BANK OF AMERICA CORP /DE/
Form 10-K
February 28, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT

PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

[ü] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2007

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class	Name of each exchange on which registered
Common Stock	New York Stock Exchange London Stock Exchange Tokyo Stock Exchange
Depositary Shares, Each Representing a 1/1000th interest in a share of 6.204% Non-Cumulative Preferred Stock, Series D	New York Stock Exchange
Depositary Shares, Each Representing a 1/1,000th interest in a share of Floating Rate Non-Cumulative Preferred Stock, Series E	New York Stock Exchange
Depositary Shares, Each Representing a 1/1,000th interest in a share of 6.625% Non-Cumulative Preferred Stock, Series I	New York Stock Exchange
Depositary Shares, Each Representing a 1/1,000th interest in a share of 7.25% Non-Cumulative Preferred Stock, Series J	New York Stock Exchange
7.25% Non-Cumulative Perpetual Convertible Preferred Stock, Series L	New York Stock Exchange
Minimum Return Index EAGLES℠, due June 1, 2010, Linked to the +Nasdaq-100 Index®	American Stock Exchange
Minimum Return Index EAGLES®, due June 28, 2010, Linked to the S&P 500® Index	American Stock Exchange
Minimum Return Return Linked Notes, due June 24, 2010, Linked to the Nikkei 225 Index	American Stock Exchange
Minimum Return Basket EAGLES℠, due August 2, 2010, Linked to a Basket of Energy Stocks	American Stock Exchange

Minimum Return Index EAGLES®, due August 28, 2009, Linked to the Russell 2000® Index	American Stock Exchange
Minimum Return Index EAGLES®, due September 25, 2009, Linked to the Dow Jones Industrial Average℠	American Stock Exchange
Minimum Return Index EAGLES®, due October 29, 2010, Linked to the Nasdaq-100 Index®	American Stock Exchange
1.50% Index CYCLES™, due November 26, 2010, Linked to the S&P 500® Index	American Stock Exchange

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Title of each class	Name of each exchange on which registered
1.00% Index CYCLES™, due December 28, 2010, Linked to the S&P MidCap 400 Index	American Stock Exchange
Return Linked Notes due June 28, 2010, Linked to the Nikkei 225 Index	American Stock Exchange
1.00% Index CYCLES™, due January 28, 2011, Linked to a Basket of Health Care Stocks	American Stock Exchange
Minimum Return Index EAGLES®, due January 28, 2011, Linked to the Russell 2000® Index	American Stock Exchange
0.25% Cash-Settled Exchangeable Notes, due January 26, 2010, Linked to the Nasdaq-100 Index®	American Stock Exchange
1.25% Index CYCLES™, due February 24, 2010, Linked to the S&P 500® Index	American Stock Exchange
Minimum Return Index EAGLES®, due March 27, 2009, Linked to the Nasdaq-100 Index®	American Stock Exchange
1.75% Basket CYCLES™, due April 30, 2009, Linked to a Basket of Three Indices	American Stock Exchange
1.00% Basket CYCLES™, due May 27, 2010, Linked to a 70/30 Basket of Four Indices and an Exchange Traded Fund	American Stock Exchange
Minimum Return Index EAGLES®, due June 25, 2010, Linked to the Dow Jones Industrial Average℠	American Stock Exchange
1.50% Basket CYCLES™, due July 29, 2011, Linked to an 80/20 Basket of Four Indices and an Exchange Traded Fund	American Stock Exchange
Minimum Return Index EAGLES®, due August 28, 2009, Linked to the AMEX Biotechnology Index℠	American Stock Exchange
1.25% Index CYCLES™, due August 25, 2010, Linked to the Dow Jones Industrial Average℠	American Stock Exchange
1.25% Basket CYCLES™, due September 27, 2011, Linked to a Basket of Four Indices	American Stock Exchange
Minimum Return Basket EAGLES℠, due September 29, 2010, Linked to a Basket of Energy Stocks	American Stock Exchange
Minimum Return Index EAGLES®, due October 29, 2010, Linked to the S&P 500® Index	American Stock Exchange
Minimum Return Index EAGLES®, due November 23, 2010, Linked to the Nasdaq-100 Index®	American Stock Exchange
Minimum Return Index EAGLES®, due November 24, 2010, Linked to the CBOE China Index	American Stock Exchange
1.25% Basket CYCLES™, due December 27, 2010, Linked to a 70/30 Basket of Four Indices and an Exchange Traded Fund	American Stock Exchange
1.50% Index CYCLES™, due December 28, 2011, Linked to a Basket of Health Care Stocks	American Stock Exchange
6 1/2% Subordinated InterNotes℠, due 2032	New York Stock Exchange
5 1/2% Subordinated InterNotes℠, due 2033	New York Stock Exchange
5 7/8% Subordinated InterNotes℠, due 2033	New York Stock Exchange
6% Subordinated InterNotes℠, due 2034	New York Stock Exchange
Minimum Return Index EAGLES, due March 25, 2011, Linked to the Dow Jones Industrial Average	American Stock Exchange
1.625% Index CYCLES, due March 23, 2010, Linked to the Nikkei 225 Index	American Stock Exchange
1.75% Index CYCLES, due April 28, 2011, Linked to the S&P 500 Index	American Stock Exchange
Return Linked Notes, due August 26, 2010, Linked to a Basket of Three Indices	American Stock Exchange
Return Linked Notes, due June 27, 2011, Linked to an 80/20 Basket of Four Indices and an Exchange Traded Fund	American Stock Exchange
Minimum Return Index EAGLES, due July 29, 2010, Linked to the S&P 500 Index	American Stock Exchange
Return Linked Notes, due January 28, 2011, Linked to a Basket of Two Indices	American Stock Exchange
Minimum Return Index EAGLES, due August 26, 2010, Linked to the Dow Jones Industrial Average	American Stock Exchange
Return Linked Notes, due August 25, 2011, Linked to the Dow Jones EURO STOXX 50 Index	American Stock Exchange
Minimum Return Index EAGLES, due October 3, 2011, Linked to the S&P 500 Index	American Stock Exchange

Minimum Return Index EAGLES, due October 28, 2011, Linked to the AMEX Biotechnology Index	American Stock Exchange
Return Linked Notes, due October 27, 2011, Linked to a Basket of Three Indices	American Stock Exchange
Return Linked Notes, due November 22, 2010, Linked to a Basket of Two Indices	American Stock Exchange
Minimum Return Index EAGLES, due November 23, 2011, Linked to a Basket of Five Indices	American Stock Exchange
Minimum Return Index EAGLES, due December 27, 2011, Linked to the Dow Jones Industrial average	American Stock Exchange
0.25% Senior Notes Optionally Exchangeable Into a Basket of Three Common Stocks, due February 2012	American Stock Exchange
Return Linked Notes, due December 29, 2011 Linked to a Basket of Three Indices	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ü No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No ü

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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.

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 Rule 12b-2 of the Exchange Act). Yes No ü

The aggregate market value of the registrant s common stock (Common Stock) held by non-affiliates is approximately $215,286,616,664 (based on the June 29, 2007 closing price of Common Stock of $48.89 per share as reported on the New York Stock Exchange). As of February 25, 2008, there were 4,442,228,781 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Document of the Registrant	**Form 10-K Reference Locations**
Portions of the 2008 Proxy Statement	PART III

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Part I

Bank of America Corporation and Subsidiaries

Item 1. Business

General

Bank of America Corporation (Bank of America or the Corporation) is a Delaware corporation, a bank holding company and a financial holding company under the Gramm-Leach-Bliley Act. Our principal executive offices are located in the Bank of America Corporate Center, Charlotte, North Carolina 28255.

Through our banking subsidiaries (the Banks) and various nonbanking subsidiaries throughout the United States and in selected international markets, we provide a diversified range of banking and nonbanking financial services and products through three business segments: *Global Consumer and Small Business Banking, Global Corporate and Investment Banking* and *Global Wealth and Investment Management*. We currently operate in 32 states, the District of Columbia and more than 30 foreign countries. The Bank of America footprint covers more than 82 percent of the U.S. population and 44 percent of the country s wealthy households. In the United States, we serve approximately 59 million consumer and small business relationships with more than 6,100 retail banking offices, more than 18,500 ATMs and approximately 24 million active on-line users. We have banking centers in 13 of the 15 fastest growing states and hold the top market share in 6 of those states. Bank of America is the number one Small Business Administration lender and has relationships with 99 percent of the U.S. Fortune 500 Companies and 83 percent of the Fortune Global 500 Companies.

Additional information relating to our businesses and our subsidiaries is included in the information set forth in pages 19 through 35 of Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations and *Note 22 Business Segment Information* of the Notes to the Consolidated Financial Statements in Item 8 of this report.

Bank of America s website is *www.bankofamerica.com.* Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available on our website at *http://investor.bankofamerica.com* under the heading SEC Filings as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (the SEC). In addition, we make available on *http://investor.bankofamerica.com* under the heading Corporate Governance: (i) our Code of Ethics and Insider Trading Policy; (ii) our Corporate Governance Guidelines; and (iii) the charters of each of Bank of America s Board committees, and we also intend to disclose any amendments to our Code of Ethics, or waivers of our Code of Ethics on behalf of our Chief Executive Officer, Chief Financial Officer or Chief Accounting Officer, on our website. All of these corporate governance materials are also available free of charge in print to stockholders who request them in writing to: Bank of America Corporation, Attention: Shareholder Relations Department, 101 South Tryon Street, NC1-002-29-01, Charlotte, North Carolina 28255.

Competition

Bank of America and our subsidiaries operate in a highly competitive environment. Our competitors include banks, thrifts, credit unions, investment banking firms, investment advisory firms, brokerage firms, investment companies, insurance companies, mortgage banking companies, credit card issuers, mutual fund companies and e-commerce and other Internet-based companies. We compete with some of these competitors globally and with others on a regional or product basis. Competition is based on a number of factors including customer service, quality and range of products and services offered, price, reputation, interest rates on loans and deposits, lending limits and customer convenience.

More specifically, our consumer banking business competes with banks, thrifts, credit unions, finance companies and other nonbank organizations offering financial services. Our commercial lending business competes with local, regional and international banks and nonbank financial organizations, some of which are larger than certain of our nonbanking subsidiaries and the Banks. In the investment banking, investment advisory and brokerage businesses, our nonbanking subsidiaries compete with U.S. and international banking and investment banking firms, investment advisory firms, brokerage firms, investment companies, other organizations offering similar services and other investment alternatives available to investors, some of which are larger than our subsidiaries. Our mortgage banking units compete with banks, thrifts, government agencies, mortgage brokers and other nonbank organizations offering mortgage banking services. Our card business competes in the U.S. and internationally with banks, as well as monoline and retail card product companies. In the trust business, the Banks compete with other banks, thrifts, insurance agents, financial counselors and other fiduciaries for personal trust business and with other banks, investment counselors and insurance companies for institutional funds.

Bank of America also competes actively for funds. A primary source of funds for the Banks is deposits, and competition for deposits includes other deposit-taking organizations, such as banks, thrifts and credit unions, as well as money market mutual funds. In addition, we compete for funding in the domestic and international short-term and long-term debt securities capital markets.

Our ability to expand into additional states remains subject to various federal and state laws. See Government Supervision and Regulation General below for a more detailed discussion of interstate banking and branching legislation and certain state legislation.

Employees

As of December 31, 2007, there were approximately 210,000 full-time equivalent employees within Bank of America and our subsidiaries. Of these employees, 116,000 were employed within *Global Consumer and Small Business Banking,* 21,000 were employed within *Global Corporate and Investment Banking* and 14,000 were employed within *Global Wealth and Investment Management*. The remainder were employed elsewhere within our company including various staff and support functions.

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None of our domestic employees are subject to a collective bargaining agreement. Management considers our employee relations to be good.

Acquisition and Disposition Activity

As part of our operations, we regularly evaluate the potential acquisition of, and hold discussions with, various financial institutions and other businesses of a type eligible for financial holding company ownership or control. In addition, we regularly analyze the values of, and submit bids for, the acquisition of customer-based funds and other liabilities and assets of such financial institutions and other businesses. We also regularly consider the potential disposition of certain of our assets, branches, subsidiaries or lines of businesses. As a general rule, we publicly announce any material acquisitions or dispositions when a definitive agreement has been reached.

On October 1, 2007, the Corporation completed the acquisition of ABN AMRO North America Holding Company, parent of LaSalle Bank Corporation. On July 1, 2007, the Corporation completed the acquisition of U.S. Trust Corporation. Additional information on our acquisitions and mergers is included under *Note 2 Merger and Restructuring Activity* of the Notes to the Consolidated Financial Statements in Item 8 which is incorporated herein by reference.

Government Supervision and Regulation

The following discussion describes elements of an extensive regulatory framework applicable to bank holding companies, financial holding companies and banks and specific information about Bank of America and our subsidiaries. Federal regulation of banks, bank holding companies and financial holding companies is intended primarily for the protection of depositors and the Deposit Insurance Fund rather than for the protection of stockholders and creditors.

General

As a registered bank holding company and financial holding company, Bank of America is subject to the supervision of, and regular inspection by, the Board of Governors of the Federal Reserve System (the Federal Reserve Board or FRB). The Banks are organized as national banking associations, which are subject to regulation, supervision and examination by the Office of the Comptroller of the Currency (the Comptroller or OCC), the Federal Deposit Insurance Corporation (the FDIC), the Federal Reserve Board, other federal and state regulatory agencies, and with respect to Bank of America s operations in the United Kingdom, the Financial Services Authority (the FSA). In addition to banking laws, regulations and regulatory agencies, Bank of America and our subsidiaries and affiliates are subject to various other laws and regulations and supervision and examination by other regulatory agencies, all of which directly or indirectly affect the operations and management of Bank of America and our ability to make distributions to stockholders.

A financial holding company, and the companies under its control, are permitted to engage in activities considered financial in nature as defined by the Gramm-Leach-Bliley Act and Federal Reserve Board interpretations (including, without limitation, insurance and securities activities), and therefore may engage in a broader range of activities than permitted for bank holding companies and their subsidiaries. A financial holding company may engage directly or indirectly in activities considered financial in nature, either de novo or by acquisition, provided the financial holding company gives the Federal Reserve Board after-the-fact notice of the new activities. The Gramm-Leach-Bliley Act also permits national banks, such as the Banks, to engage in activities considered financial in

nature through a financial subsidiary, subject to certain conditions and limitations and with the approval of the OCC.

Bank holding companies (including bank holding companies that also are financial holding companies) also are required to obtain the prior approval of the Federal Reserve Board before acquiring more than five percent of any class of voting stock of any non-affiliated bank. Pursuant to the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the Interstate Banking and Branching Act), a bank holding company may acquire banks located in states other than its home state without regard to the permissibility of such acquisitions under state law, but subject to any state requirement that the bank has been organized and operating for a minimum period of time, not to exceed five years, and the requirement that the bank holding company, after the proposed acquisition, controls no more than 10 percent of the total amount of deposits of insured depository institutions in the United States and no more than 30 percent or such lesser or greater amount set by state law of such deposits in that state. Subject to certain restrictions, the Interstate Banking and Branching Act also authorizes banks to merge across state lines to create interstate banks. The Interstate Banking and Branching Act also permits a bank to open new branches in a state in which it does not already have banking operations if such state enacts a law permitting de novo branching.

Changes in Regulations

Proposals to change the laws and regulations governing the banking industry are frequently introduced in Congress, in the state legislatures and before the various bank regulatory agencies. The likelihood and timing of any proposals or legislation and the impact they might have on Bank of America and our subsidiaries cannot be determined at this time.

Capital and Operational Requirements

The Federal Reserve Board, the OCC and the FDIC have issued substantially similar risk-based and leverage capital guidelines applicable to United States banking organizations. In addition, these regulatory agencies may from time to time require that a banking organization maintain capital above the minimum levels, whether because of its financial condition or actual or anticipated growth. The Federal Reserve Board risk-based guidelines define a three-tier capital framework. Tier 1 capital includes common shareholders equity, trust securities, minority interests and qualifying preferred stock, less goodwill and other adjustments. Tier 2 capital consists of preferred stock not qualifying as Tier 1 capital, mandatory convertible debt, limited amounts of subordinated debt, other qualifying term debt, the allowance for credit losses up to 1.25 percent of risk-weighted assets and other adjustments. Tier 3 capital includes subordinated debt that is unsecured, fully paid, has an original maturity of at least two years, is not redeemable before maturity without prior approval by the Federal Reserve Board and includes a lock-in clause precluding payment of either interest or principal if the payment would cause the issuing bank s risk-based capital ratio to fall or remain below the required minimum. The sum of Tier 1 and Tier 2 capital less investments in unconsolidated subsidiaries represents our qualifying total capital. Risk-based capital ratios are calculated by dividing Tier 1 and total capital by risk-weighted assets. Assets and off-balance sheet exposures are assigned to one of four categories of risk-weights, based primarily on relative credit risk. The minimum Tier 1 capital ratio is four percent and the minimum total capital ratio is eight percent. Our Tier 1 and total risk-based capital ratios under these guidelines at December 31, 2007 were 6.87 percent and 11.02 percent. At December 31, 2007, we had no subordinated debt that qualified as Tier 3 capital.

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The leverage ratio is determined by dividing Tier 1 capital by adjusted quarterly average total assets, after certain adjustments. Well-capitalized bank holding companies must have a minimum Tier 1 leverage ratio of three percent and are not subject to an FRB directive to maintain higher capital levels. Our leverage ratio at December 31, 2007 was 5.04 percent, which exceeded our leverage ratio requirement.

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), among other things, identifies five capital categories for insured depository institutions (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized) and requires the respective federal regulatory agencies to implement systems for prompt corrective action for insured depository institutions that do not meet minimum capital requirements within such categories. FDICIA imposes progressively more restrictive constraints on operations, management and capital distributions, depending on the category in which an institution is classified. Failure to meet the capital guidelines could also subject a banking institution to capital raising requirements. An undercapitalized bank must develop a capital restoration plan and its parent holding company must guarantee that bank s compliance with the plan. The liability of the parent holding company under any such guarantee is limited to the lesser of five percent of the bank s assets at the time it became undercapitalized or the amount needed to comply with the plan. Furthermore, in the event of the bankruptcy of the parent holding company, such guarantee would take priority over the parent s general unsecured creditors. In addition, FDICIA requires the various regulatory agencies to prescribe certain non-capital standards for safety and soundness relating generally to operations and management, asset quality and executive compensation and permits regulatory action against a financial institution that does not meet such standards.

The various regulatory agencies have adopted substantially similar regulations that define the five capital categories identified by FDICIA, using the total risk-based capital, Tier 1 risk-based capital and leverage capital ratios as the relevant capital measures. Such regulations establish various degrees of corrective action to be taken when an institution is considered undercapitalized. Under the regulations, a well capitalized institution must have a Tier 1 risk-based capital ratio of at least six percent, a total risk-based capital ratio of at least ten percent and a leverage ratio of at least five percent and not be subject to a capital directive order. Under these guidelines, each of the Banks was considered well capitalized as of December 31, 2007.

Regulators also must take into consideration: (a) concentrations of credit risk; (b) interest rate risk; and (c) risks from non-traditional activities, as well as an institution s ability to manage those risks, when determining the adequacy of an institution s capital. This evaluation will be made as a part of the institution s regular safety and soundness examination. In addition, Bank of America, and any Bank with significant trading activity, must incorporate a measure for market risk in their regulatory capital calculations.

Distributions

Our funds for cash distributions to our stockholders are derived from a variety of sources, including cash and temporary investments. The primary source of such funds, and funds used to pay principal and interest on our indebtedness, is dividends received from the Banks. Each of the Banks is subject to various regulatory policies and requirements relating to the payment of dividends, including requirements to maintain capital above regulatory minimums. The appropriate federal regulatory authority is

authorized to determine under certain circumstances relating to the financial condition of a bank or bank holding company that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof.

In addition, the ability of Bank of America and the Banks to pay dividends may be affected by the various minimum capital requirements and the capital and non-capital standards established under FDICIA, as described above. The right of Bank of America, our stockholders and our creditors to participate in any distribution of the assets or earnings of its subsidiaries is further subject to the prior claims of creditors of the respective subsidiaries.

Source of Strength

According to Federal Reserve Board policy, bank holding companies are expected to act as a source of financial strength to each subsidiary bank and to commit resources to support each such subsidiary. This support may be required at times when a bank holding company may not be able to provide such support. Similarly, under the cross-guarantee provisions of the Federal Deposit Insurance Act, in the event of a loss suffered or anticipated by the FDIC either as a result of default of a banking subsidiary or related to FDIC assistance provided to a subsidiary in danger of default the other Banks may be assessed for the FDIC s loss, subject to certain exceptions.

Additional Information

See also the following additional information which is incorporated herein by reference: Net Interest Income (under the captions Financial Highlights Net Interest Income and Supplemental Financial Data in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations (the MD&A) and Tables I, II and XIII of the Statistical Tables); Securities (under the caption Balance Sheet Analysis Debt Securities and Interest Rate Risk Management for Nontrading Activities Securities in the MD&A and *Note 1 Summary of Significant Accounting Principles and Note 5 Securities* of the Notes to the Consolidated Financial Statements in Item 8, Financial Statements and Supplemental Data (the Notes));

Outstanding Loans and Leases (under the caption Balance Sheet Analysis Loans and Leases; Net of Allowance for Loan and Lease Losses and Credit Risk Management in the MD&A, Table III of the Statistical Tables, and *Note 1 Summary of Significant Accounting Principles and Note 6 Outstanding Loans and Leases* of the Notes); Deposits (under the caption Balance Sheet Analysis Deposits and Liquidity Risk and Capital Management Liquidity Risk in the MD&A and *Note 11 Deposits* of the Notes); Short-Term Borrowings (under the caption Balance Sheet Analysis Commercial Paper and other Short-term Borrowings and Liquidity Risk and Capital Management Liquidity Risk in the MD&A, Table IX of the Statistical Tables and *Note 12 Short-term Borrowings and Long-term Debt* of the Notes); Trading Account Assets and Liabilities (under the caption Balance Sheet Analysis Trading Account Assets , Balance Sheet Analysis Trading Account Liabilities and Market Risk Management Trading Risk Management in the MD&A and *Note 3 Trading Account Assets and Liabilities* of the Notes); Market Risk Management (under the caption Market Risk Management in the MD&A); Liquidity Risk Management (under the caption Liquidity Risk and Capital Management in the MD&A); Operational Risk Management (under the caption Operational Risk Management in the MD&A); and Performance by Geographic Area (under *Note 24 Performance by Geographical Are*a of the Notes).

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Item 1A. Risk Factors

The following discusses some of the key risk factors that could affect Bank of America s business and operations. Other factors besides those discussed below or elsewhere in this report also could adversely affect our business and operations, and these risk factors should not be considered a complete list of potential risks that may affect Bank of America.

Business, economic and political conditions. Our businesses and earnings are affected by general business, economic and political conditions in the United States and abroad. Given the concentration of our business activities in the United States, we are particularly exposed to downturns in the United States economy. For example, in a poor economic environment there is a greater likelihood that more of our customers or counterparties could become delinquent on their loans or other obligations to us, which, in turn, could result in a higher level of charge-offs and provision for credit losses, all of which would adversely affect our earnings. General business and economic conditions that could affect us include the level and volatility of short-term and long-term interest rates, inflation, fluctuations in both debt and equity capital markets, liquidity of the global financial markets, the availability and cost of credit, investor confidence, and the strength of the United States economy and the local economies in which we operate. Geopolitical conditions can also affect our earnings. Acts or threats of terrorism, actions taken by the United States or other governments in response to acts or threats of terrorism and/or military conflicts, could affect business and economic conditions in the United States and abroad.

In the second half of 2007, certain credit markets experienced difficult conditions and volatility. These conditions resulted in less liquidity, greater volatility, widening of credit spreads and a lack of price transparency. The Corporation s *Global Corporate and Investment Banking* business operates in these markets, either directly or indirectly, through exposures in securities, loans, derivatives and other commitments. While it is difficult to predict how long these conditions will exist and which markets, products or other businesses of the Corporation will ultimately be affected, these factors could continue to adversely impact the Corporation s results of operations.

Access to funds from subsidiaries. The Corporation is a separate and distinct legal entity from our banking and nonbanking subsidiaries. We therefore depend on dividends, distributions and other payments from our banking and nonbanking subsidiaries to fund dividend payments on the common stock and our preferred stock and to fund all payments on our other obligations, including debt obligations. Many of our subsidiaries are subject to laws that authorize regulatory bodies to block or reduce the flow of funds from those subsidiaries to the Corporation. Regulatory action of that kind could impede access to funds we need to make payments on our obligations or dividend payments. In addition, the Corporation s right to participate in a distribution of assets upon a subsidiary s liquidation or reorganization is subject to the prior claims of the subsidiary s creditors.

Changes in accounting standards. Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time the Financial Accounting Standards Board (FASB) changes the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in the Corporation restating prior period financial statements.

Competition. We operate in a highly competitive environment that could experience intensified competition as continued merger activity in

the financial services industry produces larger, better-capitalized companies that are capable of offering a wider array of financial products and services at more competitive prices. In addition, technological advances and the growth of e-commerce have made it possible for non-depository institutions to offer products and services that traditionally were banking products, and for financial institutions to compete with technology companies in providing electronic and Internet-based financial solutions. Many of our competitors have fewer regulatory constraints and some have lower cost structures than we do. Increased competition may affect our results by creating pressure to lower prices on our products and services and reducing market share.

Credit risk. When we loan money, commit to loan money or enter into a letter of credit or other contract with a counterparty, we incur credit risk, or the risk of losses if our borrowers do not repay their loans or our counterparties fail to perform according to the terms of their contracts. A number of our products expose us to credit risk, including loans, leases and lending commitments, derivatives, trading account assets and assets held-for-sale. As one of the nation s largest lenders, the credit quality of our portfolio can have a significant impact on our earnings. We estimate and establish reserves for credit risks and potential credit losses inherent in our credit exposure (including unfunded credit commitments). This process, which is critical to our financial results and condition, requires difficult, subjective and complex judgments, including forecasts of economic conditions and how these economic predictions might impair the ability of our borrowers to repay their loans. As is the case with any such assessments, there is always the chance that we will fail to identify the proper factors or that we will fail to accurately estimate the impacts of factors that we identify.

For a further discussion of credit risk and our credit risk management policies and procedures, see Credit Risk Management in the MD&A.

Governmental fiscal and monetary policy. Our businesses and earnings are affected by domestic and international monetary policy. For example, the Federal Reserve Board regulates the supply of money and credit in the United States and its policies determine in large part our cost of funds for lending, investing and capital raising activities and the return we earn on those loans and investments, both of which affect our net interest margin. The actions of the Federal Reserve Board also can materially affect the value of financial instruments we hold, such as debt securities and mortgage servicing rights and its policies also can affect our borrowers, potentially increasing the risk that they may fail to repay their loans. Our businesses and earnings also are affected by the fiscal or other policies that are adopted by various regulatory authorities of the United States, non-U.S. governments and international agencies. Changes in domestic and international monetary policy are beyond our control and hard to predict.

Liquidity risk. Liquidity is essential to our businesses. Our liquidity could be impaired by an inability to access the capital markets or by unforeseen outflows of cash. This situation may arise due to circumstances that we may be unable to control, such as a general market disruption or an operational problem that affects third parties or us. Our credit ratings are important to our liquidity. A reduction in our credit ratings could adversely affect our liquidity and competitive position, increase our borrowing costs, limit our access to the capital markets or trigger unfavorable contractual obligations.

For a further discussion of our liquidity position and the policies and procedures we use to manage our liquidity risks, see Liquidity Risk and Capital Management in the MD&A.

Litigation risks. We face significant legal risks in our businesses, and the volume of claims and amount of damages and penalties claimed in litigation and regulatory proceedings against financial institutions remain high. Substantial legal liability or significant regulatory action against Bank of America could have material adverse financial effects or cause significant reputational harm to Bank of America, which in turn could seriously harm our business prospects.

For a further discussion of litigation risks, see Litigation and Regulatory Matters in *Note 13 Commitments and Contingencies* of the Notes.

Market risk. We are directly and indirectly affected by changes in market conditions. Market risk generally represents the risk that values of assets and liabilities or revenues will be adversely affected by changes in market conditions. For example, changes in interest rates could adversely affect our net interest margin the difference between the yield we earn on our assets and the interest rate we pay for deposits and other sources of funding which could in turn affect our net interest income and earnings. Market risk is inherent in the financial instruments associated with our operations and activities including loans, deposits, securities, short-term borrowings, long-term debt, trading account assets and liabilities, and derivatives. Just a few of the market conditions that may shift from time to time, thereby exposing us to market risk, include fluctuations in interest and currency exchange rates, equity and futures prices, changes in the implied volatility of interest rates, foreign exchange rates, equity and futures prices, and price deterioration or changes in value due to changes in market perception or actual credit quality of either the issuer or its country of origin. Accordingly, depending on the instruments or activities impacted, market risks can have wide ranging, complex adverse effects on our results from operations and our overall financial condition.

For a further discussion of market risk and our market risk management policies and procedures, see Market Risk Management in the MD&A.

Merger risks. There are significant risks and uncertainties associated with mergers. For example, we may fail to realize the growth opportunities and cost savings anticipated to be derived from the merger. In addition, it is possible that the integration process could result in the loss of key employees, or that the disruption of ongoing business from the merger could adversely affect our ability to maintain relationships with clients or suppliers. We have an active acquisition program and there is a risk that integration difficulties may cause us not to realize expected benefits from the transactions and affect our results. We will be subject to similar risks and difficulties in connection with future acquisitions, as well as decisions to downsize, sell or close units or otherwise change the business mix of the Corporation.

Non-U.S. operations; trading in non-U.S. securities. We do business throughout the world, including in developing regions of the world commonly known as emerging markets. Our businesses and revenues derived from non-U.S. operations are subject to risk of loss from currency fluctuations, social instability, changes in governmental policies or policies of central banks, expropriation, nationalization, confiscation of assets, unfavorable political and diplomatic developments and changes in legislation relating to non-U.S. ownership. We also invest in the securities of corporations located in non-U.S. jurisdictions, including emerging markets. Revenues from the trading of non-U.S. securities also may be subject to negative fluctuations as a result of the above factors. The impact of these fluctuations could be magnified, because generally non-U.S. trading markets, particularly in emerging market countries, are smaller, less liquid and more volatile than U.S. trading markets.

Operational risks. The potential for operational risk exposure exists throughout our organization. Integral to our performance is the continued efficacy of our technical systems, operational infrastructure, relationships

with third parties and the vast array of associates and key executives in our day-to-day and ongoing operations. Failure by any or all of these resources subjects us to risks that may vary in size, scale and scope. This includes but is not limited to operational or technical failures, unlawful tampering with our technical systems, terrorist activities, ineffectiveness or exposure due to interruption in third party support, as well as the loss of key individuals or failure on the part of the key individuals to perform properly.

For further discussion of operating risks, see Operational Risk Management in the MD&A.

Products and services. Our business model is based on a diversified mix of businesses that provides a broad range of financial products and services, delivered through multiple distribution channels. Our success depends, in part, on our ability to adapt our products and services to evolving industry standards. There is increasing pressure by competition to provide products and services at lower prices. This can reduce our net interest margin and revenues from our fee-based products and services. In addition, the widespread adoption of new technologies, including internet services, could require us to incur substantial expenditures to modify or adapt our existing products and services. We might not be successful in developing and introducing new products and services, responding or adapting to changes in consumer spending and saving habits, achieving market acceptance of our products and services, or developing and maintaining loyal customers.

Regulatory considerations. Bank of America, the Banks and many of our nonbank subsidiaries are heavily regulated by bank regulatory agencies at the federal and state levels. This regulatory oversight is established to protect depositors, federal deposit insurance funds and the banking system as a whole, not security holders. Bank of America and its nonbanking subsidiaries are also heavily regulated by securities regulators, domestically and internationally. This regulation is designed to protect investors in securities we sell or underwrite. Congress and state legislatures and foreign, federal and state regulatory agencies continually review laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including interpretation or implementation of statutes, regulations or policies, could affect us in substantial and unpredictable ways including limiting the types of financial services and products we may offer and increasing the ability of nonbanks to offer competing financial services and products.

Reputational risks. Our ability to attract and retain customers and employees could be adversely affected to the extent our reputation is damaged. Our actual or perceived failure to address various issues could give rise to reputational risk that could cause harm to Bank of America and our business prospects. These issues include, but are not limited to, appropriately addressing potential conflicts of interest; legal and regulatory requirements; ethical issues; money-laundering; privacy; properly maintaining customer and associate personal information; record keeping; sales and trading practices; and the proper identification of the legal, reputational, credit, liquidity and market risks inherent in our products. Failure to appropriately address these issues could also give rise to additional legal risks, which, in turn, could increase the size and number of litigation claims and damages asserted or subject us to enforcement actions, fines and penalties and cause us to incur related costs and expenses.

Risk management processes and strategies. We seek to monitor and control our risk exposure through a variety of separate but complementary financial, credit, operational, compliance and legal reporting systems. While we employ a broad and diversified set of risk monitoring and risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate every economic and finan-

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cial outcome or the specifics and timing of such outcomes. Accordingly, our ability to successfully identify and manage risks facing us is an important factor that can significantly impact our results. For a further discussion of our risk management policies and procedures, see Managing Risk in the MD&A.

Additional risks and uncertainties. We are a diversified financial services company. In addition to banking, we provide investment, mortgage, investment banking, credit card and consumer finance services. Although we believe our diversity helps lessen the effect when downturns affect any one segment of our industry, it also means our earnings could be subject to different risks and uncertainties than the ones discussed herein. If any of the risks that we face actually occur, irrespective of whether those risks are described in this section or elsewhere in this report, our business, financial condition and operating results could be materially adversely affected.

Item 1B. Unresolved Staff Comments

There are no unresolved written comments that were received from the Securities and Exchange Commission s staff 180 days or more before the end of Bank of America s fiscal year relating to our periodic or current reports filed under the Securities Exchange Act of 1934.

Item 2. Properties

As of December 31, 2007, Bank of America s principal offices and primarily all of our business segments were located in the 60-story Bank of America Corporate Center in Charlotte, North Carolina, which is owned by one of our subsidiaries. We occupy approximately 592,000 square feet and lease approximately 609,000 square feet to third parties at market rates, which represents substantially all of the space in this facility. We occupy approximately 932,000 square feet of space at 100 Federal Street in Boston, Massachusetts, which is the headquarters for one of our primary business segments, *Global Wealth and Investment Management*. The 37-story building is owned by one of our subsidiaries which also leases approximately 321,000 square feet to third parties. We also lease or own a significant amount of space worldwide. As of December 31, 2007, Bank of America and our subsidiaries owned or leased approximately 25,200 locations in 41 states, the District of Columbia and more than 30 foreign countries.

Item 3. Legal Proceedings

See Litigation and Regulatory Matters in *Note 13 Commitments and Contingencies* of the Notes beginning on page 122 for Bank of America s litigation disclosure which is incorporated herein by reference.

Item 4. Submission of Matters To A Vote of Security Holders

There were no matters submitted to a vote of stockholders during the quarter ended December 31, 2007.

Item 4A. Executive Officers of The Registrant

Pursuant to the Instructions to Form 10-K and Item 401(b) of Regulation S-K, the name, age and position of each current executive officer of Bank of America are listed below along with such officer s business experience. Officers are appointed annually by the Board of Directors at the meeting of directors immediately following the annual meeting of stockholders.

Keith T. Banks, 52, President, Global Wealth and Investment Management. Mr. Banks was named to his present position in October 2007. From August 2000 to April 2004, he served as Chief Executive Officer and Chief Investment Officer of FleetBoston Financial Corporation s asset management organization; and from April 2004 to October 2007, he

served as President and Chief Investment Officer of Columbia Management, Bank of America s asset management organization. He first became an officer in 1981. He also serves as President, Global Wealth and Investment Management and a director of Bank of America, N.A., FIA Card Services, N.A., LaSalle Bank, N.A., LaSalle Bank Midwest, N.A. and United States Trust Company, N.A.

Amy Woods Brinkley, age 52, Chief Risk Officer. Ms. Brinkley was named to her present position in April 2002. From July 2001 to April 2002, she served as Chairman, Credit Policy and Deputy Corporate Risk Management Executive; and from August 1999 to July 2001, she served as President, Consumer Products. She first became an officer in 1979. She also serves as Chief Risk Officer and a director of Bank of America, N.A., FIA Card Services, N.A., LaSalle Bank, N.A., LaSalle Bank Midwest, N.A. and United States Trust Company, N.A.

Barbara J. Desoer, age 55, Global Technology and Operations Executive. Ms. Desoer was named to her present position in August 2004. From July 2001 to August 2004, she served as President, Consumer Products; and from September 1999 to July 2001, she served as Director of

Marketing. She first became an officer in 1977. She also serves as Global Technology and Operations Executive and a director of Bank of America, N.A., FIA Card Services, N.A., LaSalle Bank, N.A., LaSalle Bank Midwest, N.A. and United States Trust Company, N.A.

Kenneth D. Lewis, age 60, Chairman, Chief Executive Officer and President. Mr. Lewis was named Chief Executive Officer in April 2001, President in July 2004 and Chairman in February 2005. From April 2001 to April 2004, he served as Chairman; from January 1999 to April 2004, he served as President; and from October 1999 to April 2001, he served as Chief Operating Officer. He first became an officer in 1971. Mr. Lewis also serves as a director of the Corporation and as Chairman, Chief Executive Officer, President and a director of Bank of America, N.A., FIA Card Services, N.A., LaSalle Bank, N.A., LaSalle Bank Midwest, N.A. and United States Trust Company, N.A.

Liam E. McGee, age 53, President, Global Consumer and Small Business Banking. Mr. McGee was named to his present position in August 2004. From August 2001 to August 2004, he served as President, Global Consumer Banking; from August 2000 to August 2001, he served as President, Bank of America California; and from August 1998 to August 2000, he served as President, Southern California Region. He first became an officer in 1990. He also serves as President, Global Consumer and Small Business Banking and a director of Bank of America, N.A., FIA Card Services, N.A., LaSalle Bank, N.A., LaSalle Bank Midwest, N.A. and United States Trust Company, N.A.

Brian T. Moynihan, age 48, President, Global Corporate and Investment Banking. Mr. Moynihan was named to his present position in October 2007. From April 2004 to October 2007, he served as President, Global Wealth and Investment Management. Previously he held the following positions at FleetBoston Financial Corporation: from 1999 to April 2004, he served as Executive Vice President with responsibility for Brokerage and Wealth Management from 2000, and Regional Commercial Financial Services and Investment Management from May 2003. He first became an officer in 1993. He also serves as President, Global Corporate and Investment Banking and a director of Bank of America, N.A., FIA Card Services, N.A., LaSalle Bank, N.A., LaSalle Bank Midwest, N.A. and United States Trust Company, N.A.

Joe L. Price, age 47, Chief Financial Officer. Mr. Price was named to his present position in January 2007. From June 2003 to December 2006, he served as GCIB Risk Management Executive; from July 2002 to May 2003 he served as Senior Vice President Corporate Strategy and President, Consumer Special Assets; from November 1999 to July 2002 he

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served as President, Consumer Finance; from August 1997 to October 1999 he served as Corporate Risk Evaluation Executive and General Auditor; from June 1995 to July 1997 he served as Controller; and from April 1993 to May 1995 he served as Accounting Policy and Finance Executive.

He first became an officer in 1993. He also serves as Chief Financial Officer and a director of Bank of America, N.A., FIA Card Services, N.A., LaSalle Bank, N.A., LaSalle Bank Midwest, N.A. and United States Trust Company, N.A.

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Part II

Bank of America Corporation and Subsidiaries

Item 5. Market for Registrant s Common Equity and Related Stock Holder Matters

The principal market on which the Common Stock is traded is the New York Stock Exchange. The Common Stock is also listed on the London Stock Exchange, and certain shares are listed on the Tokyo Stock Exchange. The following table sets forth the high and low closing sales prices of the Common Stock on the New York Stock Exchange for the periods indicated:

	Quarter	High	Low
2006	first	$ 47.08	43.09
	second	50.47	45.48
	third	53.57	47.98
	fourth	54.90	51.66
2007	first	54.05	49.46
	second	51.82	48.80
	third	51.87	47.00
	fourth	52.71	41.10

As of February 20, 2008, there were 263,761 registered shareholders of Common Stock. During 2006 and 2007, Bank of America paid dividends on the Common Stock on a quarterly basis. The following table sets forth dividends paid per share of Common Stock for the periods indicated:

	Quarter	Dividend
2006	first	$ .50
	second	.50
	third	.56
	fourth	.56
2007	first	.56
	second	.56
	third	.64
	fourth	.64

For additional information regarding the Corporation s ability to pay dividends, see the discussion under the heading Government Supervision and Regulation Distributions in this report and *Note 15 Regulatory Requirements and Restrictions* of the Notes on page 127 which is incorporated herein by reference.

For information on the Corporation s equity compensation plans, see Item 12 on page 153 of this report and *Note 17 Stock-Based Compensation Plans* of the Notes on page 133, both of which are incorporated herein by reference.

The table below presents share repurchase activity for each quarterly period in 2007, each month within the fourth quarter of 2007 and the year ended December 31, 2007, including total common shares repurchased under announced programs, weighted average per share price and the remaining buy back authority under announced programs. For additional information on shareholders equity and earnings per common share, see *Note 14 Shareholders Equity and Earnings Per Common Share* of the Notes on page 125 which is incorporated herein by reference.

(Dollars in millions, except per share information; shares in thousands)	Common Shares Repurchased (1)	Weighted Average Per Share Price	Remaining Buyback Authority (2) Amounts	Shares
Three months ended March 31, 2007	48,000	$ 52.23	$ 16,366	215,088
Three months ended June 30, 2007	13,450	50.91	15,681	201,638
Three months ended September 30, 2007	9,580	49.47	13,605	192,058
October 1-31, 2007	1,000	47.35	13,558	191,058
November 1-30, 2007	1,700	45.98	13,480	189,358
December 1-31, 2007			13,480	189,358
Three months ended December 31, 2007	2,700	46.49		
Year ended December 31, 2007	73,730	51.42		

(1) Reduced shareholders equity by $3.8 billion and increased diluted earnings per common share by approximately $0.02 in 2007. These repurchases were partially offset by the issuance of approximately 53.5 million shares of common stock under employee plans, which increased shareholders equity by $2.5 billion, net of $10 million of deferred compensation related to restricted stock awards, and decreased diluted earnings per common share by approximately $0.01 in 2007.

(2) On January 24, 2007, the Board of Directors (the Board) authorized a stock repurchase program of up to 200 million shares of the Corporation s common stock at an aggregate cost not to exceed $14.0 billion and is limited to a period of 12 to 18 months. On April 26, 2006, the Board authorized a stock repurchase program of up to 200 million shares of the Corporation s common stock at an aggregate cost not to exceed $12.0 billion and to be completed within a period of 12 to 18 months. This repurchase plan was completed during the third quarter of 2007.

The Corporation did not have any unregistered sales of its equity securities in fiscal year 2007.

Item 6. Selected Financial Data

See Table 5 in the MD&A on page 16 and Table XII of the Statistical Tables on page 82 which are incorporated herein by reference.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Throughout the MD&A, we use certain acronyms and

abbreviations which are defined in the Glossary beginning on page 85.

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Management s Discussion and Analysis of Financial Condition and Results of Operations

Bank of America Corporation and Subsidiaries

This report contains certain statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from those expressed in, or implied by, our forward-looking statements. Words such as expects, anticipates, believes, estimates and other similar expressions or future or conditional verbs such as will, should, would and could are intended to identify such forward-looking statements. Readers of the Annual Report of Bank of America Corporation and its subsidiaries (the Corporation) should not rely solely on the forward-looking statements and should consider all uncertainties and risks throughout this report as well as those discussed under Item 1A. Risk Factors. The statements are representative only as of the date they are made, and the Corporation undertakes no obligation to update any forward-looking statement.

Possible events or factors that could cause results or performance to differ materially from those expressed in our forward-looking statements include the following: changes in general economic conditions and economic conditions in the geographic regions and industries in which the Corporation operates which may affect, among other things, the level of nonperforming assets, charge-offs and provision expense; changes in the interest rate environment and market liquidity which may reduce interest margins, impact funding sources and affect the ability to originate and distribute financial products in the primary and secondary markets; changes in foreign exchange rates; adverse movements and volatility in debt and equity capital markets; changes in market rates and prices which may adversely impact the value of financial products including securities, loans, deposits, debt and derivative financial instruments, and other similar financial instruments; political conditions and related actions by the United States abroad which may adversely affect the Corporation s businesses and economic conditions as a whole; liabilities resulting from litigation and regulatory investigations, including costs, expenses, settlements and judgments; changes in domestic or foreign tax laws, rules and regulations as well as court, Internal Revenue Service or other governmental agencies interpretations thereof; various monetary and fiscal policies and regulations, including those determined by the Board of Governors of the Federal Reserve System, the Office of the Comptroller of Currency, the Federal Deposit Insurance Corporation, state regulators and the Financial Services Authority; changes in accounting standards, rules and interpretations; competition with other local, regional and international banks, thrifts, credit unions and other nonbank financial institutions; ability to grow core businesses; ability to develop and introduce new banking-related products, services and enhancements, and gain market acceptance of such products; mergers and acquisitions and their integration into the Corporation; decisions to downsize, sell or close units or otherwise change the business mix of the Corporation; and management s ability to manage these and other risks.

The Corporation, headquartered in Charlotte, North Carolina, operates in 32 states, the District of Columbia and more than 30 foreign countries. The Corporation provides a diversified range of banking and

nonbanking financial services and products domestically and internationally through three business segments: *Global Consumer and Small Business Banking (GCSBB), Global Corporate and Investment Banking (GCIB)*, and *Global Wealth and Investment Management (GWIM)*.

At December 31, 2007, the Corporation had $1.7 trillion in assets and approximately 210,000 full-time equivalent employees. Notes to Consolidated Financial Statements referred to in the MD&A are incorporated by reference into the MD&A. Certain prior period amounts have been reclassified to conform to current period presentation.

Recent Events

2007 Market Dislocation

During the second half of 2007, extreme dislocations emerged in the financial markets, including the leveraged finance, subprime mortgage, and commercial paper markets. These dislocations were further compounded by the decoupling of typical correlations in the various markets in which we do business. Furthermore, in the fourth quarter of 2007, the credit ratings of certain structured securities (e.g., CDOs) were downgraded which among other things triggered further widening of credit spreads for these types of securities. We have been an active participant in the CDO market and maintain ongoing exposure to these securities and have incurred losses associated with these exposures. For more information regarding *Capital Markets and Advisory Services (CMAS)* results including CDOs, leveraged finance and related ongoing exposure, see the *CMAS* discussion beginning on page 27.

In addition, the market dislocation impacted the credit ratings of structured investment vehicles (SIVs) in the market place. *GWIM* manages certain cash funds which have invested in SIV transactions. We have entered into capital commitments to support these funds and have incurred losses associated with these commitments including losses on certain securities purchased earlier from these funds at fair value. For more information on our cash fund support, see the *GWIM* discussion beginning on page 31.

In 2008, we continue to have exposure to those items noted above, and depending upon market conditions, we may experience additional losses.

Current Business Environment

The financial conditions mentioned above continue to negatively affect the economy and the financial services sector in 2008. The slowdown of the economy, significant decline in consumer real estate prices, and the continued and rapid deterioration in the housing sector have affected our home equity portfolio and will, in all likelihood, impact other areas of our consumer portfolio. We expect that certain industry sectors, in particular those that are dependent on the housing sector, and certain geographic regions will experience further stress. For more information on the impact of the current business environment on credit, see the Credit Risk Management discussion beginning on page 44.

The subprime mortgage dislocation has also impacted the ratings of certain monoline insurance providers (monolines) which has affected the pricing of certain municipal securities and the liquidity of the short term public finance markets. We have direct and indirect exposure to monolines and as a result are continuing to monitor this exposure as the markets evolve. For more information related to our monoline exposure, see the Industry Concentrations discussion on page 54.

The above conditions together with uncertainty in energy costs and the overall economic slowdown, which may ultimately lead to recessionary conditions, will affect other markets in which we do business and will adversely impact our results in 2008. The degree of the impact is dependent upon the duration and severity of the aforementioned conditions in this rapidly changing business and interest rate environment. For more information on interest rate sensitivity, see the Interest Rate Risk Management for Nontrading Activities discussion on page 65.

Other Recent Events

In January 2008, we announced changes in our *CMAS* business within *GCIB* which better align the strategy of this business with *GCIB* s broader integrated platform. We will continue to provide corporate, commercial and sponsored clients with debt and equity capital raising services, strategic advice, and a full range of corporate banking capabilities. However, we will reduce activities in certain structured products (e.g., CDOs) and will resize the international platform to emphasize debt, cash management, and selected trading services, including rates and foreign exchange. This realignment will result in the reduction of 650 front office personnel with additional infrastructure headcount reduction to follow. We also plan to sell our equity prime brokerage business. This is in addition to our announcement in October 2007 to eliminate approximately 3,000 positions within various businesses, which includes reductions in *GCIB* as part of our *GCIB* business strategic review to enhance the operating platform, reductions in the wholesale mortgage-related business included in *GCSBB* and reductions in other related infrastructure positions.

In August of 2007, we made a $2.0 billion investment in Countrywide Financial Corporation (Countrywide), the largest mortgage lender in the U.S., in the form of Series B non-voting convertible preferred securities yielding 7.25 percent. In January 2008, we announced a definitive agreement to purchase all outstanding shares of Countrywide for approximately $4.0 billion in common stock. The acquisition would make us the nation s leading mortgage lender and loan servicer. The closing of this transaction is subject to closing conditions and regulatory approvals and is expected to close early in the third quarter of 2008.

In January 2008, the Board of Directors (the Board) declared a regular quarterly cash dividend on common stock of $0.64 per share, payable on March 28, 2008 to common shareholders of record on March 7, 2008. In October 2007, the Board declared a regular quarterly cash dividend on common stock of $0.64 per share which was paid on December 28, 2007 to common shareholders of record on December 7, 2007. In July 2007, the Board increased the quarterly cash dividend on common stock 14 percent from $0.56 to $0.64 per share.

In January 2008, we issued 240 thousand shares of Bank of America Corporation Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series K with a par value of $0.01 per share for $6.0 billion. The fixed rate is 8.00 percent through January 29, 2018 and then adjusts to three-month LIBOR plus 363 basis points (bps) thereafter. In addition, we issued 6.9 million shares of Bank of America Corporation 7.25% Non-Cumulative Perpetual Convertible Preferred Stock, Series L with a par value of $0.01 per share for $6.9 billion. In November and December of 2007, we issued 41 thousand shares of Bank of America Corporation 7.25% Non-Cumulative Preferred Stock, Series J with a par value of $0.01 per share for $1.0 billion. In September 2007, we issued 22 thousand shares of Bank of America Corporation 6.625% Non-Cumulative Preferred Stock, Series I with a par value of $0.01 per share for $550 million.

In December 2007, we completed the sale of Marsico Capital Management, LLC (Marsico), a 100 percent owned investment manager, to Thomas F. Marsico, founder and chief executive officer of Marsico, and realized a pre-tax gain of approximately $1.5 billion.

Merger Overview

On October 1, 2007, we acquired all the outstanding shares of ABN AMRO North America Holding Company, parent of LaSalle Bank Corporation (LaSalle), for $21.0 billion in cash. With this acquisition, we significantly expanded our presence in metropolitan Chicago, Illinois and Michigan, by adding LaSalle s commercial banking clients, retail customers and banking centers.

On July 1, 2007, we acquired all the outstanding shares of U.S. Trust Corporation for $3.3 billion in cash. U.S. Trust Corporation focuses exclusively on managing wealth for high net-worth and ultra high net-worth individuals and families. The acquisition significantly increases the size and capabilities of our wealth management business and positions it as one of the largest financial services companies managing private wealth in the U.S.

On January 1, 2006, we acquired 100 percent of the outstanding stock of MBNA Corporation (MBNA) for $34.6 billion. The acquisition expanded our customer base and opportunity to deepen customer relationships across the full breadth of the Corporation by delivering innovative deposit, lending and investment products and services to MBNA s customer base. Additionally, the acquisition allowed us to significantly increase our affinity relationships through MBNA s credit card operations and sell these credit cards through our delivery channels including the retail branch network.

For more information related to these mergers, see *Note 2 Merger and Restructuring Activity* to the Corporation s Consolidated Financial Statements.

2007 Economic Overview

In 2007, notwithstanding significant declines in housing, soaring oil prices and tremendous turmoil in financial markets, real Gross Domestic Product (GDP) grew 2.2 percent. Growth softened significantly in the fourth quarter. Consumer spending remained resilient, as increases in employment and wages offset the negative influences of declining home prices. Fueled by another year of strong exports and a slowdown in imports, the U.S. trade deficit fell sharply, lifting U.S. domestic production. However, declines in residential construction subtracted nearly a full percentage point from GDP growth, more than offsetting the boost provided by international trade. Corporate profits declined modestly in the second half of the year from all-time record highs. Global economies recorded their fourth consecutive year of rapid expansion, driven by sustained robust growth in China, India and other emerging market economies. Growth in Europe and Japan moderated in the second half of the year. Higher energy prices pushed up inflation throughout the year. However, excluding food and energy, core inflation receded in the second half of the year, in lagged response to the deceleration of nominal spending growth. A sharp rise in defaults on subprime mortgages and worries about the potential fallout from the faltering housing and subprime mortgage markets triggered financial market turbulence beginning in the summer. A dramatic repricing of credit risk and unprecedented capital losses stemming from sharp declines in the value of structured credit products based on subprime debt deepened the financial crisis. In response, the FRB eased short-term interest rates, reduced the discount rate relative to its federal funds rate target and in December created a new facility for auctioning short-term funds through the discount window of the Federal Reserve Banks. The fourth quarter ended on a weak note, as consumer spending moderated, businesses reduced production, employment slowed and the unemployment rate rose.

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Performance Overview

Net income was $15.0 billion, or $3.30 per diluted common share in 2007, decreases of 29 percent and 28 percent from $21.1 billion, or $4.59 per diluted common share in 2006.

Table 1 Business Segment Total Revenue and Net Income

	Total Revenue (1)		Net Income	
(Dollars in millions)	**2007**	2006	**2007**	2006
Global Consumer and Small Business Banking (2)	**$ 47,682**	$ 44,926	**$ 9,430**	$ 11,378
Global Corporate and Investment Banking	**13,417**	21,161	**538**	6,032
Global Wealth and Investment Management	**7,923**	7,357	**2,095**	2,223
All Other (2)	**(954)**	360	**2,919**	1,500
Total FTE basis	**68,068**	73,804	**14,982**	21,133
FTE adjustment	**(1,749)**	(1,224)		
Total Consolidated	**$ 66,319**	$ 72,580	**$ 14,982**	$ 21,133

(1) Total revenue is net of interest expense, and is on a FTE basis for the business segments and *All Othe*r. For more information on a FTE basis, see Supplemental Financial Data beginning on page 17.
(2) *GCSBB* is presented on a managed basis with a corresponding offset recorded in *All Other*.

Global Consumer and Small Business Banking

Net income decreased $1.9 billion, or 17 percent, to $9.4 billion in 2007 compared to 2006. Managed net revenue rose $2.8 billion, or six percent, to $47.7 billion driven by increases in both noninterest and net interest income. Noninterest income increased $2.1 billion, or 13 percent, to $18.9 billion driven by higher card, service charge and mortgage banking income. Net interest income increased $612 million, or two percent, to $28.8 billion due to the impacts of organic growth and the LaSalle acquisition on average loans and leases, and deposits. These increases in revenues were more than offset by the increase in provision for credit losses of $4.4 billion, or 51 percent, to $12.9 billion. This increase reflects portfolio growth and seasoning, increases from the unusually low loss levels experienced in 2006 post bankruptcy reform, the impact of housing market weakness on the home equity portfolio, and growth and deterioration in the small business portfolio. Noninterest expense increased $1.7 billion, or nine percent, mainly due to increases in personnel and technology-related costs. For more information on *GCSBB*, see page 21.

Global Corporate and Investment Banking

Net income decreased $5.5 billion, or 91 percent, to $538 million, and total revenue decreased $7.7 billion, or 37 percent, to $13.4 billion in 2007 compared to 2006. These decreases were driven by $5.6 billion in losses resulting from our CDO exposure and other trading losses. These decreases were partially offset by an increase in net interest income, primarily market-based, of $1.3 billion, or 14 percent. The provision for credit losses increased $643 million driven by the absence of 2006 releases of reserves, higher net charge-offs and an increase in reserves during 2007 reflecting the impact of the weak housing market particularly on the homebuilder loan portfolio. Noninterest expense increased $347 million, or three percent, mainly due to an increase in expenses related to the addition of LaSalle partially offset by a reduction in *CMAS* performance-based incentive compensation. For more information on *GCIB*, see page 25.

Global Wealth and Investment Management

Net income decreased $128 million, or six percent, to $2.1 billion in 2007 compared to 2006 as an increase in noninterest expense was partially offset by an increase in total revenue. Total revenue grew $566 million, or eight percent, to $7.9 billion driven by higher noninterest income of $380 million. Noninterest income increased due to growth in investment and brokerage services income of $827 million. The increase was due to higher AUM primarily attributable to the impact of the U.S. Trust Corporation acquisition, net client inflows and favorable market conditions combined with an increase in brokerage activity. This increase was partially offset by a decrease in all other income of $447 million due to losses of $382 million associated with the support provided to certain cash funds. Noninterest expense increased $768 million driven by the addition of U.S. Trust Corporation, higher revenue-related expenses and marketing costs.

AUM increased $100.6 billion to $643.5 billion at December 31, 2007 compared to December 31, 2006 reflecting the acquisition of U.S. Trust Corporation, net inflows and market appreciation which was partially offset by the sale of Marsico. For more information on *GWIM*, see page 31.

All Other

Net income increased $1.4 billion to $2.9 billion in 2007 compared to 2006. Excluding the securitization offset, total revenue increased $283 million resulting from an increase in noninterest income of $1.6 billion partially offset by a decrease in net interest income of $1.3 billion. The increase in noninterest income was driven by the $1.5 billion gain from the sale of Marsico and an increase of $873 million in equity investment income, partially offset by losses of $394 million on securities after they were purchased from certain cash funds managed within *GWIM* at fair value. In addition, net interest income, noninterest income and noninterest expense decreased due to certain international operations that were sold in late 2006 and the beginning of 2007. Merger and restructuring charges decreased $395 million. For more information on *All Other,* see page 34.

Financial Highlights

Net Interest Income

Net interest income on a FTE basis increased $367 million to $36.2 billion for 2007 compared to 2006. The increase was driven by the contribution from market-based net interest income related to our *CMAS* business, higher levels of consumer and commercial loans, the impact of the LaSalle acquisition, and a one-time tax benefit from restructuring our existing non-U.S. based commercial aircraft leasing business. These increases were partially offset by spread compression, increased hedge costs and the impact of divestitures of certain foreign operations in late 2006 and the beginning of 2007. The net interest yield on a FTE basis decreased 22 bps to 2.60 percent for 2007 compared to 2006, and was driven by spread compression, and the impact of the funding of the LaSalle merger, partially offset by an improvement in market-based yield

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related to our *CMAS* business. For more information on net interest income on a FTE basis, see Tables I and II beginning on page 73.

Noninterest Income

Table 2 Noninterest Income

(Dollars in millions)	**2007**	2006
Card income	**$ 14,077**	$ 14,290
Service charges	**8,908**	8,224
Investment and brokerage services	**5,147**	4,456
Investment banking income	**2,345**	2,317
Equity investment income	**4,064**	3,189
Trading account profits (losses)	**(5,131)**	3,166
Mortgage banking income	**902**	541
Gains (losses) on sales of debt securities	**180**	(443)
Other income	**1,394**	2,249
Total noninterest income	**$ 31,886**	$ 37,989

Noninterest income decreased $6.1 billion to $31.9 billion in 2007 compared to 2006.

- Card income on a held basis decreased $213 million primarily due to the impact of higher credit losses on excess servicing income resulting from seasoning in the securitized portfolio and increases from the unusually low loss levels experienced in 2006 post bankruptcy reform. This decrease was partially offset by increases in cash advance fees and debit card interchange income.
- Service charges grew $684 million resulting from new account growth in deposit accounts and the beneficial impact of the LaSalle merger.
- Investment and brokerage services increased $691 million due primarily to organic growth in AUM, brokerage activity and the U.S. Trust Corporation acquisition.
- Equity investment income increased $875 million driven by the $600 million gain on the sale of private equity funds to Conversus Capital and the increase in income received on strategic investments.
- Trading account profits (losses) were $(5.1) billion in 2007 compared to $3.2 billion in 2006. The decrease in trading account profits (losses) was driven by losses of $4.9 billion, out of a total of $5.6 billion in losses, associated with CDO exposure and the impact of the market disruptions on various parts of our *CMAS* businesses in the second half of the year. For more information on the impact of these events refer to the *GCIB* discussion beginning on page 25.
- Mortgage banking income increased $361 million due to the favorable performance of the MSRs partially offset by the impact of widening credit spreads on income from mortgage production. Mortgage banking also benefited from the adoption of the fair value option.
- Gains (losses) on sales of debt securities were $180 million for 2007 compared to $(443) million for 2006. The losses in the prior year were largely a result of the sale of $43.7 billion of mortgage-backed debt securities in the third quarter of 2006.
- Other income decreased $855 million as the $1.5 billion gain from the sale of Marsico was more than offset by fourth quarter losses of $752 million, out of a total of $5.6 billion in losses associated with our CDO exposure, losses of $394 million on securities after they were purchased from certain cash funds at fair value, losses of $382 million associated with the support provided to certain cash funds managed within *GWIM*, and the absence of a $720 million gain on the sale of our Brazilian operations recognized in 2006.

Provision for Credit Losses

The provision for credit losses increased $3.4 billion to $8.4 billion in 2007 compared to 2006 due to higher net charge-offs, reserve additions and the absence of 2006 commercial reserve releases. Higher net charge-offs of $1.9 billion were primarily driven by seasoning of the consumer portfolios, seasoning and deterioration in the small business and home equity portfolios as well as lower commercial recoveries. Reserves were increased in the home equity and homebuilder loan portfolios on continued weakness in the housing market. Reserves were also added for small business portfolio seasoning and deterioration as well as growth in the consumer portfolios. These increases were partially offset by reductions in reserves from the sale of the Argentina portfolio in the first quarter of 2007. For more information on credit quality, see Provision for Credit Losses beginning on page 58.

Noninterest Expense

Table 3 Noninterest Expense

(Dollars in millions)	**2007**	2006
Personnel	**$ 18,753**	$ 18,211
Occupancy	**3,038**	2,826
Equipment	**1,391**	1,329
Marketing	**2,356**	2,336
Professional fees	**1,174**	1,078
Amortization of intangibles	**1,676**	1,755
Data processing	**1,962**	1,732
Telecommunications	**1,013**	945
Other general operating	**5,237**	4,580
Merger and restructuring charges	**410**	805
Total noninterest expense	**$ 37,010**	$ 35,597

Noninterest expense increased $1.4 billion to $37.0 billion in 2007 compared to 2006, primarily due to increases in personnel expense and other general operating expense partially offset by a decrease in merger and restructuring charges. Personnel expense increased $542 million due to the acquisitions of LaSalle and U.S. Trust Corporation partially offset by a reduction in performance-based incentive compensation within *GCIB*. Other general operating expense increased by $657 million and was impacted by our acquisitions and various other items including litigation- related costs. Merger and restructuring charges decreased $395 million mainly due to the declining integration costs associated with the MBNA acquisition partially offset by costs associated with the integration of U.S. Trust Corporation and LaSalle.

Income Tax Expense

Income tax expense was $5.9 billion in 2007 compared to $10.8 billion in 2006, resulting in an effective tax rate of 28.4 percent in 2007 and 33.9 percent in 2006. The decrease in the effective tax rate was primarily due to lower pre-tax income, a one-time tax benefit from restructuring our existing non-U.S. based commercial aircraft leasing business and an increase in the relative percentage of our earnings taxed solely outside of the U.S. In addition, the 2007 effective tax rate excludes the impact of a $175 million charge in 2006 resulting from a change in tax legislation. For more information on income tax expense, see *Note 18 Income Taxes* to the Consolidated Financial Statements.

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Balance Sheet Analysis

Table 4 Selected Balance Sheet Data

	December 31		Average Balance	
(Dollars in millions)	**2007**	2006	**2007**	2006
Assets				
Federal funds sold and securities purchased under agreements to resell	**$ 129,552**	$ 135,478	**$ 155,828**	$ 175,334
Trading account assets	**162,064**	153,052	**187,287**	145,321
Debt securities	**214,056**	192,846	**186,466**	225,219
Loans and leases, net of allowance for loan and lease losses	**864,756**	697,474	**766,329**	643,259
All other assets	**345,318**	280,887	**306,163**	277,548
Total assets	**$ 1,715,746**	$ 1,459,737	**$ 1,602,073**	$ 1,466,681
Liabilities				
Deposits	**$ 805,177**	$ 693,497	**$ 717,182**	$ 672,995
Federal funds purchased and securities sold under agreements to repurchase	**221,435**	217,527	**253,481**	286,903
Trading account liabilities	**77,342**	67,670	**82,721**	64,689
Commercial paper and other short-term borrowings	**191,089**	141,300	**171,333**	124,229
Long-term debt	**197,508**	146,000	**169,855**	130,124
All other liabilities	**76,392**	58,471	**70,839**	57,278
Total liabilities	**1,568,943**	1,324,465	**1,465,411**	1,336,218
Shareholders equity	**146,803**	135,272	**136,662**	130,463
Total liabilities and shareholders equity	**$ 1,715,746**	$ 1,459,737	**$ 1,602,073**	$ 1,466,681

At December 31, 2007, total assets were $1.7 trillion, an increase of $256.0 billion, or 18 percent, from December 31, 2006. Growth in period end total assets was due to an increase in loans and leases, AFS debt securities and all other assets. The increase in loans and leases was attributable to organic growth and the LaSalle merger. The increases in AFS debt securities and all other assets were driven by the LaSalle merger. The fair value of the assets acquired in the LaSalle merger was approximately $120 billion. All other assets also increased due to higher loans held-for-sale and the fair market value adjustment associated with our investment in China Construction Bank (CCB).

Average total assets in 2007 increased $135.4 billion, or nine percent, from 2006 primarily due to the increase in average loans and leases driven by the same factors as described above. Average trading account assets also increased during 2007 reflective of growth in the underlying business in the first half of 2007. These increases were partially offset by a decrease in AFS debt securities. The acquisition of LaSalle occurred in the fourth quarter of 2007 minimizing its impact on the average balance sheet.

At December 31, 2007, total liabilities were $1.6 trillion, an increase of $244.5 billion, or 18 percent, from December 31, 2006. Average total liabilities in 2007 increased $129.2 billion, or 10 percent, from 2006. The increase in period end and average total liabilities was attributable to increases in deposits and long-term debt, which were utilized to support the growth in overall assets. In addition, the increase in period end and average total liabilities was due to the funding of, and the assumption of liabilities associated with, the LaSalle merger. The fair value of the liabilities assumed in the LaSalle merger was approximately $100 billion.

Trading Account Assets

Trading account assets consist primarily of fixed income securities (including government and corporate debt), equity and convertible instruments. The average balance increased $42.0 billion to $187.3 billion in 2007, due to growth in client-driven market-making activities in interest rate, credit and equity products but was negatively impacted by the market disruptions in the second half of 2007. For additional information, see Market Risk Management beginning on page 61.

Debt Securities

AFS debt securities include fixed income securities such as mortgage-backed securities, foreign debt, ABS, municipal debt, U.S. Government agencies and corporate debt. We use the AFS portfolio primarily to manage interest rate risk and liquidity risk and to take advantage of market conditions that create more economically attractive returns on these investments. The average balance in the debt securities portfolio decreased $38.8 billion from 2006 due to the third quarter 2006 sale of $43.7 billion of mortgage-backed securities as well as maturities and paydowns. The period end balances were also impacted by the addition of LaSalle. For additional information on our AFS debt securities portfolio, see Market Risk Management Securities on page 66 and *Note 5 Securities* to the Consolidated Financial Statements.

Loans and Leases, Net of Allowance for Loan and Lease Losses

Average loans and leases, net of allowance for loan and lease losses, was $766.3 billion in 2007, an increase of 19 percent from 2006. The average consumer loan and lease portfolio increased $88.3 billion primarily due to higher retained mortgage production. The average commercial loan and lease portfolio increased $35.4 billion primarily due to organic growth. The average commercial and, to a lesser extent, consumer loans and leases increased due to the addition of loans acquired as a result of the LaSalle merger. For a more detailed discussion of the loan portfolio and the allowance for credit losses, see Credit Risk Management beginning on page 44, *Note 6 Outstanding Loans and Leases* and *Note 7 Allowance for Credit Losses* to the Consolidated Financial Statements.

All Other Assets

Period end all other assets increased $64.4 billion at December 31, 2007, an increase of 23 percent from December 31, 2006, driven primarily by an increase of $15.9 billion in loans held-for-sale and a pre-tax $13.4 billion fair value adjustment associated with our CCB investment. Additionally, the increase in all other assets was impacted by the LaSalle merger.

Deposits

Average deposits increased $44.2 billion to $717.2 billion in 2007 compared to 2006 due to a $31.3 billion increase in average domestic interest-bearing deposits and a $16.6 billion increase in average foreign interest-bearing deposits. We categorize our deposits as core or market-based deposits. Core deposits are generally customer-based and represent a stable, low-cost funding source that usually reacts more slowly to interest rate changes than market-based deposits. Core deposits include savings, NOW and money market accounts, consumer CDs and IRAs, and noninterest-bearing deposits. Core deposits exclude negotiable CDs, public funds, other domestic time deposits and foreign interest-bearing deposits. Average core deposits increased $19.3 billion to $593.9 billion in 2007, a three percent increase from the prior year. The increase was attributable to growth in our average consumer CDs and IRAs due to a shift from noninterest-bearing and lower yielding deposits to our higher yielding CDs. Average market-based deposit funding increased $24.9 billion to $123.3 billion in 2007 compared to 2006 due to increases of $16.6 billion in foreign interest-bearing deposits and $8.4 billion in negotiable CDs, public funds and other time deposits related to funding of growth in core and market-based assets. The increase in deposits was also impacted by the assumption of deposits, primarily money market, consumer CDs, and other domestic time deposits associated with the LaSalle merger.

Trading Account Liabilities

Trading account liabilities consist primarily of short positions in fixed income securities (including government and corporate debt), equity and convertible instruments. The average balance increased $18.0 billion to

$82.7 billion in 2007, which was due to growth in client-driven market- making activities in equity products, partially offset by a reduction in usage targets for a variety of client activities.

Commercial Paper and Other Short-term Borrowings

Commercial paper and other short-term borrowings provide a funding source to supplement deposits in our ALM strategy. The average balance increased $47.1 billion to $171.3 billion in 2007, mainly due to increased commercial paper and Federal Home Loan Bank advances to fund core asset growth, primarily in the ALM portfolio and the funding of the LaSalle acquisition.

Long-term Debt

Average long-term debt increased $39.7 billion to $169.9 billion. The increase resulted from the funding of core asset growth, and the funding of, and assumption of liabilities associated with, the LaSalle merger. For additional information, see *Note 12 Short-term Borrowings and Long-term Debt* to the Consolidated Financial Statements.

Shareholders Equity

Period end and average shareholders equity increased $11.5 billion and $6.2 billion due to net income, increased net gains in accumulated OCI, including an $8.4 billion, net-of-tax, fair value adjustment relating to our investment in CCB, common stock issued in connection with employee benefit plans, and preferred stock issued. These increases were partially offset by dividend payments, share repurchases and the adoption of certain new accounting standards.

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Table 5 Five Year Summary of Selected Financial Data

(Dollars in millions, except per share information)	2007	2006	2005	2004	2003
Income statement					
Net interest income	**$ 34,433**	$ 34,591	$ 30,737	$ 27,960	$ 20,505
Noninterest income	**31,886**	37,989	26,438	22,729	18,270
Total revenue, net of interest expense	**66,319**	72,580	57,175	50,689	38,775
Provision for credit losses	**8,385**	5,010	4,014	2,769	2,839
Noninterest expense, before merger and restructuring charges	**36,600**	34,792	28,269	26,394	20,155
Merger and restructuring charges	**410**	805	412	618	
Income before income taxes	**20,924**	31,973	24,480	20,908	15,781
Income tax expense	**5,942**	10,840	8,015	6,961	5,019
Net income	**14,982**	21,133	16,465	13,947	10,762
Average common shares issued and outstanding (in thousands)	**4,423,579**	4,526,637	4,008,688	3,758,507	2,973,407
Average diluted common shares issued and outstanding (in thousands)	**4,480,254**	4,595,896	4,068,140	3,823,943	3,030,356
Performance ratios					
Return on average assets	**0.94%**	1.44%	1.30%	1.34%	1.44%
Return on average common shareholders equity	**11.08**	16.27	16.51	16.47	21.50
Return on average tangible shareholders equity [(1)]	**22.25**	32.80	30.19	28.93	27.84
Total ending equity to total ending assets	**8.56**	9.27	7.86	9.03	6.76
Total average equity to total average assets	**8.53**	8.90	7.86	8.12	6.69
Dividend payout	**72.26**	45.66	46.61	46.31	39.76
Per common share data					
Earnings	**$ 3.35**	$ 4.66	$ 4.10	$ 3.71	$ 3.62
Diluted earnings	**3.30**	4.59	4.04	3.64	3.55
Dividends paid	**2.40**	2.12	1.90	1.70	1.44
Book value	**32.09**	29.70	25.32	24.70	16.86
Market price per share of common stock					
Closing	**$ 41.26**	$ 53.39	$ 46.15	$ 46.99	$ 40.22
High closing	**54.05**	54.90	47.08	47.44	41.77
Low closing	**41.10**	43.09	41.57	38.96	32.82
Market capitalization	**$ 183,107**	$ 238,021	$ 184,586	$ 190,147	$ 115,926
Average balance sheet					
Total loans and leases	**$ 776,154**	$ 652,417	$ 537,218	$ 472,617	$ 356,220
Total assets	**1,602,073**	1,466,681	1,269,892	1,044,631	749,104
Total deposits	**717,182**	672,995	632,432	551,559	406,233
Long-term debt	**169,855**	130,124	97,709	92,303	67,077
Common shareholders equity	**133,555**	129,773	99,590	84,584	50,035
Total shareholders equity	**136,662**	130,463	99,861	84,815	50,091
Asset Quality					
Allowance for credit losses [(2)]	**$ 12,106**	$ 9,413	$ 8,440	$ 9,028	$ 6,579
Nonperforming assets measured at historical cost	**5,948**	1,856	1,603	2,455	3,021
Allowance for loan and lease losses as a percentage of total loans and leases outstanding measured at historical cost [(3)]	**1.33%**	1.28%	1.40%	1.65%	1.66%
Allowance for loan and lease losses as a percentage of total nonperforming	**207**	505	532	390	215

loans and leases measured at historical cost					
Net charge-offs	**$ 6,480**	$ 4,539	$ 4,562	$ 3,113	$ 3,106
Net charge-offs as a percentage of average loans and leases outstanding measured at historical cost (3)	**0.84%**	0.70%	0.85%	0.66%	0.87%
Nonperforming loans and leases as a percentage of total loans and leases outstanding measured at historical cost (3)	**0.64**	0.25	0.26	0.42	0.77
Nonperforming assets as a percentage of total loans, leases and foreclosed properties (3)	**0.68**	0.26	0.28	0.47	0.81
Ratio of the allowance for loan and lease losses at December 31 to net charge-offs	**1.79**	1.99	1.76	2.77	1.98
Capital ratios (period end)					
Risk-based capital:					
Tier 1	**6.87%**	8.64%	8.25%	8.20%	8.02%
Total	**11.02**	11.88	11.08	11.73	12.05
Tier 1 Leverage	**5.04**	6.36	5.91	5.89	5.86

(1) Tangible shareholders equity is a non-GAAP measure. For additional information on ROTE and a corresponding reconciliation of tangible shareholders equity to a GAAP financial measure, see Supplemental Financial Data beginning on page 17.

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

(3) Ratios do not include loans measured at fair value in accordance with SFAS 159 at and for the year ended December 31, 2007. Loans measured at fair value were $4.59 billion at December 31, 2007.

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Supplemental Financial Data

Table 6 provides a reconciliation of the supplemental financial data mentioned below with financial measures defined by GAAP. Other companies may define or calculate supplemental financial data differently.

Operating Basis Presentation

In managing our business, we may at times look at performance excluding certain nonrecurring items. For example, as an alternative to net income, we view results on an operating basis, which represents net income excluding merger and restructuring charges. The operating basis of presentation is not defined by GAAP. We believe that the exclusion of merger and restructuring charges, which represent events outside our normal operations, provides a meaningful year-to-year comparison and is more reflective of normalized operations.

Net Interest Income FTE Basis

In addition, we view net interest income and related ratios and analysis (i.e., efficiency ratio, net interest yield and operating leverage) on a FTE basis. Although this is a non-GAAP measure, we believe managing the business with net interest income on a 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.

Performance Measures

As mentioned above, certain performance measures including the efficiency ratio, net interest yield and operating leverage utilize net interest income (and thus total revenue) on a FTE basis. The efficiency ratio measures the costs expended to generate a dollar of revenue, and net interest yield evaluates how many basis points we are earning over the cost of funds. Operating leverage measures the total percentage revenue growth minus the total percentage expense growth for the corresponding period. During our annual integrated planning process, we set operating leverage and efficiency targets for the Corporation and each line of business. We believe the use of these non-GAAP measures provides additional clarity in assessing our results. Targets vary by year and by business, and are based on a variety of factors including maturity of the business, investment appetite, competitive environment, market factors, and other items (e.g., risk appetite). The aforementioned performance measures and ratios, return on average assets and dividend payout ratio, as well as those measures discussed more fully below, are presented in Table 6.

Return on Average Common Shareholders Equity and Return on Average Tangible Shareholders Equity

We also evaluate our business based upon ROE and ROTE measures. ROE and ROTE utilize non-GAAP allocation methodologies. ROE measures the earnings contribution of a unit as a percentage of the shareholders equity allocated to that unit. ROTE measures our earnings contribution as a percentage of shareholders equity reduced by goodwill. These measures are used to evaluate our use of equity (i.e., capital) at the individual unit level and are integral components in the analytics for resource allocation. In addition, profitability, relationship, and investment models all use ROE as key measures to support our overall growth goal.

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Table 6 Supplemental Financial Data and Reconciliations to GAAP Financial Measures

(Dollars in millions)	2007	2006	2005	2004	2003
Operating basis					
Operating earnings	**$ 15,240**	$ 21,640	$ 16,740	$ 14,358	$ 10,762
Return on average assets	**0.95%**	1.48%	1.32%	1.37%	1.44%
Return on average common shareholders equity	**11.27**	16.66	16.79	16.96	21.50
Return on average tangible shareholders equity	**22.64**	33.59	30.70	29.79	27.84
Operating efficiency ratio (FTE basis)	**53.77**	47.14	48.73	51.35	51.13
Dividend payout ratio	**71.02**	44.59	45.84	44.98	39.76
Operating leverage (FTE basis)	**(12.97)**	4.15	5.74	(0.55)	(0.41)
FTE basis data					
Net interest income	**$ 36,182**	$ 35,815	$ 31,569	$ 28,677	$ 21,149
Total revenue, net of interest expense	**68,068**	73,804	58,007	51,406	39,419
Net interest yield	**2.60%**	2.82%	2.84%	3.17%	3.26%
Efficiency ratio	**54.37**	48.23	49.44	52.55	51.13
Reconciliation of net income to operating earnings					
Net income	**$ 14,982**	$ 21,133	$ 16,465	$ 13,947	$ 10,762
Merger and restructuring charges	**410**	805	412	618	
Related income tax benefit	**(152)**	(298)	(137)	(207)	
Operating earnings	**$ 15,240**	$ 21,640	$ 16,740	$ 14,358	$ 10,762
Reconciliation of average shareholders equity to average tangible shareholders equity					
Average shareholders equity	**$ 136,662**	$ 130,463	$ 99,861	$ 84,815	$ 50,091
Average goodwill	**(69,333)**	(66,040)	(45,331)	(36,612)	(11,440)
Average tangible shareholders equity	**$ 67,329**	$ 64,423	$ 54,530	$ 48,203	$ 38,651
Reconciliation of return on average assets to operating return on average assets					
Return on average assets	**0.94%**	1.44%	1.30%	1.34%	1.44%
Effect of merger and restructuring charges, net-of-tax	**0.01**	0.04	0.02	0.03	
Operating return on average assets	**0.95%**	1.48%	1.32%	1.37%	1.44%
Reconciliation of return on average common shareholders equity to operating return on average common shareholders equity					
Return on average common shareholders equity	**11.08%**	16.27%	16.51%	16.47%	21.50%
Effect of merger and restructuring charges, net-of-tax	**0.19**	0.39	0.28	0.49	
Operating return on average common shareholders equity	**11.27%**	16.66%	16.79%	16.96%	21.50%
Reconciliation of return on average tangible shareholders equity to operating return on average tangible shareholders equity					
Return on average tangible shareholders equity	**22.25%**	32.80%	30.19%	28.93%	27.84%
Effect of merger and restructuring charges, net-of-tax	**0.39**	0.79	0.51	0.86	
Operating return on average tangible shareholders equity	**22.64%**	33.59%	30.70%	29.79%	27.84%
Reconciliation of efficiency ratio to operating efficiency ratio (FTE basis)					
Efficiency ratio	**54.37%**	48.23%	49.44%	52.55%	51.13%
Effect of merger and restructuring charges	**(0.60)**	(1.09)	(0.71)	(1.20)	
Operating efficiency ratio	**53.77%**	47.14%	48.73%	51.35%	51.13%
Reconciliation of dividend payout ratio to operating dividend payout ratio					
Dividend payout ratio	**72.26%**	45.66%	46.61%	46.31%	39.76%
Effect of merger and restructuring charges, net-of-tax	**(1.24)**	(1.07)	(0.77)	(1.33)	
Operating dividend payout ratio	**71.02%**	44.59%	45.84%	44.98%	39.76%
Reconciliation of operating leverage to operating basis operating leverage (FTE basis)					
Operating leverage	**(11.74)%**	3.12%	6.67%	(3.62)%	(0.41)%
Effect of merger and restructuring charges	**(1.23)**	1.03	(0.93)	3.07	

Operating leverage	**(12.97)%**	4.15%	5.74%	(0.55)%	(0.41)%

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Table 7 Core Net Interest Income Managed Basis

(Dollars in millions)	2007	2006	2005
Net interest income (1)			
As reported	**$ 36,182**	$ 35,815	$ 31,569
Impact of market-based net interest income (2)	**(2,716)**	(1,660)	(1,975)
Core net interest income	**33,466**	34,155	29,594
Impact of securitizations (3)	**7,841**	7,045	323
Core net interest income managed basis	**$ 41,307**	$ 41,200	$ 29,917
Average earning assets			
As reported	**$ 1,390,192**	$ 1,269,144	$ 1,111,994
Impact of market-based earning assets (2)	**(412,326)**	(370,187)	(323,361)
Core average earning assets	**977,866**	898,957	788,633
Impact of securitizations	**103,371**	98,152	9,033
Core average earning assets managed basis	**$ 1,081,237**	$ 997,109	$ 797,666
Net interest yield contribution (1)			
As reported	**2.60%**	2.82%	2.84%
Impact of market-based activities (2)	**0.82**	0.98	0.91
Core net interest yield on earning assets	**3.42**	3.80	3.75
Impact of securitizations	**0.40**	0.33	
Core net interest yield on earning assets managed basis	**3.82%**	4.13%	3.75%

(1) FTE basis

(2) Represents the impact of market-based amounts included in the *CMAS* business within *GCIB* and excludes $70 million of net interest income on loans for which the fair value option has been elected.

(3) Represents the impact of securitizations utilizing actual bond costs. This is different from the business segment view which utilizes funds transfer pricing methodologies.

Core Net Interest Income Managed Basis

We manage core net interest income managed basis, which adjusts reported net interest income on a FTE basis for the impact of market-based activities and certain securitizations, net of retained securities. As discussed in the *GCIB* business segment section beginning on page 25, we evaluate our market-based results and strategies on a total market-based revenue approach by combining net interest income and noninterest income for *CMAS*. We also adjust for loans that we originated and subsequently sold into certain securitizations. These securitizations include off-balance sheet loans and leases, primarily credit card securitizations where servicing is retained by the Corporation, but excludes first mortgage securitizations. Noninterest income, rather than net interest income and provision for credit losses, is recorded for assets that have been securitized as we are compensated for servicing the securitized assets and record servicing income and gains or losses on securitizations, where appropriate. We believe the use of this non-GAAP presentation provides additional clarity in managing our results. An analysis of core net interest income managed basis, core average earning assets managed basis and core net interest yield on earning assets managed basis, which adjusts for the impact of these two non-core items from reported net interest income on a FTE basis, is shown in the table above.

Core net interest income on a managed basis increased $107 million in 2007 compared to 2006. The increase was driven by higher levels of consumer and commercial loans, the impact of the LaSalle acquisition, and a one-time tax benefit from restructuring our existing non-U.S. based commercial aircraft leasing business. These increases were partially offset by spread compression, increased hedge costs and the impact of divestitures of certain foreign operations in late 2006 and the beginning of 2007.

On a managed basis, core average earning assets increased $84.1 billion in 2007 compared to 2006 due to higher levels of consumer and commercial managed loans and increased levels from ALM activities partially offset by a decrease in average balances from the divestitures mentioned above.

Core net interest yield on a managed basis decreased 31 bps to 3.82 percent compared to 2006 and was driven by spread compression, higher costs of deposits, the impact of the funding of the LaSalle merger and the sale of certain foreign operations.

Business Segment Operations

Segment Description

We report the results of our operations through three business segments: *GCSBB, GCIB* and *GWIM*, with the remaining operations recorded in *All Other*. Certain prior period amounts have been reclassified to conform to current period presentation. For more information on our basis of presentation, selected financial information for the business segments and reconciliations to consolidated total revenue, net income and period end total asset amounts, see *Note 22 Business Segment Information* to the Consolidated Financial Statements.

Basis of Presentation

We prepare and evaluate segment results using certain non-GAAP methodologies and performance measures, many of which are discussed in Supplemental Financial Data beginning on page 17. We begin by evaluating the operating results of the businesses which by definition excludes merger and restructuring charges. The segment results also reflect certain revenue and expense methodologies which are utilized to determine net income. The net interest income of the businesses includes the results of a funds transfer pricing process that matches assets and liabilities with similar interest rate sensitivity and maturity characteristics.

The management accounting reporting process derives segment and business results by utilizing allocation methodologies for revenue, expense and capital. The net income derived for the businesses is dependent upon revenue and cost allocations using an activity-based costing model, funds transfer pricing, and other methodologies and assumptions management believes are appropriate to reflect the results of the business.

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Our ALM activities maintain an overall interest rate risk management strategy that incorporates the use of interest rate contracts to manage fluctuations in earnings that are caused by interest rate volatility. Our goal is to manage interest rate sensitivity so that movements in interest rates do not significantly adversely affect net interest income. The results of the business segments will fluctuate based on the performance of corporate ALM activities. Some ALM activities are recorded in the businesses (*e.g., Deposits*) such as external product pricing decisions, including deposit pricing strategies, as well as the effects of our internal funds transfer pricing process. The net effects of other ALM activities are reported in each of our segments under *ALM/Other*. In addition, certain residual impacts of the funds transfer pricing process are retained in *All Other.*

Certain expenses not directly attributable to a specific business segment are allocated to the segments based on pre-determined means. The most significant of these expenses include data processing costs, item processing costs and certain centralized or shared functions. Data

processing costs are allocated to the segments based on equipment usage. Item processing costs are allocated to the segments based on the volume of items processed for each segment. The costs of certain centralized or shared functions are allocated based on methodologies which reflect utilization.

Equity is allocated to business segments and related businesses using a risk-adjusted methodology incorporating each unit s credit, market, interest rate and operational risk components. The Corporation as a whole benefits from risk diversification across the different businesses. This benefit is reflected as a reduction to allocated equity for each segment and is recorded in *ALM/Other*. The nature of these risks is discussed further beginning on page 40. Average equity is allocated to the business segments and related businesses, and is impacted by the portion of goodwill that is specifically assigned to the businesses and the unallocated portion of goodwill that resides in *ALM/Other.*

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Global Consumer and Small Business Banking

	2007				
(Dollars in millions)	**Total** [1]	**Deposits**	**Card Services** [1]	**Consumer Real Estate** [2]	**ALM/ Other**
Net interest income [3]	**$ 28,809**	**$ 9,423**	**$ 16,562**	**$ 2,281**	**$ 543**
Noninterest income:					
Card income	**10,189**	**2,155**	**8,028**	**6**	
Service charges	**6,008**	**6,003**		**5**	
Mortgage banking income	**1,333**			**1,333**	
All other income	**1,343**	**(4)**	**943**	**54**	**350**
Total noninterest income	**18,873**	**8,154**	**8,971**	**1,398**	**350**
Total revenue, net of interest expense	**47,682**	**17,577**	**25,533**	**3,679**	**893**
Provision for credit losses [4]	**12,929**	**256**	**11,317**	**1,041**	**315**
Noninterest expense	**20,060**	**9,106**	**8,294**	**2,033**	**627**
Income (loss) before income taxes	**14,693**	**8,215**	**5,922**	**605**	**(49)**
Income tax expense (benefit) [3]	**5,263**	**2,988**	**2,210**	**234**	**(169)**
Net income	**$ 9,430**	**$ 5,227**	**$ 3,712**	**$ 371**	**$ 120**
Net interest yield [3]	**8.15%**	**2.97%**	**7.87%**	**2.04%**	**n/m**
Return on average equity [5]	**14.94**	**33.61**	**8.43**	**9.00**	**n/m**
Efficiency ratio [3]	**42.07**	**51.81**	**32.49**	**55.24**	**n/m**
Period end total assets [6]	**$ 442,987**	**$ 358,626**	**$ 257,000**	**$ 133,324**	**n/m**

	2006				
(Dollars in millions)	Total [1]	Deposits	Card Services [1]	Consumer Real Estate [2]	ALM/ Other
Net interest income [3]	$ 28,197	$ 9,405	$ 16,357	$ 1,994	$ 441
Noninterest income:					
Card income	9,374	1,907	7,460	7	
Service charges	5,342	5,338		4	
Mortgage banking income	877			877	
All other income	1,136	1	819	27	289
Total noninterest income	16,729	7,246	8,279	915	289
Total revenue, net of interest expense	44,926	16,651	24,636	2,909	730
Provision for credit losses [4]	8,534	165	8,089	63	217
Noninterest expense	18,375	8,783	7,519	1,718	355
Income before income taxes	18,017	7,703	9,028	1,128	158
Income tax expense [3]	6,639	2,840	3,328	416	55
Net income	$ 11,378	$ 4,863	$ 5,700	$ 712	$ 103
Net interest yield [3]	8.20%	2.93%	8.52%	2.19%	n/m
Return on average equity [5]	18.11	33.42	12.90	22.18	n/m
Efficiency ratio [3]	40.90	52.75	30.52	59.06	n/m
Period end total assets [6]	$ 399,373	$ 339,717	$ 235,106	$ 101,175	n/m

(1) Presented on a managed basis, specifically *Card Services.*
(2) Effective January 1, 2007, *GCSBB* combined the former *Mortgage* and *Home Equity* businesses into *Consumer Real Estate.*
(3) FTE basis
(4) Represents provision for credit losses on held loans combined with realized credit losses associated with the securitized loan portfolio.

(5) Average allocated equity for *GCSBB* was $63.1 billion and $62.8 billion in 2007 and 2006.
(6) Total assets include asset allocations to match liabilities (i.e., deposits).
n/m = not meaningful

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	December 31		Average Balance	
(Dollars in millions)	**2007**	2006	**2007**	2006
Total loans and leases	**$ 359,946**	$ 307,661	**$ 327,810**	$ 288,131
Total earning assets [1]	**383,384**	343,338	**353,591**	344,013
Total assets [1]	**442,987**	399,373	**408,034**	396,559
Total deposits	**344,850**	329,195	**328,918**	332,242

[1] Total earning assets and total assets include asset allocations to match liabilities (i.e., deposits).

The strategy for *GCSBB* is to attract, retain and deepen customer relationships. We achieve this strategy through our ability to offer a wide range of products and services through a franchise that stretches coast to coast through 32 states and the District of Columbia. We also provide credit card products to customers in Canada, Ireland, Spain and the United Kingdom. In the U.S., we serve approximately 59 million consumer and small business relationships utilizing our network of 6,149 banking centers, 18,753 domestic branded ATMs, and telephone and Internet channels. Within *GCSBB*, there are three primary businesses: *Deposits, Card Services*, and *Consumer Real Estate*. In addition, *ALM/Other* includes the results of ALM activities and other consumer-related businesses (e.g., insurance). *GCSBB*, specifically *Card Services*, is presented on a managed basis. For a reconciliation of managed *GCSBB* to held *GCSBB*, see *Note 22 Business Segment Information* to the Consolidated Financial Statements.

During 2007, Visa Inc. filed a registration statement with the SEC with respect to a proposed IPO. Subject to market conditions and other factors, Visa Inc. expects the IPO to occur in the first half of 2008. We expect to record a gain associated with the IPO. In addition, we expect that a portion of the proceeds from the IPO will be used by Visa Inc. to fund liabilities arising from litigation which would allow us to record an offset to the litigation liabilities that we recorded in the fourth quarter of 2007 as discussed below.

Net income decreased $1.9 billion, or 17 percent, to $9.4 billion compared to 2006 as increases in noninterest income and net interest income were more than offset by increases in provision for credit losses and noninterest expense.

Net interest income increased $612 million, or two percent, to $28.8 billion due to the impacts of organic growth and the LaSalle acquisition on average loans and leases, and deposits compared to 2006. Noninterest income increased $2.1 billion, or 13 percent, to $18.9 billion compared to the same period in 2006, mainly due to increases in card income, service charges and mortgage banking income.

Provision for credit losses increased $4.4 billion, or 51 percent, to $12.9 billion compared to 2006. This increase primarily resulted from a $3.2 billion increase in *Card Services* and a $978 million increase in *Consumer Real Estate*. For further discussion of the increase in provision for credit losses related to *Card Services* and *Consumer Real Estate*, see their respective discussions.

Noninterest expense increased $1.7 billion, or nine percent, to $20.1 billion largely due to increases in personnel-related expenses, Visa-related litigation costs, equally allocated to *Card Services* and *Treasury Services* on a management accounting basis, and technology related costs. For additional information on Visa-related litigation, see *Note 13 Commitments and Contingencies* to the Consolidated Financial Statements.

Deposits

Deposits provides a comprehensive range of products to consumers and small businesses. Our products include traditional savings accounts, money market savings accounts, CDs and IRAs, and noninterest and

interest-bearing checking accounts. Debit card results are also included in *Deposits*.

Deposit products provide a relatively stable source of funding and liquidity. We earn net interest spread revenues from investing this liquidity in earning assets through client-facing lending activity and our ALM activities. The revenue is allocated to the deposit products using our funds transfer pricing process which takes into account the interest rates and maturity characteristics of the deposits. Deposits also generate fees such as account service fees, non-sufficient fund fees, overdraft charges and ATM fees, while debit cards generate merchant interchange fees based on purchase volume.

Excluding accounts obtained through acquisitions, we added approximately 2.3 million net new retail checking accounts in 2007. These additions resulted from continued improvement in sales and service results in the Banking Center Channel and Online, and the success of such products as Keep the Change™, Risk Free CDs, Balance Rewards and Affinity.

We continue to migrate qualifying affluent customers and their related deposit balances from *GCSBB* to *GWIM*. In 2007, a total of $11.4 billion of deposits were migrated from *GCSBB* to *GWIM* compared to $10.7 billion in 2006. After migration, the associated net interest income, service charges and noninterest expense are recorded in *GWIM*.

Net income increased $364 million, or seven percent, to $5.2 billion compared to 2006 as an increase in noninterest income was partially offset by an increase in noninterest expense. Net interest income remained relatively flat at $9.4 billion compared to 2006 as the addition of LaSalle and higher deposit spreads resulting from disciplined pricing were offset by the impact of lower balances. Average deposits decreased $3.2 billion, or one percent, largely due to the migration of customer relationships and related balances to *GWIM*, partially offset by the acquisition of LaSalle. The increase in noninterest income was driven by higher service charges of $665 million, or 12 percent, primarily as a result of new demand deposit account growth and the addition of LaSalle. Additionally, debit card revenue growth of $248 million, or 13 percent, was due to a higher number of checking accounts, increased usage, the addition of LaSalle and market penetration (i.e., increase in the number of existing account holders with debit cards).

Noninterest expense increased $323 million, or four percent, to $9.1 billion compared to 2006, primarily due to the addition of LaSalle, and to higher account and transaction volumes.

Card Services

Card Services, which excludes the results of debit cards (included in *Deposits*), provides a broad offering of products, including U.S. Consumer and Business Card, Unsecured Lending, and International Card. We offer a variety of co-branded and affinity credit card products and have become the leading issuer of credit cards through endorsed marketing in the U.S. and Europe. During 2007, Merchant Services was transferred to *Treasury Services* within *GCIB.* Previously their results were reported in *Card Services.* Prior period amounts have been reclassified.

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The Corporation reports its *GCSBB* results, specifically *Card Services*, on a managed basis, which is consistent with the way that management evaluates the results of *GCSBB*. Managed basis assumes that securitized loans were not sold and presents earnings on these loans in a manner similar to the way loans that have not been sold (i.e., held loans) are presented. Loan securitization is an alternative funding process that is used by the Corporation to diversify funding sources. Loan securitization removes loans from the Consolidated Balance Sheet through the sale of loans to an off-balance sheet QSPE which is excluded from the Corporation s Consolidated Financial Statements in accordance with GAAP.

Securitized loans continue to be serviced by the business and are subject to the same underwriting standards and ongoing monitoring as held loans. In addition, excess servicing income is exposed to similar credit risk and repricing of interest rates as held loans.

Net income decreased $2.0 billion, or 35 percent, to $3.7 billion compared to 2006 as growth in noninterest income and net interest income was more than offset by higher provision for credit losses and noninterest expense. Net interest income increased $205 million, or one percent, to $16.6 billion as an increase in managed average loans and leases of $18.5 billion was partially offset by spread compression.

Noninterest income increased $692 million, or eight percent, to $9.0 billion mainly due to higher cash advance fees related to organic loan growth in domestic credit card and unsecured lending. All other income increased $124 million primarily due to higher foreign revenues.

Provision for credit losses increased $3.2 billion, or 40 percent, to $11.3 billion compared to 2006. The increase was primarily driven by higher managed net losses from portfolio seasoning and increases from unusually low loss levels experienced in 2006 post bankruptcy reform. The higher provision was also driven by reserve increases in our small business portfolio reflective of growth in the business and portfolio deterioration. In addition, higher provision was due to seasoning of the unsecured lending portfolio. These increases in provision were partially offset by a higher level of reserve reduction from the addition of higher loss profile accounts to the domestic credit card securitization trust.

Noninterest expense increased $775 million, or 10 percent, to $8.3 billion compared to 2006, largely due to increases in personnel-related expenses, *Card Services* allocation of the Visa-related litigation costs and technology related costs. For additional information on Visa-related litigation, see *Note 13 Commitments and Contingencies* to the Consolidated Financial Statements.

Key Statistics

(Dollars in millions)	**2007**	2006
Card Services		
Average total loans and leases:		
Managed	**$ 209,774**	$ 191,314
Held	**106,490**	95,076
Period end total loans and leases:		
Managed	**227,822**	203,151
Held	**124,855**	101,286
Managed net losses (1):		
Amount	**10,099**	7,236
Percent	**4.81%**	3.78%
Credit Card (2)		
Average total loans and leases:		
Managed	**$ 171,376**	$ 163,409
Held	**70,242**	72,979
Period end total loans and leases:		
Managed	**183,691**	170,489
Held	**80,724**	72,194
Managed net losses (1):		
Amount	**8,214**	6,375
Percent	**4.79%**	3.90%

(1) Represents net charge-offs on held loans combined with realized credit losses associated with the securitized loan portfolio.
(2) Includes U.S. consumer card and foreign credit card. Does not include business card and unsecured lending.
The table above and the discussion below presents select key indicators for the *Card Services* and credit card portfolios.

Managed *Card Services* net losses increased $2.9 billion to $10.1 billion, or 4.81 percent of average outstandings, compared to $7.2 billion, or 3.78 percent (3.93 percent excluding the impact of SOP 03-3) in 2006. This increase was primarily driven by portfolio seasoning and increases from the unusually low loss levels experienced in 2006 post bankruptcy reform.

Managed *Card Services* total average loans and leases increased $18.5 billion to $209.8 billion compared to the same period in 2006, driven by growth in the unsecured lending, foreign and domestic card portfolios.

Managed credit card net losses increased $1.8 billion to $8.2 billion, or 4.79 percent of average credit card outstandings, compared to $6.4 billion, or 3.90 percent (3.99 percent excluding the impact of SOP 03-3) in 2006. The increase was driven by portfolio seasoning and increases from the unusually low loss levels experienced in 2006 post bankruptcy reform.

Managed credit card total average loans and leases increased $8.0 billion to $171.4 billion compared to the same period in 2006. The increase was driven by growth in the foreign and domestic portfolios.

For more information on credit quality, see Consumer Portfolio Credit Risk Management beginning on page 45.

Consumer Real Estate

Consumer Real Estate generates revenue by providing an extensive line of consumer real estate products and services to customers nationwide. *Consumer Real Estate* products are available to our customers through a retail network of personal bankers located in 6,149 banking centers, mortgage loan officers in nearly 200 locations and through a sales force offering our customers direct telephone and online access to our products. *Consumer Real Estate* products include fixed and adjustable rate loans for home purchase and refinancing needs, reverse mortgages, lines of credit and home equity loans. Mortgage products are either sold into the secondary mortgage market to investors, while retaining the Bank of America customer relationships, or are held on our balance sheet for ALM purposes. *Consumer Real Estate* is not impacted by the Corporation s mortgage production retention decisions as *Consumer Real Estate* is compensated for the decision on a management accounting basis with a corresponding offset recorded in *All Other*.

The *Consumer Real Estate* business includes the origination, fulfillment, sale and servicing of first mortgage loan products, reverse mortgage products and home equity products. Servicing activities primarily include collecting cash for principal, interest and escrow payments from borrowers, disbursing customer draws for lines of credit and accounting for and remitting principal and interest payments to investors and escrow payments to third parties. Servicing income includes ancillary income derived in connection with these activities such as late fees.

Within *GCSBB*, the *Consumer Real Estate* first mortgage and home equity production were $93.3 billion and $69.2 billion for 2007 compared to $76.9 billion and $67.9 billion in 2006. During the second quarter of 2007, the Corporation completed the purchase of a reverse mortgage business which increased the Corporation s offerings of reverse mortgages.

Net income for *Consumer Real Estate* decreased $341 million to $371 million compared to 2006 as increases in mortgage banking income and net interest income were more than offset by higher provision for credit losses and an increase in noninterest expense. Net interest income grew $287 million, or 14 percent, to $2.3 billion and was driven by loan balances in our home equity business partially offset by spread compression. Average loans and leases increased $20.7 billion, or 24 percent. The increase in mortgage banking income of $456 million, or 52 percent, to $1.3 billion was primarily due to the election under SFAS 159 to account for certain mortgage loans held-for-sale at fair value, favorable performance of the MSRs and increased production income partially offset by widening of credit spreads during the year.

Subsequent to the adoption of SFAS 159 on January 1, 2007, mortgage loan origination fees and costs are recognized in earnings when incurred. Previously, mortgage loan origination fees and costs would have been capitalized as part of the carrying amount of the loans and recognized as a reduction of mortgage banking income upon the sale of such loans. For more information on the adoption of SFAS 159 on mortgage banking income, see Mortgage Banking Risk Management on page 68.

Noninterest expense increased $315 million, or 18 percent, to $2.0 billion compared to 2006, driven by costs associated with increased volume and the increase in cost related to the adoption of SFAS 159 as discussed above.

Provision for credit losses increased $978 million to $1.0 billion compared to 2006. This increase was driven by higher losses inherent in the home equity portfolio reflective of portfolio seasoning and the impacts of the weak housing market, particularly in geographic areas which have experienced the most significant home price declines driving a reduction in collateral value.

The *Consumer Real Estate* servicing portfolio includes loans serviced for others, and originated and retained residential mortgages. The servicing portfolio at December 31, 2007 was $516.9 billion, $97.4 billion higher than at December 31, 2006, driven by production. Included in this amount was $259.5 billion of residential first mortgage loans serviced for others.

At December 31, 2007, the residential first mortgage MSR balance was $3.1 billion, an increase of $184 million, or six percent, from December 31, 2006. This value represented 118 bps of the related unpaid principal balance, a seven bps decrease from December 31, 2006.

ALM/Other

ALM/Other is comprised primarily of the allocation of a portion of the Corporation s net interest income from ALM activities and the results of other consumer-related businesses (e.g., insurance).

Net income increased $17 million compared to 2006 as higher contributions from ALM activities were offset by increases in provision for credit losses and noninterest expense. Provision for credit losses increased $98 million to $315 million compared to 2006. This increase was driven by higher losses inherent in the small business lending portfolio managed outside of *Card Services.* For more information on the Corporation s entire small business commercial domestic portfolio, see Commercial Portfolio Credit Risk Management beginning on page 49.

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Global Corporate and Investment Banking

			2007		
(Dollars in millions)	Total	Business Lending	Capital Markets and Advisory Services [1]	Treasury Services	ALM/ Other
Net interest income [2]	$ 11,217	$ 5,020	$ 2,786	$ 3,814	$ (403)
Noninterest income:					
Service charges	2,769	507	134	2,128	
Investment and brokerage services	910	1	867	42	
Investment banking income	2,537		2,537		
Trading account profits (losses)	(5,164)	(180)	(5,050)	63	3
All other income	1,148	824	(971)	1,092	203
Total noninterest income	2,200	1,152	(2,483)	3,325	206
Total revenue, net of interest expense	13,417	6,172	303	7,139	(197)
Provision for credit losses	652	647		5	
Noninterest expense	11,925	2,158	5,642	3,856	269
Income (loss) before income taxes	840	3,367	(5,339)	3,278	(466)
Income tax expense (benefit) [2]	302	1,246	(1,977)	1,213	(180)
Net income (loss)	$ 538	$ 2,121	$ (3,362)	$ 2,065	$ (286)
Net interest yield [2]	1.66%	2.00%	n/m	2.79%	n/m
Return on average equity [3]	1.19	13.12	(25.41)%	26.31	n/m
Efficiency ratio [2]	88.88	34.98	n/m	54.02	n/m
Period end total assets [4]	$ 776,107	$ 305,548	$ 413,115	$ 180,369	n/m

			2006		
(Dollars in millions)	Total	Business Lending	Capital Markets and Advisory Services	Treasury Services	ALM/ Other
Net interest income [2]	$ 9,877	$ 4,575	$ 1,660	$ 3,878	$ (236)
Noninterest income:					
Service charges	2,648	501	121	2,026	
Investment and brokerage services	942	15	893	33	1
Investment banking income	2,476		2,476		
Trading account profits	2,967	55	2,847	52	13
All other income	2,251	469	478	1,223	81
Total noninterest income	11,284	1,040	6,815	3,334	95
Total revenue, net of interest expense	21,161	5,615	8,475	7,212	(141)
Provision for credit losses	9	(2)	14	(3)	
Noninterest expense	11,578	2,047	5,799	3,561	171
Income (loss) before income taxes	9,574	3,570	2,662	3,654	(312)
Income tax expense (benefit) [2]	3,542	1,321	985	1,352	(116)
Net income (loss)	$ 6,032	$ 2,249	$ 1,677	$ 2,302	$ (196)
Net interest yield [2]	1.62%	1.98%	n/m	2.86%	n/m
Return on average equity [3]	14.33	14.36	15.17%	28.71	n/m
Efficiency ratio [2]	54.71	36.45	68.42	49.36	n/m
Period end total assets [4]	$ 685,935	$ 248,225	$ 385,450	$ 167,979	n/m

[1] *CMAS* revenue of $303 million for 2007 consists of market-based revenue of $233 million and $70 million of net interest income on loans for which the fair value option has been elected.

(2) FTE basis
(3) Average allocated equity for *GCIB* was $45.3 billion and $42.1 billion for 2007 and 2006.
(4) Total assets include asset allocations to match liabilities (i.e., deposits).
n/m = not meaningful

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	December 31		Average Balance	
(Dollars in millions)	**2007**	2006	**2007**	2006
Total loans and leases	**$ 324,198**	$ 242,700	**$ 274,015**	$ 232,623
Total trading-related assets	**308,315**	309,097	**362,193**	336,860
Total market-based earning assets [1]	**359,730**	348,717	**412,326**	370,187
Total earning assets [2]	**673,552**	599,326	**676,500**	609,100
Total assets [2]	**776,107**	685,935	**770,360**	691,414
Total deposits	**246,788**	212,028	**220,724**	194,972

(1) Total market-based earning assets represents earning assets included in *CMAS* but excludes loans for which the fair value option has been elected.

(2) Total earning assets and total assets include asset allocations to match liabilities (i.e., deposits).

GCIB provides a wide range of financial services to both our issuer and investor clients that range from business banking clients to large international corporate and institutional investor clients using a strategy to deliver value-added financial products and advisory solutions. *GCIB s* products and services are delivered from three primary businesses: *Business Lending, CMAS*, and *Treasury Services*, and are provided to our clients through a global team of client relationship managers and product partners. In addition, *ALM/Other* includes the results of ALM activities and other *GCIB* activities (e.g., Commercial Insurance business which was sold in the fourth quarter of 2007). Our clients are supported through offices in 22 countries that are divided into four distinct geographic regions: U.S. and Canada; Asia; Europe, Middle East, and Africa; and Latin America. For more information on our foreign operations, see Foreign Portfolio beginning on page 56.

Effective January 1, 2007, the Corporation adopted SFAS 159 and elected to account for loans and loan commitments to certain large corporate clients at fair value. For more information on the adoption of SFAS 159, see *Note 19 Fair Value Disclosures* to the Consolidated Financial Statements and see page 49 for a discussion of loans and loan commitments measured at fair value in accordance with SFAS 159. The results of loans and loan commitments to certain large corporate clients for which the Corporation elected the fair value option (including the associated risk mitigation tools) are recorded in *CMAS*.

Net income decreased $5.5 billion, or 91 percent, to $538 million and total revenue decreased $7.7 billion, or 37 percent, to $13.4 billion in 2007 compared to 2006. These decreases were driven by $5.6 billion of losses resulting from our CDO exposure and other trading losses. Additionally, we experienced increases in provision for credit losses and noninterest expense, which were partially offset by an increase in net interest income.

Net interest income increased $1.3 billion, or 14 percent, due to higher market-based net interest income of $1.1 billion and the FTE impact of a one-time tax benefit from restructuring our existing non-U.S. based commercial aircraft leasing business. Additionally, the benefit of growth in average loans and leases of $41.4 billion, or 18 percent, was partially offset by spread compression on core lending and deposit-related activities, and a change in the mix between interest-bearing and noninterest-bearing deposits as clients maintained lower noninterest-bearing compensating balances by shifting to interest bearing and/or higher yielding investment alternatives. The growth in average loans and average deposits was due to organic growth as well as the LaSalle merger.

Noninterest income decreased $9.1 billion, or 81 percent, in 2007 compared to 2006, driven by declines in trading account profits (losses) of $8.1 billion and all other income of $1.1 billion. For more information on these decreases, see the *CMAS* discussion.

Provision for credit losses was $652 million in 2007 compared to $9 million in 2006. The increase was driven by the absence of 2006 releases of reserves, higher net charge-offs and an increase in reserves during 2007 reflecting the impact of the weak housing market particularly on the

homebuilder loan portfolio. Net charge-offs increased in the retail automotive and other dealer-related portfolios due to growth, seasoning and deterioration, as well as from a lower level of commercial recoveries.

Noninterest expense increased $347 million, or three percent, mainly due to the addition of LaSalle and Visa-related litigation costs, equally allocated to *Treasury Services* and *Card Services* on a management accounting basis, partially offset by a reduction in performance-based incentive compensation in *CMAS*. For additional information on Visa- related litigation, see *Note 13 Commitments and Contingencies* to the Consolidated Financial Statements.

Business Lending

Business Lending provides a wide range of lending-related products and services to our clients through client relationship teams along with various product partners. Products include commercial and corporate bank loans and commitment facilities which cover our business banking clients, middle market commercial clients and our large multinational corporate clients. Real estate lending products are issued primarily to public and private developers, homebuilders and commercial real estate firms. Leasing and asset-based lending products offer our clients innovative financing solutions. Products also include indirect consumer loans which allow us to offer financing through automotive, marine, motorcycle and recreational vehicle dealerships across the U.S. *Business Lending* also contains the results for the economic hedging of our risk to certain credit counterparties utilizing various risk mitigation tools.

Net income decreased $128 million, or six percent, to $2.1 billion in 2007 compared to 2006 as increases in net interest income and noninterest income were more than offset by increases in provision for credit losses and noninterest expense. Net interest income increased $445 million, or 10 percent, driven by the FTE impact of approximately $350 million related to a one-time tax benefit from restructuring our existing non-U.S. based commercial aircraft leasing business, and average loan growth of 14 percent. These increases were partially offset by the impact of spread compression on the loan portfolio. The increase in average loans and leases was attributable to growth in commercial loans, the LaSalle merger and increases in the indirect consumer loan portfolio related to bulk purchases of retail automotive loans. The increase in noninterest income of $112 million, or 11 percent, was driven by improved economic hedging results of our exposures to certain large corporate clients and higher tax credits from community development activities partially offset by derivative fair value adjustments related to an option to purchase retail automotive loans.

Provision for credit losses was $647 million in 2007 compared to negative $2 million in 2006. The increase was driven by the absence of 2006 releases of reserves related to favorable commercial credit market conditions, higher net charge-offs and an increase in reserves during 2007 reflecting the impact of the weak housing market particularly on the homebuilder loan portfolio. Net charge-offs increased in 2007 as retail automotive and other dealer-related portfolio losses rose due to growth,

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seasoning and deterioration, and the level of commercial recoveries declined.

Noninterest expense increased $111 million, or five percent, primarily due to the LaSalle merger.

Capital Markets and Advisory Services

CMAS provides financial products, advisory services and financing globally to our institutional investor clients in support of their investing and trading activities. We also work with our commercial and corporate issuer clients to provide debt and equity underwriting and distribution capabilities, merger-related advisory services and risk management solutions using interest rate, equity, credit, currency and commodity derivatives, foreign exchange, fixed income and mortgage-related products. The business may take positions in these products and participate in market-making activities dealing in government securities, equity and equity-linked securities, high-grade and high-yield corporate debt securities, commercial paper, mortgage-backed securities and ABS. Underwriting debt and equity, securities research and certain market-based activities are executed through *Banc of America Securities, LLC* which is a primary dealer in the U.S.

In January 2008, we announced changes in our *CMAS* business which better align the strategy of this business with *GCIB s* broader integrated platform. We will continue to provide corporate, commercial and sponsored clients with debt and equity capital-raising services, strategic advice, and a full range of corporate banking capabilities. We will reduce activities in certain structured products (e.g., CDOs) and will resize the international platform to emphasize debt, cash management, and trading services, including rates and foreign exchange. The realignment will result in the reduction of front office personnel with additional infrastructure headcount reduction to follow. We also plan to sell our equity prime brokerage business.

CMAS evaluates its results using market-based revenue that is comprised of net interest income and noninterest income. The following table presents further detail regarding market-based revenue. Sales and trading revenue is segregated into fixed income from liquid products (primarily interest rate and commodity derivatives, foreign exchange contracts and public finance), credit products (primarily investment and noninvestment grade corporate debt obligations and credit derivatives), structured products (primarily CMBS, residential mortgage-backed securities, structured credit trading and CDOs), and equity income from equity-linked derivatives and cash equity activity.

(Dollars in millions)	**2007**	2006
Investment banking income		
Advisory fees	**$ 446**	$ 337
Debt underwriting	**1,772**	1,824
Equity underwriting	**319**	315
Total investment banking income	**2,537**	2,476
Sales and trading revenue		
Fixed income:		
Liquid products	**2,111**	2,158
Credit products	**(537)**	821
Structured products	**(5,176)**	1,449
Total fixed income	**(3,602)**	4,428
Equity income	**1,298**	1,571
Total sales and trading revenue	**(2,304)**	5,999
Total Capital Markets and Advisory Services market-based revenue [(1)]	**$ 233**	$ 8,475

(1) *CMAS* revenue of $303 million for 2007 consists of market-based revenue of $233 million and $70 million of net interest income on loans for which the fair value option has been elected.

A variety of factors influence results including volume of activity, the degree in which we successfully anticipate market movements, and how our hedges perform in the various markets. During the second half of 2007, extreme dislocations emerged in the financial markets, including leveraged finance, subprime mortgage, and the commercial paper markets, and these dislocations were further compounded by the decoupling of typical correlations in the various markets in which we participate. These conditions created less liquidity, a flight to quality, greater volatility, widening of credit spreads and a lack of price transparency. Furthermore, in the fourth quarter of 2007, the credit ratings of certain structured securities (e.g., CDOs) were downgraded which among other things triggered further widening of credit spreads for this type of security. We have been an active participant in the CDO market, maintain ongoing exposure to these securities and incurred losses associated with these exposures. Many of these conditions continued into 2008 and it is unclear how long these conditions and the overall economic slowdown may continue and what impact they will ultimately have on our results.

CMAS recognized a net loss of $3.4 billion in 2007, a decrease of $5.0 billion, compared to 2006 driven by a decrease in market-based revenue of $8.2 billion. The decrease was driven by $5.6 billion of losses resulting from our CDO exposure and other trading losses. Partially offsetting this decrease was a reduction in noninterest expense due to lower performance-based incentive compensation.

Investment banking income increased $61 million to $2.5 billion due to growth in advisory fees. This growth was driven by increased market activity primarily in the first half of the year partially offset by reduced debt underwriting fees that were affected by the market disruptions during the second half of the year which included the utilization of fees to distribute leveraged loan commitments.

Sales and trading revenue declined $8.3 billion to a loss of $2.3 billion in 2007. While structured products and credit products reported losses for 2007, liquid products and equities compared reasonably well with 2006 given the market conditions.

- Liquid products revenue decreased $47 million as the negative impact of spread widening and correlations breaking down (e.g., correlation between certain municipal market indices and bond market swap spreads) were partially offset by the strength in interest rate products and foreign exchange contracts.
- Credit products losses were $537 million, a decline in revenue of $1.4 billion compared to 2006. Losses resulted from positions taken in the market as a result of customer market making activities as the widening of spreads during the second half of the year had a negative impact on these positions. In addition, certain indices became extremely volatile and diverged from other related indices and from single name credit risk (bonds, loans or derivatives) in our portfolio. This negatively impacted our hedging of portfolios of single name credits with derivatives based on these indices. One example of this divergence was the widening of the spread between the investment grade cash and the credit derivative markets. In addition, losses also resulted from positions taken in the market as the widening of spreads during the second half of the year had a negative impact on these positions.

We also incurred losses of $292 million, net of $471 million of fees, on leveraged loans, loan commitments and the Corporation s share of the leveraged forward calendar. Losses incurred on our leveraged exposure were not concentrated in any one type (senior secured, covenant light or subordinated/senior unsecured) and were generally due to wider new issuance credit spreads. Since the negotiated spreads were lower than the then current new issuance spread, a fair value loss

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resulted. In several instances, commitments were either terminated by the client or interest rate concessions (e.g., an increase in the stated coupon) were obtained from the borrowers, thereby increasing the value of the loans, in each case negating the need for any writedown. At December 31, 2007, the Corporation s share of the leveraged finance forward calendar that consisted primarily of senior secured exposure was $12.2 billion and our funded position held for distribution was $6.1 billion. In addition, we had limited investment grade exposure that was in line with our normal exposure levels.

- Structured products losses were $5.2 billion, with a decline in revenue of $6.6 billion in 2007 compared to the prior year. The decrease was driven by $5.6 billion of losses resulting from our CDO exposure, $125 million of losses on CMBS funded debt and the forward calendar and $875 million related to other structured products. See the detailed CDO exposure discussion to follow. Other structured products, including residential mortgage-backed securities and structured credit trading, were negatively impacted by spread widening due to the credit market disruptions during the second half of the year and by the breakdown of the expected hedge correlations. For example, the divergence in valuation of agency-based mortgage products, principally derivatives and forward sales contracts, used to economically hedge non-agency mortgage exposure resulted in losses on our residential mortgage-backed securities trading positions. At the end of the year, we held $13.7 billion of funded CMBS debt of which $6.9 billion were floating-rate acquisition related financings to major, well known operating companies. In addition, we had a forward calendar of just over $2.0 billion of which $1.1 billion were floating-rate acquisition related financings.
- Equity products revenue decreased $273 million primarily due to lower client activity in equity capital markets and equity derivatives combined with reduced trading results.

Collateralized Debt Obligation Exposure at December 31, 2007

CDO vehicles are special purpose entities that hold diversified pools of fixed income securities. CDO vehicles issue multiple tranches of debt securities, including commercial paper, mezzanine and equity securities.

We receive fees for structuring CDO vehicles and/or placing debt securities with third party investors as part of our structured credit products business. Our CDO exposure can be divided into funded and unfunded super senior liquidity commitment exposure, other super senior exposure (i.e., cash positions and derivative contracts), warehouse, and sales and trading positions. For more information on our CDO liquidity commitments refer to Collateralized Debt Obligations as part of Off- and On-Balance Sheet Arrangements beginning on page 35. Super senior exposure represents the most senior class of commercial paper or notes that are issued by the CDO vehicles. These financial instruments benefit from the subordination of all other securities, including AAA-rated securities, issued by the CDO vehicles.

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The following table presents our super senior CDO exposure at December 31, 2007.

Super Senior Collateralized Debt Obligation Exposure

	December 31, 2007														
	Subprime Exposure (1)					Non-Subprime Exposure (2)					Total CDO Exposure				
(Dollars in millions)	Gross	Insured	Net of Insured Amount	Net Write-downs (2)	Net Exposure (3)	Gross	Insured	Net of Insured Amount	Net Write-downs (2)	Net Exposure (3)	Gross	Insured	Net of Insured Amount	Net Write-downs (3)	Net Exposure (3)
Super senior liquidity commitments															
High grade	$ 4,610	$ (1,800)	$ 2,810	$ (640)	$ 2,170	$ 3,053	$	$ 3,053	$ (57)	$ 2,996	$ 7,663	$ (1,800)	$ 5,863	$ (697)	$ 5,166
Mezzanine	363		363	(5)	358						363		363	(5)	358
CDOs-squared	4,240		4,240	(2,013)	2,227						4,240		4,240	(2,013)	2,227
Total super senior liquidity commitments (4)	**9,213**	**(1,800)**	**7,413**	**(2,658)**	**4,755**	**3,053**		**3,053**	**(57)**	**2,996**	**12,266**	**(1,800)**	**10,466**	**(2,715)**	**7,751**
Other super senior exposure															
High grade	4,010	(2,110)	1,900	(233)	1,667	1,192	(734)	458		458	5,202	(2,844)	2,358	(233)	2,125
Mezzanine	1,547		1,547	(752)	795						1,547		1,547	(752)	795
CDOs-squared	1,685	(410)	1,275	(316)	959						1,685	(410)	1,275	(316)	959
Total other super senior exposure	**7,242**	**(2,520)**	**4,722**	**(1,301)**	**3,421**	**1,192**	**(734)**	**458**		**458**	**8,434**	**(3,254)**	**5,180**	**(1,301)**	**3,879**
Total super senior CDO exposure	**$ 16,455**	**$ (4,320)**	**$ 12,135**	**$ (3,959)**	**$ 8,176**	**$ 4,245**	**$ (734)**	**$ 3,511**	**$ (57)**	**$ 3,454**	**$ 20,700**	**$ (5,054)**	**$ 15,646**	**$ (4,016)**	**$ 11,630**

(1) Classified as subprime when subprime consumer real estate loans make up at least 35 percent of the ultimate underlying collateral.
(2) Includes highly-rated CLO and CMBS super senior exposure.
(3) Net of insurance.
(4) For additional information on our super senior liquidity exposure of $12.3 billion, see the CDO discussion beginning on page 37.

At December 31, 2007, super senior exposure, net of writedowns, of $11.6 billion in the form of cash positions, liquidity commitments, and derivative contracts consisted of net subprime super senior exposure of approximately $8.2 billion and net non-subprime super senior exposure of $3.5 billion. During 2007, we recorded losses of $4.0 billion associated with our subprime super senior CDO exposure. The losses reduced trading account profits (losses) by approximately $3.2 billion and other income by approximately $750 million. In addition, we incurred approximately $1.1 billion in losses related to subprime sales and trading positions, approximately $300 million related to our CDO warehouse, and approximately $200 million to cover counterparty risk on the insured CDOs. For more information on our super senior liquidity exposure, see the CDO discussion beginning on page 37.

Our net subprime super senior liquidity commitments were $4.8 billion where we have recorded losses of $2.7 billion. The collateral supporting the high grade exposure consisted of about 60 percent subprime of which approximately 65 percent was made up of 2006 and 2007 vintages while the remaining amount was comprised of higher quality vintages from 2005 and prior. The mezzanine exposure is collateralized with about 40 percent of subprime assets of which approximately 60 percent are of higher quality vintages from 2005 and prior. The CDOs-squared exposure is supported by approximately 75 percent of subprime collateral, the majority of which were later vintages.

Our net other subprime super senior exposure was $3.4 billion where we have recorded losses of $1.3 billion. Other subprime super senior exposure consists primarily of our cash and derivative positions including the unfunded commitments. The collateral underlying the high grade exposure is similar to our high grade collateral discussed above. The mezzanine exposure underlying collateral was heavily weighted to subprime with approximately 65 percent coming from later vintages while the

CDOs-squared collateral was made up of approximately 50 percent subprime assets comprised of later vintages.

We also had net non-subprime super senior CDO exposure of $3.5 billion which primarily included highly-rated CLO and CMBS super senior exposures. The net non-subprime super senior exposure is comprised of $3.0 billion of super senior liquidity commitment exposure and $458 million of high grade other super senior exposure. We recorded losses of $57 million associated with these exposures. These losses were primarily driven by spread widening rather than impairment of principal.

In addition to the table above, we also had CDO exposure with a market value of approximately $815 million in our CDO warehouse of which $314 million was classified as subprime, and CDO exposure of approximately $1.0 billion related to our sales and trading activities of which $279 million was classified as subprime. The subprime exposure related to our CDO warehouse and sales and trading activities is carried at approximately 30 percent of par value.

As mentioned above, during the fourth quarter, the credit ratings of certain CDO structures were downgraded which among other things triggered widening of credit spreads for this type of security. CDO-related markets experienced significant liquidity constraints impacting the availability and reliability of transparent pricing. We subsequently valued these CDO structures assuming they would terminate and looked through the structures to the underlying net asset values supported by the underlying securities. We were able to obtain security values using external pricing services for approximately 70 percent of the CDO exposure for which we used the average of all prices obtained by security. The majority of the remaining positions where no pricing quotes were available were valued using matrix pricing by aligning the value to securities that had similar vintage of underlying assets and ratings, using the lowest rating between the rating services. The remaining securities were valued using projected cash flows, similar to the valuation of an interest-only strip, based on

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estimated average life, seniority level and vintage of underlying assets. We assigned a zero value to the CDO positions for which an event of default had been triggered. The value of cash held by the trustee for all CDO structures was also incorporated into the resulting net asset value.

At December 31, 2007, we held $5.1 billion of purchased insurance on our CDO exposure of which 66 percent was provided by monolines in the form of CDS, total-return-swaps (TRS) or financial guarantees. The majority of this purchased insurance relates to the high grade super senior exposure. In the case of default we will first look to the underlying securities and then to recovery on purchased insurance. We valued these contracts by referencing the fair value of the CDO and subsequently adjusted these fair values downward by $200 million due to counterparty credit risk. For more information on our credit exposure to monolines, see Industry Concentrations beginning on page 54.

Treasury Services

Treasury Services provides integrated working capital management and treasury solutions to clients worldwide through our network of proprietary offices and special clearing arrangements. Our clients include multinationals, middle-market companies, correspondent banks, commercial real estate firms and governments. Our products and services include treasury management, trade finance, foreign exchange, short-term credit facilities and short-term investing options. Net interest income is derived from interest-bearing and noninterest-bearing deposits, sweep investments, and other liability management products. Deposit products provide a relatively stable source of funding and liquidity. We earn net interest spread revenues from investing this liquidity in earning assets through client-facing lending activity and our ALM activities. The revenue is attributed to the deposit products using our funds transfer pricing process which takes into account the interest rates and maturity characteristics of the deposits. Noninterest income is generated from payment and receipt products, merchant services, wholesale card products, and trade services and is comprised largely of service charges which are net of market-based earnings credit rates applied against noninterest-bearing deposits. During 2007, Merchant Services was transferred to *Treasury Services*. Previously, these results were reported in *Card Services* in *GCSBB*. Prior period amounts have been reclassified.

Net income decreased $237 million, or 10 percent, in 2007 compared to 2006 driven by the increase in noninterest expense combined with a decrease in revenue. Net interest income decreased $64 million, or two percent, due to the negative impact of a change in the mix between interest-bearing and noninterest-bearing deposits as clients maintained lower noninterest-bearing compensating balances by shifting to interest-bearing and/or higher yielding investment alternatives, and spread compression resulting from the rate environment and competitive pricing. Partially offsetting this decrease was an increase in average deposits of $7.3 billion due to organic growth as well as the LaSalle merger. Noninterest income was relatively flat at $3.3 billion as the increase in service charges was more than offset by the decrease in all other income. Service charges increased $102 million due to organic growth, including the impact of deposit product shifts mentioned above, providing a partial offset to lower net interest income. All other income decreased $131 million due to the sale of a business related to our merchant services activities in the prior year. Noninterest expense increased $295 million, or eight percent, mainly due to *Treasury Services* allocation of the Visa-related litigation costs and the addition of LaSalle.

ALM/Other

ALM/Other includes an allocation of a portion of the Corporation s net interest income from ALM activities as well as our Commercial Insurance business.

Net income decreased $90 million, or 46 percent, in 2007 compared to 2006 mainly due to a decrease in net interest income of $167 million, resulting from a lower contribution from the Corporation s ALM activities, and increased noninterest expense partially offset by an increase in all other income. All other income increased $122 million due to the sale of our Commercial Insurance business in the fourth quarter of 2007. Noninterest expense increased $98 million due to severance costs associated with the *GCIB* strategic review implemented in 2007 as well as increased occupancy costs.

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Global Wealth and Investment Management

	2007				
(Dollars in millions)	Total	U.S. Trust [1]	Columbia Management	Premier Banking and Investments	ALM/ Other
Net interest income [2]	$ 3,857	$ 1,036	$ 15	$ 2,655	$ 151
Noninterest income:					
Investment and brokerage services	4,210	1,226	1,857	950	177
All other income	(144)	57	(366)	146	19
Total noninterest income	4,066	1,283	1,491	1,096	196
Total revenue, net of interest expense	7,923	2,319	1,506	3,751	347
Provision for credit losses	14	(14)		27	1
Noninterest expense	4,635	1,592	1,196	1,700	147
Income before income taxes	3,274	741	310	2,024	199
Income tax expense [2]	1,179	274	114	749	42
Net income	$ 2,095	$ 467	$ 196	$ 1,275	$ 157
Net interest yield [2]	3.06%	2.69%	n/m	2.70%	n/m
Return on average equity [3]	18.87	17.25	11.29%	72.44	n/m
Efficiency ratio [2]	58.50	68.67	79.39	45.31	n/m
Period end total assets [4]	$ 157,157	$ 51,044	$ 2,617	$ 113,329	n/m

	2006				
(Dollars in millions)	Total	U.S. Trust [1]	Columbia Management	Premier Banking and Investments	ALM/ Other
Net interest income [2]	$ 3,671	$ 902	$ (37)	$ 2,552	$ 254
Noninterest income:					
Investment and brokerage services	3,383	914	1,532	778	159
All other income	303	80	44	125	54
Total noninterest income	3,686	994	1,576	903	213
Total revenue, net of interest expense	7,357	1,896	1,539	3,455	467
Provision for credit losses	(39)	(52)		12	1
Noninterest expense	3,867	1,233	1,014	1,560	60
Income before income taxes	3,529	715	525	1,883	406
Income tax expense [2]	1,306	265	194	697	150
Net income	$ 2,223	$ 450	$ 331	$ 1,186	$ 256
Net interest yield [2]	3.50%	2.94%	n/m	2.98%	n/m
Return on average equity [3]	22.28	30.43	20.42%	70.57	n/m
Efficiency ratio [2]	52.57	65.04	65.88	45.15	n/m
Period end total assets [4]	$ 125,287	$ 33,648	$ 3,082	$ 93,992	n/m

(1) In July 2007, the operations of the acquired U.S. Trust Corporation were combined with the former *Private Bank* creating *U.S. Trust, Bank of America Private Wealth Management*. The results of the combined business were reported for periods beginning on July 1, 2007. Prior to July 1, 2007, the results solely reflect that of the former *Private Bank*.
(2) FTE basis
(3) Average allocated equity for *GWIM* was $11.1 billion and $10.0 billion in 2007 and 2006.
(4) Total assets include asset allocations to match liabilities (i.e., deposits).
n/m = not meaningful

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	December 31		Average Balance	
(Dollars in millions)	**2007**	2006	**2007**	2006
Total loans and leases	**$ 84,600**	$ 65,535	**$ 73,469**	$ 60,910
Total earning assets [(1)]	**145,979**	117,342	**126,244**	105,028
Total assets [(1)]	**157,157**	125,287	**135,319**	112,557
Total deposits	**144,865**	113,568	**124,867**	102,389

[(1)] Total earning assets and total assets include asset allocations to match liabilities (i.e., deposits).

GWIM provides a wide offering of customized banking, investment and brokerage services tailored to meet the changing wealth management goals of our individual and institutional customer base. Our clients have access to a range of services offered through three primary businesses: *U.S. Trust, Bank of America Private Wealth Management (U.S. Trust); Columbia Management (Columbia)*; and *Premier Banking and Investments (PB&I)*. In addition, *ALM/Other* primarily includes the results of ALM activities.

In December of 2007, we completed the sale of Marsico and realized a pre-tax gain on this transaction of approximately $1.5 billion recognized in *All Other*. The business results prior to the closing of the Marsico sale are reflected within the *Columbia* business.

Net income decreased $128 million, or six percent, to $2.1 billion in 2007, due mainly to losses associated with the support provided to certain cash funds managed within *Columbia* and an increase in noninterest expense.

Net interest income increased $186 million, or five percent, to $3.9 billion driven by the impact of the U.S. Trust Corporation acquisition and organic growth in average deposit and loan balances. The growth in balances was partially offset by spread compression and a shift in the deposit product mix. *GWIM* deposit growth benefited from the migration of customer relationships and related balances from *GCSBB,* organic growth and the U.S. Trust Corporation acquisition. A more detailed discussion regarding migrated customer relationships and related balances is provided in the *PB&I* discussion.

Noninterest income increased $380 million, or 10 percent, to $4.1 billion driven by an increase in investment and brokerage services of $827 million, or 24 percent. This increase was due to higher AUM primarily attributable to the impact of the U.S. Trust Corporation acquisition, net client inflows and favorable market conditions combined with an increase in brokerage activity. Partially offsetting this increase was a decrease in all other income due to losses associated with the support provided to certain cash funds managed within *Columbia*.

Noninterest expense increased $768 million, or 20 percent, to $4.6 billion driven by the addition of U.S. Trust Corporation, higher revenue-related expenses and increased marketing costs.

Client Assets

The following table presents client assets which consist of AUM, client brokerage assets and assets in custody.

Client Assets

	December 31	
(Dollars in millions)	**2007**	2006
Assets under management	**$ 643,531**	$ 542,977
Client brokerage assets [(1)]	**222,661**	203,799
Assets in custody	**167,575**	107,902
Less: Client brokerage assets and assets in custody included in assets under management	**(87,071)**	(67,509)
Total net client assets	**$ 946,696**	$ 787,169

(1) Client brokerage assets include non-discretionary brokerage and fee-based assets.

AUM increased $100.6 billion, or 19 percent, to $643.5 billion as of December 31, 2007 compared to 2006, driven by the U.S. Trust Corporation acquisition, which contributed $115.6 billion, as well as net inflows and market appreciation partially offset by the sale of Marsico, which resulted in a decrease of $60.9 billion. As of December 31, 2007, client brokerage assets increased by $18.9 billion, or nine percent, to $222.7 billion compared to the same period in 2006, driven by increased brokerage activity. Assets in custody increased $59.7 billion, or 55 percent, to $167.6 billion compared to the same period in 2006, driven mainly by U.S. Trust Corporation which contributed $45.0 billion.

U.S. Trust, Bank of America Private Wealth Management

In July 2007, we completed the acquisition of U.S. Trust Corporation for $3.3 billion in cash combining it with *The Private Bank* and its ultra-wealthy extension, *Family Wealth Advisors*, to form *U.S. Trust.* The results of the combined business were reported for periods beginning on July 1, 2007. Prior to July 1, 2007, the results solely reflect that of the former *Private Bank*. *U.S. Trust* provides comprehensive wealth management solutions to wealthy and ultra-wealthy clients with investable assets of more than $3 million. In addition, *U.S. Trust* provides resources and customized solutions to meet clients wealth structuring, investment management, trust and banking services as well as specialty asset management services (oil and gas, real estate, farm and ranch, timberland, private businesses and tax advisory). Clients also benefit from access to resources available through the Corporation including capital markets products, large and complex financing solutions, and its extensive banking platform.

Net income increased $17 million, or four percent, compared to 2006, to $467 million due to higher total revenue partially offset by increases in noninterest expense and provision for credit losses. Net interest income increased $134 million due to the acquisition of U.S. Trust Corporation and organic growth in average loans and leases and average deposits. This increase was partially offset by spread compression and the shift in deposit product mix. Growth in noninterest income was driven by a $312 million increase in investment and brokerage services related to acquisitions and organic growth. Noninterest expense increased $359 million to $1.6 billion driven by acquisitions and higher personnel-related expenses.

Columbia Management

Columbia is an asset management business serving the needs of both institutional clients and individual customers. *Columbia* provides asset management products and services, including mutual funds and separate accounts. *Columbia* mutual fund offerings provide a broad array of investment strategies and products including equity, fixed income (taxable and nontaxable) and money market (taxable and nontaxable) funds. *Columbia* distributes its products and services directly to institutional clients, and distributes to individuals through *U.S. Trust, PB&I* and nonproprietary channels including other brokerage firms.

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In December 2007, we completed the sale of Marsico and realized a pre-tax gain on this transaction of approximately $1.5 billion recognized in *All Other*. The business results prior to the closing of the Marsico sale are reflected within the *Columbia* business.

Net income decreased $135 million, or 41 percent, to $196 million driven by a decrease of $410 million in all other income. This decrease was due primarily to losses associated with the support provided to certain cash funds. Partially offsetting this decrease was higher investment and brokerage services income of $325 million driven by the contribution from the U.S. Trust Corporation acquisition, net client inflows and favorable market conditions.

We provided support to certain cash funds managed within *Columbia*. The funds for which we provided support typically invest in high quality, short-term securities with a weighted average maturity of 90 days or less, including a limited number of securities issued by SIVs. Due to market disruptions, certain SIV investments were downgraded by the rating agencies and experienced a decline in fair value. We entered into capital commitments which required the Corporation to provide up to $565 million in cash to the funds in the event the net asset value per unit of a fund declines below certain thresholds. The capital commitments expire no later than the third quarter of 2010. At December 31, 2007, losses of $382 million had been recognized and $183 million is still outstanding associated with this capital commitment.

Additionally, we purchased SIV investments from the funds at their fair value of $561 million. Losses of $394 million on these investments were recorded within *All Other* due to declines in fair value subsequent to the purchase of such securities.

We may from time to time, but are under no obligation to, provide additional support to funds managed within *Columbia*. Future support, if any, may take the form of additional capital commitments to the funds or the purchase of assets from the funds.

We are not the primary beneficiary of the cash funds and do not consolidate the cash funds managed within *Columbia* because the subordinated support provided by the Corporation will not absorb a majority of the variability created by the assets of the funds. The cash funds had total AUM of approximately $189 billion at December 31, 2007.

Premier Banking and Investments

PB&I includes *Banc of America Investments*, our full-service retail brokerage business and our *Premier Banking* channel. *PB&I* brings personalized banking and investment expertise through priority service with client-dedicated teams. *PB&I* provides a high-touch client experience through a network of approximately 5,600 client facing associates to our affluent customers with a personal wealth profile that includes investable assets plus a mortgage that exceeds $500,000 or at least $100,000 of investable assets.

PB&I includes the impact of migrating qualifying affluent customers, including their related deposit balances, from *GCSBB* to our *PB&I* model. After migration, the associated net interest income, service charges and noninterest expense is recorded in *PB&I*. The growth reported in the financial results of *PB&I* includes both the impact of migration, as well as the impact of incremental organic growth from providing a broader array of financial products and services to *PB&I* customers. For 2007 and 2006, a total of $11.4 billion and $10.7 billion of deposits were migrated from *GCSBB* to *PB&I*.

Net income increased $89 million, or eight percent, to $1.3 billion compared to the same period in 2006 due to an increase in total revenues. Net interest income increased $103 million, or four percent, to $2.7 billion driven by higher average deposit and loan balances partially offset by a shift of the product mix in the deposit portfolio and spread compression. Noninterest income increased $193 million, or 21 percent, to $1.1 billion driven by higher investment and brokerage services income. Noninterest expense increased $140 million, or nine percent, to $1.7 billion primarily due to increases in personnel-related expense driven by the expansion of client facing associates and higher incentives.

The growth in *PB&I* revenues was nine percent, of which approximately seven percent was attributable to the impact of migration and two percent reflected incremental organic growth.

ALM/Other

ALM/Other primarily includes the results of ALM activities.

Net income decreased $99 million, or 39 percent, to $157 million compared to 2006. The decrease was driven by a $103 million decrease in net interest income due to a reduction in the contribution from ALM activities and an increase in noninterest expense of $87 million.

All Other

	2007			2006		
(Dollars in millions)	**Reported Basis (1)**	**Securitization Offset (2)**	**As Adjusted**	Reported Basis (1)	Securitization Offset (2)	As Adjusted
Net interest income (3)	**$ (7,701)**	**$ 8,027**	**$ 326**	$ (5,930)	$ 7,593	$ 1,663
Noninterest income:						
Card income	**2,816**	**(3,356)**	**(540)**	3,795	(4,566)	(771)
Equity investment income	**3,745**		**3,745**	2,872		2,872
Gains (losses) on sales of debt securities	**180**		**180**	(475)		(475)
All other income	**6**	**288**	**294**	98	335	433
Total noninterest income	**6,747**	**(3,068)**	**3,679**	6,290	(4,231)	2,059
Total revenue, net of interest expense	**(954)**	**4,959**	**4,005**	360	3,362	3,722
Provision for credit losses	**(5,210)**	**4,959**	**(251)**	(3,494)	3,362	(132)
Merger and restructuring charges (4)	**410**		**410**	805		805
All other noninterest expense	**(20)**		**(20)**	972		972
Income before income taxes	**3,866**		**3,866**	2,077		2,077
Income tax expense (3)	**947**		**947**	577		577
Net income	**$ 2,919**	**$**	**$ 2,919**	$ 1,500	$	$ 1,500

(1) Provision for credit losses represents the provision for credit losses in *All Other* combined with the *GCSBB* securitization offset.

(2) The securitization offset on net interest income is on a funds transfer pricing methodology consistent with the way funding costs are allocated to the businesses.

(3) FTE basis

(4) For more information on merger and restructuring charges, see *Note 2 Merger and Restructuring Activity* to the Consolidated Financial Statements.

GCSBB is reported on a managed basis which includes a securitization impact adjustment which has the effect of assuming that loans that have been securitized were not sold and presenting these loans in a manner similar to the way loans that have not been sold are presented. *All Other s* results include a corresponding securitization offset which removes the impact of these securitized loans in order to present the consolidated results on a GAAP basis (i.e., held basis). See the *GCSBB* section beginning on page 21 for information on the *GCSBB* managed results. The following *All Other* discussion focuses on the results on an as adjusted basis excluding the securitization offset. For additional information, see *Note 22 Business Segment Information* to the Consolidated Financial Statements.

In addition to the securitization offset discussed above, *All Other* includes our *Equity Investments* businesses and *Other*.

Equity Investments includes Principal Investing, Corporate Investments and Strategic Investments. Principal Investing is comprised of a diversified portfolio of investments in privately-held and publicly-traded companies at all stages of their life cycle from start-up to buyout. These investments are made either directly in a company or held through a fund and are accounted for at fair value. In addition, Principal Investing has unfunded equity commitments related to some of these investments. For more information on these commitments, see *Note 13 Commitments and Contingencies* to the Consolidated Financial Statements.

Corporate Investments primarily includes investments in publicly-traded equity securities and funds which are accounted for as AFS marketable equity securities. Strategic Investments includes investments of $16.4 billion in CCB, $2.6 billion in Grupo Financiero Santander, S.A. (Santander), $2.6 billion Banco Itaú and other investments. Beginning in the fourth quarter of 2007, the shares of CCB are accounted for as AFS marketable equity securities and carried at fair value with a corresponding net-of-tax offset to accumulated OCI. Prior to the fourth quarter of 2007, these shares were accounted for at cost as they are non-transferable until October 2008. We also hold an option to increase our ownership interest in CCB to 19.1 percent. Additional shares received upon exercise of this option are restricted through August 2011. This option expires in February 2011. The strike price of the option is based on the IPO price that steps up on an annual basis and is currently at 103 percent of the IPO price. The

strike price of the option is capped at 118 percent of the IPO price depending when the option is exercised. Our investment in Santander is accounted for under the equity method of accounting. The restricted shares of Banco Itaú are currently carried at cost but, similar to CCB, will be accounted for as AFS marketable equity securities and carried at fair value with an offset net-of-tax to accumulated OCI beginning in the second quarter of 2008. Income associated with *Equity Investments* is recorded in equity investment income.

Other includes the residual impact of the allowance for credit losses and the cost allocation processes, merger and restructuring charges, intersegment eliminations, and the results of certain businesses that are expected to be or have been sold or are in the process of being liquidated. *Other* also includes certain amounts associated with ALM activities, including the residual impact of funds transfer pricing allocation methodologies, amounts associated with the change in the value of derivatives used as economic hedges of interest rate and foreign exchange rate fluctuations that do not qualify for SFAS 133 hedge accounting treatment, foreign exchange rate fluctuations related to SFAS 52 revaluation of foreign denominated debt issuances, certain gains (losses) on sales of whole mortgage loans, and gains (losses) on sales of debt securities. *Other* also includes adjustments to noninterest income and income tax expense to remove the FTE impact of items (primarily low-income housing tax credits) that have been grossed up within noninterest income to a FTE amount in the business segments.

Net income increased $1.4 billion to $2.9 billion primarily due to an increase in noninterest income combined with decreases in all other noninterest expense, merger and restructuring charges and provision for credit losses partially offset by a decrease in net interest income.

Net interest income decreased $1.3 billion resulting largely from the absence of net interest income due to the sale of the Latin American operations and Hong Kong-based retail and commercial banking business which were included in our 2006 results. Net interest income was also adversely impacted by the implementation of new accounting guidance (FSP 13-2) which decreased net interest income by approximately $230 million.

Noninterest income increased $1.6 billion driven by the $1.5 billion gain from the sale of Marsico. In addition, noninterest income increased

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due to higher equity investment income and the absence of a loss of $496 million on the sale of mortgage-backed debt securities which occurred in the prior year. Partially offsetting these items was a $720 million gain on the sale of our Brazilian operations in 2006 and losses in 2007 of $394 million on securities after they were purchased at fair value from certain cash funds managed within *GWIM*. In addition, all noninterest income line items were impacted by the absence of noninterest income due to the sale of the Latin American operations and Hong Kong-based retail and commercial banking business which were included in our 2006 results.

The following table presents the components of *All Other* s equity investment income and a reconciliation to the total consolidated equity investment income for 2007 and 2006.

Components of Equity Investment Income

(Dollars in millions)	**2007**	2006
Principal Investing	**$ 2,217**	$ 1,894
Corporate and Strategic Investments	**1,528**	978
Total equity investment income included in All Other	**3,745**	2,872
Total equity investment income included in the business segments	**319**	317
Total consolidated equity investment income	**$ 4,064**	$ 3,189

Equity investment income increased $873 million primarily due to the $600 million gain on the sale of private equity funds to Conversus Capital and an increase of $533 million in dividends from CCB, including a special dividend of $184 million prior to CCB s 2007 share listing. Partially offsetting these increases was a $341 million gain in 2006 recorded on the liquidation of a strategic European investment.

Provision for credit losses decreased $119 million to negative $251 million compared to negative $132 million in 2006, mainly due to reserve reductions from the sale of our Argentina portfolio during the first quarter of 2007 and improved performance of the remaining portfolios from certain consumer finance businesses that we have previously exited.

Merger and restructuring charges decreased $395 million to $410 million compared to $805 million for 2006 due to declining integration costs associated with the MBNA acquisition offset by costs associated with the integration of U.S. Trust Corporation and LaSalle. For additional information on merger and restructuring charges, see *Note 2 Merger and Restructuring Activity* to the Consolidated Financial Statements.

The decrease in all other noninterest expense of $992 million was largely driven by the absence of operating costs after the sale of the Latin America operations and Hong Kong-based retail and commercial banking business which were included in our 2006 results.

Off- and On-Balance Sheet Arrangements

In the ordinary course of business, we support our customers financing needs by facilitating their access to the commercial paper market. In addition, we utilize certain financing arrangements to meet our balance sheet management, funding and liquidity needs. For additional information on our liquidity risk, see Liquidity Risk and Capital Management beginning on page 41. These activities utilize SPEs, typically in the form of corporations, limited liability companies, or trusts, which raise funds by issuing short-term commercial paper or similar instruments to third party investors. These SPEs typically hold various types of financial assets whose cash flows are the primary source of repayment for the liabilities of the SPEs. Investors have recourse to the assets in the SPE and often benefit from other credit enhancements, such as overcollateralization in the form of excess assets in the SPE, liquidity facilities, and other arrangements. As a result, the SPEs can typically obtain a favorable credit rating from the rating agencies, resulting in lower financing costs for our customers.

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Table 8 Special Purpose Entities Liquidity Exposure [1]

	December 31, 2007			
		VIEs	QSPEs	
(Dollars in millions)	Consolidated [2]	Unconsolidated	Unconsolidated	Total
Corporation-sponsored multi-seller conduits	**$ 16,984**	**$ 47,335**	**$**	**$ 64,319**
Municipal bond trusts and corporate SPEs	**7,359**	**3,120**	**7,251**	**17,730**
Collateralized debt obligation vehicles [3]	**3,240**	**9,026**		**12,266**
Asset acquisition conduits	**1,623**	**6,399**		**8,022**
Customer-sponsored conduits		**1,724**		**1,724**
Total liquidity exposure	**$ 29,206**	**$ 67,604**	**$ 7,251**	**$ 104,061**

	December 31, 2006			
		VIEs	QSPEs	
(Dollars in millions)	Consolidated [2]	Unconsolidated	Unconsolidated	Total
Corporation-sponsored multi-seller conduits	$ 11,515	$ 29,836	$	$ 41,351
Municipal bond trusts and corporate SPEs	272	48	7,593	7,913
Collateralized debt obligation vehicles		7,658		7,658
Asset acquisition conduits	1,083	5,952		7,035
Customer-sponsored conduits		4,586		4,586
Total liquidity exposure	$ 12,870	$ 48,080	$ 7,593	$ 68,543

(1) *Note 9 Variable Interest Entities* to the Consolidated Financial Statements is related to this table but only reflects those entities in which we hold a significant variable interest.

(2) We consolidate VIEs when we are the primary beneficiary that will absorb the majority of the expected losses or expected residual returns of the VIEs or both.

(3) For additional information on our CDO exposures and related writedowns at December 31, 2007, see the CDO discussion beginning on page 28.

We have liquidity agreements, SBLCs or other arrangements with the SPEs, as described below, under which we are obligated to provide funding in the event of a market disruption or other specified event or otherwise provide credit support to the entities (hereinafter referred to as liquidity exposure). We manage our credit risk and any market risk on these arrangements by subjecting them to our normal underwriting and risk management processes. Our credit ratings and changes thereto will affect the borrowing cost and liquidity of these SPEs. In addition, significant changes in counterparty asset valuation and credit standing may also affect the ability of the SPEs to issue commercial paper. The contractual or notional amount of these commitments as presented in Table 8, represents our maximum possible funding obligation and is not, in management s view, representative of expected losses or funding requirements. From time to time, we may purchase commercial paper issued by these SPEs in connection with market-making activities or for investment purposes. During the second half of 2007, there were instances in which the asset-backed commercial paper market became illiquid due to market perceptions of uncertainty and certain investment activities were affected. As a result, at December 31, 2007, we held $6.6 billion of commercial paper on the Corporation s Consolidated Balance Sheet that was issued in connection with our liquidity obligations to unconsolidated CDOs summarized in the table above. At December 31, 2006, we held $123 million of commercial paper issued by the SPEs included in the table above.

The table above presents our liquidity exposure to these consolidated and unconsolidated SPEs, which include VIEs and QSPEs. VIEs are SPEs which lack sufficient equity at risk or whose equity investors do not have a controlling financial interest. QSPEs are SPEs whose activities are strictly limited to holding and servicing financial assets. Some, but not all, of the liquidity commitments to VIEs are considered to be significant variable interests and are disclosed in *Note 9 Variable Interest Entities* to the Consolidated Financial Statements. Those liquidity commitments that are not significant variable interests are not required to be included in *Note 9 Variable Interest Entities* to the Consolidated Financial Statements.

At December 31, 2007 the Corporation s total liquidity exposure to SPEs was $104.1 billion, an increase of $35.5 billion from December 31, 2006. The increase was primarily due to increases in corporation-sponsored multi-seller conduits and municipal bond trusts and corporate SPEs. The increase of $23.0 billion in corporation-sponsored multi-seller conduits was primarily due to organic growth in the business. The increase of $9.8 billion in municipal bond trusts and corporate SPEs was mainly due to the acquisition of LaSalle.

Corporation-Sponsored Multi-Seller Conduits

We administer three multi-seller conduits which provide a low-cost funding alternative to our customers by facilitating their access to the commercial paper market. Our customers sell or otherwise transfer assets to the conduits, which in turn issue high-grade, short-term commercial paper that is collateralized by the underlying assets. We receive fees for providing combinations of liquidity and SBLCs or similar loss protection commitments to the conduits. These commitments represent significant variable interests in the SPEs, which are discussed in more detail in *Note 9 Variable Interest Entities* to the Consolidated Financial Statements. Third parties participate in a small number of the liquidity facilities on a pari passu basis with the Corporation.

At December 31, 2007, our liquidity commitments to the conduits were collateralized by various classes of assets. Assets held in the conduits incorporate features such as overcollateralization and cash reserves which are designed to provide credit support at a level that is equivalent to an investment grade as determined in accordance with internal risk rating guidelines. During 2007, there were no material write-downs or downgrades of assets.

We are the primary beneficiary of one conduit which is included in our Consolidated Financial Statements. At December 31, 2007, our liquidity commitments to this conduit were collateralized by credit card loans (21 percent), auto loans (14 percent), equipment loans (13 percent), and student loans (eight percent). None of these assets are subprime residential mortgages. In addition, 29 percent of our commitments were

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collateralized by projected cash flows from long-term contracts (e.g., television broadcast contracts, stadium revenues and royalty payments) which, as mentioned above, incorporate features that provide credit support at a level equivalent to an investment grade. At December 31, 2007, the weighted average life of assets in the consolidated conduit was 5.4 years and the weighted average maturity of commercial paper issued by this conduit was 40 days. Assets of the Corporation are not available to pay creditors of the consolidated conduit except to the extent the Corporation may be obligated to perform under the liquidity commitments and SBLCs. Assets of the consolidated conduit are not available to pay creditors of the Corporation.

We do not consolidate the other two conduits as we do not expect to absorb a majority of the variability of the conduits. At December 31, 2007, our liquidity commitments to the unconsolidated conduits were collateralized by student loans (27 percent), credit card loans and trade receivables (10 percent each), and auto loans (eight percent). Less than one percent of these assets are subprime residential mortgages. In addition, 29 percent of our commitments were collateralized by the conduits short-term lending arrangements with investment funds, primarily real estate funds, which as mentioned above, incorporate features that provide credit support at a level equivalent to an investment grade. Amounts advanced under these arrangements will be repaid when the investment funds issue capital calls to their qualified equity investors. At December 31, 2007, the weighted average life of assets in the unconsolidated conduits was 2.6 years and the weighted average maturity of commercial paper issued by these conduits was 36 days.

The liquidity commitments and SBLCs provided to unconsolidated conduits are included in Table 10 in the Obligations and Commitments section beginning on page 38. We have no other contractual obligations to the unconsolidated conduits, nor do we intend to provide noncontractual or other forms of support.

On a combined basis, the unconsolidated conduits issued approximately $27 million of capital notes and equity interests to third parties. This represents the maximum amount of loss that would be absorbed by the third party investors. Based on an analysis of projected cash flows, we have determined that the Corporation will not absorb a majority of the variability created by the assets of the conduits.

Despite the market disruptions in the second half of 2007, the conduits did not experience any material difficulties in issuing commercial paper. The Corporation did not purchase any commercial paper issued by the conduits other than incidentally and in its role as commercial paper dealer.

Municipal Bond Trusts and Corporate SPEs

We have provided a total of $17.7 billion and $7.9 billion in liquidity support to municipal bond trusts and corporate SPEs at December 31, 2007 and 2006. We administer municipal bond trusts that hold highly-rated, long-term, fixed-rate municipal bonds, some of which are callable prior to maturity, for which we provided liquidity support of $13.4 billion and $2.6 billion at December 31, 2007 and 2006. In addition, we administer several conduits to which we provided $4.3 billion and $5.3 billion of liquidity support at December 31, 2007 and 2006.

As it relates to the municipal bond trusts the weighted average remaining life of the bonds at December 31, 2007 was 20.8 years. Substantially all of the bonds are rated AAA or AA and some of the bonds benefit from being wrapped by monolines. There were no material write-downs or downgrades of assets or issuers during 2007. The trusts obtain financing by issuing floating-rate trust certificates that reprice on a weekly basis to third party investors. The floating-rate investors have the right to

tender the certificates at any time upon seven days notice. We serve as remarketing agent and liquidity provider for the trusts. Should we be unable to remarket the tendered certificates, we are generally obligated to purchase them at par. We are not obligated to purchase the certificate if a bond s credit rating declines below investment grade or in the event of certain defaults or bankruptcy of the issuer and/or insurer. The total notional amount of floating-rate certificates for which we provide liquidity support was $13.4 billion and $2.6 billion at December 31, 2007 and 2006. Some of these trusts are QSPEs. We consolidate those trusts that are not QSPEs if we hold the residual interest or otherwise expect to absorb a majority of the variability of the trusts. We have $6.1 billion of liquidity commitments to unconsolidated trusts at December 31, 2007, which are included in Table 10 in the Obligations and Commitments section beginning on page 38.

Assets of the other corporate conduits consisted primarily of high-grade, long-term municipal, corporate, and mortgage-backed securities which had a weighted average remaining life of approximately 7.5 years at December 31, 2007. Substantially all of the securities are rated AAA or AA and some of the bonds benefit from being wrapped by monolines. There were no material write-downs or downgrades of assets or insurers during 2007. These conduits, which are QSPEs, obtain funding by issuing commercial paper to third party investors. At December 31, 2007, the weighted average maturity of the commercial paper was 25 days. We have entered into derivative contracts which provide interest rate, currency and a pre-specified amount of credit protection to the entities in exchange for the commercial paper rate. In addition, we may be obligated to purchase assets from the vehicles if the assets or insurers are downgraded. If an asset s rating declines below a certain investment quality as evidenced by its credit rating or defaults, we are no longer exposed to the risk of loss. Due to the market disruptions during the second half of 2007, these conduits began to experience difficulties in issuing commercial paper as credit spreads widened. On occasion, including in the first quarter of 2008, we held some of the issued commercial paper when marketing attempts were unsuccessful. In the event that we are unable to remarket the conduits commercial paper such that it no longer qualifies as a QSPE, we would consolidate the conduit which may have an adverse impact on the fair value of the related derivative contracts. At December 31, 2007 we did not hold any commercial paper issued by the conduits.

We have no other contractual obligations to the unconsolidated bond trusts and conduits described above, nor do we intend to provide noncontractual or other forms of support.

Derivative activity related to these entities is included in *Note 4 Derivatives* to the Consolidated Financial Statements. For more information on QSPEs, see *Note 9 Variable Interest Entities* to the Consolidated Financial Statements. For additional information on our monoline exposure, see Industry Concentrations beginning on page 54.

Collateralized Debt Obligation Vehicles

CDOs are SPEs that hold diversified pools of fixed income securities. They issue multiple tranches of debt securities, including commercial paper and equity securities. We receive fees for structuring the CDOs and/or placing debt securities with third party investors. We provided total liquidity support of $12.3 billion and $7.7 billion at December 31, 2007 and 2006 consisting of $10.0 billion and $2.1 billion of written put options and $2.3 billion and $5.5 billion of other forms of liquidity support.

At December 31, 2007 and 2006, we provided liquidity support in the form of written put options on $10.0 billion and $2.1 billion of commercial paper issued by CDOs, including $3.2 billion issued by a consolidated CDO at December 31, 2007. No third parties provide similar commitments to these CDOs. The commercial paper is the most senior class of securities issued by the CDOs and benefits from the subordination of all other securities, including AAA-rated securities. The amount that is principally backed by subprime residential mortgage exposure (net of insurance and prior to writedowns) totaled $7.4 billion. This amount included approximately $2.8 billion of high grade ABS, $4.2 billion of CDOs-squared, of which $3.2 billion were consolidated, and $363 million of mezzanine ABS.

The commercial paper subject to the put options is the most senior class of securities issued by the CDOs and benefits from the subordination of all other securities, including AAA-rated securities. We are obligated under the written put options to provide funding to the CDOs by purchasing the commercial paper at predetermined contractual yields in the event of a severe disruption in the short-term funding market as evidenced by the inability of the CDOs to issue commercial paper at spreads below a predetermined rate.

Prior to the second half of 2007, we believed that the likelihood of our experiencing an economic loss as the result of our obligations under the written put options was remote. However, due to severe market disruptions during the second half of 2007, the CDOs holding the put options began to experience difficulties in issuing commercial paper. Shortly thereafter, a significant portion of the assets held in these CDOs were downgraded or threatened with downgrade by the rating agencies. As a result of these factors, we began to purchase commercial paper that could not be issued to third parties at less than the contractual yield specified in our liquidity obligations. See *Note 13 Commitments and Contingencies* to the Consolidated Financial Statements for more information on the written put options. These written put options are recorded as derivatives on the Consolidated Balance Sheet and are carried at fair value with changes in fair value recorded in trading account profits (losses). Derivative activity related to these entities is included in *Note 4 Derivatives* to the Consolidated Financial Statements.

We also administer a CDO conduit that obtains funds by issuing commercial paper to third party investors. The conduit held $2.3 billion and $5.5 billion of assets at December 31, 2007 and 2006 consisting of super senior tranches of debt securities issued by other CDOs, none of which are principally backed by subprime residential mortgages at December 31, 2007. We provide liquidity support equal to the amount of assets in this conduit which obligates us to purchase the commercial paper at a predetermined contractual yield in the event of a severe disruption in the short-term funding market as evidenced by the inability of the conduit to issue commercial paper at spreads below a predetermined rate. In addition, we are obligated to purchase assets from the conduit or absorb market losses on the sale of assets in the event of a downgrade or decline in credit quality of the assets. Our $2.3 billion liquidity commitment to the conduit at December 31, 2007 is included in Table 10 in the Obligations and Commitments section. We are the sole provider of liquidity to the CDO vehicle.

During the fourth quarter of 2007, as contractually allowed in our role as conduit administrator, the Corporation removed certain assets from the CDO conduit due to a decline in credit quality. The CDO conduit also began to experience difficulties in issuing commercial paper due to market disruptions during the second half of 2007, and we began to purchase commercial paper that could not be issued to third parties at less than the contractual yield specified in our liquidity obligations.

At December 31, 2007, we held $6.6 billion of commercial paper on the balance sheet that was issued by unconsolidated CDO vehicles of which $5.0 billion related to the written put options and $1.6 billion related to other liquidity support. We also held AFS debt securities in

consolidated CDO vehicles with a fair value of $2.8 billion that were principally related to certain assets that were removed from the CDO conduit, as discussed above. We recorded losses of $3.2 billion, net of insurance, in trading account profits (losses) in 2007 of which $2.7 billion related to written put options and $519 million related to other liquidity support. These losses are included in the $4.0 billion of net writedowns on super senior CDO exposure which is discussed in more detail beginning on page 28.

Asset Acquisition Conduits

We administer two unconsolidated conduits which acquire assets on behalf of our customers. The return on the assets held in the conduits, which consist principally of liquid exchange-traded securities and some leveraged loans, is passed through to our customers through a series of derivative contracts. We consolidate a third conduit which holds subordinated debt securities for our benefit. These conduits obtain funding through the issuance of commercial paper and subordinated certificates to third party investors. Repayment of the commercial paper and certificates is assured by derivative contracts between the Corporation and the conduits, and we are reimbursed through the derivative contracts with our customers. Our performance under the derivatives is collateralized by the underlying assets. Derivative activity related to these entities is included in *Note 4 Derivatives* to the Consolidated Financial Statements.

Despite the market disruptions in the second half of 2007, the conduits did not experience any material difficulties in issuing commercial paper. The Corporation did not hold a significant amount of commercial paper issued by the conduits at any time during 2007. At December 31, 2007, the weighted average life of commercial paper issued by the conduits was 34 days.

We have no other contractual obligations to the conduits described above, nor do we intend to provide noncontractual or other forms of support.

Customer-Sponsored Conduits

We provide liquidity facilities to conduits that are sponsored by our customers and which provide them with direct access to the commercial paper market. We are typically one of several liquidity providers for a customer s conduit. We do not provide SBLCs or other forms of credit enhancement to these conduits. Assets of these conduits consist primarily of auto loans, student loans and credit card receivables. The liquidity commitments benefit from structural protections which vary depending upon the program, but given these protections, the exposures are viewed to be of investment grade quality.

These commitments are included in Table 10 in the Obligations and Commitments section. As we typically provide less than 20 percent of the total liquidity commitments to these conduits and do not provide other forms of support, we have concluded that we do not hold a significant variable interest in the conduits and they are not included in our discussion of VIEs in *Note 9 Variable Interest Entities* to the Consolidated Financial Statements.

Obligations and Commitments

We have contractual obligations to make future payments on debt and lease agreements. Additionally, in the normal course of business, we enter into contractual arrangements whereby we commit to future purchases of products or services from unaffiliated parties. Obligations that are legally binding agreements whereby we agree to purchase products or services with a specific minimum quantity defined at a fixed, minimum or variable price over a specified period of time are defined as purchase obligations.

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Included in purchase obligations are vendor contracts of $4.9 billion, commitments to purchase securities of $3.7 billion and commitments to purchase loans of $27.1 billion. The most significant of our vendor contracts include communication services, processing services and software contracts. Other long-term liabilities include our contractual funding obligations related to the Qualified Pension Plans, Nonqualified Pension Plans and Postretirement Health and Life Plans (the Plans). Obligations to the Plans are based on the current and projected obligations of the Plans, performance of the Plans assets and any participant contributions, if applicable. During 2007 and 2006, we contributed $243 million and $2.6 billion to the Plans, and we expect to make at least $206 million of con-

tributions during 2008. The following table does not include UTBs of $3.1 billion associated with FIN 48 and tax-related interest and penalties of $573 million.

Debt, lease, equity and other obligations are more fully discussed in *Note 12 Short-term Borrowings and Long-term Debt* and *Note 13 Commitments and Contingencies* to the Consolidated Financial Statements. The Plans and UTBs are more fully discussed in *Note 16 Employee Benefit Plans* and *Note 18 Income Taxes* to the Consolidated Financial Statements.

Table 9 presents total long-term debt and other obligations at December 31, 2007.

Table 9 Long-term Debt and Other Obligations

	December 31, 2007				
(Dollars in millions)	**Due in 1 year or less**	**Due after 1 year through 3 years**	**Due after 3 years through 5 years**	**Due after 5 years**	**Total**
Long-term debt and capital leases	**$ 30,435**	**$ 50,693**	**$ 28,115**	**$ 88,265**	**$ 197,508**
Purchase obligations [(1)]	**12,266**	**21,994**	**624**	**842**	**35,726**
Operating lease obligations	**2,049**	**3,405**	**2,480**	**8,151**	**16,085**
Other long-term liabilities	**493**	**694**	**432**	**480**	**2,099**
Total long-term debt and other obligations	**$ 45,243**	**$ 76,786**	**$ 31,651**	**$ 97,738**	**$ 251,418**

(1) Obligations that are legally binding agreements whereby we agree to purchase products or services with a specific minimum quantity defined at a fixed, minimum or variable price over a specified period of time are defined as purchase obligations.

Many of our lending relationships contain funded and unfunded elements. The funded portion is reflected on our balance sheet. For lending relationships carried at historical cost, the unfunded component of these commitments is not recorded on our balance sheet until a draw is made under the credit facility; however, a reserve is established for probable losses. For lending commitments for which we have elected to account for under SFAS 159, the fair value of the commitment is recorded in accrued expenses and other liabilities. The Corporation also manages certain concentrations of commitments (e.g., bridge financing) through its established originate to distribute strategy.

For more information on these commitments and guarantees, including equity commitments, see *Note 13 Commitments and Contingencies* to the Consolidated Financial Statements. For more information on the adoption of SFAS 159, see *Note 19 Fair Value Disclosures* to the Consolidated Financial Statements.

We enter into commitments to extend credit such as loan commitments, SBLCs and commercial letters of credit to meet the financing needs of our customers. The table below summarizes the total unfunded, or off-balance sheet, credit extension commitment amounts by expiration date. At December 31, 2007, the unfunded lending commitments related to charge cards (nonrevolving card lines) to individuals and government entities guaranteed by the U.S. Government in the amount of $9.9 billion (related outstandings of $193 million) were not included in credit card line commitments in the table below.

Other Commitments

We provided support to cash funds managed within *GWIM* by purchasing certain assets at fair value and by committing to provide a limited amount of capital to the funds. For more information, see *Note 13 Commitments and Contingencies* to the Consolidated Financial Statements.

Table 10 Credit Extension Commitments

	December 31, 2007				
(Dollars in millions)	Expires in 1 year or less	Expires after 1 year through 3 years	Expires after 3 years through 5 years	Expires after 5 years	Total
Loan commitments	$ 178,931	$ 92,153	$ 106,904	$ 27,902	$ 405,890
Home equity lines of credit	8,482	1,828	2,758	107,055	120,123
Standby letters of credit and financial guarantees	31,629	14,493	7,943	8,731	62,796
Commercial letters of credit	3,753	50	33	717	4,553
Legally binding commitments [1]	222,795	108,524	117,638	144,405	593,362
Credit card lines	876,393	17,864			894,257
Total credit extension commitments	**$ 1,099,188**	**$ 126,388**	**$ 117,638**	**$ 144,405**	**$ 1,487,619**

[1] Includes commitments of $47.3 billion to corporation-sponsored multi-seller conduits, $2.3 billion to CDOs, $6.1 billion to municipal bond trusts and $1.7 billion to customer-sponsored conduits at December 31, 2007.

Managing Risk

Overview

Our management governance structure enables us to manage all major aspects of our business through an integrated planning and review process that includes strategic, financial, associate, customer and risk planning. We derive much of our revenue from managing risk from customer transactions for profit. In addition to qualitative factors, we utilize quantitative measures to optimize risk and reward trade offs in order to achieve growth targets and financial objectives while reducing the variability of earnings and minimizing unexpected losses. Risk metrics that allow us to measure performance include economic capital targets and corporate risk limits. By allocating economic capital to a line of business, we effectively manage that business s ability to take on risk. Review and approval of business plans incorporate approval of economic capital allocation, and economic capital usage is monitored through financial and risk reporting. Industry, country, trading, asset allocation and other limits supplement the allocation of economic capital. These limits are based on an analysis of risk and reward in each line of business and management is responsible for tracking and reporting performance measurements as well as any exceptions to guidelines or limits. Our risk management process continually evaluates risk and appropriate metrics needed to measure it.

Our business exposes us to the following major risks: strategic, liquidity, credit, market and operational risk. Strategic risk is the risk that adverse business decisions, ineffective or inappropriate business plans or failure to respond to changes in the competitive environment, business cycles, customer preferences, product obsolescence, execution and/or other intrinsic risks of business will impact our ability to meet our objectives. Liquidity risk is the inability to accommodate liability maturities and deposit withdrawals, fund asset growth and meet contractual obligations through unconstrained access to funding at reasonable market rates. Credit risk is the risk of loss arising from a borrower s or counterparty s inability to meet its obligations. Market risk is the risk that values of assets and liabilities or revenues will be adversely affected by changes in market conditions, such as interest rate movements. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. The following sections, Strategic Risk Management on page 41, Liquidity Risk and Capital Management beginning on page 41, Credit Risk Management beginning on page 44, Market Risk Management beginning on page 61 and Operational Risk Management beginning on page 68, address in more detail the specific procedures, measures and analyses of the major categories of risk that we manage.

Risk Management Processes and Methods

We have established and continually enhance control processes and use various methods to align risk-taking and risk management throughout our organization. These control processes and methods are designed around three lines of defense : lines of business, enterprise functions and Corporate Audit.

The lines of business are the first line of defense and are responsible for identifying, quantifying, mitigating and monitoring all risks within their lines of business, while certain enterprise-wide risks are managed centrally. For example, except for trading-related business activities, interest rate risk associated with our business activities is managed centrally as part of our ALM activities. Line of business management makes and executes the business plan and is closest to the changing nature of risks

and, therefore, we believe is best able to take actions to manage and mitigate those risks. Our lines of business prepare periodic self-assessment reports to identify the status of risk issues, including mitigation plans, if appropriate. These reports roll up to executive management to ensure appropriate risk management and oversight, and to identify enterprise-wide issues. Our management processes, structures and policies aid us in complying with laws and regulations and provide clear lines for decision-making and accountability. Wherever practical, we attempt to house decision-making authority as close to the transaction as possible while retaining supervisory control functions from both in and outside of the lines of business.

The key elements of the second line of defense are Risk Management, Compliance, Finance, Global Technology and Operations, Human Resources, and Legal functions. These groups are independent of the lines of businesses and are organized on both a line of business and enterprise-wide basis. For example, for Risk Management, a senior risk executive is assigned to each of the lines of business and is responsible for the oversight of all the risks associated with that line of business. Enterprise-level risk executives have responsibility to develop and implement polices and practices to assess and manage enterprise-wide credit, market and operational risks.

Corporate Audit, the third line of defense, provides an independent assessment of our management and internal control systems. Corporate Audit activities are designed to provide reasonable assurance that resources are adequately protected; significant financial, managerial and operating information is materially complete, accurate and reliable; and employees actions are in compliance with corporate policies, standards, procedures, and applicable laws and regulations.

We use various methods to manage risks at the line of business levels and corporate-wide. Examples of these methods include planning and forecasting, risk committees and forums, limits, models, and hedging strategies. Planning and forecasting facilitates analysis of actual versus planned results and provides an indication of unanticipated risk levels. Generally, risk committees and forums are composed of lines of business, risk management, treasury, compliance, legal and finance personnel, among others, who actively monitor performance against plan, limits, potential issues, and introduction of new products. Limits, the amount of exposure that may be taken in a product, relationship, region or industry, seek to align corporate-wide risk goals with those of each line of business and are part of our overall risk management process to help reduce the volatility of market, credit and operational losses. Models are used to estimate market value and net interest income sensitivity, and to estimate expected and unexpected losses for each product and line of business, where appropriate. Hedging strategies are used to manage the risk of borrower or counterparty concentration risk and to manage market risk in the portfolio.

The formal processes used to manage risk represent only one portion of our overall risk management process. Corporate culture and the actions of our associates are also critical to effective risk management. Through our Code of Ethics, we set a high standard for our associates. The Code of Ethics provides a framework for all of our associates to conduct themselves with the highest integrity in the delivery of our products or services to our customers. We instill a risk-conscious culture through communications, training, policies, procedures, and organizational roles and responsibilities. Additionally, we continue to strengthen the linkage between the associate performance management process and individual compensation to encourage associates to work toward corporate-wide risk goals.

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Oversight

The Board oversees the risk management of the Corporation through its committees, management committees and the Chief Executive Officer. The Board s Audit Committee monitors (1) the effectiveness of our internal controls, (2) the integrity of our Consolidated Financial Statements and (3) compliance with legal and regulatory requirements. In addition, the Audit Committee oversees the internal audit function and the independent registered public accountant. The Board s Asset Quality Committee oversees credit risks and related topics that may impact our assets and earnings. The Finance Committee, a management committee, oversees the development and performance of the policies and strategies for managing the strategic, credit, market, and operational risks to our earnings and capital. The Asset Liability Committee (ALCO), a subcommittee of the Finance Committee, oversees our policies and processes designed to assure sound market risk and balance sheet management. The Global Markets Risk Committee (GRC) has been designated by ALCO as the primary governance authority for Global Markets Risk Management. The Compliance and Operational Risk Committee, a subcommittee of the Finance Committee, oversees our policies and processes designed to assure sound operational and compliance risk management. The Credit Risk Committee (CRC), a subcommittee of the Finance Committee, oversees and approves our adherence to sound credit risk management policies and practices. Certain CRC approvals are subject to the oversight of the Board s Asset Quality Committee. The Executive Management Team (i.e., Chief Executive Officer and select executives of the management team) reviews our corporate strategies and objectives, evaluates business performance, and reviews business plans including economic capital allocations to the Corporation and lines of business. Management continues to direct corporate-wide efforts to address the Basel Committee on Banking Supervision s new risk-based capital standards (Basel II). The Audit Committee and Finance Committee oversee management s plans to comply with Basel II. For additional information, see the Basel II discussion on page 43 and *Note 15 Regulatory Requirements and Restrictions* to the Consolidated Financial Statements.

Strategic Risk Management

Strategic risk is the risk that adverse business decisions, ineffective or inappropriate business plans, or failure to respond to changes in the competitive environment, business cycles, customer preferences, product obsolescence, execution and/or other intrinsic risks of business will impact our ability to meet our objectives. We use an integrated planning process to help manage strategic risk. A key component of the planning process aligns strategies, goals, tactics and resources throughout the enterprise. The process begins with the creation of a corporate-wide business plan which incorporates an assessment of the strategic risks. This business plan establishes the corporate strategic direction. The planning process then cascades through the lines of business, creating business line plans that are aligned with the Corporation s strategic direction. At each level, tactics and metrics are identified to measure success in achieving goals and assure adherence to the plans. As part of this process, the lines of business continuously evaluate the impact of changing market and business conditions, and the overall risk in meeting objectives. See the Operational Risk Management section beginning on

page 68 for a further description of this process. Corporate Audit in turn monitors, and independently reviews and evaluates, the plans and measurement processes.

One of the key tools we use to manage strategic risk is economic capital allocation. Through the economic capital allocation process, we effectively manage each line of business s ability to take on risk. Review and approval of business plans incorporate approval of economic capital allocation, and economic capital usage is monitored through financial and risk reporting. Economic capital allocation plans for the lines of business are incorporated into the Corporation s operating plan that is approved by the Board on an annual basis.

Liquidity Risk and Capital Management

Liquidity Risk

Liquidity is the ongoing ability to accommodate liability maturities and deposit withdrawals, fund asset growth and business operations, and meet contractual obligations through unconstrained access to funding at reasonable market rates. Liquidity management involves forecasting funding requirements and maintaining sufficient capacity to meet the needs and accommodate fluctuations in asset and liability levels due to changes in our business operations or unanticipated events. Sources of liquidity include deposits and other customer-based funding, and wholesale market-based funding.

We manage liquidity at two levels. The first is the liquidity of the parent company, which is the holding company that owns the banking and nonbanking subsidiaries. The second is the liquidity of the banking subsidiaries. The management of liquidity at both levels is essential because the parent company and banking subsidiaries have different funding needs and sources, and are subject to certain regulatory guidelines and requirements. Through ALCO, the Finance Committee is responsible for establishing our liquidity policy as well as approving operating and contingency procedures, and monitoring liquidity on an ongoing basis. Corporate Treasury is responsible for planning and executing our funding activities and strategy.

In order to ensure adequate liquidity through the full range of potential operating environments and market conditions, we conduct our liquidity management and business activities in a manner that will preserve and enhance funding stability, flexibility and diversity. Key components of this operating strategy include a strong focus on customer-based funding, maintaining direct relationships with wholesale market funding providers, and maintaining the ability to liquefy certain assets when, and if, requirements warrant.

We develop and maintain contingency funding plans for both the parent company and bank liquidity positions. These plans evaluate our liquidity position under various operating circumstances and allow us to ensure that we would be able to operate through a period of stress when access to normal sources of funding is constrained. The plans project funding requirements during a potential period of stress, specify and quantify sources of liquidity, outline actions and procedures for effectively managing through the problem period, and define roles and responsibilities. They are reviewed and approved annually by ALCO.

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Our borrowing costs and ability to raise funds are directly impacted by our credit ratings. The credit ratings of Bank of America Corporation and Bank of America, N.A. are reflected in the table below.

Table 11 Credit Ratings

	December 31, 2007				
	Bank of America Corporation			Bank of America, N.A.	
	Senior Debt	Subordinated Debt	Commercial Paper	Short-term Borrowings	Long-term Debt
Moody s Investors Service	Aa1	Aa2	P-1	P-1	Aaa
Standard & Poor s	AA	AA-	A-1+	A-1+	AA+
Fitch Ratings	AA	AA-	F1+	F1+	AA

Under normal business conditions, primary sources of funding for the parent company include dividends received from its banking and nonbanking subsidiaries, and proceeds from the issuance of senior and subordinated debt, as well as commercial paper and equity. Primary uses of funds for the parent company include repayment of maturing debt and commercial paper, share repurchases, dividends paid to shareholders, and subsidiary funding through capital or debt.

The parent company maintains a cushion of excess liquidity that would be sufficient to fully fund the holding company and nonbank affiliate operations for an extended period during which funding from normal sources is disrupted. The primary measure used to assess the parent company s liquidity is the Time to Required Funding during such a period of liquidity disruption. This measure assumes that the parent company is unable to generate funds from debt or equity issuance, receives no dividend income from subsidiaries, and no longer pays dividends to shareholders while continuing to meet nondiscretionary uses needed to maintain bank operations and repayment of contractual principal and interest payments owed by the parent company and affiliated companies. Under this scenario, the amount of time the parent company and its nonbank subsidiaries can operate and meet all obligations before the current liquid assets are exhausted is considered the Time to Required Funding. ALCO approves the target range set for this metric, in months, and monitors adherence to the target. Maintaining excess parent company cash ensures that Time to Required Funding remains in the target range of 21 to 27 months and is the primary driver of the timing and amount of the Corporation s debt issuances. As of December 31, 2007 Time to Required Funding was 19 months compared to 24 months at December 31, 2006. The reduction reflects the funding of the LaSalle acquisition for $21.0 billion in cash which closed on October 1, 2007. We had anticipated in the fourth quarter of 2007 that the Time to Required Funding would decrease slightly below our target range as a result of the funding of the LaSalle acquisition. We anticipate returning to our target range in 2008 due in part to the issuance of preferred stock in the first quarter of 2008. For additional information on our recent preferred stock issuances, see the Preferred Stock discussion on page 44.

The primary sources of funding for our banking subsidiaries include customer deposits and wholesale market based funding. Primary uses of funds for the banking subsidiaries include growth in the core asset portfolios, including loan demand, and in the ALM portfolio. We use the ALM portfolio primarily to manage interest rate risk and liquidity risk.

One ratio that can be used to monitor the stability of funding composition is the loan to domestic deposit ratio. This ratio reflects the percent of loans and leases that are funded by domestic core deposits, a relatively stable funding source. A ratio below 100 percent indicates that our loan portfolio is completely funded by domestic core deposits. The ratio was 127 percent at December 31, 2007 compared to 118 percent at

December 31, 2006. The increase was primarily attributable to organic growth in the loan and lease portfolio, and a decision to retain a larger share of mortgage production on the Corporation s balance sheet.

The strength of our balance sheet is a result of rigorous financial and risk discipline. Our core deposit base, which is a low cost funding source, is often used to fund the purchase of incremental assets (primarily loans and securities), the composition of which impacts our loan to deposit ratio. Mortgage-backed securities and mortgage loans have prepayment risk which must be managed. Repricing of deposits is a key variable in this process. The capital generated in excess of capital adequacy targets and to support business growth, is available for the payment of dividends and share repurchases.

ALCO determines prudent parameters for wholesale market-based borrowing and regularly reviews the funding plan for the bank subsidiaries to ensure compliance with these parameters. The contingency funding plan for the banking subsidiaries evaluates liquidity over a 12-month period in a variety of business environment scenarios assuming different levels of earnings performance and credit ratings as well as public and investor relations factors. Funding exposure related to our role as liquidity provider to certain off-balance sheet financing entities is also measured under a stress scenario. In this analysis, ratings are downgraded such that the off-balance sheet financing entities are not able to issue commercial paper and backup facilities that we provide are drawn upon. In addition, potential draws on credit facilities to issuers with ratings below a certain level are analyzed to assess potential funding exposure.

We originate loans for retention on our balance sheet and for distribution. As part of our originate to distribute strategy, commercial loan originations are distributed through syndication structures, and residential mortgages originated by *Consumer Real Estate* are frequently distributed in the secondary market. In connection with our balance sheet management activities, we may retain mortgage loans originated as well as purchase and sell loans based on our assessment of market conditions.

Regulatory Capital

At December 31, 2007, the Corporation operated its banking activities primarily under three charters: Bank of America, N.A., FIA Card Services, N.A. and LaSalle Bank, N.A. As a regulated financial services company, we are governed by certain regulatory capital requirements. At December 31, 2007 and 2006, the Corporation, Bank of America, N.A., and FIA Card Services, N.A., were classified as well-capitalized for regulatory purposes, the highest classification. At December 31, 2007, LaSalle Bank, N.A. was also classified as well-capitalized for regulatory purposes. There have been no conditions or events since December 31, 2007 that management believes have changed the Corporation s, Bank of America, N.A. s, FIA Card Services, N.A. s, and LaSalle Bank, N.A. s capital classifications.

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Table 12 Reconciliation of Tier 1 and Total Capital

	December 31	
(Dollars in millions)	**2007**	2006
Tier 1 Capital		
Total shareholders equity	**$ 146,803**	$ 135,272
Goodwill	**(77,530)**	(65,662)
Nonqualifying intangible assets [(1)]	**(5,239)**	(3,782)
Effect of net unrealized (gains) losses on AFS debt and marketable equity securities and net (gains) losses on derivatives recorded in accumulated OCI, net-of-tax	**(2,149)**	6,565
Unamortized net periodic benefit costs recorded in accumulated OCI, net-of-tax	**1,301**	1,428
Trust securities [(2)]	**16,863**	15,942
Other	**3,323**	1,301
Total Tier 1 Capital	**83,372**	91,064
Long-term debt qualifying as Tier 2 Capital	**31,771**	24,546
Allowance for loan and lease losses	**11,588**	9,016
Reserve for unfunded lending commitments	**518**	397
Other [(3)]	**6,471**	203
Total Capital	**$ 133,720**	$ 125,226

(1) Nonqualifying intangible assets of the Corporation are comprised of certain core deposit intangibles, affinity relationships and other intangibles.
(2) Trust securities are net of unamortized discounts.
(3) Includes 45 percent, or $6.0 billion, of the pre-tax fair value adjustment related to the Corporation s stock investment in CCB.

Certain corporate sponsored trust companies which issue trust preferred securities (Trust Securities) are deconsolidated under FIN 46R. As a result, the Trust Securities are not included on our Consolidated Balance Sheets. On March 1, 2005, the FRB issued Risk-Based Capital Standards: Trust Preferred Securities and the Definition of Capital (the Final Rule) which allows Trust Securities to continue to qualify as Tier 1 Capital with revised quantitative limits that would be effective after a five-year transition period. As a result, we continue to include Trust Securities in Tier 1 Capital.

The Final Rule limits restricted core capital elements to 15 percent for internationally active bank holding companies. In addition, the FRB revised the qualitative standards for capital instruments included in regulatory capital. Internationally active bank holding companies are those with consolidated assets greater than $250 billion or on-balance sheet exposure greater than $10 billion. At December 31, 2007, our restricted core capital elements comprised 20.3 percent of total core capital elements. We expect to be fully compliant with the revised limits prior to the implementation date of March 31, 2009.

Table 12 reconciles the Corporation s total shareholders equity to Tier 1 and Total Capital as defined by the regulations issued by the FRB, the FDIC, and the OCC at December 31, 2007 and 2006.

At December 31, 2007, the Corporation s Tier 1 Capital, Total Capital and Tier 1 Leverage ratios were 6.87 percent, 11.02 percent, and 5.04 percent, respectively. During 2007, the Corporation completed its acquisitions of U.S. Trust Corporation for $3.3 billion in cash and LaSalle for $21.0 billion in cash. As a result of these acquisitions, the Corporation s Tier 1 Capital, Total Capital, and Tier 1 Leverage ratios were reduced by approximately 130 bps, 145 bps and 90 bps, respectively, at December 31, 2007.

In January 2008, we issued 240 thousand shares of Bank of America Corporation Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series K with a par value of $0.01 per share for $6.0 billion. The fixed rate is 8.00 percent through January 29, 2018 and then adjusts to three-month LIBOR plus 363 bps thereafter. In addition, we issued 6.9 million shares of Bank of America Corporation 7.25% Non-Cumulative Perpetual Convertible Preferred Stock, Series L with a par value of $0.01 per share for

$6.9 billion. Based on December 31, 2007 balances, the Corporation s Tier 1 and Total Capital ratios are expected to increase by approximately 105 bps and its Tier 1 Leverage ratio is expected to increase by approximately 75 bps as a result of these issuances. See *Note 15 Regulatory Requirements and Restrictions* to the Consolidated Financial Statements for more information on the Corporation s regulatory capital.

Basel II

In June 2004, the Basel II Accord was published with the intent of more closely aligning regulatory capital requirements with underlying risks. Similar to economic capital measures, Basel II seeks to address credit risk, market risk and operational risk.

While economic capital is measured to cover unexpected losses, the Corporation also maintains a certain threshold in terms of regulatory capital to adhere to legal standards of capital adequacy. These thresholds or leverage ratios will continue to be utilized for the foreseeable future.

On December 7, 2007, the U.S. regulatory agencies published the final Basel II rules (Basel II Rules). The Basel II Rules establish requirements for the U.S. implementation and provide detailed capital requirements for credit and operational risk under Pillar 1, supervisory requirements under Pillar 2 and disclosure requirements under Pillar 3. We are still awaiting final rules for market risk requirements under Basel II.

The Basel II Rules allow U.S. financial institutions to begin parallel reporting as early as 2008. During the parallel period, the resulting capital calculations under both the current (Basel I) rules and the Basel II Rules should be reported to the financial institutions regulatory supervisors for examination and compliance for at least four consecutive quarterly periods. Once the parallel period and subsequent three-year transition period are successfully completed, the financial institution will utilize Basel II as their means of capital adequacy assessment, measurement and reporting and discontinue use of Basel I. We continue execution efforts to ensure preparedness with all Basel II requirements. The goal is to achieve full compliance by the end of the three-year implementation period in 2011. Further, internationally Basel II was implemented in several countries during the second half of 2007, while others will begin implementation in 2008 and 2009.

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Dividends

In 2007, the Corporation paid cash dividends of $10.7 billion on its common stock. Effective for the third quarter 2007 dividend, the Board increased the quarterly cash dividend 14 percent from $0.56 to $0.64 per share. In October 2007, the Board declared a fourth quarter cash dividend of $0.64 which was paid on December 28, 2007 to common shareholders of record on December 7, 2007. In January 2008, the Board authorized a quarterly cash dividend of $0.64 per common share payable on March 28, 2008 to shareholders of record on March 7, 2008.

In 2007, the Corporation paid a total of $182 million in cash dividends on its various series of preferred stock. In January 2008, we also declared five dividends in regards to preferred stock. The first was a $1.75 regular quarterly cash dividend on the 7 percent Cumulative Redeemable Preferred Stock, Series B, payable April 25, 2008 to shareholders of record on April 11, 2008. The second was a regular quarterly cash dividend of $0.38775 per depositary share on the 6.204% Non-Cumulative Preferred Stock, Series D, payable March 14, 2008 to shareholders of record on February 29, 2008. The third was a regular quarterly cash dividend of $0.33342 per depositary share on the Floating Rate Non-Cumulative Preferred Stock, Series E, payable on February 15, 2008 to shareholders of record on January 31, 2008. The fourth was a regular quarterly cash dividend of $0.41406 per depositary share on the 6.625% Non-Cumulative Preferred Stock, Series I, payable April 1, 2008 to shareholders of record on March 15, 2008. The fifth was the initial cash dividend of $0.35750 per depositary share on the 7.25% Non-Cumulative Preferred Stock, Series J, payable on February 1, 2008 to shareholders of record on January 15, 2008.

Common Share Repurchases

We expect to continue to repurchase shares, from time to time, in the open market or in private transactions through our approved repurchase programs. We repurchased approximately 73.7 million shares of common stock in 2007 which more than offset the 53.5 million shares issued under employee stock plans.

In January 2007, the Board authorized a stock repurchase program of up to 200 million shares of the Corporation s common stock at an aggregate cost not to exceed $14.0 billion to be completed within a period of 12 to 18 months of which the lesser of approximately $13.5 billion, or 189.4 million shares, remains available for repurchase under the program at December 31, 2007.

Preferred Stock

In January 2008, we issued 240 thousand shares of Bank of America Corporation Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series K with a par value of $0.01 per share for $6.0 billion. The fixed rate is 8.00 percent through January 29, 2018 and then adjusts to three-month LIBOR plus 363 bps thereafter. In addition, we issued 6.9 million shares of Bank of America Corporation 7.25% Non-Cumulative Perpetual Convertible Preferred Stock, Series L with a par value of $0.01 per share for $6.9 billion.

In November and December 2007, the Corporation issued 41 thousand shares of Bank of America Corporation 7.25% Non-Cumulative Preferred Stock, Series J, with a par value of $0.01 per share for $1.0 billion.

In September 2007, the Corporation issued 22 thousand shares of Bank of America Corporation 6.625% Non-Cumulative Preferred Stock, Series I, with a par value of $0.01 per share for $550 million.

For additional information on the issuance and redemption of preferred stock, see *Note 14 Shareholders Equity and Earnings per Common Share* to the Consolidated Financial Statements.

Credit Risk Management

Credit risk is the risk of loss arising from the inability of a borrower or counterparty to meet its obligations. Credit risk can also arise from operational failures that result in an erroneous advance, commitment or investment of funds. We define the credit exposure to a borrower or counterparty as the loss potential arising from all product classifications including loans and leases, derivatives, trading account assets, assets held-for-sale, deposit overdrafts and unfunded lending commitments that include loan commitments, letters of credit and financial guarantees. Derivative positions, trading account assets and assets held-for-sale are recorded at fair value, or the lower of cost or fair value. Loans and unfunded commitments, which the Corporation elected to account for at fair value in accordance with SFAS 159, are also recorded at fair value. Credit risk for these categories of assets is not accounted for as part of the allowance for credit losses but as part of the fair value adjustment recorded in earnings in the period incurred. For derivative positions, our credit risk is measured as the net replacement cost in the event the counterparties with contracts in a gain position to us fail to perform under the terms of those contracts. We use the current mark-to-market value to represent credit exposure without giving consideration to future mark-to-market changes. The credit risk amounts take into consideration the effects of legally enforceable master netting agreements and cash collateral. Our consumer and commercial credit extension and review procedures take into account funded and unfunded credit exposures. For additional information on derivatives and credit extension commitments, see *Note 4 Derivatives* and *Note 13 Commitments and Contingencies* to the Consolidated Financial Statements.

For credit risk purposes, we evaluate our consumer businesses on both a held and managed basis. Managed basis assumes that loans that have been securitized were not sold and presents earnings on these loans in a manner similar to the way loans that have not been sold (i.e., held loans) are presented. We evaluate credit performance on a managed basis as the receivables that have been securitized are subject to the same underwriting standards and ongoing monitoring as held loans. In addition to the discussion of credit quality statistics of both held and managed loans included in this section, refer to the *Card Services* discussion beginning on page 22. For additional information on our managed portfolio and securitizations, see *Note 8 Securitizations* to the Consolidated Financial Statements.

We manage credit risk based on the risk profile of the borrower or counterparty, repayment sources, the nature of underlying collateral, and other support given current events, conditions and expectations. We classify our portfolios as either consumer or commercial and monitor credit risk in each as discussed below.

The financial market conditions that existed in the second half of 2007 have continued to affect the economy and the financial services sector in 2008. It remains unclear what impact the housing downturn, declines in real estate values and the overall economic slowdown will ultimately have and how long these conditions will exist. We expect that certain industry sectors, in particular those that are dependent on the housing sector, and certain geographic regions, will experience further stress. Continued deterioration of the housing market, including recessionary conditions, will negatively impact the credit quality of our consumer portfolio as well as the credit quality of the consumer dependent sectors of our commercial portfolio and will result in a higher provision for credit losses in future periods. The degree of the impact will be dependent upon the duration and severity of the housing downturn. As part of our credit risk management culture, we continually evaluate our credit standards and adjust them to be consistent with changes in the environment. For example, we have adjusted our underwriting criteria, as well as enhanced our line management and collection strategies across the consumer businesses. In the commercial businesses, we have increased the frequency of portfolio monitoring and are aggressively managing exposure when we begin to see signs of deterioration.

Consumer Portfolio Credit Risk Management

Credit risk management for the consumer portfolio begins with initial underwriting and continues throughout a borrower s credit cycle. Statistical techniques in conjunction with experiential judgment are used in all aspects of portfolio management including underwriting, product pricing, risk appetite, setting credit limits, operating processes and metrics to quantify and balance risks and returns. In addition, credit decisions are statistically based with tolerances set to decrease the percentage of approvals as the risk profile increases. Statistical models are built using detailed behavioral information from external sources such as credit bureaus and/or internal historical experience. These models are a critical component of our consumer credit risk management process and are used in the determination of both new and existing credit decisions, portfolio management strategies including authorizations and line management, collection practices and strategies, determination of the allowance for credit losses, and economic capital allocations for credit risk.

For information on our accounting policies regarding delinquencies, nonperforming status and charge-offs for the consumer portfolio, see *Note 1 Summary of Significant Accounting Principles* to the Consolidated Financial Statements.

Management of Consumer Credit Risk Concentrations

Consumer credit risk is evaluated and managed with a goal that credit concentrations do not result in undesirable levels of risk. We review, measure and manage credit exposure in numerous ways such as by product and geography in order to achieve the desired mix. Additionally, to enhance our overall risk management strategy credit protection is purchased on certain portions of our portfolio.

Our consumer loan portfolio in the states of California, Florida, New York and Texas represented in aggregate 43 percent and 42 percent of total managed consumer loans at December 31, 2007 and 2006. Our consumer loan portfolio in the state of California represented approximately 24 percent and 23 percent of total managed consumer loans at December 31, 2007 and 2006, primarily driven by the consumer real estate portfolio. Our consumer loan portfolio in the state of Florida is our second largest concentration and represented approximately eight percent of total managed consumer loans at both December 31, 2007 and 2006, primarily driven by the consumer real estate portfolio. New York and Texas represented six percent and five percent of total managed consumer loans at both December 31, 2007 and 2006. No state other than California, and no single Metropolitan Statistical Area (MSA) within California represented more than 10 percent of the total managed consumer portfolio. No other single state represented over five percent of total managed consumer loans.

We have mitigated a portion of our credit risk in our residential mortgage loan portfolio by using synthetic securitizations. These agreements are cash collateralized and will reimburse us in the event that losses exceed established loss levels. As of December 31, 2007 and 2006, approximately $140.0 billion and $130.0 billion of mortgage loans were protected by these agreements. In addition, we have entered into credit protection agreements with government-sponsored agencies on approximately $33.0 billion and $5.0 billion as of December 31, 2007 and 2006, providing full protection on conforming residential mortgage loans that become severely delinquent. Our regulatory risk-weighted assets were reduced as a result of these transactions because we transferred a portion of our credit risk to unaffiliated parties. At December 31, 2007 and 2006, these transactions had the cumulative effect of reducing our risk-weighted assets by $49.0 billion and $36.4 billion, and resulted in increases of 27 bps and 30 bps in our Tier 1 Capital ratio at December 31, 2007 and 2006.

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Table 13 Consumer Loans and Leases

	December 31						Year Ended December 31			
	Outstandings		Nonperforming [1, 2]		Accruing Past Due 90 Days or More [3]		Net Charge-offs/Losses		Net Charge-off/Loss Ratios [4]	
(Dollars in millions)	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
Held basis										
Residential mortgage	**$ 274,949**	$ 241,181	**$ 1,999**	$ 660	**$ 237**	$ 118	**$ 57**	$ 39	**0.02%**	0.02%
Credit card domestic	**65,774**	61,195	**n/a**	n/a	**1,855**	1,991	**3,063**	3,094	**5.29**	4.85
Credit card foreign	**14,950**	10,999	**n/a**	n/a	**272**	184	**378**	225	**3.06**	2.46
Home equity [5]	**114,834**	87,893	**1,340**	291			**274**	51	**0.28**	0.07
Direct/Indirect consumer [5, 6]	**76,844**	59,378	**8**	2	**745**	378	**1,373**	610	**1.95**	1.14
Other consumer [5, 7]	**3,850**	5,059	**95**	77	**4**	7	**278**	217	**6.54**	2.97
Total held	**551,201**	465,705	**3,442**	1,030	**3,113**	2,678	**5,423**	4,236	**1.07**	1.01
Securitization impact	**108,646**	110,151	**2**	2	**2,764**	2,407	**5,003**	3,371	**4.54**	3.22
Total consumer loans and leases managed	**$ 659,847**	$ 575,856	**$ 3,444**	$ 1,032	**$ 5,877**	$ 5,085	**$ 10,426**	$ 7,607	**1.69**	1.45
Managed basis										
Residential mortgage	**$ 278,733**	$ 245,840	**$ 1,999**	$ 660	**$ 237**	$ 118	**$ 57**	$ 39	**0.02%**	0.02%
Credit card domestic	**151,862**	142,599	**n/a**	n/a	**4,170**	3,828	**6,960**	5,395	**4.91**	3.89
Credit card foreign	**31,829**	27,890	**n/a**	n/a	**714**	608	**1,254**	980	**4.24**	3.95
Home equity [5]	**115,009**	88,202	**1,342**	293			**274**	51	**0.28**	0.07
Direct/Indirect consumer [5, 6]	**78,564**	66,266	**8**	2	**752**	524	**1,603**	925	**2.14**	1.49
Other consumer [5, 7]	**3,850**	5,059	**95**	77	**4**	7	**278**	217	**6.54**	2.97
Total consumer loans and leases managed	**$ 659,847**	$ 575,856	**$ 3,444**	$ 1,032	**$ 5,877**	$ 5,085	**$ 10,426**	$ 7,607	**1.69**	1.45

(1) The definition of nonperforming does not include consumer credit card and consumer non-real estate loans and leases. These loans are charged-off no later than the end of the month in which the account becomes 180 days past due.

(2) Nonperforming consumer loans and leases as a percentage of outstanding consumer loans and leases were 0.62 percent and 0.22 percent on a held basis, and 0.52 percent and 0.18 percent on a managed basis at December 31, 2007 and 2006.

(3) Accruing consumer loans and leases past due 90 days or more as a percentage of outstanding consumer loans and leases were 0.57 percent and 0.58 percent on a held basis, and 0.89 percent and 0.88 percent on a managed basis at December 31, 2007 and 2006.

(4) Net charge-off/loss ratios are calculated as held net charge-offs or managed net losses divided by average outstanding held or managed loans and leases during the year for each loan and lease category.

(5) Home equity loan balances previously included in direct/indirect consumer and other consumer were reclassified to home equity to conform to current year presentation. Additionally, certain foreign consumer balances were reclassified from other consumer to direct/indirect consumer to conform to current year presentation.

(6) Outstandings include foreign consumer loans of $3.4 billion and $3.9 billion at December 31, 2007 and 2006.

(7) Outstandings include foreign consumer loans of $829 million and $2.3 billion and consumer finance loans of $3.0 billion and $2.8 billion at December 31, 2007 and 2006.

n/a = not applicable

Consumer Credit Portfolio

Table 13 presents our held and managed consumer loans and leases, and related credit quality information for 2007 and 2006. Overall, consumer credit quality indicators deteriorated from the favorable levels experienced in 2006. Weakness in the housing markets resulted in rising credit risk, most notably in home equity.

Residential Mortgage

The residential mortgage portfolio makes up the largest percentage of our consumer loan portfolio at 50 percent of held consumer loans and leases and 42 percent of managed consumer loans and leases at December 31, 2007. Approximately 24 percent of the managed residential portfolio is in *GCSBB* and *GWIM* and represents residential mortgages that are originated for the home purchase and refinancing needs of our customers. The remaining portion of the managed portfolio is mostly in *All Other*, and is comprised of purchased and originated residential mortgage loans used in our overall ALM activities.

Residential mortgage loans to borrowers in the state of California represented 34 percent and 33 percent of total residential mortgage loans at December 31, 2007 and 2006. The Los Angeles-Long Beach-Santa Ana MSA within California represented 11 percent of the total residential mortgage portfolio at both 2007 and 2006. In addition, residential mortgage loans to borrowers in the state of Florida represented six percent and seven percent of the total residential mortgage portfolio at December 31, 2007 and 2006. No single MSA within Florida represented more than 10 percent of the residential mortgage portfolio at December 31, 2007 and 2006. A portion of our credit risk on 68 percent and 56 percent of our residential mortgage loans in California and Florida was mitigated through

the purchase of credit protection. See Management of Consumer Credit Risk Concentrations beginning on page 45 for more information.

On a held basis, outstanding loans and leases increased $33.8 billion at December 31, 2007 compared to 2006 driven by retained mortgage production and the acquisition of LaSalle. Nonperforming balances increased $1.3 billion due to portfolio seasoning reflective of growth in the business and the impact of the weak housing market. At December 31, 2007 and 2006, loans past due 90 days or more and still accruing interest of $237 million and $118 million were related to repurchases pursuant to our servicing agreements with Government National Mortgage Association (GNMA) mortgage pools where repayments are insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs.

Due to current market conditions, members of the mortgage servicing industry are evaluating a number of programs for identifying subprime residential mortgage loan borrowers who are at risk of default and offering loss mitigation strategies, including repayment plans and loan modifications, to such borrowers. Generally these programs require that the borrower and subprime residential mortgage loan meet certain criteria in order to qualify for a modification. The SEC s Office of the Chief Accountant (OCA) noted that if certain loan modification requirements are met, the OCA will not object to continued status of the transferee as a QSPE under SFAS 140. We do not currently originate or service significant subprime residential mortgage loans, nor do we hold a significant amount of beneficial interests in QSPE securitizations of subprime residential mortgage loans. We do not expect that the implementation of these programs will have a significant impact on our financial condition and results of operations.

Credit Card Domestic

The consumer domestic credit card portfolio is managed in *Card Services*. Outstandings in the held domestic credit card loan portfolio increased $4.6 billion in 2007 compared to 2006 due to organic growth in the portfolio partially offset by an increase in securitized levels. The $136 million decrease in held domestic loans past due 90 days or more and still accruing interest was driven by the addition of higher loss profile accounts to the securitization trust and an increased level of securitizations partially offset by portfolio seasoning.

Net charge-offs for the held domestic portfolio decreased $31 million to $3.1 billion, or 5.29 percent of total average held credit card domestic loans compared to 4.85 percent (5.00 percent excluding the impact of SOP 03-3) in 2006. Net charge-offs decreased primarily due to the addition of higher loss profile accounts to the securitization trust and an increased level of securitizations as well as the absence of 2006 charge-offs related to changes made in credit card minimum payment requirements. These decreases were partially offset by portfolio seasoning and increases from the unusually low charge-off levels experienced in 2006 post bankruptcy reform.

Managed domestic credit card outstandings increased $9.3 billion to $151.9 billion in 2007 compared to 2006 due to an increase in retail and cash volumes and lower payment rates. Managed net losses increased $1.6 billion to $7.0 billion, or 4.91 percent of total average managed domestic loans compared to 3.89 percent (3.96 percent excluding the impact of SOP 03-3) in 2006. The increases were primarily due to portfolio seasoning and increases from the unusually low loss levels experienced in 2006 post bankruptcy reform.

See page 48 for a discussion of the impact of SOP 03-3 on managed losses and net charge-offs.

Credit Card Foreign

The consumer foreign credit card portfolio is managed in *Card Services*. Outstandings in the held foreign credit card loan portfolio increased $4.0 billion to $15.0 billion in 2007 compared to 2006 due to the strengthening of foreign currencies against the U.S. dollar, organic growth and portfolio acquisitions. Net charge-offs for the held foreign portfolio increased $153 million to $378 million, or 3.06 percent of total average held credit card foreign loans compared to 2.46 percent (3.05 percent excluding the impact of SOP 03-3) in 2006. The increases in held net charge-offs were due to seasoning of the European portfolio and strengthening of foreign currencies against the U.S. dollar.

Managed foreign credit card outstandings increased $3.9 billion to $31.8 billion in 2007 compared to 2006 due to the same reasons as the increase in held outstandings stated above. Net losses for the managed foreign portfolio increased $274 million to $1.3 billion, or 4.24 percent of total average managed credit card foreign loans compared to 3.95 percent (4.17 percent excluding the impact of SOP 03-3) in 2006. The increases in managed net losses were due to the same reasons as the increases in held net charge-offs stated above.

See page 48 for a discussion of the impact of SOP 03-3 on managed losses and net charge-offs.

Home Equity

At December 31, 2007, approximately 74 percent of the managed home equity portfolio was included in *GCSBB*, while the remainder of the portfolio was mostly in *GWIM*. This portfolio consists of both revolving and non-revolving first and second lien residential mortgage loans and lines of credit. On a held basis, outstanding home equity loans increased $26.9 billion, or 31 percent, at December 31, 2007 compared to 2006, largely due to organic home equity production and the LaSalle acquisition.

Nonperforming home equity loans increased $1.0 billion and net charge-offs increased $223 million to $274 million or 0.28 percent of total average held home equity loans compared to 0.07 percent in 2006. These increases were driven by deterioration in the housing markets, including significant declines in home prices in certain geographic areas, as well as the seasoning of the portfolio reflective of growth. Although it remains unclear how long the recent and accelerated declines in the consumer housing markets will continue, this recent deterioration will negatively impact our home equity portfolio and will result in a higher provision for credit losses.

Direct/Indirect Consumer

At December 31, 2007, approximately 50 percent of the managed direct/indirect portfolio was included in *Business Lending* (automotive, marine, motorcycle and recreational vehicle loans); 44 percent was included in *GCSBB* (student and other non-real estate secured and unsecured personal loans) and the remainder was included in *GWIM* (other non-real estate secured and unsecured personal loans).

On a held basis, outstanding loans and leases increased $17.5 billion in 2007 compared to 2006 due to growth in the *Card Services* unsecured lending product, retail automotive portfolio purchases and reduced securitization activity. Loans past due 90 days or more and still accruing interest increased $367 million due to portfolio seasoning reflective of growth in the businesses and reduced securitization activity. Net charge-offs increased $763 million to $1.4 billion, or 1.95 percent of total average held direct/indirect loans compared to 1.14 percent (1.36 percent excluding the impact of SOP 03-3) in 2006. The increases were primarily driven by growth, seasoning and increases from the unusually low charge-off levels experienced in 2006 post bankruptcy reform in the *Card Services* unsecured lending portfolio, growth, seasoning and deterioration in the retail automotive and other dealer-related portfolios and the impact of the Corporation discontinuing sales of receivables into the unsecured lending trust.

Managed direct/indirect loans outstanding increased $12.3 billion to $78.6 billion in 2007 compared to 2006, driven by growth in the *Card Services* unsecured lending product and retail automotive portfolio purchases. Net losses for the managed loan portfolio increased $678 million to $1.6 billion, or 2.14 percent of total average managed direct/indirect loans compared to 1.49 percent (1.69 percent excluding the impact of SOP 03-3) in 2006. The increases were primarily driven by growth, seasoning and increases from the unusually low loss levels experienced in 2006 post bankruptcy reform in the *Card Services* unsecured lending portfolio and higher losses in the retail automotive and other dealer-related portfolios due to growth, seasoning and deterioration.

See page 48 for a discussion of the impact of SOP 03-3 on managed losses and net charge-offs.

Other Consumer

At December 31, 2007, approximately 78 percent of the other consumer portfolio was primarily associated with the portfolios from certain consumer finance businesses that we have previously exited and was included in *All Other*. The remainder consisted of the foreign consumer loan portfolio which was mostly included in *Card Services*. Other consumer outstanding loans and leases decreased $1.2 billion, or 24 percent, at December 31, 2007 compared to December 31, 2006, driven mainly by the sale of our Latin American operations. The Corporation classifies deposit overdraft charge-offs as other consumer. Net charge-offs increased $61 million, or 357 bps, compared to 2006 driven by overdraft net charge-offs associated with deposit account growth.

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SOP 03-3

SOP 03-3 addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor s initial investment in loans acquired in a transfer if those differences are attributable, at least in part, to credit quality. SOP 03-3 requires that impaired loans be recorded at fair value and prohibits carrying over or the creation of valuation allowances in the initial accounting of loans acquired in a transfer that are within the scope of this SOP (categories of loans for which it is probable, at the time of acquisition, that all amounts due according to the contractual terms of the loan agreement will not be collected). The prohibition of the valuation allowance carryover applies to the purchase of an individual loan, a pool of loans, a group of loans, and loans acquired in a purchase business combination.

In accordance with SOP 03-3, certain acquired loans of LaSalle in 2007 and MBNA in 2006 that were considered impaired were written down to fair value at the acquisition date. Therefore, reported net charge-offs and managed net losses were lower since these impaired loans that would have been charged off during the period were reduced to fair value as of the acquisition date. SOP 03-3 does not apply to the acquired loans that have been securitized as they are not held on the Corporation s Balance Sheet.

Consumer net charge-offs, managed net losses, and associated ratios excluding the impact of SOP 03-3 for 2007 and 2006 are presented in Table 14. Management believes that excluding the impact of SOP 03-3 provides a more accurate reflection of portfolio credit quality.

Table 14 Consumer Net Charge-offs/Managed Net Losses (Excluding the Impact of SOP 03-3) (1, 2, 3, 4)

	Held				Managed			
	Net Charge-offs		Ratio		Net Losses		Ratio	
(Dollars in millions)	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
Residential mortgage	**$ 59**	$ 39	**0.02 %**	0.02 %	**$ 59**	$ 39	**0.02 %**	0.02 %
Credit card domestic	**3,063**	3,193	**5.29**	5.00	**6,960**	5,494	**4.91**	3.96
Credit card foreign	**378**	278	**3.06**	3.05	**1,254**	1,033	**4.24**	4.17
Home equity	**282**	51	**0.29**	0.07	**282**	51	**0.29**	0.07
Direct/Indirect consumer	**1,375**	729	**1.96**	1.36	**1,605**	1,044	**2.14**	1.69
Other consumer	**278**	217	**6.54**	2.97	**278**	217	**6.54**	2.97
Total consumer	**$ 5,435**	$ 4,507	**1.07**	1.07	**$ 10,438**	$ 7,878	**1.69**	1.50

(1) Excluding the impact of SOP 03-3 is a non-GAAP financial measure. The impact of SOP 03-3 on average outstanding held and managed consumer loans and leases in 2007 and 2006 was not material.

(2) Net charge-off/loss ratios are calculated as held net charge-offs or managed net losses divided by average outstanding held or managed loans and leases during the year for each loan and lease category.

(3) Historical ratios have been adjusted for home equity, direct/indirect consumer and other consumer due to the reclassification of home equity loan balances from direct/indirect consumer to home equity, and certain foreign consumer loans from other consumer to direct/indirect consumer.

(4) Including the impact of SOP 03-3 would decrease net charge-offs on residential mortgage $2 million, home equity $8 million, direct/indirect consumer $2 million in 2007. Including the impact of SOP 03-3 would decrease net charge-offs on credit card domestic $99 million, credit card foreign $53 million and direct/indirect consumer $119 million in 2006.

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Table 15 Nonperforming Consumer Assets Activity [1]

(Dollars in millions)	**2007**	2006
Nonperforming loans and leases		
Balance, January 1	**$ 1,030**	$ 785
Additions to nonperforming loans and leases:		
LaSalle balance, October 1, 2007	**232**	
New nonaccrual loans and leases	**3,829**	1,432
Reductions in nonperforming loans and leases:		
Paydowns and payoffs	**(260)**	(157)
Sales		(117)
Returns to performing status [2]	**(855)**	(698)
Charge-offs [3]	**(374)**	(150)
Transfers to foreclosed properties	**(152)**	(65)
Transfers to loans held-for-sale	**(8)**	
Total net additions to nonperforming loans and leases	**2,412**	245
Total nonperforming loans and leases, December 31	**3,442**	1,030
Foreclosed properties		
Balance, January 1	**59**	61
Additions to foreclosed properties:		
LaSalle balance, October 1, 2007	**70**	
New foreclosed properties	**468**	159
Reductions in foreclosed properties:		
Sales	**(82)**	(76)
Writedowns	**(239)**	(85)
Total net additions to (reductions in) foreclosed properties	**217**	(2)
Total foreclosed properties, December 31	**276**	59
Nonperforming consumer assets, December 31	**$ 3,718**	$ 1,089
Nonperforming consumer loans and leases as a percentage of outstanding consumer loans and leases	**0.62%**	0.22%
Nonperforming consumer assets as a percentage of outstanding consumer loans, leases and foreclosed properties	**0.67**	0.23

(1) Balances do not include nonperforming loans held-for-sale included in other assets of $95 million and $30 million in 2007 and 2006.

(2) Consumer loans and leases may be restored to performing status when all principal and interest is current and full repayment of the remaining contractual principal and interest is expected, or when the loan otherwise becomes well-secured and is in the process of collection.

(3) Our policy is not to classify consumer credit card and consumer non-real estate loans and leases as nonperforming; therefore, the charge-offs on these loans have no impact on nonperforming activity.

Nonperforming Consumer Assets Activity

Table 15 presents the additions and reductions to nonperforming assets in the held consumer portfolio during 2007 and 2006. Net additions to nonperforming loans and leases in 2007 were $2.4 billion compared to $245 million in 2006. The increase in 2007 was driven by seasoning of the home equity and residential mortgage portfolios reflective of growth in these businesses and the weakening housing market. The nonperforming consumer loans and leases ratio increased 40 bps compared to 2006 driven by increases in the home equity and residential mortgage portfolios, especially in geographic regions most impacted by home price declines and in part due to our Community Reinvestment Act portfolio. These factors also drove the increase in foreclosed properties of $217 million and home price declines drove higher writedowns.

Commercial Portfolio Credit Risk Management

Credit risk management for the commercial portfolio begins with an assessment of the credit risk profile of the borrower or counterparty based on an analysis of their financial position. As part of the overall credit risk assessment of a borrower or counterparty, most of our commercial credit exposure or transactions are assigned a risk rating and are subject to approval based on defined credit approval standards. Subsequent to loan origination, risk ratings are monitored on an ongoing basis. If necessary, risk ratings are adjusted to reflect changes in the financial condition, cash flow or financial situation of a borrower or counterparty. We use risk rating aggregations to measure and evaluate concentrations within portfolios.

Risk ratings are a factor in determining the level of assigned economic capital and the allowance for credit losses. In making credit decisions, we consider risk rating, collateral, country, industry and single name concentration limits while also balancing the total borrower or counterparty relationship. Our lines of business and risk management personnel use a variety of tools to continuously monitor the ability of a borrower or counterparty to perform under its obligations.

For information on our accounting policies regarding delinquencies, nonperforming status and charge-offs for the commercial portfolio, see *Note 1 Summary of Significant Accounting Principles* to the Consolidated Financial Statements.

Management of Commercial Credit Risk Concentrations

Portfolio credit risk is evaluated and managed with a goal that concentrations of credit exposure do not result in undesirable levels of risk. We review, measure, and manage concentrations of credit exposure by industry, product, geography and customer relationship. Distribution of loans and leases by loan size is an additional measure of the portfolio risk diversification. We also review, measure, and manage commercial real estate loans by geographic location and property type. In addition, within our international portfolio, we evaluate borrowings by region and by country. Tables 19, 21, 24 and 25 summarize our concentrations. Additionally, we utilize syndication of exposure to third parties, loan sales, hedging and other risk mitigation techniques to manage the size and risk profile of the loan portfolio.

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From the perspective of portfolio risk management, customer concentration management is most relevant in *GCIB*. Within that segment s *Business Lending* and *CMAS* businesses, we facilitate bridge financing (high grade debt, high yield debt, CMBS and equity) to fund acquisitions, recapitalizations and other short-term needs as well as provide syndicated financing for our clients. These concentrations are managed in part through our established originate to distribute strategy. These client transactions are sometimes large and leveraged. They can also have a higher degree of risk as we are providing offers or commitments for various components of the clients capital structures, including lower rated unsecured and subordinated debt tranches and/or equity. In many cases, these offers to finance will not be accepted. If accepted, these conditional commitments are often retired prior to or shortly following funding via the placement of securities, syndication or the client s decision to terminate. Where we have a binding commitment and there is a market disruption or other unexpected event, there may be heightened exposure in the portfolios and forward calendar, and a higher potential for writedown or loss unless the terms of the commitment can be modified and/or an orderly disposition of the exposure can be made.

The Corporation s share of the leveraged finance and CMBS forward calendars were $12.2 billion and $2.0 billion, respectively, at December 31, 2007. Funded leveraged finance and CMBS exposure included in assets held-for-sale totaled $6.1 billion and $13.7 billion at December 31, 2007. The funded CMBS exposure includes amounts assumed with the acquisition of LaSalle. The funded CMBS debt consisted of $6.9 billion of floating-rate acquisition related financings to major, well known operating companies. In addition, of the CMBS forward calendar, $1.1 billion were floating-rate acquisition related financings. Writedowns were taken on both funded and forward calendar commitments to reflect the current market prices, if available, or the estimated price at which the exposures could be distributed in the market. In the first quarter of 2008 the leveraged finance markets began to experience disruptions similar to those experienced in the second half of 2007 and it is unclear what impact these conditions will have on our results.

Prior to January 1, 2007, the Corporation accounted for all loans in the held-to-maturity portfolio on a historical cost basis and incurred losses on this portfolio were charged against the allowance for loan and lease losses. Effective January 1, 2007, the Corporation elected to account for certain large corporate loans and loan commitments (including issued but unfunded letters of credit which are considered utilized for credit risk management purposes), which exceed the Corporation s single name credit risk concentration guidelines at fair value in accordance with SFAS 159.

The Corporation initially adopted the fair value option for $4.0 billion of outstanding commercial loans as of January 1, 2007 and recorded pre-tax net losses of $21 million (net of adjustments related to the allowance for loan and lease losses and direct loan origination fees and costs) representing the excess of carrying value over fair value of the funded loans, with the after-tax amount recorded in retained earnings. The Corporation also initially adopted the fair value option for $21.1 billion of unfunded commercial commitments, including letters of credit, as of January 1, 2007, and recorded pre-tax net losses of $321 million (net of associated adjustments related to the reserve for unfunded lending commitments) representing the difference between the carrying value and the fair value of the unfunded lending commitments, with the after-tax amount recorded in retained earnings.

After the initial application of SFAS 159, any fair value adjustment upon origination and subsequent changes in the fair value of loans and unfunded commitments is recorded in other income. By including the credit risk of the borrower in the fair value adjustments, any credit deterioration or improvement is recorded immediately as part of the fair value adjustment. As a result, the allowance for loan and lease losses and the reserve for unfunded lending commitments are no longer used to capture credit losses inherent in these nonperforming or impaired loans and unfunded commitments. The remaining Commercial Credit Portfolio tables have been modified to exclude loans and unfunded commitments that are carried at fair value and to adjust certain ratios for this accounting change. See *Note 19 Fair Value Disclosures* to the Consolidated Financial Statements for additional information on the adoption of SFAS 159.

At December 31, 2007, outstanding commercial loans measured at fair value had an aggregate fair value of $4.59 billion recorded in loans and leases and included commercial domestic loans of $3.50 billion, commercial foreign loans of $790 million and commercial real estate loans of $304 million. The Corporation recorded net losses of $139 million in other income resulting from changes in the fair value of the loan portfolio during 2007.

In addition, unfunded lending commitments and letters of credit had an aggregate fair value of $660 million and were recorded in accrued expenses and other liabilities. The December 31, 2007 aggregate notional amount of unfunded lending commitments and letters of credit subject to fair value treatment was $20.9 billion. Net losses resulting from changes in fair value of commitments and letters of credit of $274 million were recorded in other income during 2007.

Commercial Credit Portfolio

Commercial credit quality indicators deteriorated from favorable levels experienced in 2006, in part attributable to the weakness in the housing and financial markets. The loans and leases net charge-off ratio increased to 0.40 percent from 0.13 percent a year ago. The increase was principally attributable to seasoning and deterioration in our small business portfolio in *GCSBB* as well as a lower level of commercial recoveries in *GCIB* and *GWIM.* Excluding small business commercial domestic the total commercial net charge-off ratio was 0.08 percent compared to a net recovery ratio of 0.03 percent in 2006, primarily due to a lower level of recoveries in 2007. The nonperforming loan and commercial utilized criticized exposure ratios were 0.67 percent and 4.17 percent at December 31, 2007 compared to 0.31 percent and 2.20 percent at December 31, 2006, mostly related to the addition of LaSalle and exposure to the homebuilder and mortgage lender sectors.

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Table 16 presents our commercial loans and leases and related credit quality information for 2007 and 2006.

Table 16 Commercial Loans and Leases

	December 31						Year Ended December 31			
	Outstandings		**Nonperforming (1)**		**Accruing Past Due 90 Days or More (2)**		**Net Charge-offs (3)**		**Net Charge-off Ratios (4)**	
(Dollars in millions)	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
Commercial loans and leases										
Commercial domestic (5)	**$ 190,541**	$ 148,255	**$ 869**	$ 505	**$ 119**	$ 66	**$ 138**	$ (25)	**0.09%**	(0.02)%
Commercial real estate (6)	**61,298**	36,258	**1,099**	118	**36**	78	**47**	3	**0.11**	0.01
Commercial lease financing	**22,582**	21,864	**33**	42	**25**	26	**2**	(28)	**0.01**	(0.14)
Commercial foreign	**28,376**	20,681	**19**	13	**16**	9	**1**	(8)		(0.04)
	302,797	227,058	**2,020**	678	**196**	179	**188**	(58)	**0.08**	(0.03)
Small business commercial domestic (7)	**17,756**	13,727	**135**	79	**427**	199	**869**	361	**5.57**	3.00
Total measured at historical cost	**320,553**	240,785	**2,155**	757	**623**	378	**1,057**	303	**0.40**	0.13
Total measured at fair value (8)	**4,590**	n/a		n/a		n/a	**n/a**	n/a	**n/a**	n/a
Total commercial loans and leases	**$ 325,143**	$ 240,785	**$ 2,155**	$ 757	**$ 623**	$ 378	**$ 1,057**	$ 303	**0.40**	0.13

(1) Nonperforming commercial loans and leases as a percentage of outstanding commercial loans and leases measured at historical cost were 0.67 percent and 0.31 percent at December 31, 2007 and 2006. Including commercial loans and leases measured at fair value the ratio would have been 0.66 percent at December 31, 2007.

(2) Accruing commercial loans and leases past due 90 days or more as a percentage of outstanding commercial loans and leases measured at historical cost were 0.19 percent and 0.16 percent at December 31, 2007 and 2006. Including commercial loans and leases measured at fair value the ratio would have remained unchanged at December 31, 2007.

(3) Includes a reduction in net charge-offs on commercial domestic of $34 million, commercial real estate of $27 million and commercial lease financing of $2 million as a result of the impact of SOP 03-3 for 2007. Includes a reduction to small business commercial domestic of $17 million as a result of the impact of SOP 03-3 for 2006. The impact of SOP 03-3 on average outstanding loans and leases was not material.

(4) Net charge-off ratios are calculated as net charge-offs divided by average outstanding loans and leases measured at historical cost during the year for each loan and lease category.

(5) Excludes small business commercial domestic loans.

(6) Outstandings include domestic commercial real estate loans of $60.2 billion and $35.7 billion, and foreign commercial real estate loans of $1.1 billion and $578 million at December 31, 2007 and 2006.

(7) Small business commercial domestic is primarily card related.

(8) Certain commercial loans are measured at fair value in accordance with SFAS 159 and include commercial domestic loans of $3.5 billion, commercial foreign loans of $790 million and commercial real estate loans of $304 million at December 31, 2007.

n/a = not applicable

Table 17 presents commercial credit exposure by type for utilized, unfunded and total binding committed credit exposure. The increase in 2007 to commercial committed exposure was due to the addition of LaSalle and organic growth as discussed in the sections on the following

pages. The increase in derivative assets of $11.2 billion was centered in credit derivatives, interest rate and foreign exchange contracts, and was driven by growth in the businesses, widening credit spreads and the strengthening of foreign currencies against the U.S. dollar.

Table 17 Commercial Credit Exposure by Type

	December 31					
	Commercial Utilized (1, 2)		Commercial Unfunded (3, 4)		Total Commercial Committed	
(Dollars in millions)	**2007**	2006	**2007**	2006	**2007**	2006
Loans and leases	**$ 325,143**	$ 240,785	**$ 329,396**	$ 269,937	**$ 654,539**	$ 510,722
Standby letters of credit and financial guarantees	**58,747**	48,729	**4,049**	4,277	**62,796**	53,006
Derivative assets (5)	**34,662**	23,439			**34,662**	23,439
Assets held-for-sale (6)	**26,475**	23,904	**1,489**	1,136	**27,964**	25,040
Commercial letters of credit	**4,413**	4,258	**140**	224	**4,553**	4,482
Bankers acceptances	**2,411**	1,885	**2**	1	**2,413**	1,886
Securitized assets	**790**	1,292			**790**	1,292
Foreclosed properties	**75**	10			**75**	10
Total commercial credit exposure	**$ 452,716**	$ 344,302	**$ 335,076**	$ 275,575	**$ 787,792**	$ 619,877

(1) Exposure includes standby letters of credit, financial guarantees, commercial letters of credit and bankers acceptances for which the bank is legally bound to advance funds under prescribed conditions, during a specified period. Although funds have not been advanced, these exposure types are considered utilized for credit risk management purposes.

(2) Total commercial utilized exposure at December 31, 2007 includes loans and issued letters of credit measured at fair value in accordance with SFAS 159 and is comprised of loans outstanding of $4.59 billion and letters of credit at notional value of $1.1 billion.

(3) Total commercial unfunded exposure at December 31, 2007 includes loan commitments measured at fair value in accordance with SFAS 159 with a notional value of $19.8 billion.

(4) Excludes unused business card lines which are not legally binding.

(5) Derivative assets are reported on a mark-to-market basis, reflect the effects of legally enforceable master netting agreements, and have been reduced by cash collateral of $12.8 billion and $7.3 billion at December 31, 2007 and 2006. In addition to cash collateral, derivative assets are also collateralized by $8.5 billion and $7.6 billion of primarily other marketable securities at December 31, 2007 and 2006 for which credit risk has not been reduced.

(6) Total commercial committed exposure consists of $23.9 billion and $11.0 billion of commercial loans held-for-sale exposure (e.g., commercial mortgage and leveraged finance) and $4.1 billion and $14.0 billion of investments held-for-sale exposure at December 31, 2007 and 2006.

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Table 18 Commercial Utilized Criticized Exposure [1, 2]

	December 31, 2007		December 31, 2006	
(Dollars in millions)	**Amount**	**Percent [3]**	Amount	Percent [3]
Commercial domestic [4]	**$ 8,829**	**3.37%**	$ 4,803	2.39%
Commercial real estate	**6,825**	**10.35**	806	1.98
Commercial lease financing	**594**	**2.63**	504	2.31
Commercial foreign	**509**	**0.98**	571	1.32
	16,757	**4.16**	6,684	2.18
Small business commercial domestic	**796**	**4.46**	377	2.72
Total commercial utilized criticized exposure	**$ 17,553**	**4.17**	$ 7,061	2.20

(1) Criticized exposure corresponds to the Special Mention, Substandard and Doubtful asset categories defined by regulatory authorities. Balances and ratios have been adjusted to exclude assets held-for-sale at December 31, 2007 and 2006 and exposure measured at fair value in accordance with SFAS 159 at December 31, 2007. Had criticized exposure in the assets held-for-sale and fair value portfolios been included, the ratio of commercial utilized criticized exposure to total commercial utilized exposure would have been 4.77 percent and 2.23 percent at December 31, 2007 and 2006.

(2) Exposure includes standby letters of credit, financial guarantees, commercial letters of credit and bankers acceptances for which the bank is legally bound to advance funds under prescribed conditions, during a specified period. Although funds have not been advanced, these exposure types are considered utilized for credit risk management purposes.

(3) Ratios are calculated as commercial utilized criticized exposure divided by total commercial utilized exposure for each exposure category.

(4) Excludes small business commercial domestic exposure.

Table 18 presents commercial utilized criticized exposure by product type and as a percentage of total commercial utilized exposure. Commercial utilized criticized exposure increased $10.5 billion, or 149 percent, primarily due to increases in commercial real estate and commercial domestic of which LaSalle contributed $5.1 billion as discussed in more detail in the product sections below. The table above excludes utilized criticized exposure related to assets held-for-sale of $2.9 billion and $600 million at December 31, 2007 and 2006 and other utilized criticized exposure measured at fair value in accordance with SFAS 159 of $1.1 billion at December 31, 2007. See *Note 19 Fair Value Disclosures* to the Consolidated Financial Statements for a discussion of the fair value portfolio. Criticized assets in the held-for-sale portfolio, are carried at the lower of cost or market, including bridge exposure of $2.3 billion and $550 million at December 31, 2007 and 2006 which funded in the normal course of our *Business Lending* and *CMAS* businesses and are managed in part through our originate to distribute strategy (see Management of Commercial Credit Risk Concentrations beginning on page 49 for more information on bridge financing). The level of funded, criticized bridge exposures in the held-for-sale portfolio increased as a result of adverse market conditions in the second half of 2007. Had criticized exposure in the assets held-for-sale and fair value portfolios been included, the ratio of commercial utilized criticized exposure to total commercial utilized exposure would have been 4.77 percent and 2.23 percent at December 31, 2007 and 2006.

Commercial Domestic

At December 31, 2007, approximately 89 percent of the commercial domestic portfolio, excluding small business, was included in *Business Lending* (business banking, middle market and large multinational corporate loans and leases) and *CMAS* (acquisition and bridge financing). The remaining 11 percent was mostly in *GWIM* (business-purpose loans for wealthy individuals). Outstanding commercial domestic loans and leases including loans measured at fair value, increased $45.8 billion to $194.0 billion at December 31, 2007 compared to December 31, 2006 driven primarily by an increase in loans within *GCIB* related to the addition of LaSalle and organic growth. Nonperforming commercial domestic loans increased by $364 million to $869 million primarily driven by the addition

of LaSalle. Net charge-offs were up $163 million from 2006 driven primarily by a lower level of recoveries. Criticized utilized commercial domestic exposure excluding assets in the held-for-sale and fair value portfolios, increased $4.0 billion to $8.8 billion primarily driven by the addition of LaSalle, higher exposure to mortgage lenders and asset-based lending.

Commercial Real Estate

The commercial real estate portfolio is mostly managed in *Business Lending* and consists of loans issued primarily to public and private developers, homebuilders and commercial real estate firms. Outstanding loans and leases, including loans measured at fair value, increased $25.3 billion to $61.6 billion at December 31, 2007 compared to 2006. The increase was related to the acquisition of LaSalle, which increased outstandings by approximately $18.8 billion, and organic growth. The portfolio remains diversified across property types and geographic regions with increases in

Illinois, the Midwest and California largely related to the addition of LaSalle. Organic growth was strong in the Northeast and in retail, office and apartment property types. The addition of LaSalle contributed to growth in residential and broadly across all other property types.

Nonperforming commercial real estate loans increased $981 million to $1.1 billion and utilized criticized exposure increased $6.0 billion to $6.8 billion attributable to the continuing impact of the housing slowdown on the homebuilding sector as well as the addition of LaSalle. Nonperforming loans and utilized criticized exposure in the homebuilding sector were $792 million and $5.4 billion, respectively, at December 31, 2007 compared to $71 million and $348 million at December 31, 2006. Net charge-offs were up $44 million from 2006 principally related to the homebuilder sector of the portfolio. At December 31, 2007, we had homebuilder-related exposure of $13.6 billion in loans and $21.6 billion in commercial committed exposure, of which 39 percent was criticized and six percent was classified as nonperforming. Assets held-for-sale associated with commercial real estate increased $8.6 billion to $13.8 billion at December 31, 2007 compared to 2006, driven by reduced market liquidity resulting in a higher level of warehoused assets pending commercial mortgage-backed securitizations and the addition of LaSalle. Refer to Management of Commercial Credit Risk Concentrations on page 49 for a discussion of our CMBS exposure.

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Table 19 presents outstanding commercial real estate loans by geographic region and property type diversification.

Table 19 Outstanding Commercial Real Estate Loans [1]

(Dollars in millions)	December 31 2007	2006
By Geographic Region [2]		
California	**$ 9,369**	$ 7,781
Northeast	**8,951**	6,368
Midwest	**7,832**	1,292
Illinois	**6,731**	979
Southeast	**6,472**	5,097
Southwest	**5,400**	3,787
Florida	**4,870**	3,898
Midsouth	**2,843**	2,006
Northwest	**2,417**	2,053
Other	**3,370**	870
Geographically diversified [3]	**2,282**	1,549
Non-U.S.	**1,065**	578
Total outstanding commercial real estate loans [4]	**$ 61,602**	$ 36,258
By Property Type		
Residential	**$ 11,157**	$ 8,151
Office buildings	**8,837**	4,823
Shopping centers/retail	**8,722**	3,955
Apartments	**7,806**	4,277
Industrial/warehouse	**5,662**	3,247
Land and land development	**4,551**	3,956
Multiple use	**1,672**	1,257
Hotels/motels	**1,535**	1,185
Resorts	**297**	180
Other [5]	**11,363**	5,227
Total outstanding commercial real estate loans [4]	**$ 61,602**	$ 36,258

(1) Primarily includes commercial loans and leases secured by non owner-occupied real estate which are dependent on the sale or lease of the real estate as the primary source of repayment.

(2) Distribution is based on geographic location of collateral. Geographic regions are in the U.S. unless otherwise noted.

(3) The geographically diversified category is comprised primarily of unsecured outstandings to real estate investment trusts and national home builders whose portfolios of properties span multiple geographic regions.

(4) Includes commercial real estate loans measured at fair value in accordance with SFAS 159 of $304 million at December 31, 2007.

(5) Represents loans to borrowers whose primary business is commercial real estate, but the exposure is not secured by the listed property types.

Commercial Lease Financing

The commercial lease financing portfolio is managed in *Business Lending*. Outstanding loans and leases increased $718 million in 2007 compared to 2006 primarily due to the addition of LaSalle which was partially offset by the adoption of FSP 13-2. Net charge-offs were $2 million compared to net recoveries of $28 million in 2006.

Commercial Foreign

The commercial foreign portfolio is managed primarily in *Business Lending* and *CMAS*. Outstanding loans and leases, including loans measured at fair value, increased by $8.5 billion to $29.2 billion at December 31, 2007 compared to December 31, 2006 driven by organic growth combined with strengthening of foreign currencies against the U.S. dollar, partially offset by the sale of our Latin American operations. Criticized utilized exposure, excluding criticized assets in the held-for-sale and fair value portfolios, decreased $62 million to $509 million, primarily attributable to the sale of our Latin American operations. Net charge-offs were $1 million compared to net recoveries of $8 million in 2006. This increase was driven primarily by a lower level of recoveries in our large corporate portfolio. For additional information on the commercial foreign portfolio, refer to the Foreign Portfolio discussion beginning on page 56.

Small Business Commercial Domestic

The small business commercial domestic portfolio (business card and small business loans) is managed in *GCSBB*. Outstanding small business commercial domestic loans and leases increased $4.0 billion to $17.8 billion at December 31, 2007 compared to December 31, 2006 driven by organic growth in the small business card portfolio. Approximately 64 percent of the small business commercial domestic outstanding loans and leases at December 31, 2007 was credit card related products. Nonperforming small business commercial domestic loans increased $56 million to $135 million, loans past due 90 days or more and still accruing interest increased $228 million to $427 million and criticized loans increased $419 million or 174 bps, to $796 million, or 4.46 percent, at December 31, 2007 compared to 2006. Small business commercial domestic net charge-offs were up $508 million, or 257 bps, to $869 million, or 5.57 percent. The increases were driven by portfolio seasoning as well as deterioration particularly in states with the weakest housing markets. Approximately 70 percent of the small business commercial domestic net charge-offs for 2007 were credit card related products.

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Nonperforming Commercial Assets Activity

Table 20 presents the additions and reductions to nonperforming assets in the commercial portfolio during 2007 and 2006. The increase in nonaccrual loans and leases for 2007 was primarily attributable to homebuilder and mortgage company exposure, and the addition of LaSalle.

Table 20 Nonperforming Commercial Assets Activity [1, 2]

(Dollars in millions)	2007	2006
Nonperforming loans and leases		
Balance, January 1	**$ 757**	$ 726
Additions to nonperforming loans and leases:		
LaSalle balance, October 1, 2007	**413**	
New nonaccrual loans and leases	**2,467**	980
Advances	**85**	32
Reductions in nonperforming loans and leases:		
Paydowns and payoffs	**(781)**	(403)
Sales	**(82)**	(152)
Returns to performing status [3]	**(239)**	(80)
Charge-offs [4]	**(370)**	(331)
Transfers to foreclosed properties	**(75)**	(3)
Transfers to loans held-for-sale	**(20)**	(12)
Total net additions to nonperforming loans and leases	**1,398**	31
Total nonperforming loans and leases, December 31	**2,155**	757
Foreclosed properties		
Balance, January 1	**10**	31
Additions to foreclosed properties:		
LaSalle balance, October 1, 2007	**16**	
New foreclosed properties	**75**	6
Reductions in foreclosed properties:		
Sales	**(22)**	(18)
Writedowns	**(4)**	(9)
Total net additions to (reductions in) foreclosed properties	**65**	(21)
Total foreclosed properties, December 31	**75**	10
Nonperforming commercial assets, December 31	**$ 2,230**	$ 767
Nonperforming commercial loans and leases as a percentage of outstanding commercial loans and leases measured at historical cost	**0.67%**	0.31%
Nonperforming commercial assets as a percentage of outstanding commercial loans and leases measured at historical cost and foreclosed properties	**0.70**	0.32

(1) Balances do not include nonperforming loans held-for-sale included in other assets of $93 million and $50 million in 2007 and 2006. There were no nonperforming loans measured at fair value in accordance with SFAS 159 in 2007. See *Note 19 Fair Value Disclosures* to the Consolidated Financial Statements for a discussion of the changes in the fair value portfolio during 2007.
(2) Includes small business commercial domestic activity.
(3) Commercial loans and leases may be restored to performing status when all principal and interest is current and full repayment of the remaining contractual principal and interest is expected, or when the loan otherwise becomes well-secured and is in the process of collection.
(4) Certain loan and lease products, including business card, are not classified as nonperforming; therefore, the charge-offs on these loans have no impact on nonperforming activity.

Industry Concentrations

Table 21 presents commercial committed and commercial utilized credit exposure by industry and the total net credit default protection purchased to cover the funded and the unfunded portion of certain credit exposure. Our commercial credit exposure is diversified across a broad range of industries.

Industry limits are used internally to manage industry concentrations and are based on committed exposure and capital usage that are allocated on an industry-by-industry basis. A risk management framework is in place to set and approve industry limits, as well as to provide ongoing monitoring. The CRC oversees industry limits governance.

Total commercial committed credit exposure increased by $167.9 billion, or 27 percent, in 2007 compared to 2006, with $86.6 billion, or 52 percent of the increase, attributable to LaSalle. Total commercial utilized credit exposure increased by $108.4 billion, or 31 percent, in 2007 compared to 2006, with $57.6 billion, or 53 percent, of the increase attributable to LaSalle. The overall commercial credit utilization rate was largely unchanged year over year, increasing from 56 percent to 57 percent.

Real estate remains our largest industry concentration, accounting for 14 percent of total commercial committed exposure at December 31,

2007. Growth of $38.2 billion, or 52 percent, was driven primarily by LaSalle, which contributed $27.0 billion. Diversified financials grew by $19.1 billion, or 28 percent, due to a combination of increased activity in interest rate products, client transactions booked in the bank sponsored multi-seller conduits, and LaSalle. Government and public education exposure increased $18.2 billion, or 46 percent, due primarily to financing commitments to student lenders. Retailing exposure grew by $11.1 billion, or 25 percent, principally due to LaSalle. Capital goods grew by $15.0 billon, or 40 percent, attributed equally to organic growth and LaSalle.

Monolines exposure is reported in the insurance industry and managed under the insurance portfolio industry limits. Direct commercial committed exposure to monolines, consisted of revolvers of $203 million and net mark-to-market derivative exposure, of $420 million at December 31, 2007.

We have indirect exposure to monolines primarily in the form of guarantees supporting our loans, investment portfolios, securitizations, credit enhanced securities as part of our public finance business and other selected products. Such indirect exposure exists when we purchase credit protection from monolines to hedge all or a portion of the credit risk on certain credit exposures including loans and CDOs. We underwrite our public finance exposure by evaluating the underlying securities. In the case of default we first look to the underlying securities and then to recovery on the purchased insurance. See page 28 for discussion on credit protection purchased on our CDO exposure.

We also have indirect exposure as we invest in securities where the issuers have purchased wraps (i.e., insurance). For example, municipalities and corporations purchase protection in order to enhance their pricing power which has the effect of reducing their cost of borrowings. If the rating agencies downgrade the monolines, the credit rating of the bond may fall and may have an adverse impact on the market value of the security.

We have further exposure related to our public finance business where we are the lead manager or remarketing agent for transactions that are wrapped including auction rate securities (ARS), tender option municipal bonds (TOBs), and variable rate demand bonds (VRDBs). We are the lead manager on municipal and, to a lesser extent, student loan ARS where a high percentage of the programs are wrapped by either monolines or other financial guarantors. However, we are only the remarketing agent on TOBs and VRDBs transactions. Recent concerns about monoline downgrades or insolvency has caused disruptions in each of these markets as investor concerns have impacted overall market liquidity and bond prices. We continue to have liquidity exposure to these markets and instruments, and as market conditions continue to evolve, these conditions may impact our results. For information on our liquidity exposure to our public finance business, see the municipal bond trusts and corporate SPEs discussion beginning on page 37.

Credit protection is purchased to cover the funded portion as well as the unfunded portion of certain credit exposure. To lessen the cost of obtaining our desired credit protection levels, credit exposure may be added within an industry, borrower or counterparty group by selling protection. Since December 31, 2006, our net credit default protection purchased has been reduced by $1.1 billion to $7.1 billion as we continue to reposition the level of purchased protection based on our current view of the underlying credit risk in the portfolio.

At December 31, 2007 and 2006, we had net notional credit default protection purchased in our credit derivatives portfolio of $7.1 billion and $8.3 billion. The net mark-to-market impacts, including the cost of credit default protection, resulted in net gains of $160 million in 2007 compared to net losses of $241 million in 2006. The average VAR for these credit derivative hedges was $22 million and $54 million for the twelve months ended December 31, 2007 and 2006. The decrease in VAR was driven by a reduction in the average amount of credit protection outstanding during the year. There is a diversification effect between the credit derivative hedges and the market-based trading portfolio such that their combined average VAR was $55 million and $57 million for the twelve months ended December 31, 2007 and 2006. Refer to the Trading Risk Management discussion beginning on page 62 for a description of our VAR calculation for the market-based trading portfolio.

Table 21 Commercial Credit Exposure by Industry [1, 2]

	December 31			
	Commercial Utilized		Total Commercial Committed	
(Dollars in millions)	**2007**	2006	**2007**	2006
Real estate [3]	**$ 81,260**	$ 49,259	**$ 111,742**	$ 73,544
Diversified financials	**37,872**	24,813	**86,118**	67,038
Government and public education	**31,743**	22,495	**57,437**	39,254
Retailing	**33,280**	27,226	**55,184**	44,064
Capital goods	**25,908**	16,830	**52,356**	37,363
Healthcare equipment and services	**24,337**	15,881	**40,962**	31,189
Materials	**22,176**	15,978	**38,717**	28,789
Consumer services	**23,382**	19,191	**38,650**	32,734
Banks	**21,261**	26,405	**35,323**	36,735
Individuals and trusts	**22,323**	18,792	**32,425**	29,167
Commercial services and supplies	**21,175**	15,224	**31,858**	23,532
Food, beverage and tobacco	**13,919**	11,384	**25,701**	21,124
Energy	**12,772**	9,505	**23,510**	18,460
Media	**7,901**	8,784	**19,343**	19,181
Utilities	**6,438**	6,624	**19,281**	17,222
Transportation	**12,803**	11,637	**18,824**	17,375

Insurance	**7,162**	6,759	**16,014**	14,122
Religious and social organizations	**8,208**	7,840	**10,982**	10,507
Consumer durables and apparel	**5,802**	4,827	**10,907**	9,124
Technology hardware and equipment	**4,615**	3,326	**10,239**	8,093
Software and services	**4,739**	2,763	**10,128**	6,212
Pharmaceuticals and biotechnology	**4,349**	2,530	**8,563**	6,289
Telecommunication services	**3,475**	3,565	**8,235**	7,981
Automobiles and components	**2,648**	1,584	**6,960**	5,153
Food and staples retailing	**2,732**	2,153	**5,318**	4,222
Household and personal products	**889**	779	**2,776**	2,264
Semiconductors and semiconductor equipment	**1,140**	802	**1,734**	1,364
Other	**8,407**	7,346	**8,505**	7,775
Total commercial credit exposure by industry	**$ 452,716**	$ 344,302	**$ 787,792**	$ 619,877
Net credit default protection purchased on total commitments [4]			**$ (7,146)**	$ (8,260)

[1] Total commercial utilized and total commercial committed exposure includes loans and letters of credit measured at fair value in accordance with SFAS 159 and are comprised of loans outstanding of $4.59 billion and issued letters of credit at notional value of $1.1 billion at December 31, 2007. In addition, total commercial committed exposure includes unfunded loan commitments at notional value of $19.8 billion at December 31, 2007.

[2] Includes small business commercial domestic exposure.

[3] Industries are viewed from a variety of perspectives to best isolate the perceived risks. For purposes of this table, the real estate industry is defined based upon the borrowers or counterparties primary business activity using operating cash flow and primary source of repayment as key factors.

[4] Represents net notional credit protection purchased.

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Tables 22 and 23 present the maturity profiles and the credit exposure debt ratings of the net credit default protection portfolio at December 31, 2007 and 2006.

Table 22 Net Credit Default Protection by Maturity Profile

	December 31	
	2007	2006
Less than or equal to one year	**2%**	7%
Greater than one year and less than or equal to five years	**67**	46
Greater than five years	**31**	47
Total net credit default protection	**100%**	100%

Table 23 Net Credit Default Protection by Credit Exposure Debt Rating [(1)]

	December 31			
(Dollars in millions)	**2007**		2006	
Ratings	**Net Notional**	**Percent**	Net Notional	Percent
AAA	**$ (13)**	**0.2%**	$ (23)	0.3%
AA	**(92)**	**1.3**	(237)	2.9
A	**(2,408)**	**33.7**	(2,598)	31.5
BBB	**(3,328)**	**46.6**	(3,968)	48.0
BB	**(1,524)**	**21.3**	(1,341)	16.2
B	**(180)**	**2.5**	(334)	4.0
CCC and below	**(75)**	**1.0**	(50)	0.6
NR [(2)]	**474**	**(6.6)**	291	(3.5)
Total net credit default protection	**$ (7,146)**	**100.0%**	$ (8,260)	100.0%

(1) In order to mitigate the cost of purchasing credit protection, credit exposure can be added by selling credit protection. The distribution of debt rating for net notional credit default protection purchased is shown as a negative and the net notional credit protection sold is shown as a positive amount.

(2) In addition to unrated names, NR includes $550 million and $302 million in net credit default swaps index positions at December 31, 2007 and 2006. While index positions are principally investment grade, credit default swaps indices include names in and across each of the ratings categories.

Foreign Portfolio

Our foreign credit and trading portfolio is subject to country risk. We define country risk as the risk of loss from unfavorable economic and political developments, currency fluctuations, social instability and changes in government policies. A risk management framework is in place to measure, monitor and manage foreign risk and exposures. Management oversight of country risk including cross-border risk is provided by the Country Risk Committee.

Table 24 presents total foreign exposure broken out by region at December 31, 2007 and 2006. Total foreign exposure includes credit exposure net of local liabilities, securities, and other investments domiciled in countries other than the United States. Credit card exposure is reported on a funded basis. Total foreign exposure can be adjusted for externally guaranteed exposure and certain collateral types. Exposure which is assigned external guarantees are reported under the country of the guarantor. Exposure with tangible collateral is reflected in the country where the collateral is held. For securities received, other than cross-border resale agreements, exposure is assigned to the domicile of the issuer of the securities. Resale agreements are generally presented based on the domicile of the counterparty consistent with FFIEC reporting rules.

Our total foreign exposure was $138.1 billion at December 31, 2007, an increase of $8.1 billion from December 31, 2006. Europe accounted for $74.7 billion, or 54 percent, of total foreign exposure. The European exposure was mostly in Western Europe and was distributed across a variety of industries with the largest concentration in the commercial sector which accounted for approximately 46 percent of the total exposure in Europe. The decline of $10.6 billion was driven by lower cross-border other financing exposure, as well as higher local funding available to net against local exposures in the United Kingdom.

Asia Pacific was our second largest foreign exposure at $42.1 billion, or 30 percent, of total foreign exposure at December 31, 2007. The growth of $14.7 billion in Asia Pacific was primarily driven by the fair value adjustment associated with our CCB investment.

Table 24 Regional Foreign Exposure (1, 2, 3)

	December 31	
(Dollars in millions)	**2007**	2006
Europe	**$ 74,725**	$ 85,279
Asia Pacific	**42,081**	27,403
Latin America	**10,944**	8,998
Middle East	**1,481**	811
Africa	**470**	317
Other	**8,361**	7,131
Total regional foreign exposure	**$ 138,062**	$ 129,939

(1) In the balances above, local funding or liabilities are subtracted from local exposures as allowed by the FFIEC.

(2) Exposures have been reduced by $6.3 billion at December 31, 2007 and $4.3 billion at December 31, 2006 related to the cash applied as collateral to derivative assets.

(3) Generally, cross-border resale agreements are presented based on the domicile of the counterparty consistent with FFIEC reporting rules. Cross-border resale agreements where the underlying securities are U.S. Treasury securities, in which case the domicile is the U.S., are excluded from this presentation.

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Latin America accounted for $10.9 billion, or eight percent of total foreign exposure at December 31, 2007, an increase of $1.9 billion, or 22 percent, from December 31, 2006. The increase in exposure in Latin America was primarily due to higher exposures in Brazil, Mexico, and Chile. For more information on our Asia Pacific and Latin America exposure, see the discussion below on foreign exposure to selected countries defined as emerging markets.

At December 31, 2007, China was the only country where total cross-border exposure of $17.0 billion, which mostly related to our investment in CCB, was between 0.75 percent and 1.00 percent of total assets. At December 31, 2007, we did not operate in any country where the total cross-border exposure exceeded one percent of our total assets. At December 31, 2007 and 2006, the United Kingdom had total cross-border exposure of $12.7 billion and $17.3 billion representing 0.74 percent and 1.18 percent of total assets.

As presented in Table 25, foreign exposure to borrowers or counterparties in emerging markets increased $19.6 billion to $40.4 billion at December 31, 2007, compared to $20.9 billion at December 31, 2006. The increase was primarily due to the fair value adjustment associated with our CCB investment as well as higher exposures across most categories in all regions. Foreign exposure to borrowers or counterparties in emerging markets represented 29 percent and 16 percent of total foreign exposure at December 31, 2007 and 2006.

At December 31, 2007, 71 percent of the emerging markets exposure was in Asia Pacific, compared to 58 percent at December 31, 2006. Asia Pacific emerging markets exposure increased by $16.5 billion. Growth was driven by higher cross-border exposure mainly in China, India, South Korea and Singapore. Our exposure in China was primarily related to the carrying value of our equity investment in CCB which accounted for $16.4 billion and $3.0 billion at December 31, 2007 and 2006.

At December 31, 2007, 23 percent of the emerging markets exposure was in Latin America compared to 36 percent at December 31, 2006. Latin America emerging markets exposure increased by $2.0 billion driven by higher cross-border exposure in Brazil, Mexico, and Chile, as well as an increase in our equity investment in Banco Itaú. During the first quarter of 2007, the Corporation completed the sale of its operations in Chile and Uruguay for approximately $750 million in equity of Banco Itaú. The carrying value of our investment in Banco Itaú accounted for $2.6 billion and $1.9 billion of exposure in Brazil at December 31, 2007 and 2006. The December 31, 2007 equity investment in Banco Itaú represents seven percent of its outstanding voting and non-voting shares. Our investment in Banco Itaú is currently carried at cost and will be accounted for as AFS marketable equity securities and carried at fair value beginning in the second quarter of 2008.

Table 25 Selected Emerging Markets [1]

(Dollars in millions)	Loans and Leases, and Loan Commitments	Other Financing [2]	Derivative Assets [3]	Securities/ Other Investments [4]	Total Cross-border Exposure [5]	Local Country Exposure Net of Local Liabilities [6]	**Total Emerging Market Exposure at December 31, 2007**	Increase (Decrease) From December 31, 2006
Region/Country								
Asia Pacific								
China [7]	$ 262	$ 70	$ 79	$ 16,629	$ 17,040	$	**$ 17,040**	$ 13,426
South Korea	157	1,000	177	3,068	4,402		**4,402**	1,025
India	1,141	470	355	1,168	3,134	158	**3,292**	1,257
Singapore	381	25	192	694	1,292		**1,292**	420
Taiwan	345	41	45	169	600	467	**1,067**	325
Hong Kong	416	100	53	226	795		**795**	(69)
Other Asia Pacific [8]	133	79	35	401	648	39	**687**	96
Total Asia Pacific	2,835	1,785	936	22,355	27,911	664	**28,575**	16,480
Latin America								
Mexico	1,181	229	38	2,990	4,438		**4,438**	507
Brazil	701	104	42	2,617	3,464	223	**3,687**	1,036
Chile	644	55		14	713	6	**719**	393
Other Latin America [8]	186	170		110	466	181	**647**	113

Total Latin America	2,712	558	80	5,731	9,081	410	**9,491**	2,049
Middle East and Africa (8)	838	711	170	222	1,941		**1,941**	825
Central and Eastern Europe (8)	42	86	75	221	424		**424**	209
Total emerging market exposure	$ 6,427	$ 3,140	$ 1,261	$ 28,529	$ 39,357	$ 1,074	**$ 40,431**	$ 19,563

(1) There is no generally accepted definition of emerging markets. The definition that we use includes all countries in Asia Pacific excluding Japan, Australia and New Zealand; all countries in Latin America excluding Cayman Islands and Bermuda; all countries in Middle East and Africa; and all countries in Central and Eastern Europe excluding Greece. There was no emerging market exposure included in the portfolio measured at fair value in accordance with SFAS 159 at December 31, 2007.

(2) Includes acceptances, standby letters of credit, commercial letters of credit and formal guarantees.

(3) Derivative assets are reported on a mark-to-market basis and have been reduced by the amount of cash collateral applied of $57 million and $9 million at December 31, 2007 and 2006. At December 31, 2007 and 2006 there were $2 million and less than $1 million of other marketable securities collateralizing derivative assets for which credit risk has not been reduced.

(4) Generally, cross-border resale agreements are presented based on the domicile of the counterparty, consistent with FFIEC reporting rules. Cross-border resale agreements where the underlying securities are U.S. Treasury securities, in which case the domicile is the U.S., are excluded from this presentation.

(5) Cross-border exposure includes amounts payable to the Corporation by borrowers or counterparties with a country of residence other than the one in which the credit is booked, regardless of the currency in which the claim is denominated, consistent with FFIEC reporting rules.

(6) Local country exposure includes amounts payable to the Corporation by borrowers with a country of residence in which the credit is booked, regardless of the currency in which the claim is denominated. Local funding or liabilities are subtracted from local exposures as allowed by the FFIEC. Total amount of available local liabilities funding local country exposure at December 31, 2007 was $21.6 billion compared to $20.7 billion at December 31, 2006. Local liabilities at December 31, 2007 in Asia Pacific and Latin America were $19.7 billion and $1.9 billion, of which $7.9 billion were in Hong Kong, $6.2 billion in Singapore, $2.5 billion in South Korea, $1.8 billion in Mexico, $1.1 billion in China, $836 million in India, and $508 million in Taiwan. There were no other countries with available local liabilities funding local country exposure greater than $500 million.

(7) Securities/Other Investments include an investment of $16.4 billion in CCB. Beginning in the fourth quarter of 2007, the Corporation s equity investment in CCB was accounted for at fair value. Previously, the investment in CCB was accounted for at cost.

(8) No country included in Other Asia Pacific, Other Latin America, Middle East and Africa, and Central and Eastern Europe had total foreign exposure of more than $500 million.

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The increased exposures in Mexico were attributable to higher cross-border corporate securities trading exposure and loans and loan commitments. Our 24.9 percent investment in Santander accounted for $2.6 billion and $2.3 billion of exposure in Mexico at December 31, 2007 and 2006.

At both December 31, 2007 and 2006, five percent of the emerging markets exposure was in Middle East and Africa. Middle East and Africa emerging markets exposure increased by $825 million driven by higher cross-border other financing exposure and loans and loan commitments.

Provision for Credit Losses

The provision for credit losses increased $3.4 billion, or 67 percent, to $8.4 billion in 2007 compared to 2006.

The consumer portion of the provision for credit losses increased $1.8 billion to $6.5 billion compared to 2006. Higher net charge-offs from portfolio seasoning, reflective of growth in the businesses and increases from the unusually low charge-off levels experienced in 2006 post bankruptcy reform drove a portion of the increase. Additionally, reserve increases related to higher losses inherent in our home equity portfolio, reflecting growth in the business and the impact of the weak housing market, as well as seasoning of the *Card Services* consumer portfolios contributed to the increased provision expense. The increases were partially offset by reserve reductions from the addition of higher loss profile accounts to the domestic credit card securitization trust and to a lesser extent, improved performance of the remaining portfolios from certain consumer finance businesses that we have previously exited.

The commercial portion of the provision for credit losses increased $1.6 billion to $1.9 billion compared to 2006. Higher net charge-offs from seasoning and deterioration in our small business portfolios within *GCSBB* as well as a lower level of commercial recoveries in *GCIB* and *GWIM* drove a portion of the increase. Reserve increases for seasoning of growth and deterioration in the small business portfolio within *GCSBB*, the absence of prior year reserve releases in *GCIB* and portfolio deterioration reflecting the impact of the weak housing market, particularly on our homebuilder loan portfolio within *GCIB*, also drove the year over year increase. Partially offsetting these increases was a reduction of reserves in *All Other* reflecting the sale of our Argentina portfolio during the first quarter of 2007.

The provision for credit losses related to unfunded lending commitments was $28 million in 2007 compared to $9 million in 2006.

Allowance for Credit Losses

Allowance for Loan and Lease Losses

The allowance for loan and lease losses excludes loans measured at fair value in accordance with SFAS 159 as subsequent mark-to-market adjustments related to loans measured at fair value include a credit risk component. The allowance for loan and lease losses is allocated based on two components. We evaluate the adequacy of the allowance for loan and lease losses based on the combined total of these two components.

The first component of the allowance for loan and lease losses covers those commercial loans measured at historical cost that are either nonperforming or impaired. An allowance is allocated when the discounted cash flows (or collateral value or observable market price) are lower than the carrying value of that loan. For purposes of computing the specific loss component of the allowance, larger impaired loans are evaluated individually and smaller impaired loans are evaluated as a pool using historical loss experience for the respective product type and risk rating of the loans.

The second component of the allowance for loan and lease losses covers performing consumer and commercial loans and leases measured at historical cost. The allowance for commercial loan and lease losses is established by product type after analyzing historical loss experience by internal risk rating, current economic conditions, industry performance trends, geographic or obligor concentrations within each portfolio segment, and any other pertinent information. The commercial historical loss experience is updated quarterly to incorporate the most recent data reflective of the current economic environment. As of December 31, 2007, quarterly updating of historical loss experience did not have a material impact on the allowance for loan and lease losses. The allowance for consumer and certain homogeneous commercial loan and lease products is based on aggregated portfolio segment evaluations, generally by product type. Loss forecast models are utilized that consider a variety of factors including, but not limited to, historical loss experience, estimated defaults or foreclosures based on portfolio trends, delinquencies, economic trends and credit scores. These loss forecast models are updated on a quarterly basis in order to incorporate information reflective of the current economic environment. As of December 31, 2007, quarterly updating of the loss forecast models resulted in increases in the allowance for loan and lease losses primarily due to growth and seasoning of the consumer portfolios and higher inherent losses in the home equity and small business portfolios. Included within this second component of the allowance for loan and lease losses and determined separately from the procedures outlined above are reserves which are maintained to cover uncertainties that affect our estimate of probable losses including domestic and global economic uncertainty and large single name defaults.

We monitor differences between estimated and actual incurred loan and lease losses. This monitoring process includes periodic assessments by senior management of loan and lease portfolios and the models used to estimate incurred losses in those portfolios.

Additions to the allowance for loan and lease losses are made by charges to the provision for credit losses. Credit exposures deemed to be uncollectible are charged against the allowance for loan and lease losses. Recoveries of previously charged off amounts are credited to the allowance for loan and lease losses.

The allowance for loan and lease losses for the consumer portfolio as presented in Table 27 was $6.8 billion at December 31, 2007, an increase of $1.2 billion from December 31, 2006. The increase was attributable to an increase in reserves during 2007 for higher losses inherent in our home equity portfolio reflective of the impact of the weak housing market as well as growth and seasoning of the *Card Services* consumer portfolios. These increases were partially offset by reserve reductions from the addition of higher loss profile accounts to the domestic credit card securitizations trust, net new issuances of securitizations, and improved performance of the remaining portfolios from certain consumer finance businesses that we have previously exited.

The allowance for commercial loan and lease losses was $4.8 billion at December 31, 2007, a $1.4 billion increase from December 31, 2006. The LaSalle acquisition increased the allowance for commercial loan and lease losses $676 million. In addition, the increase in commercial domestic allowance levels was primarily attributable to an increase in reserves for higher losses inherent in the small business portfolio within *GCSBB*. Commercial real estate allowance levels increased mainly due to the LaSalle acquisition and portfolio deterioration reflecting the impact of the weak housing market, particularly on our homebuilder loan portfolio within *GCIB*. Commercial foreign allowance levels decreased due to the sales of our Latin American portfolios and operations.

The allowance for loan and lease losses as a percentage of total loans and leases outstanding was 1.33 percent at December 31, 2007, compared to 1.28 percent at December 31, 2006. The increase in the ratio was driven by reserve increases for higher inherent losses in the small business and home equity portfolios within *GCSBB*, reflecting growth of these businesses and deterioration in the portfolios, and seasoning of the *Card Services* unsecured lending portfolio as well as discontinuing sales of new receivables into the unsecured lending trust. These increases were partially offset by growth in the residential mortgage portfolio, which has a low loss profile, as the Corporation increased retention of residential mortgage loans for ALM purposes. Also offsetting the increases were reserve reductions related to the addition of higher loss profile accounts to the domestic credit card securitization trust and the sales of our Latin American portfolios and operations.

Reserve for Unfunded Lending Commitments

In addition to the allowance for loan and lease losses, we also estimate probable losses related to unfunded lending commitments measured at historical cost, such as letters of credit and financial guarantees, and binding unfunded loan commitments. Unfunded lending commitments are subject to the same assessment as funded loans, except utilization assumptions are considered. The reserve for unfunded lending commitments is included in accrued expenses and other liabilities on the Consolidated Balance Sheet with changes to the reserve generally made through the provision for credit losses.

The reserve for unfunded lending commitments at December 31, 2007 was $518 million, a $121 million increase from December 31, 2006 primarily driven by the acquisition of LaSalle.

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Table 26 presents a rollforward of the allowance for credit losses for 2007 and 2006.

Table 26 Allowance for Credit Losses

(Dollars in millions)	**2007**	2006
Allowance for loan and lease losses, January 1	**$ 9,016**	$ 8,045
Adjustment due to the adoption of SFAS 159	**(32)**	
LaSalle balance, October 1, 2007	**725**	
U.S. Trust Corporation balance, July 1, 2007	**25**	
MBNA balance, January 1, 2006		577
Loans and leases charged off		
Residential mortgage	**(79)**	(74)
Credit card domestic	**(3,410)**	(3,546)
Credit card foreign	**(452)**	(292)
Home equity	**(286)**	(67)
Direct/Indirect consumer	**(1,885)**	(857)
Other consumer	**(346)**	(327)
Total consumer charge-offs	**(6,458)**	(5,163)
Commercial domestic [1]	**(1,135)**	(597)
Commercial real estate	**(54)**	(7)
Commercial lease financing	**(55)**	(28)
Commercial foreign	**(28)**	(86)
Total commercial charge-offs	**(1,272)**	(718)
Total loans and leases charged off	**(7,730)**	(5,881)
Recoveries of loans and leases previously charged off		
Residential mortgage	**22**	35
Credit card domestic	**347**	452
Credit card foreign	**74**	67
Home equity	**12**	16
Direct/Indirect consumer	**512**	247
Other consumer	**68**	110
Total consumer recoveries	**1,035**	927
Commercial domestic [2]	**128**	261
Commercial real estate	**7**	4
Commercial lease financing	**53**	56
Commercial foreign	**27**	94
Total commercial recoveries	**215**	415
Total recoveries of loans and leases previously charged off	**1,250**	1,342
Net charge-offs	**(6,480)**	(4,539)
Provision for loan and lease losses	**8,357**	5,001
Other	**(23)**	(68)
Allowance for loan and lease losses, December 31	**11,588**	9,016
Reserve for unfunded lending commitments, January 1	**397**	395
Adjustment due to the adoption of SFAS 159	**(28)**	
LaSalle balance, October 1, 2007	**124**	
Provision for unfunded lending commitments	**28**	9
Other	**(3)**	(7)
Reserve for unfunded lending commitments, December 31	**518**	397
Allowance for credit losses, December 31	**$ 12,106**	$ 9,413
Loans and leases outstanding measured at historical cost at December 31	**$ 871,754**	$ 706,490
Allowance for loan and lease losses as a percentage of total loans and leases outstanding measured at historical cost at December 31 [3]	**1.33%**	1.28%
Consumer allowance for loan and lease losses as a percentage of total consumer loans and leases outstanding at December 31	**1.23**	1.19
Commercial allowance for loan and lease losses as a percentage of total commercial loans and leases outstanding measured at historical cost at December 31 [3]	**1.51**	1.44
Average loans and leases outstanding measured at historical cost during the year	**$ 773,142**	$ 652,417

Net charge-offs as a percentage of average loans and leases outstanding measured at historical cost during the year [3, 4, 5]	**0.84%**	0.70%
Allowance for loan and lease losses as a percentage of total nonperforming loans and leases measured at historical cost at December 31	**207**	505
Ratio of the allowance for loan and lease losses at December 31 to net charge-offs [4, 5]	**1.79**	1.99

(1) Includes small business commercial domestic charge offs of $911 million and $409 million in 2007 and 2006.

(2) Includes small business commercial domestic recoveries of $42 million and $48 million in 2007 and 2006.

(3) Ratios do not include loans measured at fair value in accordance with SFAS 159 at and for the year ended December 31, 2007. Loans measured at fair value were $4.59 billion at December 31, 2007.

(4) In 2007, the impact of SOP 03-3 decreased net charge-offs by $75 million. Excluding the impact of SOP 03-3, net charge-offs as a percentage of average loans and leases outstanding measured at historical cost in 2007 would have been 0.85 percent and the ratio of the allowance for loan and lease losses to net charge-offs would have been 1.77 percent at December 31, 2007.

(5) In 2006, the impact of SOP 03-3 decreased net charge-offs by $288 million. Excluding the impact of SOP 03-3, net charge-offs as a percentage of average loans and leases outstanding measured at historical cost in 2006 would have been 0.74 percent, and the ratio of the allowance for loan and lease losses to net charge-offs would have been 1.87 percent at December 31, 2006.

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For reporting purposes, we allocate the allowance for credit losses across products. However, the allowance is available to absorb any credit losses without restriction. Table 27 presents our allocation by product type.

Table 27 Allocation of the Allowance for Credit Losses by Product Type

	December 31			
	2007		2006	
(Dollars in millions)	**Amount**	**Percent of Total**	Amount	Percent of Total
Allowance for loan and lease losses				
Residential mortgage	**$ 207**	**1.8%**	$ 248	2.8%
Credit card domestic	**2,919**	**25.2**	3,176	35.2
Credit card foreign	**441**	**3.8**	336	3.7
Home equity	**963**	**8.3**	133	1.5
Direct/Indirect consumer	**2,077**	**17.9**	1,378	15.3
Other consumer	**151**	**1.3**	289	3.2
Total consumer	**6,758**	**58.3**	5,560	61.7
Commercial domestic [1]	**3,194**	**27.6**	2,162	24.0
Commercial real estate	**1,083**	**9.3**	588	6.5
Commercial lease financing	**218**	**1.9**	217	2.4
Commercial foreign	**335**	**2.9**	489	5.4
Total commercial [2]	**4,830**	**41.7**	3,456	38.3
Allowance for loan and lease losses	**11,588**	**100.0%**	9,016	100.0%
Reserve for unfunded lending commitments	**518**		397	
Allowance for credit losses	**$ 12,106**		$ 9,413	

(1) Includes allowance for small business commercial domestic loans of $1.4 billion and $578 million at December 31, 2007 and 2006.

(2) Includes allowance for loan and lease losses for impaired commercial loans of $123 million and $43 million at December 31, 2007 and 2006.

Market Risk Management

Market risk is the risk that values of assets and liabilities or revenues will be adversely affected by changes in market conditions such as market movements. This risk is inherent in the financial instruments associated with our operations and/or activities including loans, deposits, securities, short-term borrowings, long-term debt, trading account assets and liabilities, and derivatives. Market-sensitive assets and liabilities are generated through loans and deposits associated with our traditional banking business, customer and proprietary trading operations, ALM process, credit risk mitigation activities and mortgage banking activities. In the event of market volatility, factors such as underlying market movements and liquidity have an impact on the results of the Corporation.

Our traditional banking loan and deposit products are nontrading positions and are reported at amortized cost for assets or the amount owed for liabilities (historical cost). GAAP requires a historical cost view of traditional banking assets and liabilities. However, these positions are still subject to changes in economic value based on varying market conditions, primarily changes in the levels of interest rates. The risk of adverse changes in the economic value of our nontrading positions is managed through our ALM activities. We have elected to fair value certain loan and deposit products in accordance with SFAS 159. For further information on fair value of certain financial assets and liabilities, see *Note 19 Fair Value Disclosures* to the Consolidated Financial Statements.

Our trading positions are reported at fair value with changes currently reflected in income. Trading positions are subject to various risk factors, which include exposures to interest rates and foreign exchange rates, as well as mortgage, equity, commodity, issuer and market liquidity risk factors. We seek to mitigate these risk exposures by using techniques that encompass a variety of financial instruments in both the cash and derivatives markets. The following discusses the key risk components along with respective risk mitigation techniques.

Interest Rate Risk

Interest rate risk represents exposures to instruments whose values vary with the level or volatility of interest rates. These instruments include, but are not limited to, loans, debt securities, certain trading-related assets and liabilities, deposits, borrowings and derivative instruments. Hedging instruments used to mitigate these risks include related derivatives such as options, futures, forwards and swaps.

Foreign Exchange Risk

Foreign exchange risk represents exposures to changes in the values of current holdings and future cash flows denominated in other currencies. The types of instruments exposed to this risk include investments in foreign subsidiaries, foreign currency-denominated loans and securities, future cash flows in foreign currencies arising from foreign exchange transactions, foreign currency-denominated debt and various foreign exchange derivative instruments whose values fluctuate with changes in the level or volatility of currency exchange rates or foreign interest rates. Hedging instruments used to mitigate this risk include foreign exchange options, currency swaps, futures, forwards and deposits.

Mortgage Risk

Mortgage risk represents exposures to changes in the value of mortgage-related instruments. The values of these instruments are sensitive to prepayment rates, mortgage rates, agency debt ratings, default, market liquidity, other interest rates and interest rate volatility. Our exposure to these instruments takes several forms. First, we trade and engage in market-making activities in a variety of mortgage securities including whole loans, pass-through certificates, commercial mortgages, and collateralized mortgage obligations including CDOs using mortgages as underlying collateral. Second, we originate a variety of mortgage-backed securities which involves the accumulation of mortgage-related loans in anticipation of eventual securitization. Third, we may hold positions in mortgage secu-

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rities and residential mortgage loans as part of the ALM portfolio. Fourth, we create MSRs as part of our mortgage origination activities. See *Note 1* Summary of Significant Accounting Principles and *Note 21 Mortgage Servicing Rights* to the Consolidated Financial Statements for additional information on MSRs. Hedging instruments used to mitigate this risk include options, futures, forwards, swaps, swaptions and securities.

Equity Market Risk

Equity market risk represents exposures to securities that represent an ownership interest in a corporation in the form of domestic and foreign common stock or other equity-linked instruments. Instruments that would lead to this exposure include, but are not limited to, the following: common stock, exchange traded funds, American Depositary Receipts (ADRs), convertible bonds, listed equity options (puts and calls), over-the-counter equity options, equity total return swaps, equity index futures and other equity derivative products. Hedging instruments used to mitigate this risk include options, futures, swaps, convertible bonds and cash positions.

Commodity Risk

Commodity risk represents exposures to instruments traded in the petroleum, natural gas, power, and metals markets. These instruments consist primarily of futures, forwards, swaps and options. Hedging instruments used to mitigate this risk include options, futures and swaps in the same or similar commodity product, as well as cash positions.

Issuer Credit Risk

Issuer credit risk represents exposures to changes in the creditworthiness of individual issuers or groups of issuers. Our portfolio is exposed to issuer credit risk where the value of an asset may be adversely impacted by changes in the levels of credit spreads, by credit migration, or by defaults. Hedging instruments used to mitigate this risk include bonds, CDS and other credit fixed income instruments.

Market Liquidity Risk

Market liquidity risk represents the risk that expected market activity changes dramatically and in certain cases may even cease to exist. This exposes us to the risk that we will not be able to transact in an orderly manner and may impact our results. This impact could further be exacerbated if expected hedging or pricing correlations are impacted by the disproportionate demand or lack of demand for certain instruments. We utilize various risk mitigating techniques as discussed in more detail in Trading Risk Management.

Trading Risk Management

Trading-related revenues represent the amount earned from trading positions, including market-based net interest income, which are taken in a diverse range of financial instruments and markets. Trading account assets and liabilities and derivative positions are reported at fair value. For more information on fair value, see *Note 19 Fair Value Disclosures* to the Consolidated Financial Statements and Complex Accounting Estimates beginning on page 68. Trading-related revenues can be volatile and are largely driven by general market conditions and customer demand. Trading-related revenues are dependent on the volume and type of transactions, the level of risk assumed, and the volatility of price and rate movements at any given time within the ever-changing market environment.

The GRC, chaired by the Global Markets Risk Executive, has been designated by ALCO as the primary governance authority for Global Markets Risk Management including trading risk management. The GRC s focus is to take a forward-looking view of the primary credit and market risks impacting *CMAS* and prioritize those that need a proactive risk mitigation strategy.

At the GRC meetings, the committee considers significant daily revenues and losses by business along with an explanation of the primary driver of the revenue or loss. Thresholds are established for each of our businesses in order to determine if the revenue or loss is considered to be significant for that business. If any of the thresholds are exceeded, an explanation of the variance is made to the GRC. The thresholds are developed in coordination with the respective risk managers to highlight those revenues or losses which exceed what is considered to be normal daily income statement volatility.

The histogram of daily revenue or loss above is a graphic depiction of trading volatility and illustrates the daily level of trading-related revenue for the twelve months ended December 31, 2007. During the twelve months ended December 31, 2007, positive trading-related revenue was recorded for 71 percent of the trading days. During the second half of 2007, CDO- related markets experienced significant liquidity constraints impacting the availability and reliability of transparent pricing resulting in the valuation of CDOs becoming more complex and time consuming. Accordingly, it was not possible to mark these positions to market on a daily basis. As a result, we recorded valuation adjustments in trading account profits (losses) of approximately $4.0 billion on certain discrete dates relating to our super senior CDO exposure. For further discussion of our super senior CDO exposure and related losses see page 28. Excluding the discrete writedowns on our super senior CDO exposure, 21 percent of the total trading days had losses greater than $10 million, and the largest loss was $159 million. This can be compared to the twelve months ended December 31, 2006, where positive trading-related revenue was recorded for 96 percent of the trading days and there were no losses greater than $10 million, and the largest loss was $10 million. The increase in the total trading days with losses greater than $10 million was due to the period of market disruption during the second half of 2007.

To evaluate risk in our trading activities, we focus on the actual and potential volatility of individual positions as well as portfolios. VAR is a key statistic used to measure market risk. In order to manage day-to-day risks, VAR is subject to trading limits both for our overall trading portfolio and within individual businesses. All limit excesses are communicated to management for review.

A VAR model simulates the value of a portfolio under a range of hypothetical scenarios in order to generate a distribution of potential gains and losses. The VAR represents the worst loss the portfolio is expected to experience based on historical trends with a given level of confidence. VAR depends on the volatility of the positions in the portfolio and on how strongly their risks are correlated. Within any VAR model, there are significant and numerous assumptions that will differ from company to company. In addition, the accuracy of a VAR model depends on the availability and quality of historical data for each of the positions in the portfolio. A VAR model may require additional modeling assumptions for new products which do not have extensive historical price data, or for illiquid positions for which accurate daily prices are not consistently available. Our VAR model uses a historical simulation approach based on three years of historical data and assumes a 99 percent confidence level. Statistically, this means that losses will exceed VAR, on average, one out of 100 trading days, or two to three times each year.

A VAR model is an effective tool in estimating ranges of potential gains and losses on our trading portfolios. There are however many limitations inherent in a VAR model as it utilizes historical results over a defined time period to estimate future performance. Historical results may not always be indicative of future results and changes in market conditions or in the composition of the underlying portfolio could have a material impact on the accuracy of the VAR model. This was of particular relevance in the last part of 2007 when markets experienced a period of extreme illiquidity resulting in losses that were far outside of the normal loss forecasts by VAR models. Due to these limitations, we have historically used the VAR model as only one of the components in managing our trading risk and also use other techniques such as stress testing and desk level limits. Periods of extreme market stress influence the reliability of these techniques to various degrees. See discussion on stress testing on the following page.

On a quarterly basis, the accuracy of the VAR methodology is reviewed by backtesting (i.e., comparing actual results against expectations derived from historical data) the VAR results against the daily profit and loss. Graphic representation of the backtesting results with additional explanation of backtesting excesses are reported to the GRC. Backtesting excesses occur when trading losses exceed the VAR. Senior management reviews and evaluates the results of these tests.

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The graph above shows daily trading-related revenue and VAR excluding the discrete writedowns on our super senior CDO exposure for the twelve months ended December 31, 2007. Excluding these writedowns, actual losses exceeded daily trading VAR fourteen times in the twelve months ended December 31, 2007 and losses did not exceed daily trading VAR in the twelve months ended December 31, 2006. The losses that exceeded daily trading VAR for the twelve months ended December 31, 2007, occurred during the market disruption which took place during the second half of 2007. The sudden increase in market volatility during this period produced a large number of price changes that exceeded the 99th percentile of the three year history used for our VAR calculations.

Table 28 presents average, high and low daily trading VAR for the twelve months ended December 31, 2007 and 2006.

The increase in average VAR from 2006 was driven by the increased market volatility during the second half of 2007. In particular, with the dislocation in structured and credit products, many credit spreads used in the calculation of VAR increased by unprecedented amounts. In addition, many trading assets became extremely illiquid which required changes in assumptions to properly incorporate them in the VAR model as was the

case with our CDO exposure for which we have updated our model at various times during the second half of 2007. In periods of stress, the GRC members communicate daily to discuss losses, VAR limit excesses and the impact to regulatory capital. As a result of this process, the lines of business may selectively reduce risk. Where economically feasible, positions are sold or macro economic hedges are executed to reduce the exposure.

Stress Testing

Because the very nature of a VAR model suggests results can exceed our estimates, we also stress test our portfolio. Stress testing estimates the value change in our trading portfolio that may result from abnormal market movements. Various types of stress tests are run regularly against the overall trading portfolio and individual businesses. Historical scenarios simulate the impact of price changes which occurred during a set of extended historical market events. The results of these scenarios are reported daily to management. During the twelve months ended December 31, 2007, the largest daily losses among these scenarios ranged from $9 million to $529 million.

Table 28 Trading Activities Market Risk (1)

	Twelve Months Ended December 31					
	2007			2006		
		VAR			VAR	
(Dollars in millions)	**Average**	**High (2)**	**Low (2)**	Average	High (2)	Low (2)
Foreign exchange	**$ 7.2**	**$ 25.3**	**$ 3.8**	$ 8.2	$ 22.9	$ 3.1
Interest rate	**13.9**	**31.9**	**6.6**	18.5	50.0	7.3
Credit	**39.5**	**69.9**	**23.4**	26.8	36.7	18.4
Real estate/mortgage	**14.1**	**23.5**	**5.7**	8.4	12.7	4.7
Equities	**24.6**	**45.8**	**9.6**	18.8	39.6	9.9
Commodities	**7.2**	**10.7**	**3.7**	6.1	9.9	3.4
Portfolio diversification	**(53.9)**			(45.5)		
Total market-based trading portfolio (3)	**$ 52.6**	**$ 91.5**	**$ 32.9**	$ 41.3	$ 59.8	$ 26.0

(1) Excludes our discrete writedowns on super senior CDO exposure. For more information on the CDO writedowns and the impact of the market disruption on the Corporation s results, see the CDO discussion beginning on page 28.

(2) The high and low for the total portfolio may not equal the sum of the individual components as the highs or lows of the individual portfolios may have occurred on different trading days.

(3) For a discussion of the VAR related to the credit derivatives that economically hedge the loan portfolio, see Industry Concentrations beginning on page 54. The table above does not include credit protection purchased to manage our counterparty credit risk. During the three months ended December 31, 2007, the average VAR of this protection was $9 million.

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Hypothetical scenarios evaluate the potential impact of extreme but plausible events over periods as long as one month. These scenarios are developed to address perceived vulnerabilities in the market and in our portfolios, and are periodically updated. They are also reviewed and updated to reflect changing market conditions, such as were experienced during the second half of 2007. For example, many trading assets became extremely illiquid which required changes in assumptions to properly incorporate them in the stress models. This was the case with our CDO-related exposure for which we have updated our models at various times during the second half of 2007. Management reviews and evaluates results of these scenarios monthly. During the twelve months ended December 31, 2007, the largest daily losses among these scenarios ranged from $459 million to $1.5 billion. Worst-case losses, which represent the most extreme losses in our daily VAR calculation, are reported daily. Finally, desk-level stress tests are performed daily for individual businesses. These stress tests evaluate the potential adverse impact of large moves in the market risk factors to which those businesses are most sensitive.

Interest Rate Risk Management for Nontrading Activities

Interest rate risk represents the most significant market risk exposure to our nontrading exposures. Our overall goal is to manage interest rate risk so that movements in interest rates do not adversely affect core net interest income managed basis. Interest rate risk is measured as the potential volatility in our core net interest income managed basis caused by changes in market interest rates. Client facing activities, primarily lending and deposit-taking, create interest rate sensitive positions on our balance sheet. Interest rate risk from these activities, as well as the impact of changing market conditions, is managed through our ALM activities.

Simulations are used to estimate the impact on core net interest income managed basis using numerous interest rate scenarios, balance sheet trends and strategies. These simulations evaluate how the above mentioned scenarios impact core net interest income managed basis on short-term financial instruments, debt securities, loans, deposits, borrowings, and derivative instruments. In addition, these simulations

incorporate assumptions about balance sheet dynamics such as loan and deposit growth and pricing, changes in funding mix, and asset and liability repricing and maturity characteristics. These simulations do not include the impact of hedge ineffectiveness.

Management analyzes core net interest income managed basis forecasts utilizing different rate scenarios, with the base case utilizing the forward interest rates. Management frequently updates the core net interest income managed basis forecast for changing assumptions and differing outlooks based on economic trends and market conditions. Thus, we continually monitor our balance sheet position in an effort to maintain an acceptable level of exposure to interest rate changes.

We prepare forward-looking forecasts of core net interest income managed basis. These baseline forecasts take into consideration expected future business growth, ALM positioning, and the direction of interest rate movements as implied by forward interest rates. We then measure and evaluate the impact that alternative interest rate scenarios have to these static baseline forecasts in order to assess interest rate sensitivity under varied conditions. The spot and 12-month forward monthly rates used in our respective baseline forecasts at December 31, 2007 and 2006 are shown in Table 29.

Table 30 reflects the pre-tax dollar impact to forecasted core net interest income managed basis over the next twelve months from December 31, 2007 and 2006, resulting from a 100 bp gradual parallel increase, a 100 bp gradual parallel decrease, a 100 bp gradual curve flattening (increase in short-term rates or decrease in long-term rates) and a 100 bp gradual curve steepening (decrease in short-term rates or increase in long-term rates) from the forward market curve. For further discussion of core net interest income managed basis see page 19.

The sensitivity analysis in Table 30 assumes that we take no action in response to these rate shifts over the indicated years. The estimated exposure is reported on a managed basis and reflects impacts that may be realized primarily in net interest income and card income. This sensitivity analysis excludes any impact that could occur in the valuation of retained interests in the Corporation s securitizations due to changes in interest rate levels. For additional information on securitizations, see *Note 8 Securitizations* to the Consolidated Financial Statements.

Table 29 Forward Rates

	December 31	
	2007	2006

	Federal Funds	**Ten-Year Swap**	Federal Funds	Ten-Year Swap
Spot rates	**4.25%**	**4.67%**	5.25%	5.18%
12-month forward rates	**3.13**	**4.79**	4.85	5.19

Table 30 Estimated Core Net Interest Income Managed Basis at Risk

(Dollars in millions)			**December 31**	
Curve Change	Short Rate	Long Rate	**2007**	2006
+100 Parallel shift	+100	+100	**$ (952)**	$ (557)
-100 Parallel shift	-100	-100	**865**	770
Flatteners				
Short end	+100		**(1,127)**	(687)
Long end		-100	**(386)**	(192)
Steepeners				
Short end	-100		**1,255**	971
Long end		+100	**181**	138

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Our core net interest income managed basis, was liability sensitive at both December 31, 2007 and 2006. At December 31, 2007, our core net interest income managed basis became more liability sensitive as we positioned ourselves for greater downside risk than was reflected in the forward curve. We evaluate our balance sheet position on an ongoing basis. Since December 31, 2007, we have repositioned our balance sheet to a more modest level given changes in forward rates and we will continue to evaluate our balance sheet positioning going forward. Over a 12-month horizon, we would benefit from falling rates or a steepening of the yield curve beyond what is already implied in the forward market curve.

As part of our ALM activities, we use securities, residential mortgages, and interest rate and foreign exchange derivatives in managing interest rate sensitivity.

Securities

The securities portfolio is an integral part of our ALM position. The securities portfolio is primarily comprised of debt securities and includes mortgage-backed securities and to a lesser extent corporate, municipal and other investment grade debt securities. During 2007 and 2006, we purchased AFS debt securities of $28.0 billion and $40.9 billion, sold $27.9 billion and $55.1 billion, and had maturities and received paydowns of $19.2 billion and $22.4 billion. We realized $180 million in gains and $443 million in losses on sales of debt securities during 2007 and 2006. Additionally, during 2007, we acquired $32.4 billion of AFS debt securities as part of the LaSalle and U.S. Trust Corporation acquisitions and continue to evaluate the appropriate holding levels.

The value of our accumulated OCI loss related to AFS debt securities improved by a pre-tax amount of $2.0 billion during 2007, driven by a decrease in interest rates. For those securities that are in an unrealized loss position we have the intent and ability to hold these securities to recovery.

Accumulated OCI includes $6.5 billion in after-tax gains at December 31, 2007, related to unrealized gains associated with our AFS securities portfolio, including $1.9 billion of unrealized losses related to AFS debt securities and $8.4 billion of unrealized gains related to AFS marketable equity securities. Total market value of the AFS debt securities was $213.3 billion at December 31, 2007 with a weighted average duration of 4.3 years and primarily relates to our mortgage-backed securities portfolio.

Prospective changes to the accumulated OCI amounts for the AFS securities portfolio will be driven by further interest rate, credit or price fluctuations (including market value fluctuations associated with our CCB investment), the collection of cash flows including prepayment and maturity activity, and the passage of time. During the fourth quarter of 2007, shares of the Corporation s strategic investment in CCB are now accounted for as AFS marketable equity securities and are carried at a fair value of $16.2 billion. The unrealized gain on this investment of $8.4 billion net-of-tax is subject to currency and price fluctuation, and is recorded in accumulated OCI.

In connection with adopting SFAS 159, the Corporation reclassified approximately $3.7 billion from AFS debt securities to trading account assets during the first quarter of 2007. There were no net unrealized gains or losses associated with these securities recorded in accumulated OCI as these securities were hedged using SFAS 133 hedge accounting. Accordingly, there was no impact on the Corporation s transition adjustment to beginning retained earnings upon adoption of SFAS 159 on January 1, 2007.

Residential Mortgage Portfolio

During 2007 and 2006, we purchased $22.5 billion and $42.3 billion of residential mortgages related to ALM activities, and added $66.3 billion and $51.9 billion of originated residential mortgages. We sold $34.0 billion and $11.0 billion of residential mortgages during 2007 and 2006, which included $23.7 billion and $9.2 billion of originated residential mortgages, resulting in gains of $271 million and $98 million. Additionally, we received paydowns of $28.2 billion and $24.7 billion during 2007 and 2006. The ending balance at December 31, 2007 was $274.9 billion compared to $241.2 billion at December 31, 2006.

Interest Rate and Foreign Exchange Derivative Contracts

Interest rate and foreign exchange derivative contracts are utilized in our ALM activities and serve as an efficient tool to mitigate our interest rate and foreign exchange risk. We use derivatives to hedge the variability in cash flows or changes in fair value on our balance sheet due to interest rate and foreign exchange components. For additional information on our hedging activities, see *Note 4 Derivatives* to the Consolidated Financial Statements.

Our interest rate contracts are generally non-leveraged generic interest rate and foreign exchange basis swaps, options, futures, and forwards. In addition, we use foreign exchange contracts, including cross-currency interest rate swaps and foreign currency forward contracts, to mitigate the foreign exchange risk associated with foreign currency-denominated assets and liabilities, as well as certain equity investments in foreign subsidiaries. Table 31 reflects the notional amounts, fair value, weighted average receive fixed and pay fixed rates, expected maturity, and estimated duration of our open ALM derivatives at December 31, 2007 and 2006.

Changes to the composition of our derivatives portfolio over the course of 2007 reflect actions taken for interest rate and foreign exchange rate risk management. The decisions to reposition our derivative portfolio are based upon the current assessment of economic and financial conditions including the interest rate environment, balance sheet composition and trends, and the relative mix of our cash and derivative positions. Our interest rate swap positions (including foreign exchange contracts) changed to a net receive fixed position of $101.9 billion on December 31, 2007 compared to a net receive fixed position of $12.3 billion on December 31, 2006. Changes in the notional levels of our interest rate swap position were driven by the net termination of $88.9 billion in pay fixed swaps, the net termination of $9.5 billion in U.S. dollar denominated receive fixed swaps, and the addition of $10.2 billion in foreign denominated receive fixed swaps. The notional amount of our foreign exchange basis swaps increased $22.6 billion to $54.5 billion at December 31, 2007 compared to $31.9 billion at December 31, 2006. The notional amount of our option position decreased $103.2 billion to $140.1 billion at December 31, 2007 compared to $243.3 billion at December 31, 2006. The decrease in the notional amount of options was due to the net terminations and expirations of $85.0 billion in caps and floors and terminations of $18.2 billion of swaptions.

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Table 31 Asset and Liability Management Interest Rate and Foreign Exchange Contracts

December 31, 2007

(Dollars in millions, average estimated duration in years)	Fair Value	Expected Maturity: Total	2008	2009	2010	2011	2012	Thereafter	Average Estimated Duration
Receive fixed interest rate swaps (1, 2)	$ 992								3.70
Notional amount		$ 81,965	$ 4,869	$ 48,908	$ 3,252	$ 1,630	$ 2,508	$ 20,798	
Weighted average fixed rate		4.34%	4.03%	3.91%	4.35%	4.50%	4.88%	5.34%	
Pay fixed interest rate swaps (1)	(429)								5.37
Notional amount		$ 11,340	$	$	$	$	$ 1,000	$ 10,340	
Weighted average fixed rate		5.04%	%	%	%	%	5.45%	5.00%	
Foreign exchange basis swaps (2, 3, 4)	6,164								
Notional amount		$ 54,531	$ 2,537	$ 4,463	$ 5,839	$ 4,294	$ 8,695	$ 28,703	
Option products (5)	(155)								
Notional amount		140,114	130,000	10,000	76			38	
Foreign exchange contracts (2, 4, 6)	(499)								
Notional amount (7)		31,054	1,438	2,047	4,171	1,235	3,150	19,013	
Futures and forward rate contracts	(3)								
Notional amount (7)		752	752						
Net ALM contracts	**$ 6,070**								

December 31, 2006

(Dollars in millions, average estimated duration in years)	Fair Value	Expected Maturity: Total	2007	2008	2009	2010	2011	Thereafter	Average Estimated Duration
Receive fixed interest rate swaps (1, 2)	$ (748)								4.42
Notional amount		$ 91,502	$ 2,795	$ 7,844	$ 48,900	$ 3,252	$ 1,630	$ 27,081	
Weighted average fixed rate		4.90%	4.80%	4.41%	4.90%	4.35%	4.50%	5.14%	
Pay fixed interest rate swaps (1)	261								2.93
Notional amount		$ 100,217	$ 15,000	$ 2,500	$ 44,000	$	$ 250	$ 38,467	
Weighted average fixed rate		4.98%	5.12%	5.11%	4.86%	%	5.43%	5.06%	
Foreign exchange basis swaps (2, 3, 4)	1,992								
Notional amount		$ 31,916	$ 174	$ 2,292	$ 3,012	$ 5,351	$ 3,962	$ 17,125	
Option products (5)	317								
Notional amount		243,280	200,000	43,176		70		34	
Foreign exchange contracts (2, 4, 6)	(319)								
Notional amount (7)		20,319	(753)	1,588	1,901	3,850	1,104	12,629	
Futures and forward rate contracts	(46)								
Notional amount (7)		8,480	8,480						
Net ALM contracts	$ 1,457								

(1) At December 31, 2007, $45.0 billion of the receive fixed interest rate swap notional represented forward starting swaps that will not be effective until their respective contractual start dates. There were no forward starting pay fixed swap positions at December 31, 2007. At December 31, 2006, $4.2 billion of the receive fixed and $52.5 billion of the pay fixed swap notional represented forward starting swaps that will not be effective

until their respective contractual start dates.

(2) Does not include basis adjustments on fixed rate debt issued by the Corporation and hedged under fair value hedge relationships pursuant to SFAS 133 that substantially offset the fair values of these derivatives.

(3) Foreign exchange basis swaps consist of cross-currency variable interest rate swaps used separately or in conjunction with receive fixed interest rate swaps.

(4) Does not include foreign currency translation adjustments on certain foreign debt issued by the Corporation which substantially offset the fair values of these derivatives.

(5) Option products of $140.1 billion at December 31, 2007 are comprised of $120.1 billion in purchased caps and $20.0 billion in sold floors. At December 31, 2006, option products included $225.1 billion in caps and $18.2 billion in swaptions.

(6) Foreign exchange contracts include foreign-denominated and cross-currency receive fixed interest rate swaps as well as foreign currency forward rate contracts. Total notional was comprised of $31.3 billion in foreign-denominated and cross-currency receive fixed swaps and $211 million in foreign currency forward rate contracts at December 31, 2007 and $21.0 billion in foreign-denominated and cross-currency receive fixed swaps and $697 million in foreign currency forward rate contracts at December 31, 2006.

(7) Reflects the net of long and short positions.

The table above includes derivatives utilized in our ALM activities, including those designated as SFAS 133 accounting hedges and economic hedges. The fair value of net ALM contracts increased $4.6 billion from a gain of $1.5 billion at December 31, 2006 to a gain of $6.1 billion at December 31, 2007. The increase was primarily attributable to gains from changes in the value of foreign exchange basis swaps of $4.2 billion, and U.S. dollar denominated receive fixed interest rate swaps of $1.7 billion. These gains were partially offset by losses from changes in the value of pay fixed interest rate swaps of $690 million, option products of $472 million, and foreign exchange contracts of $180 million. The increase in the value of foreign exchange basis swaps was due to the strengthening of most foreign currencies against the U.S. dollar during the twelve months ended December 31, 2007. The increase in the value of U.S. dollar denominated receive fixed interest rate swaps and the decrease in the value of the pay fixed interest rate swaps were due to decreases in interest rates during 2007. The decrease in the value of the option portfolio

was primarily attributable to decreases in interest rates during 2007, net terminations and expirations of caps and floors, and terminations of swaptions. The decrease in the value of foreign exchange contracts was largely due to the increase in foreign interest rates during 2007.

The Corporation uses interest rate derivative instruments to hedge the variability in the cash flows of its assets and liabilities, and other forecasted transactions (cash flow hedges). From time to time, the Corporation also utilizes equity-indexed derivatives accounted for as SFAS 133 cash flow hedges to minimize exposure to price fluctuations on the forecasted purchase or sale of certain equity investments. The net losses on both open and terminated derivative instruments recorded in accumulated OCI, net-of-tax, was $4.4 billion at December 31, 2007. These net losses are expected to be reclassified into earnings in the same period when the hedged cash flows affect earnings and will decrease income or increase expense on the respective hedged cash flows. Assuming no change in open cash flow derivative hedge positions and no changes to prices or interest rates beyond what is already implied in forward yield curves at December 31, 2007, the pre-tax net losses are expected to be reclassified into earnings as follows: $1.3 billion, or 19 percent within the next year, 68 percent within five years, and 89 percent within 10 years, with the remaining 11 percent thereafter. For more information on derivatives designated as cash flow hedges, see *Note 4 Derivatives* to the Consolidated Financial Statements.

The amounts included in accumulated OCI for terminated derivative contracts were losses of $3.8 billion and $3.2 billion, net-of-tax, at December 31, 2007 and 2006. Losses on these terminated derivative contracts are reclassified into earnings in the same period or periods during which the hedged forecasted transaction affects earnings.

Mortgage Banking Risk Management

IRLCs and the related residential first mortgage loans held-for-sale are subject to interest rate risk between the date of the IRLC and the date the loans are sold to the secondary market. To hedge interest rate risk, we utilize forward loan sale commitments and other derivative instruments including purchased options. These instruments are used as economic hedges of IRLCs and residential first mortgage loans held-for-sale. At December 31, 2007, the notional amount of derivatives economically hedging the IRLCs and residential first mortgage loans held-for-sale was $18.6 billion.

The Corporation adopted SFAS 159 as of January 1, 2007 and elected to account for certain originated mortgage loans held-for-sale at fair value. Subsequent to the adoption, mortgage loan origination costs are recognized in noninterest expense when incurred. Previously, mortgage loan origination costs would have been capitalized as part of the carrying amount of the loans and recognized as a reduction of mortgage banking income upon the sale of such loans. At December 31, 2007, residential mortgage loans held-for-sale in connection with mortgage banking activities for which the fair value option was elected had an aggregate fair value of $9.56 billion and an aggregate outstanding principal balance of $9.82 billion. Net gains resulting from changes in fair value of loans held-for-sale that we originated, including realized gains and losses on sale of $333 million, were recorded in mortgage banking income during 2007. The adoption of SFAS 159 resulted in an increase of $256 million in mortgage banking income during 2007, and in an increase of $212 million in noninterest expense during 2007.

We manage changes in the value of MSRs by entering into derivative financial instruments. MSRs are a nonfinancial asset created when the underlying mortgage loan is sold to investors and we retain the right to service the loan. We use certain derivatives such as options and interest rate swaps as economic hedges of MSRs. At December 31, 2007, the amount of MSRs identified as being hedged by derivatives was approximately $3.1 billion. The notional amount of the derivative contracts designated as economic hedges of MSRs at December 31, 2007 was $69.0 billion. For additional information on MSRs see *Note 21 Mortgage Servicing Rights* to the Consolidated Financial Statements.

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, including system conversions and integration, and external events. Successful operational risk management is particularly important to diversified financial services companies because of the nature, volume and complexity of the financial services business.

We approach operational risk from two perspectives: corporate-wide and line of business-specific. The Compliance and Operational Risk

Committee provides oversight of significant corporate-wide operational and compliance issues. Within Global Risk Management, Enterprise Operational Risk Management develops policies, practices, controls and monitoring tools for assessing and managing operational risks across the Corporation. We also mitigate operational risk through a broad-based approach to process management and process improvement. Improvement efforts are focused on reduction of variation in outputs. We have a dedicated Quality and Productivity team to manage and certify the process management and improvement efforts. For selected risks, we use specialized support groups, such as Information Security and Supply Chain Management, to develop corporate-wide risk management practices, such as an information security program and a supplier program to ensure that suppliers adopt appropriate policies and procedures when performing work on behalf of the Corporation. These specialized groups also assist the lines of business in the development and implementation of risk management practices specific to the needs of the individual businesses. These groups also work with line of business executives and risk executives to develop appropriate policies, practices, controls and monitoring tools for each line of business. Through training and communication efforts, compliance and operational risk awareness is driven across the Corporation.

The lines of business are responsible for all the risks within the business line, including operational risks. Operational and Compliance Risk executives, working in conjunction with senior line of business executives, have developed key tools to help identify, measure, mitigate and monitor operational risk in each business line. Examples of these include personnel management practices, data reconciliation processes, fraud management units, transaction processing monitoring and analysis, business recovery planning and new product introduction processes. In addition, the lines of business are responsible for monitoring adherence to corporate practices. Line of business management uses a self-assessment process, which helps to identify and evaluate the status of risk and control issues, including mitigation plans, as appropriate. The goal of the self-assessment process is to periodically assess changing market and business conditions, to evaluate key operational risks impacting each line of business, and assess the controls in place to mitigate the risks. In addition to information gathered from the self-assessment process, key operational risk indicators have been developed and are used to help identify trends and issues on both a corporate and a line of business level.

Recent Accounting and Reporting Developments

See *Note 1 Summary of Significant Accounting Principles* to the Consolidated Financial Statements for a discussion of recently issued accounting pronouncements.

Complex Accounting Estimates

Our significant accounting principles, as described in *Note 1 Summary of Significant Accounting Principles* to the Consolidated Financial Statements, are essential in understanding the MD&A. Many of our significant accounting principles require complex judgments to estimate values of assets and liabilities. We have procedures and processes to facilitate making these judgments.

The more judgmental estimates are summarized below. We have identified and described the development of the variables most important in the estimation process that, with the exception of accrued taxes, involve mathematical models to derive the estimates. In many cases, there are numerous alternative judgments that could be used in the process of determining the inputs to the model. Where alternatives exist, we have used the factors that we believe represent the most reasonable value in developing the inputs. Actual performance that differs from our estimates of the key variables could impact net income. Separate from the possible future impact to net income from input and model variables, the value of our lending portfolio and market-sensitive assets and liabilities may change subsequent to the balance sheet measurement, often significantly, due to the nature and magnitude of future credit and market conditions. Such credit and market conditions may change quickly and in unforeseen ways and the resulting volatility could have a significant, negative effect on future operating results. These fluctuations would not be indicative of deficiencies in our models or inputs.

Allowance for Credit Losses

The allowance for credit losses, which includes the allowance for loan and lease losses and the reserve for unfunded lending commitments, represents management s estimate of probable losses inherent in the Corporation s lending activities that are carried at historical cost. Changes to the allowance for credit losses are reported in the Consolidated Statement of Income in the provision for credit losses. Our process for determining the allowance for credit losses is discussed in the Credit Risk Management section beginning on page 44 and *Note 1 Summary of Significant Accounting Principles* to the Consolidated Financial Statements. Due to the variability in the drivers of the assumptions made in this process, estimates of the portfolio s inherent risks and overall collectibility change with changes in the economy, individual industries, countries and individual borrowers or counterparties ability and willingness to repay their obligations. The degree to which any particular assumption affects the allowance for credit losses depends on the severity of the change and its relationship to the other assumptions.

Key judgments used in determining the allowance for credit losses include: (i) risk ratings for pools of commercial loans and leases, (ii) market and collateral values and discount rates for individually evaluated loans, (iii) product type classifications for consumer and commercial loans and leases, (iv) loss rates used for consumer and commercial loans and leases, (v) adjustments made to assess current events and conditions, (vi) considerations regarding domestic and global economic uncertainty, and (vii) overall credit conditions.

Our allowance for loan and lease losses is sensitive to the risk rating assigned to commercial loans and leases. Assuming a downgrade of one level in the internal risk rating for commercial loans and leases measured at historical cost and rated under the internal risk rating scale, except loans and leases already risk-rated Doubtful as defined by regulatory authorities, the allowance for loans and lease losses would increase by approximately $1.6 billion at December 31, 2007. The allowance for loan and lease losses as a percentage of total loans and leases measured at historical cost at December 31, 2007 was 1.33 percent and this hypothetical increase in the allowance would raise the ratio to approximately 1.50 percent. Our allowance for loans and lease losses is also sensitive to the loss rates used for the consumer and commercial portfolios. A 10 percent increase in the loss rates used on the consumer and commercial loan and lease portfolios measured at historical cost would increase the allowance for loan and lease losses at December 31, 2007 by approximately $820 million, of which $690 million would relate to consumer and $130 million to commercial.

These sensitivity analyses do not represent management s expectations of the deterioration in risk ratings or the increases in loss rates but are provided as hypothetical scenarios to assess the sensitivity of the allowance for loan and lease losses to changes in key inputs. We believe the risk ratings and loss severities currently in use are appropriate and

that the probability of a downgrade of one level of the internal risk ratings for commercial loans and leases within a short period of time is remote.

The process of determining the level of the allowance for credit losses requires a high degree of judgment. It is possible that others, given the same information, may at any point in time reach different reasonable conclusions.

Fair Value of Financial Instruments

Effective January 1, 2007, we determined the fair market values of our financial instruments based on the fair value hierarchy established in SFAS 157 which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value. We carry certain corporate loans and loan commitments, loans held-for-sale, structured reverse repurchase agreements, and long-term deposits at fair value in accordance with SFAS 159. We also carry trading account assets and liabilities, derivative assets and liabilities, AFS debt and marketable equity securities, MSRs, and certain other assets at fair value. For more information, see *Note 1 Summary of Significant Accounting Principles* and *Note 19 Fair Value Disclosures* to the Consolidated Financial Statements.

Trading account assets and liabilities are recorded at fair value, which is primarily based on actively traded markets where prices are based on either direct market quotes or observed transactions. Liquidity is a significant factor in the determination of the fair value of trading account assets or liabilities. Market price quotes may not be readily available for some positions, or positions within a market sector where trading activity has slowed significantly or ceased. Situations of illiquidity generally are triggered by the market s perception of credit uncertainty regarding a single company or a specific market sector. In these instances, fair value is determined based on limited available market information and other factors, principally from reviewing the issuer s financial statements and changes in credit ratings made by one or more rating agencies. At December 31, 2007, $4.0 billion, or two percent, of trading account assets were classified as level 3 fair value assets. No trading account liabilities were classified as level 3 liabilities at December 31, 2007.

The fair values of derivative assets and liabilities include adjustments for market liquidity, counterparty credit quality and other deal specific factors, where appropriate. To ensure the prudent application of estimates and management judgment in determining the fair value of derivative assets and liabilities, various processes and controls have been adopted, which include: a model validation policy that requires a review and approval of quantitative models used for deal pricing, financial statement fair value determination and risk quantification; a trading product valuation policy that requires verification of all traded product valuations; and a periodic review and substantiation of daily profit and loss reporting for all traded products. These processes and controls are performed independently of the business.

The fair values of derivative assets and liabilities traded in the over-the-counter market are determined using quantitative models that require the use of multiple market inputs including interest rates, prices and indices to generate continuous yield or pricing curves and volatility factors, which are used to value the position. The predominance of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services. Estimation risk is greater for derivative asset and liability positions that are either option-based or have longer maturity dates where observable market inputs are less readily available or are unobservable, in which case quantitative based extrapolations of rate, price or index scenarios are used in determining fair values. At December 31, 2007, the level 3 fair values of derivative assets and liabilities determined by these quantitative models were $9.0 billion and $10.2 billion. These amounts reflect the full fair value of the derivatives and do not isolate the discrete value associated with the subjective valuation variable. Further, they represent two percent of both derivative assets and liabilities, before the impact of legally enforceable master netting agreements. For 2007, there were no changes to the quantitative models, or uses of such models, that resulted in a material adjustment to the Consolidated Statement of Income.

Trading account profits (losses), which represent the net amount earned from our trading positions, can be volatile and are largely driven by general market conditions and customer demand. Trading account profits (losses) are dependent on the volume and type of transactions, the level of risk assumed, and the volatility of price and rate movements at any given time within the ever-changing market environment. To evaluate risk in our trading activities, we focus on the actual and potential volatility of individual positions as well as portfolios. At a portfolio and corporate level, we use trading limits, stress testing and tools such as VAR modeling, which estimates a potential daily loss which is not expected to be exceeded with a specified confidence level, to measure and manage market risk. At December 31, 2007, the amount of our VAR was $73 million based on a 99 percent confidence level. For more information on VAR, see Trading Risk Management beginning on page 62.

AFS debt and marketable equity securities are recorded at fair value, which is generally based on quoted market prices or market prices for similar assets.

Principal Investing

Principal Investing is included within *Equity Investments* in *All Other* and is discussed in more detail beginning on page 34. Principal Investing is comprised of a diversified portfolio of investments in privately-held and publicly-traded companies at all stages of their life cycle, from start-up to buyout. These investments are made either directly in a company or held through a fund. Some of these companies may need access to additional cash to support their long-term business models. Market conditions and company performance may impact whether funding is available from private investors or the capital markets. For more information, see *Note 1 Summary of Significant Accounting Principles* and *Note 19 Fair Value Disclosures* to the Consolidated Financial Statements.

Investments with active market quotes are carried at estimated fair value; however, the majority of our investments do not have publicly available price quotations and, therefore, the fair value is unobservable. At December 31, 2007, we had nonpublic investments of $3.5 billion, or approximately 86 percent of the total portfolio. Valuation of these investments requires significant management judgment. We value such investments initially at transaction price and adjust valuations when evidence is available to support such adjustments. Such evidence includes transactions in similar instruments, market comparables, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, and changes in financial ratios or cash flows. Investments are adjusted to estimated fair values at the balance sheet date with changes being recorded in equity investment income in the Consolidated Statement of Income.

Accrued Income Taxes

As more fully described in *Note 1 Summary of Significant Accounting Principles* and *Note 18 Income Taxes* to the Consolidated Financial

Statements, we account for income taxes in accordance with SFAS 109 as interpreted by FIN 48. Accrued income taxes, reported as a component of accrued expenses and other liabilities on our Consolidated Balance Sheet, represents the net amount of current income taxes we expect to pay to or receive from various taxing jurisdictions attributable to our operations to date. We currently file income tax returns in more than 100 jurisdictions and consider many factors including statutory, judicial and regulatory guidance in estimating the appropriate accrued income taxes for each jurisdiction.

In applying the principles of SFAS 109, we monitor relevant tax authorities and change our estimate of accrued income taxes due to changes in income tax laws and their interpretation by the courts and regulatory authorities. These revisions of our estimate of accrued income taxes, which also may result from our own income tax planning and from the resolution of income tax controversies, may be material to our operating results for any given period.

Goodwill and Intangible Assets

The nature of and accounting for goodwill and intangible assets is discussed in detail in *Note 1 Summary of Significant Accounting Principles* and *Note 10 Goodwill and Intangible Assets* to the Consolidated Financial Statements. Goodwill is reviewed for potential impairment at the reporting unit level on an annual basis, or in interim periods if events or circumstances indicate a potential impairment. The reporting units utilized for this test were those that are one level below the business segments identified on page 19. The impairment test is performed in two steps. The first step of the goodwill impairment test compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, the second step must be performed. The second step compares the implied fair value of the reporting unit s goodwill, as defined in SFAS 142, with the carrying amount of that goodwill. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value.

For intangible assets subject to amortization, impairment exists when the carrying amount of the intangible asset exceeds its fair value. An impairment loss will be recognized only if the carrying amount of the intangible asset is not recoverable and exceeds its fair value. The carrying amount of the intangible asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from it. An intangible asset subject to amortization shall be tested for recoverability whenever events or changes in circumstances, such as a significant or adverse change in the business climate that could affect the value of the intangible asset, indicate that its carrying amount may not be recoverable. An impairment loss is recorded to the extent the carrying amount of the intangible asset exceeds its fair value.

The fair values of the reporting units were determined using a combination of valuation techniques consistent with the income approach and the market approach and the fair values of the intangible assets were determined using the income approach. For purposes of the income approach, discounted cash flows were calculated by taking the net present value of estimated cash flows using a combination of historical results, estimated future cash flows and an appropriate price to earnings multiple. We use our internal forecasts to estimate future cash flows and actual results may differ from forecasted results. Cash flows were discounted using a discount rate based on expected equity return rates, which was 11 percent for 2007. Expected rates of equity returns were estimated based on historical market returns and risk/return rates for similar industries of the reporting unit. For purposes of the market approach, valuations of reporting units were based on actual comparable market transactions and market earnings multiples for similar industries of the reporting unit.

Our evaluations for 2007 indicated there was no impairment of goodwill or intangible assets.

Consolidation and Accounting for Variable Interest Entities

Under the provisions of FIN 46R, a VIE is consolidated by the entity that will absorb a majority of the variability created by the assets of the VIE. The calculation of variability is based on an analysis of projected probability-weighted cash flows based on the design of the particular VIE. Scenarios in which expected cash flows are less than or greater than the expected outcomes create expected losses or expected residual returns. The entity that will absorb a majority of expected variability (the sum of the absolute values of the expected losses and expected residual returns) consolidates the VIE and is referred to as the primary beneficiary.

A variety of qualitative and quantitative assumptions are used to estimate projected cash flows and the relative probability of each potential outcome, and to determine which parties will absorb expected losses and expected residual returns. Critical assumptions, which may include projected credit losses and interest rates, are independently verified against market observable data where possible. Where market observable data is not available, the results of the analysis become more subjective.

As certain events occur, we re-evaluate which parties will absorb variability and whether we have become or are no longer the primary beneficiary. Reconsideration events may occur when VIEs acquire additional assets, issue new variable interests or enter into new or modified contractual arrangements. A reconsideration event may also occur when we acquire new or additional interests in a VIE.

In the unlikely event we were required to consolidate our unconsolidated VIEs, their consolidation would increase our assets and liabilities and could have an adverse impact on our Tier 1 Capital, Total Capital and Tier 1 Leverage Capital ratios.

For more information, see *Note 9 Variable Interest Entities* to the Consolidated Financial Statements.

2006 Compared to 2005

The following discussion and analysis provides a comparison of our results of operations for 2006 and 2005. This discussion should be read in conjunction with the Consolidated Financial Statements and related Notes. Tables 5 and 6 contain financial data to supplement this discussion.

Overview

Net Income

Net income totaled $21.1 billion, or $4.59 per diluted common share, in 2006 compared to $16.5 billion, or $4.04 per diluted common share, in 2005. The return on average common shareholders equity was 16.27 percent in 2006 compared to 16.51 percent in 2005. These earnings provided sufficient cash flow to allow us to return $21.2 billion and $10.6 billion in 2006 and 2005, in capital to shareholders in the form of dividends and share repurchases, net of employee stock options exercised.

Net Interest Income

Net interest income on a FTE basis increased $4.2 billion to $35.8 billion in 2006 compared to 2005. The primary drivers of the increase were the impact of the MBNA merger (volumes and spreads), consumer and commercial loan growth, and increases in the benefits from ALM activities

including higher portfolio balances (primarily residential mortgages) and the impact of changes in spreads across all product categories. These increases were partially offset by a lower contribution from market-based earning assets and the higher cost associated with higher levels of wholesale funding. The net interest yield on a FTE basis decreased two bps to 2.82 percent in 2006 due primarily to an increase in lower yielding market-based earning assets and loan spreads that continued to tighten due to the flat to inverted yield curve. These decreases were partially offset by widening of spreads on core deposits.

Noninterest Income

Noninterest income increased $11.6 billion to $38.0 billion in 2006, due primarily to increases in card income of $8.5 billion, trading account profits (losses) of $1.4 billion, equity investment income of $977 million, service charges of $520 million and other income of $1.2 billion partially offset by a decrease in gains (losses) on sales of debt securities of $1.5 billion. Card income increased primarily due to the addition of MBNA resulting in higher excess servicing income, cash advance fees, interchange income and late fees. Trading account profits (losses) increased due to a favorable market environment. Equity investment income increased primarily due to favorable market conditions driven by liquidity in the capital markets as well as a gain of $341 million recorded on the liquidation of a strategic European investment. Service charges grew due to increased non-sufficient funds fees and overdraft charges, account service charges, and ATM fees resulting from new account growth and increased account usage. Other income increased due to the $720 million gain on the sale of our Brazilian operations and the $165 million gain on the sale of our Asia commercial banking business. Gains (losses) on sales of debt securities were $(443) million and $1.1 billion in 2006 and 2005. The decrease was primarily due to a loss on the sale of mortgage-backed securities in 2006 compared to gains recorded in 2005.

Provision for Credit Losses

The provision for credit losses increased $996 million to $5.0 billion in 2006 compared to 2005. Provision expense rose due to increases from the addition of MBNA, reduced benefits from releases of commercial reserves and lower commercial recoveries. These increases were partially offset by lower bankruptcy-related credit costs on the domestic consumer credit card portfolio.

Noninterest Expense

Noninterest expense increased $6.9 billion in 2006 from 2005, primarily due to the MBNA merger, increased personnel expense related to higher performance-based compensation and higher marketing expense related to consumer banking initiatives. Amortization of intangibles expense was higher due to increases in purchased credit card relationships, affinity relationships, core deposit intangibles and other intangibles, including trademarks.

Income Tax Expense

Income tax expense was $10.8 billion in 2006 compared to $8.0 billion in 2005, resulting in an effective tax rate of 33.9 percent in 2006 and 32.7 percent in 2005. The increase in the effective tax rate was primarily due to a $175 million charge to income tax expense arising from the change in tax legislation, the one-time benefit recorded during 2005 related to the repatriation of certain foreign earnings and the January 1, 2006 addition of MBNA.

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Business Segment Operations

Global Consumer and Small Business Banking

Net income increased $4.4 billion, or 62 percent, to $11.4 billion in 2006 compared to 2005. Total revenue rose $16.5 billion, or 58 percent, in 2006 compared to 2005, driven by increases in net interest income and noninterest income. The MBNA merger and organic growth in average loans and leases contributed to the $10.6 billion, or 60 percent, increase in net interest income. Increases in card income of $4.9 billion, all other income of $806 million and service charges of $348 million drove the $5.9 billion, or 54 percent, increase in noninterest income. Card income was higher mainly due to increases in interchange income, cash advance fees and late fees due primarily to the impact of the MBNA merger. All other income increased primarily as a result of the MBNA merger. Service charges increased due to new account growth and increased usage. These increases were partially offset by increases in the provision for credit losses and noninterest expense. The provision for credit losses increased $3.8 billion to $8.5 billion in 2006 resulting primarily from an increase in *Card Services* mainly due to the MBNA merger. Noninterest expense increased $5.6 billion, or 44 percent, primarily driven by the addition of MBNA.

Global Corporate and Investment Banking

Net income increased $78 million, or one percent, to $6.0 billion in 2006 compared to 2005. Total revenue increased $1.3 billion, or seven percent, in 2006 driven by increases in noninterest income partially offset by a decrease in net interest income. Net interest income declined $460 million, or four percent, primarily due to the impact of ALM activities and spread compression in the loan portfolio. Noninterest income increased $1.8 billion, or 18 percent, driven by the increase in trading account profits (losses) of $1.2 billion and investment banking income of $585 million mainly due to the continued strength in debt underwriting, sales and trading, and a favorable market environment. These increases were partially offset by an increase in noninterest expense which increased by $1.1 billion, or 11 percent, mainly due to higher personnel expense, including performance-based incentive compensation primarily in *CMAS* and other general operating costs.

Global Wealth and Investment Management

Net income increased $211 million, or 10 percent, to $2.2 billion in 2006 compared to 2005. Total revenue increased $483 million, or seven percent, in 2006. Net interest income increased $117 million, or three percent, due to an increase in deposit spreads and higher average loans and leases, largely offset by a decline in ALM activities and loan spread compression. *GWIM* also benefited from the migration of deposits from *GCSBB*. For 2006 and 2005 a total of $10.7 billion and $16.9 billion of net deposits were migrated from *GCSBB* to *GWIM*. Noninterest income increased $366 million, or 11 percent, mainly due to increases in investment and brokerage services driven by higher levels of AUM. These changes were offset by higher noninterest expense which increased $126 million, or three percent, primarily due to increases in personnel-related expense driven by the addition of sales associates and revenue-related expenses.

All Other

Net income increased $23 million, or two percent, to $1.5 billion in 2006 compared to 2005. Excluding the securitization offset, total revenue rose $441 million to $3.7 billion, primarily driven by increases in net interest income of $1.1 billion, equity investment income of $839 million and all other income of $861 million partially offset by lower gains (losses) on sales of debt securities. The increase in net interest income was mainly due to the negative impact to 2005 results retained in *All Other* relating to funds transfer pricing that was not allocated to the businesses. The increase in equity investment income was due to favorable market conditions driving liquidity in the Principal Investing portfolio combined with a gain recorded on the liquidation of a strategic European investment. The increase in all other income was primarily related to the gain on the sale of our Brazilian operations of $720 million. Gains (losses) on sales of debt securities decreased $1.4 billion to $(475) million resulting from a loss on the sale of mortgage-backed securities compared with gains recorded on the sales of mortgage-backed securities in 2005. Merger and restructuring charges increased $393 million due to the MBNA merger whereas the 2005 charges primarily related to the FleetBoston Financial Corporation merger.

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Statistical Tables

Table I Year-to-date Average Balances and Interest Rates FTE Basis

(Dollars in millions)	2007 Average Balance	2007 Interest Income/ Expense	2007 Yield/ Rate	2006 (1) Average Balance	2006 (1) Interest Income/ Expense	2006 (1) Yield/ Rate	2005 Average Balance	2005 Interest Income/ Expense	2005 Yield/ Rate
Earning assets									
Time deposits placed and other short-term investments	**$ 13,152**	**$ 627**	**4.77%**	$ 15,611	$ 646	4.14%	$ 14,286	$ 472	3.30%
Federal funds sold and securities purchased under agreements to resell	**155,828**	**7,722**	**4.96**	175,334	7,823	4.46	169,132	5,012	2.96
Trading account assets	**187,287**	**9,747**	**5.20**	145,321	7,552	5.20	133,502	5,883	4.41
Debt securities (2)	**186,466**	**10,020**	**5.37**	225,219	11,845	5.26	219,843	11,047	5.03
Loans and leases (3):									
Residential mortgage	**264,650**	**15,112**	**5.71**	207,879	11,608	5.58	173,773	9,424	5.42
Credit card domestic	**57,883**	**7,225**	**12.48**	63,838	8,638	13.53	53,997	6,253	11.58
Credit card foreign	**12,359**	**1,502**	**12.15**	9,141	1,147	12.55			
Home equity (4)	**98,765**	**7,385**	**7.48**	78,318	5,773	7.37	63,852	3,931	6.16
Direct/Indirect consumer (5)	**70,260**	**6,002**	**8.54**	53,371	4,185	7.84	37,472	2,072	5.53
Other consumer (6)	**4,259**	**389**	**9.14**	7,317	788	10.78	6,854	665	9.72
Total consumer	**508,176**	**37,615**	**7.40**	419,864	32,139	7.65	335,948	22,345	6.65
Commercial domestic	**180,102**	**12,884**	**7.15**	151,231	10,897	7.21	128,034	8,266	6.46
Commercial real estate (7)	**42,950**	**3,145**	**7.32**	36,939	2,740	7.42	34,304	2,046	5.97
Commercial lease financing	**20,435**	**1,212**	**5.93**	20,862	995	4.77	20,441	992	4.85
Commercial foreign	**24,491**	**1,452**	**5.93**	23,521	1,674	7.12	18,491	1,292	6.99
Total commercial	**267,978**	**18,693**	**6.98**	232,553	16,306	7.01	201,270	12,596	6.26
Total loans and leases	**776,154**	**56,308**	**7.25**	652,417	48,445	7.43	537,218	34,941	6.50
Other earning assets	**71,305**	**4,629**	**6.49**	55,242	3,498	6.33	38,013	2,103	5.53
Total earning assets (8)	**1,390,192**	**89,053**	**6.41**	1,269,144	79,809	6.29	1,111,994	59,458	5.35
Cash and cash equivalents	**33,091**			34,052			33,199		
Other assets, less allowance for loan and lease losses	**178,790**			163,485			124,699		
Total assets	**$ 1,602,073**			$ 1,466,681			$ 1,269,892		
Interest-bearing liabilities									
Domestic interest-bearing deposits:									
Savings	**$ 32,316**	**$ 188**	**0.58%**	$ 34,608	$ 269	0.78%	$ 36,602	$ 211	0.58%
NOW and money market deposit accounts	**220,207**	**4,361**	**1.98**	218,077	3,923	1.80	227,722	2,839	1.25
Consumer CDs and IRAs	**167,801**	**7,817**	**4.66**	144,738	6,022	4.16	124,385	4,091	3.29
Negotiable CDs, public funds and other time deposits	**20,557**	**974**	**4.74**	12,195	483	3.97	6,865	250	3.65
Total domestic interest-bearing deposits	**440,881**	**13,340**	**3.03**	409,618	10,697	2.61	395,574	7,391	1.87
Foreign interest-bearing deposits:									
Banks located in foreign countries	**42,788**	**2,174**	**5.08**	34,985	1,982	5.67	22,945	1,202	5.24
Governments and official institutions	**16,523**	**812**	**4.91**	12,674	586	4.63	7,418	238	3.21
Time, savings and other	**43,443**	**1,767**	**4.07**	38,544	1,215	3.15	31,603	661	2.09
Total foreign interest-bearing deposits	**102,754**	**4,753**	**4.63**	86,203	3,783	4.39	61,966	2,101	3.39
Total interest-bearing deposits	**543,635**	**18,093**	**3.33**	495,821	14,480	2.92	457,540	9,492	2.08
Federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings	**424,814**	**21,975**	**5.17**	411,132	19,840	4.83	326,408	11,615	3.56
Trading account liabilities	**82,721**	**3,444**	**4.16**	64,689	2,640	4.08	57,689	2,364	4.10
Long-term debt	**169,855**	**9,359**	**5.51**	130,124	7,034	5.41	97,709	4,418	4.52
Total interest-bearing liabilities (8)	**1,221,025**	**52,871**	**4.33**	1,101,766	43,994	3.99	939,346	27,889	2.97
Noninterest-bearing sources:									

Noninterest-bearing deposits	**173,547**			177,174			174,892		
Other liabilities	**70,839**			57,278			55,793		
Shareholders equity	**136,662**			130,463			99,861		
Total liabilities and shareholders equity	**$ 1,602,073**			$ 1,466,681			$ 1,269,892		
Net interest spread			**2.08%**			2.30%			2.38%
Impact of noninterest-bearing sources			**0.52**			0.52			0.46
Net interest income/yield on earning assets		**$ 36,182**	**2.60%**		$ 35,815	2.82%		$ 31,569	2.84%

(1) Interest income (FTE basis) in 2006 does not include the cumulative tax charge resulting from a change in tax legislation relating to extraterritorial tax income and foreign sales corporation regimes. The FTE impact to net interest income and net interest yield on earning assets of this retroactive tax adjustment was a reduction of $270 million and 2 bps, respectively, in 2006. Management has excluded this one-time impact to provide a more comparative basis of presentation for net interest income and net interest yield on earning assets on a FTE basis. The impact on any given future period is not expected to be material.

(2) Yields on AFS debt securities are calculated based on fair value rather than historical cost balances. The use of fair value does not have a material impact on net interest yield.

(3) Nonperforming loans are included in the respective average loan balances. Income on these nonperforming loans is recognized on a cash basis.

(4) Includes home equity loans of $16.7 billion, $9.7 billion and $7.6 billion in 2007, 2006 and 2005, respectively.

(5) Includes foreign consumer loans of $3.8 billion, $3.4 billion, and $53 million in 2007, 2006 and 2005, respectively.

(6) Includes consumer finance loans of $3.2 billion, $2.9 billion, $3.1 billion in 2007, 2006 and 2005, respectively; and other foreign consumer loans of $1.1 billion, $4.4 billion and $3.5 billion in 2007, 2006 and 2005, respectively.

(7) Includes domestic commercial real estate loans of $42.1 billion, $36.2 billion and $33.8 billion in 2007, 2006 and 2005, respectively.

(8) Interest income includes the impact of interest rate risk management contracts, which increased (decreased) interest income on the underlying assets $(542) million, $(372) million and $704 million in 2007, 2006 and 2005, respectively. Interest expense includes the impact of interest rate risk management contracts, which increased interest expense on the underlying liabilities $813 million, $106 million and $1.3 billion in 2007, 2006 and 2005, respectively. For further information on interest rate contracts, see Interest Rate Risk Management for Nontrading Activities beginning on page 65.

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Table II Analysis of Changes in Net Interest Income FTE Basis

	From 2006 to 2007			From 2005 to 2006		
	Due to Change in [1]		**Net**	Due to Change in [1]		Net
(Dollars in millions)	**Volume**	**Rate**	**Change**	Volume	Rate	Change
Increase (decrease) in interest income						
Time deposits placed and other short-term investments	**$ (102)**	**$ 83**	**$ (19)**	$ 43	$ 131	$ 174
Federal funds sold and securities purchased under agreements to resell	**(873)**	**772**	**(101)**	178	2,633	2,811
Trading account assets	**2,187**	**8**	**2,195**	526	1,143	1,669
Debt securities	**(2,037)**	**212**				