

BANK OF AMERICA CORP /DE/

Form 10-Q

May 05, 2011

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2011

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 Number:

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

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2).

Yes No

On April 30, 2011, there were 10,132,963,189 shares of Bank of America Corporation Common Stock outstanding.

Bank of America Corporation

March 31, 2011 Form 10-Q

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Table of Contents**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 expects, anticipates, believes, estimates, targets, intends, plans, goal and other similar expressions or future or conditional verbs such as will, may, might, should, would and could. The forward-looking statements made represent the current expectations, plans or forecasts of the Corporation regarding the Corporation's future results and revenues, and future business and economic conditions more generally, including statements concerning: 2011 expense levels; higher revenue and expense reductions in 2012; improving performance in retail businesses; home price assumptions; the impact of the agreement with Assured Guaranty Ltd. and its subsidiaries (Assured Guaranty) and its cost, including the expected value of the loss-sharing reinsurance arrangement; the adequacy of the liability for the remaining representations and warranties exposure to the government-sponsored enterprises (GSEs) and the future impact to earnings; the potential assertion and impact of additional claims not addressed by the GSE agreements; the expected repurchase claims on the 2004-2008 loan vintages; representations and warranties liabilities (also commonly referred to as reserves), and range of possible loss estimates, expenses and repurchase claims and resolution of those claims, and any related servicing, securities, indemnity or other claims; future impact of complying with the terms of the recent consent orders with federal bank regulators regarding the foreclosure process and potential civil monetary penalties that may be levied in connection therewith; the impact of delays in connection with the recent foreclosure moratorium; Home Price Index (HPI) expectations; the sale of certain assets and liabilities of Balboa Insurance Company and affiliated entities (Balboa); charges to income tax expense resulting from reductions in the United Kingdom (U.K.) corporate income tax rate; future payment protection insurance claims in the U.K.; future risk-weighted assets and any mitigation efforts to reduce risk-weighted assets; net interest income; credit trends and conditions, including credit losses, credit reserves, charge-offs, delinquency trends and nonperforming asset levels; consumer and commercial service charges, including the impact of changes in the Corporation's overdraft policy as well as from the Electronic Fund Transfer Act and the Corporation's ability to mitigate a decline in revenues; liquidity; capital levels determined by or established in accordance with accounting principles generally accepted in the United States of America (GAAP) and with the requirements of various regulatory agencies, including our ability to comply with any Basel capital requirements endorsed by U.S. regulators without raising additional capital; the revenue impact of the Credit Card Accountability Responsibility and Disclosure Act of 2009 (the CARD Act); the revenue impact resulting from, and any mitigation actions taken in response to, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Financial Reform Act), including the impact of the Durbin Amendment, the Volcker Rule, the risk retention rules and derivatives regulations; mortgage production levels; long-term debt levels; run-off of loan portfolios; the range of possible loss estimates and the impact of various legal proceedings discussed in *Litigation and Regulatory Matters* in Note 11 *Commitments and Contingencies to the Consolidated Financial Statements*; the number of delayed foreclosure sales and the resulting financial impact and other similar matters; and other matters relating to the Corporation and the securities that we may offer from time to time. The foregoing is not an exclusive list of all forward-looking statements the Corporation makes. These statements are not guarantees of future results or performance and involve certain risks, uncertainties and assumptions that are difficult to predict and often are beyond the Corporation's control. Actual outcomes and results may differ materially from those expressed in, or implied by, the Corporation's 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, under Item 1A. *Risk Factors* of the Corporation's 2010 Annual Report on Form 10-K, and in any of the Corporation's subsequent Securities and Exchange Commission (SEC) filings: the Federal Reserve's timing and determinations regarding the Corporation's anticipated revised comprehensive capital plan submission; the potential assertion and*

impact of additional claims not addressed by the agreement with Assured Guaranty and the accuracy and variability of estimates and assumptions in determining the expected value of the loss-sharing reinsurance arrangement and the total cost of the agreement to the Corporation; the Corporation's resolution of certain representations and warranties obligations with the GSEs and our ability to resolve any remaining claims; the Corporation's ability to resolve any representations and warranties obligations, and any related servicing, securities, indemnity or other claims with monolines and private investors; failure to satisfy our obligations as servicer in the residential mortgage securitization process; the adequacy of the liability and/or range of possible loss estimates for the representations and warranties exposures to the GSEs, monolines and private-label and other investors; the potential assertion and impact of additional claims not addressed by the GSE agreements; the foreclosure review and assessment

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process, the effectiveness of the Corporation's response and any governmental findings or penalties or private third-party claims asserted in connection with these foreclosure matters; the adequacy of the reserve for future payment protection insurance claims in the U.K.; negative economic conditions generally including continued weakness in the U.S. housing market, high unemployment in the U.S., as well as economic challenges in many non-U.S. countries in which we operate and sovereign debt challenges; the Corporation's mortgage modification policies and related results; the level and volatility of the capital markets, interest rates, currency values and other market indices; changes in consumer, investor and counterparty confidence in, and the related impact on, financial markets and institutions, including the Corporation as well as its business partners; the Corporation's credit ratings and the credit ratings of its securitizations; the impact resulting from international and domestic sovereign credit uncertainties; the timing of any potential dividend increase; estimates of the fair value of certain of the Corporation's assets and liabilities; legislative and regulatory actions in the U.S. (including the impact of the Financial Reform Act, the Electronic Fund Transfer Act, the CARD Act and related regulations and interpretations) and internationally; the identification and effectiveness of any initiatives to mitigate the negative impact of the Financial Reform Act; the impact of litigation and regulatory investigations, including costs, expenses, settlements and judgments as well as any collateral effects on our ability to do business and access the capital markets; various monetary, tax and fiscal policies and regulations of the U.S. and non-U.S. governments; changes in accounting standards, rules and interpretations (including new consolidation guidance), inaccurate estimates or assumptions in the application of accounting policies, including in determining reserves, applicable guidance regarding goodwill accounting and the impact on the Corporation's financial statements; increased globalization of the financial services industry and competition with other U.S. and international financial institutions; adequacy of the Corporation's risk management framework; the Corporation's ability to attract new employees and retain and motivate existing employees; technology changes instituted by the Corporation, its counterparties or competitors; mergers and acquisitions and their integration into the Corporation, including the Corporation's ability to realize the benefits and cost savings from and limit any unexpected liabilities acquired as a result of the Merrill Lynch and Countrywide acquisitions; the Corporation's reputation, including the effects of continuing intense public and regulatory scrutiny of the Corporation and the financial services industry; the effects of any unauthorized disclosures of our or our customers' private or confidential information and any negative publicity directed toward the Corporation; and decisions to downsize, sell or close units or otherwise change the business mix of the Corporation.

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, we use certain acronyms and abbreviations which are defined in the Glossary.

Executive Summary**Business Overview**

The Corporation is a Delaware corporation, a bank holding company and a financial holding company. When used in this report, the Corporation may refer to the Corporation individually, the Corporation and its subsidiaries, or certain of the Corporation's subsidiaries or affiliates. Our principal executive offices are located in the Bank of America Corporate Center in Charlotte, North Carolina. Through our banking and various nonbanking subsidiaries throughout the United States and in certain international markets, we provide a diversified range of banking and nonbanking financial services and products through six business segments: *Deposits, Global Card Services, Consumer Real Estate Services (formerly Home Loans & Insurance), Global Commercial Banking, Global Banking & Markets (GBAM) and Global Wealth & Investment Management (GWIM)*, with the remaining operations recorded in *All Other*. At March 31, 2011, the Corporation had \$2.3 trillion in assets and approximately 288,000 full-time equivalent employees.

As of March 31, 2011, we operated in all 50 states, the District of Columbia and more than 40 non-U.S. countries. Our retail banking footprint covers approximately 80 percent of the U.S. population and in the U.S., we serve

approximately 58 million consumer and small business relationships, with approximately 5,800 banking centers, 18,000 ATMs, nationwide call centers, and leading online and mobile banking platforms. We have banking centers in 13 of the 15 fastest growing states and have leadership positions in market share for deposits in seven of those states. We offer industry-leading support to approximately four million small business owners. 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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Table 1 provides selected consolidated financial data for the three months ended March 31, 2011 and 2010 and at March 31, 2011 and December 31, 2010.

Table 1
Selected Financial Data

| | Three Months Ended March 31 | |
|--|--|-----------------------------|
| (Dollars in millions, except per share information) | 2011 | 2010 |
| Income statement | | |
| Revenue, net of interest expense (FTE basis) ⁽¹⁾ | \$27,095 | \$ 32,290 |
| Net income | 2,049 | 3,182 |
| Diluted earnings per common share | 0.17 | 0.28 |
| Dividends paid per common share | \$ 0.01 | \$ 0.01 |
| Performance ratios | | |
| Return on average assets | 0.36% | 0.51% |
| Return on average tangible shareholders' equity ⁽¹⁾ | 5.54 | 9.55 |
| Efficiency ratio (FTE basis) ⁽¹⁾ | 74.86 | 55.05 |
| Asset quality | | |
| Allowance for loan and lease losses at period end | \$39,843 | \$46,835 |
| Allowance for loan and lease losses as a percentage of total loans and leases outstanding at period end ⁽²⁾ | 4.29% | 4.82% |
| Nonperforming loans, leases and foreclosed properties at period end ⁽²⁾ | \$31,643 | \$35,925 |
| Net charge-offs | 6,028 | 10,797 |
| Annualized net charge-offs as a percentage of average loans and leases outstanding ^(2, 3) | 2.61% | 4.44% |
| Ratio of the allowance for loan and lease losses at period end to annualized net charge-offs ^(2, 4) | 1.63 | 1.07 |
| | March 31 2011 | December 31 2010 |
| Balance sheet | | |
| Total loans and leases | \$ 932,425 | \$ 940,440 |
| Total assets | 2,274,532 | 2,264,909 |
| Total deposits | 1,020,175 | 1,010,430 |
| Total common shareholders' equity | 214,314 | 211,686 |
| Total shareholders' equity | 230,876 | 228,248 |
| Capital ratios | | |
| Tier 1 common equity | 8.64% | 8.60% |
| Tier 1 capital | 11.32 | 11.24 |
| Total capital | 15.98 | 15.77 |
| Tier 1 leverage | 7.25 | 7.21 |

⁽¹⁾ Fully taxable-equivalent (FTE) basis, return on average tangible shareholders' equity (ROTE) and the efficiency ratio are non-GAAP measures. Other companies may define or calculate these measures differently. For

additional information on these measures and ratios, and for a corresponding reconciliation to GAAP financial measures, see Supplemental Financial Data beginning on page 16.

- (2) Balances and ratios do not include loans accounted for under the fair value option. For additional exclusions on nonperforming loans, leases and foreclosed properties, see Nonperforming Consumer Loans and Foreclosed Properties Activity beginning on page 79 and corresponding Table 37, and Nonperforming Commercial Loans, Leases and Foreclosed Properties Activity and corresponding Table 45 on page 89.
- (3) Annualized net charge-offs as a percentage of average loans and leases outstanding excluding purchased credit-impaired (PCI) loans were 2.71 percent and 4.61 percent for the three months ended March 31, 2011 and 2010.
- (4) Ratio of the allowance for loan and lease losses to annualized net charge-offs excluding PCI loans was 1.31 percent and 0.96 percent for the three months ended March 31, 2011 and 2010.

First Quarter 2011 Economic and Business Environment

The banking environment and markets in which we conduct our businesses will continue to be strongly influenced by developments in the U.S. and global economies, as well as the continued implementation and rulemaking from recent financial reforms. The global economy continued to recover in the first quarter of 2011, but the sharp rise in oil prices slowed the growth momentum in the U.S. and contributed to higher inflation, while Europe continued to deal with its banking issues and economic and financial difficulties in its troubled peripheral nations. Emerging nations, especially

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China, continued to grow rapidly, but rising inflation led their central banks to raise rates and tighten monetary policy. For information on our exposure in Europe, Asia, Latin America and Japan, see Non-U.S. Portfolio on page 94.

In the U.S., the economy continued to move forward slowly during the first quarter of 2011. Higher oil prices cut into consumer spending and lowered consumer confidence. Business production remained healthy, but higher commodity and energy prices increased uncertainty and slowed some investment spending plans. Employment gains improved during the quarter contributing to a decline in the unemployment rate to 8.9 percent in March, a full percentage point decline from November 2010.

The housing market remained depressed, with weak sales and continued declines in the HPI. New construction remained very low, despite low inventories of new homes. Declines in home prices added uncertainty about future home prices, dampening home sales. The level of distressed mortgages remained very high, and there were ongoing delays in foreclosure processes. These conditions contributed to the weaknesses in housing and mortgage financing.

During the quarter, reflecting fairly stable inflationary expectations and softer economic conditions in the financial markets, U.S. Treasury bond yields were relatively unchanged, thus maintaining a very steep yield curve, while the U.S. dollar exchange rate fell significantly and the stock market rose materially. Uncertainties regarding domestic and international sovereign credit attracted increasing attention. In the banking sector, credit quality of bank loans to businesses and households continued to improve. Loans to businesses rose modestly, while loans outstanding to households remained weak.

Performance Overview

Net income was \$2.0 billion for the three months ended March 31, 2011 compared to \$3.2 billion for the same period in 2010. After preferred stock dividends and accretion, net income applicable to common shareholders was \$1.7 billion, or \$0.17 per diluted common share for the three months ended March 31, 2011 compared to \$2.8 billion, or \$0.28 per diluted common share for the same period in 2010. Results for the most recent quarter were positively affected by lower credit costs, gains from equity investments, higher asset management fees and investment banking fees. These factors were offset by higher legacy mortgage-related costs, higher litigation expenses and lower sales and trading revenues from the record levels reported in the first three months of 2010.

Net interest income on a FTE basis decreased \$1.7 billion to \$12.4 billion for the three months ended March 31, 2011 compared to the same period in 2010. The decrease was mainly due to lower consumer loan balances and yields, partially offset by the benefits of reductions in long-term debt.

Noninterest income decreased \$3.5 billion to \$14.7 billion for the three months ended March 31, 2011 compared to the same period in 2010. Contributing to the decline were reduced trading account profits, down \$2.5 billion compared to the first quarter of 2010, lower mortgage banking income, down \$870 million (due to a \$487 million increase in representations and warranties provision and lower mortgage production income), and a decrease in service charge income of \$534 million due to the impact of overdraft policy changes last year. Additionally other income declined \$943 million primarily due to negative fair value adjustments related to structured liabilities of \$586 million compared to positive fair value adjustments of \$224 million in the year-ago quarter. These declines were partially offset by improvements in equity investment income, which included a \$1.1 billion gain related to an initial public offering (IPO) of an equity investment in the first quarter of 2011, and a \$513 million decrease in other-than-temporary impairment (OTTI) losses on available-for-sale (AFS) debt securities.

Representations and warranties provision was \$1.0 billion in the first quarter of 2011, compared to \$526 million in the first quarter of 2010 and \$4.1 billion in the fourth quarter of 2010. More than half of the \$1.0 billion provision is attributable to the GSEs and the balance is primarily related to additional experience with a monoline. The additional provision with respect to the GSEs is due to higher estimated repurchase rates based on higher than expected claims from the GSEs during the first quarter of 2011 as well as HPI deterioration

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experienced during the period. Our provision with respect to the GSEs is dependent on, and limited by, our historical claims experience with the GSEs which changed in the first quarter of 2011 and may change in the future based on factors outside of our control. Future provisions and possible loss or range of loss associated with representations and warranties made to the GSEs may be impacted if actual results are different from our assumptions regarding economic conditions, home prices and other matters, including estimated repurchase rates. For additional information about representations and warranties, see Representations and Warranties and Other Mortgage-related Matters on page 44.

The provision for credit losses decreased \$6.0 billion to \$3.8 billion for the three months ended March 31, 2011 compared to the same period in 2010. The provision for credit losses was \$2.2 billion lower than net charge-offs for the three months ended March 31, 2011 compared with \$992 million lower than net charge-offs in the same period in 2010. The reserve reduction for the three months ended March 31, 2011 was due to improving portfolio trends across most of the consumer and commercial businesses, particularly the U.S. credit card, consumer lending and small business products, as well as core commercial loan portfolios. The improvement was offset in part by the addition of \$1.6 billion to consumer PCI portfolio reserves during the three months ended March 31, 2011 compared to \$846 million during the same period in 2010.

Noninterest expense increased \$2.5 billion to \$20.3 billion for the three months ended March 31, 2011 compared to the same period in 2010. The increase was driven by higher general operating expense of \$1.6 billion including mortgage-related assessments and waivers costs of \$874 million. Additionally, higher personnel costs of \$1.0 billion contributed to the increase in noninterest expense as we continue the build-out of several businesses such as *GWIM* and expand our international capabilities in *GBAM*, and increase default-related staffing levels in the mortgage-servicing business. In addition, litigation expenses were up \$352 million from the first quarter of 2010.

Segment Results

Effective January 1, 2011, we realigned *Consumer Real Estate Services* (formerly *Home Loans & Insurance*) among its ongoing operations, which are now referred to as Home Loans & Insurance, a separately managed legacy mortgage portfolio, including owned loans and loans serviced for others, which is referred to as Legacy Asset Servicing, and the results of certain mortgage servicing rights (MSR) activities which are included in Other. For more information on *Consumer Real Estate Services* see page 29.

Table 2**Business Segment Results**

| (Dollars in millions) | Three Months Ended March 31 | | | |
|---------------------------------------|-------------------------------------|-----------------|--------------------------|-----------------|
| | Total Revenue ⁽¹⁾ | | Net Income (Loss) | |
| | 2011 | 2010 | 2011 | 2010 |
| Deposits | \$ 3,189 | \$ 3,718 | \$ 355 | \$ 701 |
| Global Card Services | 5,571 | 6,803 | 1,712 | 963 |
| Consumer Real Estate Services | 2,182 | 3,623 | (2,392) | (2,072) |
| Global Commercial Banking | 2,648 | 3,088 | 923 | 703 |
| Global Banking & Markets | 7,887 | 9,693 | 2,132 | 3,238 |
| Global Wealth & Investment Management | 4,490 | 4,038 | 531 | 434 |
| All Other | 1,128 | 1,327 | (1,212) | (785) |
| Total FTE basis | 27,095 | 32,290 | 2,049 | 3,182 |
| FTE adjustment | (218) | (321) | - | - |
| Total Consolidated | \$26,877 | \$31,969 | \$ 2,049 | \$ 3,182 |

(1) Total revenue is net of interest expense and is on a FTE basis which is a non-GAAP measure. For more information on this measure and for a corresponding reconciliation to a GAAP financial measure, see Supplemental Financial Data on page 16.

Deposits net income decreased due to a decline in revenue, driven by lower noninterest income due to the impact of overdraft policy changes. Net interest income was flat as impacts from a customer shift to more liquid products and continued pricing discipline were offset by a lower net interest income allocation related to asset and liability management (ALM) activities. Noninterest expense was flat from a year ago.

Global Card Services net income increased due primarily to lower credit costs. Revenue decreased driven by a decline in net interest income from lower average loans and yields as well as a decline in noninterest income due to the impact of the CARD Act as the provisions became effective throughout 2010. Provision for credit losses improved due to lower

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delinquencies and bankruptcies, which drove lower net charge-offs, as a result of the improved economic environment. Noninterest expense increased primarily due to higher litigation expenses.

Consumer Real Estate Services net loss increased due to a decline in revenue and increased noninterest expense. This was partially offset by a decline in provision for credit losses. The decline in revenue was driven in part by an increase in representations and warranties provision, and a decline in core production income. Noninterest expense increased primarily due to mortgage-related assessments and waivers costs related to foreclosure delays, higher litigation expenses and default-related and other loss mitigation expenses.

Global Commercial Banking net income increased as lower revenue was more than offset by improved credit costs. Net interest income decreased due to a lower net interest income allocation related to ALM activities and lower loan balances. Noninterest income decreased largely because the prior year period included a gain on an expired loan purchase agreement. The provision for credit losses decreased driven by improvements primarily in the commercial real estate portfolios reflecting stabilizing values and improved borrower credit profiles in the U.S. commercial portfolio.

GBAM net income decreased reflecting a less favorable trading environment than last year's record quarter and higher noninterest expense driven by investments in infrastructure and technology. This was partially offset by higher investment banking fees and lower provision for credit losses. Provision for credit losses declined due to stabilization in borrower credit profiles leading to lower reservable criticized levels and net charge-offs. Sales and trading revenue was down reflecting a weaker trading environment. Investment banking fees for the quarter were higher reflecting strong performance in mergers and acquisitions as well as debt and equity issuances, particularly within leveraged finance.

GWIM net income increased driven by higher revenue as well as lower credit costs, partially offset by higher expenses. Revenue increased driven by record asset management fees and brokerage income as well as higher net interest income due to strong deposit balance growth. The provision for credit losses decreased driven by improving portfolio trends and fewer charge-offs. Noninterest expense increased due to higher revenue-related expenses, support costs and personnel costs associated with continued build-out of the business.

All Other net loss increased driven by lower revenue and higher provision for credit losses. Revenue decreased due primarily to negative fair value adjustments on structured liabilities combined with lower gains on sales of debt securities. These were partially offset by an increase in net interest income, higher equity investment income, which included a gain related to an IPO of an equity investment in the first quarter of 2011, and lower merger and restructuring charges. The increase in the provision for credit losses was due to reserve additions in the Countrywide PCI discontinued real estate and residential mortgage portfolios.

Financial Highlights***Net Interest Income***

Net interest income on a FTE basis decreased \$1.7 billion to \$12.4 billion for the three months ended March 31, 2011 compared to the same period in 2010. The decrease was primarily due to lower consumer loan balances and a decrease in consumer loan and ALM portfolio yields, partially offset by the benefits associated with ongoing reductions in long-term debt and lower rates paid on deposits. The net interest yield on a FTE basis decreased 26 basis points (bps) to 2.67 percent for the three months ended March 31, 2011 compared to the same period in 2010 due to these same factors.

Table of Contents***Noninterest Income******Table 3******Noninterest Income***

| (Dollars in millions) | Three Months Ended March 31 | |
|--|--|----------|
| | 2011 | 2010 |
| Card income | \$ 1,828 | \$ 1,976 |
| Service charges | 2,032 | 2,566 |
| Investment and brokerage services | 3,101 | 3,025 |
| Investment banking income | 1,578 | 1,240 |
| Equity investment income | 1,475 | 625 |
| Trading account profits | 2,722 | 5,236 |
| Mortgage banking income | 630 | 1,500 |
| Insurance income | 613 | 715 |
| Gains on sales of debt securities | 546 | 734 |
| Other income | 261 | 1,204 |
| Net impairment losses recognized in earnings on available-for-sale debt securities | (88) | (601) |
| Total noninterest income | \$14,698 | \$18,220 |

Noninterest income decreased \$3.5 billion to \$14.7 billion for the three months ended March 31, 2011 compared to the same period in 2010. The following highlights the significant changes.

Service charges decreased \$534 million largely due to the impact of overdraft policy changes in 2010.

Investment banking income increased \$338 million reflecting strong performance in advisory services as well as debt and equity issuances, particularly within leveraged finance.

Equity investment income increased \$850 million which included a \$1.1 billion gain related to an IPO of an equity investment during the first quarter of 2011. The first quarter of 2010 included a \$331 million loss from the sale of our discretionary equity securities portfolio.

Trading account profits decreased \$2.5 billion reflecting a less favorable trading environment than last year's record quarter. Results included DVA losses of \$357 million for the three months ended March 31, 2011 compared to gains of \$169 million for the same period in 2010.

Mortgage banking income decreased \$870 million due to an increase of \$487 million in representations and warranties provision and lower mortgage production income.

Other income decreased \$943 million primarily due to negative fair value adjustments related to structured liabilities of \$586 million, reflecting a tightening of credit spreads, compared to positive adjustments of \$224 million for the same period in 2010.

Net impairment losses recognized in earnings on AFS debt securities decreased \$513 million reflecting lower impairment write-downs on collateralized mortgage obligations and collateralized debt obligations (CDOs).

Provision for Credit Losses

The provision for credit losses decreased \$6.0 billion to \$3.8 billion for the three months ended March 31, 2011 compared to the same period in 2010. The provision for credit losses was lower than net charge-offs for the three months ended March 31, 2011, resulting in a reduction in the allowance for loan and lease losses due to improved credit quality and economic conditions.

The provision for credit losses related to our consumer portfolio decreased \$4.4 billion to \$3.9 billion for the three months ended March 31, 2011 compared to the same period in 2010. The provision for credit losses related to our

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commercial portfolio including the provision for unfunded lending commitments decreased \$1.6 billion to a benefit of \$113 million for the three months ended March 31, 2011.

Net charge-offs totaled \$6.0 billion, or 2.61 percent of average loans and leases for the three months ended March 31, 2011 compared with \$10.8 billion, or 4.44 percent for the three months ended March 31, 2010. For more information on the provision for credit losses, see Provision for Credit Losses on page 98.

Noninterest Expense**Table 4****Noninterest Expense**

| (Dollars in millions) | Three Months Ended March 31 | |
|----------------------------------|--------------------------------|------------------|
| | 2011 | 2010 |
| Personnel | \$ 10,168 | \$ 9,158 |
| Occupancy | 1,189 | 1,172 |
| Equipment | 606 | 613 |
| Marketing | 564 | 487 |
| Professional fees | 646 | 517 |
| Amortization of intangibles | 385 | 446 |
| Data processing | 695 | 648 |
| Telecommunications | 371 | 330 |
| Other general operating | 5,457 | 3,883 |
| Merger and restructuring charges | 202 | 521 |
| Total noninterest expense | \$ 20,283 | \$ 17,775 |

Noninterest expense increased \$2.5 billion for the three months ended March 31, 2011 compared to the same period in 2010. The increase was driven in part by \$874 million of mortgage-related assessments and waivers costs. Also contributing to the increase were litigation costs, which were \$940 million for the three months ended March 31, 2011 (excluding fees paid to external legal service providers), principally associated with mortgage-related matters, an increase of \$352 million compared to the same period in 2010. Additionally, personnel costs were higher by \$1.0 billion compared to the first quarter in 2010 as we continue to build out businesses. These increases were partially offset by a \$319 million decline in merger and restructuring charges compared to the same period in 2010.

Income Tax Expense

Income tax expense was \$731 million for the three months ended March 31, 2011 compared to \$1.2 billion for the same period in 2010 and resulted in an effective tax rate of 26.3 percent compared to 27.5 percent in the prior year. Items such as the U.K. corporate income tax rate change referred to below, possible valuation allowance release and recognition of certain previously unrecognized non-U.S. tax benefits may affect the income tax rate later this year.

On March 29, 2011, the U.K. House of Commons approved a budget resolution to reduce the corporate income tax rate to 26 percent beginning on April 1, 2011. For additional information, see Recent Events U.K. Corporate Income Tax Rate Change on page 15.

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Table 5
Selected Balance Sheet Data

| (Dollars in millions) | March 31 2011 | December 31 2010 | Average Balance Three Months Ended March | |
|--|--------------------|---------------------|---|--------------------|
| | | | 2011 | 31 2010 |
| Assets | | | | |
| Federal funds sold and securities borrowed or purchased under agreements to resell | \$ 234,056 | \$ 209,616 | \$ 227,379 | \$ 266,070 |
| Trading account assets | 208,761 | 194,671 | 221,041 | 214,542 |
| Debt securities | 330,776 | 338,054 | 335,847 | 311,136 |
| Loans and leases | 932,425 | 940,440 | 938,966 | 991,615 |
| Allowance for loan and lease losses | (39,843) | (41,885) | (40,760) | (48,093) |
| All other assets | 608,357 | 624,013 | 656,065 | 781,339 |
| Total assets | \$2,274,532 | \$2,264,909 | \$2,338,538 | \$2,516,609 |
| Liabilities | | | | |
| Deposits | \$1,020,175 | \$1,010,430 | \$1,023,140 | \$ 981,015 |
| Federal funds purchased and securities loaned or sold under agreements to repurchase | 260,521 | 245,359 | 306,415 | 416,078 |
| Trading account liabilities | 88,478 | 71,985 | 83,914 | 90,134 |
| Commercial paper and other short-term borrowings | 58,324 | 59,962 | 65,158 | 92,254 |
| Long-term debt | 434,436 | 448,431 | 440,511 | 513,634 |
| All other liabilities | 181,722 | 200,494 | 188,631 | 193,584 |
| Total liabilities | 2,043,656 | 2,036,661 | 2,107,769 | 2,286,699 |
| Shareholders equity | 230,876 | 228,248 | 230,769 | 229,910 |
| Total liabilities and shareholders equity | \$2,274,532 | \$2,264,909 | \$2,338,538 | \$2,516,609 |