corresponding reconciliation to GAAP financial measures, see Supplemental Financial Data on page 14.

(2) Beginning in the first quarter of 2016, the Corporation classifies certain leases in other assets. Previously these leases were classified in loans and leases. Prior periods were reclassified to conform to current period presentation.

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Financial Highlights

Net income was $2.7 billion, or $0.21 per diluted share for the three months ended March 31, 2016 compared to $3.1 billion, or $0.25 for the same period in 2015. The results for the three months ended March 31, 2016 compared to the same period in 2015 were primarily driven by declines in net interest income on a fully taxable-equivalent (FTE) basis and noninterest income, and higher provision for credit losses, partially offset by lower noninterest expense. Included in net interest income on an FTE basis were negative market-related adjustments on debt securities of $1.2 billion and $484 million for the three months ended March 31, 2016 and 2015.

Total assets increased $41.2 billion from December 31, 2015 to $2.2 trillion at March 31, 2016 primarily driven by higher securities borrowed or purchased under agreements to resell due to increased customer financing activity, higher cash and cash equivalents due to strong deposit inflows, and an increase in loans and leases driven by strong demand for commercial loans outpacing consumer loan sales and run-off. Total liabilities increased $34.6 billion from December 31, 2015 to $1.9 trillion at March 31, 2016 primarily driven by an increase in deposits, securities loaned or sold under agreements to repurchase and trading account liabilities, partially offset by a decline in all other liabilities driven by the Bank of New York Mellon (BNY Mellon) settlement payment. During the three months ended March 31, 2016, we returned $2.0 billion in capital to shareholders through common and preferred stock dividends and common stock repurchases. For more information on the balance sheet, see Executive Summary – Balance Sheet Overview on page 11.

From a capital management perspective, during the three months ended March 31, 2016, we maintained our strong capital position with Common equity tier 1 capital of $162.7 billion, risk-weighted assets of $1,587 billion and a Common equity tier 1 capital ratio of 10.3 percent at March 31, 2016 as measured under the Basel 3 Advanced – Transition. The Corporation's fully phased-in supplementary leverage ratio (SLR) was 6.8 percent and 6.4 percent at March 31, 2016 and December 31, 2015, both above the 5.0 percent required minimum (including leverage buffer) effective January 1, 2018. Our Global Excess Liquidity Sources were $525 billion with time-to-required funding at 36 months at March 31, 2016 compared to $504 billion and 39 months at December 31, 2015. For additional information, see Capital Management on page 45 and Liquidity Risk on page 54.

Table 2
Summary Income Statement

	Three Months Ended March 31	
(Dollars in millions)	2016	2015
Net interest income (FTE basis) (1)	$9,386	$9,626
Noninterest income	10,341	11,503
Total revenue, net of interest expense (FTE basis) (1)	19,727	21,129
Provision for credit losses	997	765
Noninterest expense	14,816	15,827
Income before income taxes (FTE basis) (1)	3,914	4,537
Income tax expense (FTE basis) (1)	1,234	1,440
Net income	2,680	3,097
Preferred stock dividends	457	382
Net income applicable to common shareholders	$2,223	$2,715
Per common share information		
Earnings	$0.21	$0.26
Diluted earnings	0.21	0.25

(1) FTE basis is a non-GAAP financial measure. Includes FTE adjustments of $215 million for both the three months ended March 31, 2016 and 2015. For more information on this measure and for a corresponding reconciliation to GAAP financial measures, see Supplemental Financial Data on page 14.

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Net Interest Income

Net interest income on an FTE basis decreased $240 million to $9.4 billion for the three months ended March 31, 2016 compared to the same period in 2015. The net interest yield on an FTE basis decreased 11 basis points (bps) to 2.05 percent for the same period. These declines were primarily driven by a negative change of $707 million in market-related adjustments on debt securities and lower consumer loan balances, partially offset by growth in commercial loans, the impact of higher interest rates and increased debt securities compared to the three months ended March 31, 2015. Negative market-related adjustments on debt securities were $1.2 billion and $484 million for the three months ended March 31, 2016 and 2015. Negative market-related adjustments on debt securities were primarily due to the acceleration of premium amortization on debt securities as the decline in long-term interest rates shortened the estimated lives of mortgage-related debt securities. Also included in market-related adjustments is hedge ineffectiveness that impacted net interest income. For additional information, see Note 1 – Summary of Significant Accounting Principles to the Consolidated Financial Statements of the Corporation's 2015 Annual Report on Form 10-K.

Noninterest Income

Table 3
Noninterest Income

	Three Months Ended March 31	
(Dollars in millions)	2016	2015
Card income	$1,430	$1,394
Service charges	1,837	1,764
Investment and brokerage services	3,182	3,378
Investment banking income	1,153	1,487
Trading account profits	1,662	2,247
Mortgage banking income	433	694
Gains on sales of debt securities	226	268
Other income	418	271
Total noninterest income	$10,341	$11,503

Noninterest income decreased $1.2 billion to $10.3 billion for the three months ended March 31, 2016 compared to the same period in 2015. The following highlights the significant changes.

- Investment and brokerage services income decreased $196 million driven by lower market valuations and lower transactional revenue.

- Investment banking income decreased $334 million driven by lower debt and equity issuance fees, as well as lower advisory fees due to declines in market fee pools.

- Trading account profits decreased $585 million. Debit valuation adjustments (DVA) gains were $184 million in the three months ended March 31, 2016 compared to losses of $46 million in the same period in 2015. Excluding DVA, trading account profits decreased $815 million driven by declines in credit-related products and equities due to challenging market conditions, and lower revenue in currencies which performed strongly in the same period in 2015. These decreases were partially offset by an improved performance in rates and client financing. For more information on trading account profits, see Global Markets on page 33.

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Mortgage banking income decreased $261 million primarily due to declines in core production revenue, mortgage servicing rights (MSR) net-of-hedge performance and servicing fees, partially offset by gains on the sales of loans.

Other income increased $147 million primarily due to an improvement of $325 million in DVA, partially offset by lower gains on asset sales. DVA losses were $30 million in the three months ended March 31, 2016 compared to $355 million in the same period in 2015.

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Provision for Credit Losses

Table 4
Credit Quality Data

	Three Months Ended March 31	
(Dollars in millions)	2016	2015
Provision for credit losses		
Consumer	$402	$619
Commercial	595	146
Total provision for credit losses	$997	$765
Net charge-offs [1]	$1,068	$1,194
Net charge-off ratio [2]	0.48 %	0.56 %

(1) Net charge-offs exclude write-offs in the purchased credit-impaired loan portfolio.

(2) Net charge-off ratios are calculated as annualized net charge-offs divided by average outstanding loans and leases excluding loans accounted for under the fair value option.

The provision for credit losses increased $232 million to $997 million for the three months ended March 31, 2016 compared to the same period in 2015. The provision for credit losses in the consumer portfolio decreased $217 million compared to the same period in 2015 due to a continued improvement in portfolio trends. The provision for credit losses for the commercial portfolio increased $449 million in the three months ended March 31, 2016 compared to the same period in 2015 driven by an increase in energy sector reserves primarily due to increased allowance coverage for the higher risk sub-sectors. For more information on our energy sector exposure, see Commercial Portfolio Credit Risk Management – Industry Concentrations on page 83. The decrease in net charge-offs for the three months ended March 31, 2016 was primarily due to credit quality improvement in the consumer portfolio, partially offset by higher energy-related net charge-offs in the commercial portfolio.

For the remainder of 2016, we currently expect that provision expense should approximate net charge-offs. For more information on the provision for credit losses, see Provision for Credit Losses on page 89.

Noninterest Expense

Table 5
Noninterest Expense

	Three Months Ended March 31	
(Dollars in millions)	2016	2015
Personnel	$8,852	$9,614
Occupancy	1,028	1,027
Equipment	463	512
Marketing	419	440
Professional fees	425	421
Amortization of intangibles	187	213
Data processing	838	852
Telecommunications	173	171
Other general operating	2,431	2,577
Total noninterest expense	$14,816	$15,827

Noninterest expense decreased $1.0 billion to $14.8 billion for the three months ended March 31, 2016 compared to the same period in 2015. Personnel expense decreased $762 million as we continue to manage headcount and achieve cost savings. Continued expense management in LAS, as well as the expiration of fully-amortized wealth advisor retention awards, more than offset the increases in client-facing professionals. Included in personnel expense were annual retirement-eligible incentive costs of $850 million for the three months ended March 31, 2016 compared to $1.0 billion for the same period in 2015. Other general operating expense decreased $146 million primarily due to lower foreclosed properties expense.

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Income Tax Expense

Table 6
Income Tax Expense

	Three Months Ended March 31	
(Dollars in millions)	2016	2015
Income before income taxes	$3,699	$4,322
Income tax expense	1,019	1,225
Effective tax rate	27.5 %	28.3 %

The effective tax rates for the three months ended March 31, 2016 and 2015 were driven by the impact of our recurring tax preference benefits. We expect an effective tax rate closer to 30 percent for the remainder of 2016, absent unusual items.

The U.K. Chancellor's Budget 2016 was announced on March 16, 2016 and proposes to further reduce the U.K. corporate income tax rate by one percent to 17 percent effective April 1, 2020. This reduction would favorably affect income tax expense on future U.K. earnings but also would require us to remeasure, in the period of enactment, our U.K. net deferred tax assets using the lower tax rate. Accordingly, upon enactment, we would expect to record a charge to income tax expense of approximately $350 million. In addition, for banking companies, the portion of U.K. taxable income that can be reduced by net operating loss carryforwards would be further restricted from 50 percent to 25 percent retroactive to April 1, 2016.

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Balance Sheet Overview

Table 7
Selected Balance Sheet Data

(Dollars in millions)	March 31 2016	December 31 2015	% Change
Assets			
Cash and cash equivalents	$179,610	$159,353	13 %
Federal funds sold and securities borrowed or purchased under agreements to resell	221,129	192,482	15
Trading account assets	178,987	176,527	1
Debt securities	400,311	407,005	(2)
Loans and leases	901,113	896,983	<1
Allowance for loan and lease losses	(12,069)	(12,234)	(1)
All other assets	316,417	324,200	(2)
Total assets	$2,185,498	$2,144,316	2
Liabilities			
Deposits	$1,217,261	$1,197,259	2 %
Federal funds purchased and securities loaned or sold under agreements to repurchase	188,960	174,291	8
Trading account liabilities	74,003	66,963	11
Short-term borrowings	30,881	28,098	10
Long-term debt	232,849	236,764	(2)
All other liabilities	178,768	184,736	(3)
Total liabilities	1,922,722	1,888,111	2
Shareholders' equity	262,776	256,205	3
Total liabilities and shareholders' equity	$2,185,498	$2,144,316	2

Assets

At March 31, 2016, total assets were approximately $2.2 trillion, up $41.2 billion from December 31, 2015. The increase in assets was primarily driven by higher securities borrowed or purchased under agreements to resell due to increased customer financing activity, higher cash and cash equivalents due to strong deposit inflows, and an increase in loans and leases driven by strong demand for commercial loans outpacing consumer loan sales and run-off.

Liabilities and Shareholders' Equity

At March 31, 2016, total liabilities were approximately $1.9 trillion, up $34.6 billion from December 31, 2015, primarily driven by an increase in deposits, securities loaned or sold under agreements to repurchase and trading account liabilities, partially offset by a decline in all other liabilities driven by the BNY Mellon settlement payment.

Shareholders' equity of $262.8 billion at March 31, 2016 increased $6.6 billion from December 31, 2015 driven by an increase in accumulated other comprehensive income (OCI) due to a positive net change in the fair value of available-for-sale (AFS) debt securities as a result of lower interest rates, earnings and preferred stock issuances, partially offset by returns of capital to shareholders of $2.0 billion through common and preferred stock dividends and common stock repurchases.

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Table 8
Selected Quarterly Financial Data

(In millions, except per share information)	2016 Quarter First	2015 Quarters Fourth	Third	Second	First
Income statement					
Net interest income	$9,171	$9,756	$9,471	$10,461	$9,411
Noninterest income	10,341	9,911	11,042	11,495	11,503
Total revenue, net of interest expense	19,512	19,667	20,513	21,956	20,914
Provision for credit losses	997	810	806	780	765
Noninterest expense	14,816	14,010	13,940	13,958	15,827
Income before income taxes	3,699	4,847	5,767	7,218	4,322
Income tax expense	1,019	1,511	1,446	2,084	1,225
Net income	2,680	3,336	4,321	5,134	3,097
Net income applicable to common shareholders	2,223	3,006	3,880	4,804	2,715
Average common shares issued and outstanding	10,340	10,399	10,444	10,488	10,519
Average diluted common shares issued and outstanding	11,100	11,153	11,197	11,238	11,267
Performance ratios					
Return on average assets	0.50 %	0.61 %	0.79 %	0.96 %	0.59 %
Four quarter trailing return on average assets (1)	0.71	0.74	0.73	0.52	0.38
Return on average common shareholders' equity	3.77	5.08	6.65	8.42	4.88
Return on average tangible common shareholders' equity (2)	5.41	7.32	9.65	12.31	7.19
Return on average tangible shareholders' equity (2)	5.72	7.15	9.43	11.51	7.24
Total ending equity to total ending assets	12.02	11.95	11.89	11.71	11.67
Total average equity to total average assets	11.98	11.79	11.71	11.67	11.49
Dividend payout	23.23	17.27	13.43	10.90	19.38
Per common share data					
Earnings	$0.21	$0.29	$0.37	$0.46	$0.26
Diluted earnings	0.21	0.28	0.35	0.43	0.25
Dividends paid	0.05	0.05	0.05	0.05	0.05
Book value	23.12	22.54	22.41	21.91	21.66
Tangible book value (2)	16.17	15.62	15.50	15.02	14.79
Market price per share of common stock					
Closing	$13.52	$16.83	$15.58	$17.02	$15.39
High closing	16.43	17.95	18.45	17.67	17.90
Low closing	11.16	15.38	15.26	15.41	15.15
Market capitalization	$139,427	$174,700	$162,457	$178,231	$161,909

(1) Calculated as total net income for four consecutive quarters divided by annualized average assets for four consecutive quarters.

(2) Tangible equity ratios and tangible book value per share of common stock are non-GAAP financial measures. Other companies may define or calculate these measures differently. For more information on these ratios and for corresponding reconciliations to GAAP financial measures, see Supplemental Financial Data on page 14.

(3) For more information on the impact of the purchased credit-impaired loan portfolio (PCI) on asset quality, see Consumer Portfolio Credit Risk Management on page 60.

(4) Includes the allowance for loan and lease losses and the reserve for unfunded lending commitments.

(5) Balances and ratios do not include loans accounted for under the fair value option. For additional exclusions from nonperforming loans, leases and foreclosed properties, see Consumer Portfolio Credit Risk Management –

Nonperforming Consumer Loans, Leases and Foreclosed Properties Activity on page 73 and corresponding Table 40, and Commercial Portfolio Credit Risk Management – Nonperforming Commercial Loans, Leases and Foreclosed Properties Activity on page 82 and corresponding Table 49.

(6) Primarily includes amounts allocated to the U.S. credit card and unsecured consumer lending portfolios in Consumer Banking, PCI loans and the non-U.S. credit card portfolio in All Other.

(7) Net charge-offs exclude $105 million, $82 million, $148 million, $290 million and $288 million of write-offs in the PCI loan portfolio in the first quarter of 2016 and in the fourth, third, second and first quarters of 2015, respectively. For more information on purchased credit-impaired write-offs, see Consumer Portfolio Credit Risk Management – Purchased Credit-impaired Loan Portfolio on page 70.

(8) Risk-based capital ratios reported under Basel 3 Advanced - Transition beginning in the fourth quarter of 2015. Prior to the fourth quarter of 2015, we were required to report risk-based capital ratios under Basel 3 Standardized - Transition only. For additional information, see Capital Management on page 45.

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Table 8
Selected Quarterly Financial Data (continued)

(Dollars in millions)	2016 Quarter First	2015 Quarters Fourth	Third	Second	First
Average balance sheet					
Total loans and leases	$892,984	$886,156	$877,429	$876,178	$867,169
Total assets	2,173,618	2,180,472	2,168,993	2,151,966	2,138,574
Total deposits	1,198,455	1,186,051	1,159,231	1,146,789	1,130,726
Long-term debt	233,654	237,384	240,520	242,230	240,127
Common shareholders' equity	237,123	234,851	231,620	228,780	225,357
Total shareholders' equity	260,317	257,125	253,893	251,054	245,744
Asset quality [3]					
Allowance for credit losses [4]	$12,696	$12,880	$13,318	$13,656	$14,213
Nonperforming loans, leases and foreclosed properties [5]	9,281	9,836	10,336	11,565	12,101
Allowance for loan and lease losses as a percentage of total loans and leases outstanding [5]	1.35 %	1.37 %	1.45 %	1.50 %	1.58 %
Allowance for loan and lease losses as a percentage of total nonperforming loans and leases [5]	136	130	129	122	122
Allowance for loan and lease losses as a percentage of total nonperforming loans and leases, excluding the PCI loan portfolio [5]	129	122	120	111	110
Amounts included in allowance for loan and lease losses for loans and leases that are excluded from nonperforming loans and leases [6]	$4,138	$4,518	$4,682	$5,050	$5,492
Allowance for loan and lease losses as a percentage of total nonperforming loans and leases, excluding the allowance for loan and lease losses for loans and leases that are excluded from nonperforming loans and leases [5, 6]	90 %	82 %	81 %	75 %	73 %
Net charge-offs [7]	$1,068	$1,144	$932	$1,068	$1,194
Annualized net charge-offs as a percentage of average loans and leases outstanding [5, 7]	0.48 %	0.52 %	0.43 %	0.49 %	0.56 %
Annualized net charge-offs as a percentage of average loans and leases outstanding, excluding the PCI loan portfolio [5]	0.49	0.53	0.43	0.50	0.58
Annualized net charge-offs and PCI write-offs as a percentage of average loans and leases outstanding [5]	0.53	0.55	0.49	0.63	0.70
Nonperforming loans and leases as a percentage of total loans and leases outstanding [5]	0.99	1.05	1.12	1.23	1.30
Nonperforming loans, leases and foreclosed properties as a percentage of total loans, leases and foreclosed properties [5]	1.04	1.10	1.18	1.32	1.40
Ratio of the allowance for loan and lease losses at period end to annualized net charge-offs [7]	2.81	2.70	3.42	3.05	2.82
Ratio of the allowance for loan and lease losses at period end to annualized net charge-offs, excluding the PCI loan portfolio	2.67	2.52	3.18	2.79	2.55

Ratio of the allowance for loan and lease losses at period end to annualized net charge-offs and PCI write-offs	2.56	2.52	2.95	2.40	2.28
Capital ratios at period end					
Risk-based capital: (8)					
Common equity tier 1 capital	10.3 %	10.2 %	11.6 %	11.2 %	11.1 %
Tier 1 capital	11.5	11.3	12.9	12.5	12.3
Total capital	13.4	13.2	15.8	15.5	15.3
Tier 1 leverage	8.7	8.6	8.5	8.5	8.4
Tangible equity (2)	9.0	8.9	8.8	8.6	8.6
Tangible common equity (2)	7.9	7.8	7.8	7.6	7.5

For footnotes see page 12.

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Supplemental Financial Data

We view net interest income and related ratios and analyses on an FTE basis, which when presented on a consolidated basis, are non-GAAP financial measures. We believe managing the business with net interest income on an FTE basis provides a more accurate picture of the interest margin for comparative purposes. To derive the FTE basis, net interest income is adjusted to reflect tax-exempt income on an equivalent before-tax basis with a corresponding increase in income tax expense. For purposes of this calculation, we use the federal statutory tax rate of 35 percent. This measure ensures comparability of net interest income arising from taxable and tax-exempt sources.

Certain performance measures including the efficiency ratio and net interest yield utilize net interest income (and thus total revenue) on an FTE basis. The efficiency ratio measures the costs expended to generate a dollar of revenue, and net interest yield measures the bps we earn over the cost of funds.

We also evaluate our business based on certain ratios that utilize tangible equity, a non-GAAP financial measure. Tangible equity represents an adjusted shareholders' equity or common shareholders' equity amount which has been reduced by goodwill and intangible assets (excluding MSRs), net of related deferred tax liabilities. These measures are used to evaluate our use of equity. In addition, profitability, relationship and investment models use both return on average tangible common shareholders' equity and return on average tangible shareholders' equity as key measures to support our overall growth goals. These ratios are as follows:

- Return on average tangible common shareholders' equity measures our earnings contribution as a percentage of adjusted common shareholders' equity. The tangible common equity ratio represents adjusted ending common shareholders' equity divided by total assets less goodwill and intangible assets (excluding MSRs), net of related deferred tax liabilities.

- Return on average tangible shareholders' equity measures our earnings contribution as a percentage of adjusted average total shareholders' equity. The tangible equity ratio represents adjusted ending shareholders' equity divided by total assets less goodwill and intangible assets (excluding MSRs), net of related deferred tax liabilities.

- Tangible book value per common share represents adjusted ending common shareholders' equity divided by ending common shares outstanding.

The aforementioned supplemental data and performance measures are presented in Table 8.

We evaluate our business segment results based on measures that utilize average allocated capital. Return on average allocated capital is calculated as net income adjusted for cost of funds and earnings credits and certain expenses related to intangibles, divided by average allocated capital. Allocated capital and the related return both represent non-GAAP financial measures.

Table 9 presents certain non-GAAP financial measures and performance measurements on an FTE basis.

Table 9
Supplemental Financial Data

	Three Months Ended March 31	
(Dollars in millions)	2016	2015
Fully taxable-equivalent basis data		
Net interest income	$9,386	$9,626
Total revenue, net of interest expense	19,727	21,129

Net interest yield	2.05 %	2.16 %
Efficiency ratio	75.11	74.91

Tables 10, 11 and 12 provide reconciliations of these non-GAAP financial measures to GAAP financial measures. We believe the use of these non-GAAP financial measures provides additional clarity in assessing the results of the Corporation and our segments. Other companies may define or calculate these measures and ratios differently.

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Table 10
Quarterly Supplemental Financial Data and Reconciliations to GAAP Financial Measures

	Three Months Ended March 31					
	2016			2015		
(Dollars in millions)	As Reported	Fully taxable-equivalent adjustment	Fully taxable-equivalent basis	As Reported	Fully taxable-equivalent adjustment	Fully taxable-equivalent basis
Net interest income	$9,171	$ 215	$ 9,386	$9,411	$ 215	$ 9,626
Total revenue, net of interest expense	19,512	215	19,727	20,914	215	21,129
Income tax expense	1,019	215	1,234	1,225	215	1,440

Table 11
Period-end and Average Supplemental Financial Data and Reconciliations to GAAP Financial Measures

	Period-end		Average Three Months Ended March 31	
(Dollars in millions)	March 31 2016	December 31 2015	2016	2015
Common shareholders' equity	$238,434	$233,932	$237,123	$225,357
Goodwill	(69,761)	(69,761)	(69,761)	(69,776)
Intangible assets (excluding MSRs)	(3,578)	(3,768)	(3,687)	(4,518)
Related deferred tax liabilities	1,667	1,716	1,707	1,959
Tangible common shareholders' equity	$166,762	$162,119	$165,382	$153,022
Shareholders' equity	$262,776	$256,205	$260,317	$245,744
Goodwill	(69,761)	(69,761)	(69,761)	(69,776)
Intangible assets (excluding MSRs)	(3,578)	(3,768)	(3,687)	(4,518)
Related deferred tax liabilities	1,667	1,716	1,707	1,959
Tangible shareholders' equity	$191,104	$184,392	$188,576	$173,409
Total assets	$2,185,498	$2,144,316		
Goodwill	(69,761)	(69,761)		
Intangible assets (excluding MSRs)	(3,578)	(3,768)		
Related deferred tax liabilities	1,667	1,716		
Tangible Assets	$			