

BANK OF AMERICA CORP /DE/
Form 10-Q
November 06, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2008

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

For the transition period from to

Commission file number:

1-6523

Exact Name of Registrant as Specified in its Charter:

Bank of America Corporation

State or Other Jurisdiction of Incorporation or Organization:

Delaware

IRS Employer Identification Number:

56-0906609

Address of Principal Executive Offices:

Bank of America Corporate Center

100 N. Tryon Street

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Charlotte, North Carolina 28255

Registrant's telephone number, including area code:

(704) 386-5681

Former name, former address and former fiscal year, if changed since last report:

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant 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 Accelerated filer Non-accelerated filer Smaller reporting company
(do not check if a smaller reporting company)

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

Yes No

On October 31, 2008, there were 5,017,579,321 shares of Bank of America Corporation Common Stock outstanding.

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Consolidated Statement of Income**

(Dollars in millions, except per share information)	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Interest income				
Interest and fees on loans and leases	\$ 14,261	\$ 14,111	\$ 41,797	\$ 40,318
Interest on debt securities	3,621	2,334	9,295	7,046
Federal funds sold and securities purchased under agreements to resell	912	1,839	2,920	5,974
Trading account assets	2,344	2,519	6,937	7,059
Other interest income	1,058	1,230	3,133	3,428
Total interest income	22,196	22,033	64,082	63,825
Interest expense				
Deposits	3,846	4,545	11,954	12,840
Short-term borrowings	3,223	5,519	10,452	16,369
Trading account liabilities	661	906	2,250	2,619
Long-term debt	2,824	2,446	7,172	6,721
Total interest expense	10,554	13,416	31,828	38,549
Net interest income	11,642	8,617	32,254	25,276
Noninterest income				
Card income	3,122	3,595	10,212	10,486
Service charges	2,722	2,221	7,757	6,493
Investment and brokerage services	1,238	1,378	3,900	3,720
Investment banking income	474	389	1,645	1,801
Equity investment income (loss)	(316)	904	1,330	3,747
Trading account profits (losses)	(384)	(1,388)	(1,810)	491
Mortgage banking income	1,674	155	2,564	516
Insurance premiums	678	235	1,092	548
Gains on sales of debt securities	10	7	362	71
Other income (loss)	(1,239)	(16)	(2,204)	880
Total noninterest income	7,979	7,480	24,848	28,753
Total revenue, net of interest expense	19,621	16,097	57,102	54,029
Provision for credit losses	6,450	2,030	18,290	5,075
Noninterest expense				
Personnel	5,198	4,169	14,344	13,931
Occupancy	926	754	2,623	2,211
Equipment	440	336	1,208	1,018
Marketing	605	552	1,813	1,644
Professional fees	424	258	1,071	770
Amortization of intangibles	464	429	1,357	1,209
Data processing	755	463	1,905	1,372
Telecommunications	288	255	814	750
Other general operating	2,313	1,411	4,818	3,940
Merger and restructuring charges	247	84	629	270
Total noninterest expense	11,660	8,711	30,582	27,115
Income before income taxes	1,511	5,356	8,230	21,839
Income tax expense	334	1,658	2,433	7,125
Net income	\$ 1,177	\$ 3,698	\$ 5,797	\$ 14,714
Preferred stock dividends	473	43	849	129

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Net income available to common shareholders	\$ 704	\$ 3,655	\$ 4,948	\$ 14,585
Per common share information				
Earnings	\$ 0.15	\$ 0.83	\$ 1.11	\$ 3.30
Diluted earnings	0.15	0.82	1.10	3.25
Dividends paid	0.64	0.64	1.92	1.76
Average common shares issued and outstanding (in thousands)	4,543,963	4,420,616	4,469,517	4,424,269
Average diluted common shares issued and outstanding (in thousands)	4,563,508	4,475,917	4,493,506	4,483,465

See accompanying Notes to Consolidated Financial Statements.

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Bank of America Corporation and Subsidiaries		
Consolidated Balance Sheet		
	September 30 2008	December 31 2007
(Dollars in millions)		
Assets		
Cash and cash equivalents	\$ 39,341	\$ 42,531
Time deposits placed and other short-term investments	11,709	11,773
Federal funds sold and securities purchased under agreements to resell (includes \$2,636 and \$2,578 measured at fair value, and \$86,722 and \$128,887 pledged as collateral)	87,038	129,552
Trading account assets (includes \$134,775 and \$88,745 pledged as collateral)	174,859	162,064
Derivative assets	45,792	34,662
Debt securities:		
Available-for-sale (includes \$120,113 and \$107,440 pledged as collateral)	257,427	213,330
Held-to-maturity, at cost (fair value - \$1,250 and \$726)	1,250	726
Total debt securities	258,677	214,056
Loans and leases (includes \$5,383 and \$4,590 measured at fair value and \$167,728 and \$115,285 pledged as collateral)	942,676	876,344
Allowance for loan and lease losses	(20,346)	(11,588)
Loans and leases, net of allowance	922,330	864,756
Premises and equipment, net	13,000	11,240
Mortgage servicing rights (includes \$20,811 and \$3,053 measured at fair value)	21,131	3,347
Goodwill	81,756	77,530
Intangible assets	9,167	10,296
Loans held-for-sale (includes \$15,610 and \$15,765 measured at fair value)	27,414	34,424
Other assets (includes \$26,499 and \$25,323 measured at fair value)	138,963	119,515
Total assets	\$ 1,831,177	\$ 1,715,746
Liabilities		
Deposits in domestic offices:		
Noninterest-bearing	\$ 201,025	\$ 188,466
Interest-bearing (includes \$1,737 and \$2,000 measured at fair value)	577,503	501,882
Deposits in foreign offices:		
Noninterest-bearing	3,524	3,761
Interest-bearing	91,999	111,068
Total deposits	874,051	805,177
Federal funds purchased and securities sold under agreements to repurchase	225,729	221,435
Trading account liabilities	68,229	77,342
Derivative liabilities	26,466	22,423
Commercial paper and other short-term borrowings	145,812	191,089
Accrued expenses and other liabilities (includes \$1,854 and \$660 measured at fair value and \$427 and \$518 of reserve for unfunded lending commitments)	72,141	53,969
Long-term debt	257,710	197,508
Total liabilities	1,670,138	1,568,943
Commitments and contingencies (Note 9 Variable Interest Entities and Note 12 Commitments and Contingencies)		
Shareholders equity		
Preferred stock, \$0.01 par value; authorized 100,000,000 shares; issued and outstanding 185,067 shares	7,602,067	4,409
Common stock and additional paid-in capital, \$0.01 par value; authorized 7,500,000,000 shares; issued and outstanding 4,562,054,554 and 4,437,885,419 shares	24,151	60,328
Retained earnings	65,361	81,393
Accumulated other comprehensive income (loss)	77,695	1,129
Other	(5,647)	(456)
Total shareholders equity	161,039	146,803
Total liabilities and shareholders equity	\$ 1,831,177	\$ 1,715,746

See accompanying Notes to Consolidated Financial Statements.

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Bank of America Corporation and Subsidiaries								
Consolidated Statement of Changes in Shareholders' Equity								
	Common Stock and			Accumulated				
	Preferred Stock	Additional Paid-in		Retained Earnings	Other		Equity	Comprehensive Income
		Shares	Amount		Comprehensive	Shareholders'		
(Dollars in millions, shares in thousands)					Income (Loss) ⁽¹⁾	Other	Income	
Balance, December 31, 2006	\$ 2,851	4,458,151	\$ 61,574	\$ 79,024	\$ (7,711)	\$ (466)	\$ 135,272	
Cumulative adjustment for accounting changes ⁽²⁾ :								
Leveraged leases				(1,381)			(1,381)	
Fair value option and measurement				(208)			(208)	
Income tax uncertainties				(146)			(146)	
Net income				14,714			14,714	\$ 14,714
Net changes in available-for-sale debt and marketable equity securities						(1,130)	(1,130)	(1,130)
Net changes in foreign currency translation adjustments						156	156	156
Net changes in derivatives						(22)	(22)	(22)
Employee benefit plan adjustments						92	92	92
Cash dividends paid:								
Common				(7,847)			(7,847)	
Preferred				(129)			(129)	
Issuance of preferred stock	550						550	
Common stock issued under employee plans and related tax benefits		49,734	2,366			(113)	2,253	
Common stock repurchased		(71,030)	(3,664)				(3,664)	
Balance, September 30, 2007	\$ 3,401	4,436,855	\$ 60,276	\$ 84,027	\$ (8,615)	\$ (579)	\$ 138,510	\$ 13,810
Balance, December 31, 2007	\$ 4,409	4,437,885	\$ 60,328	\$ 81,393	\$ 1,129	\$ (456)	\$ 146,803	
Net income				5,797			5,797	\$ 5,797
Net changes in available-for-sale debt and marketable equity securities						(7,054)	(7,054)	(7,054)
Net changes in foreign currency translation adjustments						(242)	(242)	(242)
Net changes in derivatives						485	485	485
Employee benefit plan adjustments						35	35	35
Cash dividends paid:								
Common				(8,646)			(8,646)	
Preferred				(849)			(849)	
Issuance of preferred stock	19,742						19,742	
Stock issued in acquisition ⁽³⁾		106,776	4,201				4,201	
Common stock issued under employee plans and related tax benefits		17,394	832			(65)	767	
Balance, September 30, 2008	\$ 24,151	4,562,055	\$ 65,361	\$ 77,695	\$ (5,647)	\$ (521)	\$ 161,039	\$ (979)

⁽¹⁾ Amounts shown are net-of-tax. For additional information on accumulated OCI, see *Note 13 Shareholders' Equity and Earnings Per Common Share* to the Consolidated Financial Statements.

⁽²⁾ Effective January 1, 2007, the Corporation adopted FSP 13-2, SFAS 157, SFAS 159 and FIN 48. For additional information on the adoption of these accounting pronouncements, see *Note 1 Summary of Significant Accounting Principles* to the Consolidated Financial Statements of the Corporation's 2007 Annual Report on Form 10-K.

⁽³⁾ Includes adjustments for the fair value of certain Countrywide stock-based compensation awards of 507 thousand shares and \$86 million. See accompanying Notes to Consolidated Financial Statements.

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Consolidated Statement of Cash Flows**

(Dollars in millions)	Nine Months Ended September 30	
	2008	2007
Operating activities		
Net income	\$ 5,797	\$ 14,714
Reconciliation of net income to net cash provided by (used in) operating activities:		
Provision for credit losses	18,290	5,075
Gains on sales of debt securities	(362)	(71)
Depreciation and premises improvements amortization	1,074	836
Amortization of intangibles	1,357	1,209
Deferred income tax benefit	(1,429)	(213)
Net increase in trading and derivative instruments	(13,615)	(14,252)
Net (increase) decrease in other assets	6,422	(19,157)
Net increase in accrued expenses and other liabilities	13,639	7,238
Other operating activities, net	103	3,429
Net cash provided by (used in) operating activities	31,276	(1,192)
Investing activities		
Net decrease in time deposits placed and other short-term investments	64	5,135
Net decrease in federal funds sold and securities purchased under agreements to resell	49,163	148
Proceeds from sales of available-for-sale debt securities	69,218	10,956
Proceeds from paydowns and maturities of available-for-sale debt securities	18,825	15,231
Purchases of available-for-sale debt securities	(109,219)	(7,217)
Proceeds from maturities of held-to-maturity debt securities	176	547
Purchases of held-to-maturity debt securities	(840)	(116)
Proceeds from sales of loans and leases	42,209	45,058
Other changes in loans and leases, net	(62,464)	(138,371)
Net purchases of premises and equipment	(1,526)	(1,318)
Proceeds from sales of foreclosed properties	506	60
(Acquisition) divestiture of business activities, net	6,650	(3,694)
Other investing activities, net	(214)	2,078
Net cash provided by (used in) investing activities	12,548	(71,503)
Financing activities		
Net increase in deposits	5,884	2,318
Net decrease in federal funds purchased and securities sold under agreements to repurchase	(15,398)	(18,809)
Net increase (decrease) in commercial paper and other short-term borrowings	(45,277)	59,928
Proceeds from issuance of long-term debt	24,038	60,580
Retirement of long-term debt	(26,559)	(23,018)
Proceeds from issuance of preferred stock	19,742	550
Proceeds from issuance of common stock	229	1,022
Common stock repurchased	-	(3,664)
Cash dividends paid	(9,495)	(7,976)
Excess tax benefits of share-based payments	34	233
Other financing activities, net	(85)	(52)
Net cash provided by (used in) financing activities	(46,887)	71,112
Effect of exchange rate changes on cash and cash equivalents	(127)	110
Net decrease in cash and cash equivalents	(3,190)	(1,473)
Cash and cash equivalents at January 1	42,531	36,429
Cash and cash equivalents at September 30	\$ 39,341	\$ 34,956

During the nine months ended September 30, 2008, the Corporation reclassified \$12.6 billion of AFS debt securities to trading account assets in connection with the Countrywide acquisition.

The Corporation securitized \$23.4 billion of residential mortgage loans into mortgage-backed securities and \$4.9 billion of automobile loans into asset-backed securities which were retained by the Corporation during the nine months ended September 30, 2008.

The fair values of noncash assets acquired and liabilities assumed in the Countrywide acquisition were \$157.6 billion and \$158.0 billion.

Approximately 107 million shares of common stock, valued at approximately \$4.2 billion were issued in connection with the Countrywide acquisition.

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During the nine months ended September 30, 2007, the Corporation sold its operations in Chile and Uruguay for approximately \$750 million in equity in Banco Itaú Holding Financeira S.A., and its assets in BankBoston Argentina for the assumption of its liabilities. The total assets and liabilities in these divestitures were \$6.1 billion and \$5.6 billion.

On January 1, 2007, the Corporation transferred \$3.7 billion of AFS debt securities to trading account assets following the adoption of SFAS 159.

See accompanying Notes to Consolidated Financial Statements.

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Notes to Consolidated Financial Statements**

On July 1, 2008, Bank of America Corporation and its subsidiaries (the Corporation) acquired Countrywide Financial Corporation (Countrywide) through its merger with a subsidiary of the Corporation in exchange for stock with a value of \$4.2 billion. For more information related to our Countrywide acquisition, see *Note 2 Merger and Restructuring Activity* to the Consolidated Financial Statements. On October 1, 2007, the Corporation acquired all the outstanding shares of ABN AMRO North America Holding Company, parent of LaSalle Bank Corporation (LaSalle), for \$21.0 billion in cash. On July 1, 2007, the Corporation acquired all the outstanding shares of U.S. Trust Corporation for \$3.3 billion in cash. These mergers were accounted for under the purchase method of accounting. Consequently, Countrywide's, LaSalle's and U.S. Trust Corporation's results of operations were included in the Corporation's results from their dates of acquisition.

The Corporation, through its banking and nonbanking subsidiaries, provides a diverse range of financial services and products throughout the U.S. and in selected international markets. At September 30, 2008, the Corporation operated its banking activities primarily under four charters: Bank of America, National Association (Bank of America, N.A.), FIA Card Services, N.A., LaSalle Bank, N.A. and Countrywide Bank, FSB. Effective October 17, 2008, LaSalle Bank, N.A. merged with and into Bank of America, N.A., with Bank of America, N.A. as the surviving entity.

NOTE 1 Summary of Significant Accounting Principles***Principles of Consolidation and Basis of Presentation***

The Consolidated Financial Statements include the accounts of the Corporation and its majority-owned subsidiaries, and those variable interest entities (VIEs) where the Corporation is the primary beneficiary. All significant intercompany accounts and transactions have been eliminated. Results of operations of companies purchased are included from the dates of acquisition and for VIEs, from the dates that the Corporation became the primary beneficiary. Assets held in an agency or fiduciary capacity are not included in the Consolidated Financial Statements. The Corporation accounts for investments in companies for which it owns a voting interest of 20 percent to 50 percent and for which it has the ability to exercise significant influence over operating and financing decisions using the equity method of accounting. These investments are included in other assets and the Corporation's proportionate share of income or loss is included in equity investment income.

The information contained in the Consolidated Financial Statements is unaudited. In the opinion of management, normal recurring adjustments necessary for a fair statement of the interim period results have been made.

Certain prior period amounts have been reclassified to conform to current period presentation.

Recently Proposed and Issued Accounting Pronouncements

On October 10, 2008 the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* (FSP 157-3). FSP 157-3 clarifies how Statement of Financial Accounting Standards (SFAS) No. 157 *Fair Value Measurements* (SFAS 157) should be applied when valuing securities in markets that are not active. The adoption of FSP 157-3, effective September 30, 2008, did not impact the Corporation's financial condition and results of operations.

On September 15, 2008 the FASB released exposure drafts which would amend SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* a replacement of FASB Statement No. 125 (SFAS 140), and FASB Interpretation (FIN) No. 46 (revised December 2003) *Consolidation of Variable Interest Entities* an interpretation of ARB No. 51 (FIN 46R). As written, the proposed amendments would, among other things, eliminate the concept of a qualifying special purpose entity (QSPE) and change the standards for consolidation of variable interest entities (VIEs). The changes would be effective for both existing and newly-created entities as of January 1, 2010. If adopted as written, the amendments would likely result in the consolidation of certain QSPEs and VIEs that are not

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currently recorded on the Consolidated Balance Sheet of the Corporation. However, the impact on the Corporation cannot be determined with any degree of certainty until the FASB issues the final amendments to SFAS 140 and FIN 46R.

On September 12, 2008, the FASB issued FSP No. 133-1 and FIN 45-4, Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161 (FSP 133-1). FSP 133-1 requires expanded disclosures about credit derivatives and guarantees. The expanded disclosure requirements for FSP 133-1 are effective for the Corporation's financial statements for the year ending December 31, 2008 and earlier adoption is not permitted. The adoption of FSP 133-1 will not impact the Corporation's financial condition and results of operations.

On June 16, 2008, the FASB issued FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (FSP 03-6-1). FSP 03-6-1 defines unvested share-based payment awards that contain nonforfeitable rights to dividends as participating securities that should be included in computing earnings per share (EPS) using the two-class method under SFAS No. 128, Earnings per Share. FSP 03-6-1 is effective for the Corporation's financial statements for the year beginning on January 1, 2009 and earlier adoption is not permitted. Additionally, all prior-period EPS data shall be adjusted retrospectively. The adoption of FSP 03-6-1 is not expected to have a material impact on the Corporation's financial condition and results of operations.

On March 19, 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161) which requires expanded qualitative, quantitative and credit-risk disclosures about derivatives and hedging activities and their effects on the Corporation's financial position, financial performance and cash flows. SFAS 161 is effective for the Corporation's financial statements for the year beginning on January 1, 2009. The adoption of SFAS 161 will not impact the Corporation's financial condition and results of operations.

On February 20, 2008, the FASB issued FSP No. FAS 140-3, Accounting for Transfers of Financial Assets and Repurchase Financing Transactions (FSP 140-3). FSP 140-3 requires that an initial transfer of a financial asset and a repurchase financing that was entered into contemporaneously with, or in contemplation of, the initial transfer be evaluated together as a linked transaction under SFAS 140, unless certain criteria are met. FSP 140-3 is effective for the Corporation's financial statements for the year beginning on January 1, 2009 and earlier adoption is not permitted. The adoption of FSP 140-3 will not have a material impact on the Corporation's financial condition and results of operations.

On December 4, 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141R). SFAS 141R modifies the accounting for business combinations and requires, with limited exceptions, the acquirer in a business combination to recognize 100 percent of the assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition-date fair value. In addition, SFAS 141R requires the expensing of acquisition-related transaction and restructuring costs, and certain contingent assets and liabilities acquired, as well as contingent consideration, to be recognized at fair value. SFAS 141R also modifies the accounting for certain acquired income tax assets and liabilities. SFAS 141R is effective for new acquisitions consummated on or after January 1, 2009 and earlier adoption is not permitted.

On December 4, 2007, the FASB also issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS 160). SFAS 160 requires all entities to report noncontrolling (i.e., minority) interests in subsidiaries as equity in the Consolidated Financial Statements and to account for transactions between an entity and noncontrolling owners as equity transactions if the parent retains its controlling financial interest in the subsidiary. SFAS 160 also requires expanded disclosure that distinguishes between the interests of the controlling owners and the interests of the noncontrolling owners of a subsidiary. SFAS 160 is effective for the Corporation's financial statements for the year beginning on January 1, 2009 and earlier adoption is not permitted. Management is currently evaluating the impact of the adoption of SFAS 160 on the Corporation's financial condition. The adoption of SFAS 160 will not have any impact on the Corporation's results of operations.

On January 1, 2008, the Corporation adopted the Securities and Exchange Commission's (SEC) Staff Accounting Bulletin (SAB) No. 109, Written Loan Commitments Recorded at Fair Value Through Earnings (SAB 109) for loan commitments measured at fair value through earnings which were issued or modified since adoption on a prospective basis. SAB 109 requires that the expected net future cash flows related to servicing of a loan be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. The adoption of SAB 109 generally has resulted in higher fair values being recorded upon initial recognition of derivative interest rate lock commitments.

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On January 1, 2008, the Corporation adopted Emerging Issues Task Force (EITF) consensus on Issue No. 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards (EITF 06-11) effective January 1, 2008. EITF 06-11 requires on a prospective basis that the tax benefit related to dividend equivalents paid on restricted stock and restricted stock units which are expected to vest be recorded as an increase to additional paid-in capital. The adoption of EITF 06-11 did not have a material impact on the Corporation's financial condition and results of operations.

NOTE 2 Merger and Restructuring Activity

Merrill Lynch

In September 2008, the Corporation announced an agreement to acquire Merrill Lynch & Co., Inc. (Merrill Lynch) in an all-stock transaction. The transaction has been approved by the board of directors of each company. Merrill Lynch common shareholders would receive 0.8595 of a share of Bank of America Corporation common stock in exchange for one share of Merrill Lynch common stock. In addition, Merrill Lynch non-convertible preferred shareholders would receive Bank of America Corporation preferred stock having substantially identical terms. Merrill Lynch convertible preferred stock will remain outstanding and will thereafter be convertible into Bank of America common stock at an equivalent exchange ratio. The acquisition would add Merrill Lynch's more than 16,000 financial advisors and its interest in BlackRock, Inc., a publicly traded investment management company. In addition, the acquisition is expected to increase the Corporation's underwriting capabilities for debt and equity offerings, as well as its ability to advise on global mergers and acquisitions. The completion of this transaction is subject to closing conditions, and shareholder and regulatory approvals, and is expected to close on or around December 31, 2008.

Countrywide

On July 1, 2008, the Corporation acquired Countrywide through its merger with a subsidiary of the Corporation. Under the terms of the agreement, Countrywide shareholders received 0.1822 of a share of Bank of America Corporation common stock in exchange for one share of Countrywide common stock. The acquisition of Countrywide significantly improved the Corporation's mortgage originating and servicing capabilities, while making us a leading mortgage originator and servicer.

As provided by the merger agreement, 583 million shares of Countrywide common stock were exchanged for 107 million shares of the Corporation's common stock. This represents approximately two percent of the Corporation's outstanding common stock at the date of acquisition. Countrywide shareholders also received cash of \$346 thousand in place of any fractional shares of the Corporation's common stock that would have otherwise been issued on July 1, 2008. The \$2.0 billion of Countrywide's Series B convertible preferred shares that were previously held by the Corporation were cancelled.

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The merger is being accounted for as a purchase in accordance with SFAS 141. Accordingly, the purchase price was preliminarily allocated to the acquired assets and liabilities based on their estimated fair values at the merger date as summarized below. The final allocation of the purchase price will be finalized upon completing the analysis of the fair values of Countrywide's assets and liabilities.

Countrywide Preliminary Purchase Price Allocation

(Dollars in billions)	
Purchase price ⁽¹⁾	\$ 4.2
Preliminary allocation of the purchase price	
Countrywide stockholders' equity ⁽²⁾	8.4
Pre-tax adjustments to reflect acquired assets and liabilities at fair value:	
Loans ⁽³⁾	(9.3)
Investments in other financial instruments	(0.3)
Mortgage servicing rights	(1.5)
Other assets	(0.7)
Deposits	(0.2)
Notes payable and other liabilities	(1.0)
Pre-tax total adjustments	(13.0)
Deferred income taxes	4.7
After-tax total adjustments	(8.3)
Fair value of net assets acquired	0.1
Preliminary goodwill resulting from the Countrywide merger ⁽⁴⁾	\$ 4.1

⁽¹⁾ The value of the shares of common stock exchanged with Countrywide shareholders was based upon the average of the closing prices of the Corporation's common stock for the period commencing two trading days before, and ending two trading days after January 11, 2008, the date of the Countrywide merger agreement.

⁽²⁾ Represents the remaining Countrywide shareholders' equity as of the acquisition date after the cancellation of the \$2.0 billion of Series B convertible preferred shares owned by the Corporation, as part of the merger.

⁽³⁾ Represents the loan portfolio credit adjustment of \$14.3 billion less the allowance for loan and lease losses of \$5.0 billion at the acquisition date and other miscellaneous adjustments.

⁽⁴⁾ No goodwill is expected to be deductible for federal income tax purposes. All the goodwill was allocated to *Global Consumer and Small Business Banking*.

LaSalle

On October 1, 2007, the Corporation acquired all the outstanding shares of LaSalle, for \$21.0 billion in cash. As part of the acquisition, ABN AMRO Bank N.V. (the seller) capitalized approximately \$6.3 billion as equity of intercompany debt prior to the date of acquisition. With this acquisition, the Corporation significantly expanded its presence in metropolitan Chicago, Illinois and Michigan by adding LaSalle's commercial banking clients, retail customers and banking centers. LaSalle's results of operations were included in the Corporation's results beginning October 1, 2007.

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The LaSalle acquisition was accounted for under the purchase method of accounting in accordance with SFAS 141. The purchase price has been allocated to the assets acquired and the liabilities assumed based on their fair values at the LaSalle acquisition date as summarized in the following table.

LaSalle Purchase Price Allocation

(Dollars in billions)

Purchase price	\$ 21.0
Allocation of the purchase price	
LaSalle stockholders' equity	12.5
LaSalle goodwill and other intangible assets	(2.7)
Adjustments to reflect assets acquired and liabilities assumed at fair value:	
Loans and leases	(0.1)
Premises and equipment	(0.2)
Identified intangibles ⁽¹⁾	1.0
Other assets	(0.3)
Exit and termination liabilities	(0.4)
Fair value of net assets acquired	9.8
Goodwill resulting from the LaSalle merger ⁽²⁾	\$ 11.2

⁽¹⁾ Includes core deposit intangibles of \$0.7 billion, and other intangibles of \$0.3 billion. The amortization life for core deposit intangibles and other intangibles is 10 years. These intangibles are amortized on an accelerated basis.

⁽²⁾ No goodwill is deductible for federal income tax purposes. The goodwill has been allocated across all of the Corporation's business segments.

U.S. Trust

On July 1, 2007, the Corporation acquired all the outstanding shares of U.S. Trust Corporation for \$3.3 billion in cash. The Corporation allocated \$1.7 billion to goodwill and \$1.2 billion to intangible assets as part of the purchase price allocation. U.S. Trust Corporation's results of operations were included in the Corporation's results beginning July 1, 2007. The acquisition significantly increased the size and capabilities of the Corporation's wealth management business and positions it as one of the largest financial services companies managing private wealth in the U.S.

MBNA

On January 1, 2006, the Corporation acquired 100 percent of the outstanding stock of MBNA Corporation (MBNA) and as a result, 1,260 million shares of MBNA common stock were exchanged for 631 million shares of the Corporation's common stock. MBNA shareholders also received cash of \$5.2 billion. MBNA's results of operations were included in the Corporation's results beginning January 1, 2006.

Table of Contents**Merger and Restructuring Charges**

Merger and restructuring charges are recorded in the Consolidated Statement of Income and include incremental costs to integrate the operations of the Corporation and those of acquired entities. These charges represent costs associated with these one-time activities and do not represent ongoing costs of the fully integrated combined organization. The following table presents severance and employee-related charges, systems integrations and related charges, and other merger-related charges for the three and nine months ended September 30, 2008 and 2007.

(Dollars in millions)	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Severance and employee-related charges	\$ 15	\$ 21	\$ 90	\$ 39
Systems integrations and related charges	186	47	431	183
Other	46	16	108	48
Total merger and restructuring charges ⁽¹⁾	\$ 247	\$ 84	\$ 629	\$ 270

⁽¹⁾ Included for the three and nine months ended September 30, 2008, are merger-related charges of \$72 million for both periods related to the Countrywide merger, \$159 million and \$462 million related to the LaSalle merger and \$16 million and \$95 million related to the U.S. Trust Corporation merger.

Merger-related Exit Cost and Restructuring Reserves

The following table presents the changes in exit cost and restructuring reserves for the three and nine months ended September 30, 2008 and 2007.

(Dollars in millions)	Exit Cost Reserves ⁽¹⁾		Restructuring Reserves ⁽²⁾	
	2008	2007	2008	2007
Balance, January 1	\$ 377	\$ 125	\$ 108	\$ 67
Exit cost and restructuring charges:				
LaSalle	87	-	46	-
U.S. Trust Corporation	-	-	26	-
MBNA	(2)	-	-	16
Cash payments	(112)	(45)	(67)	(47)
Balance, June 30	350	80	113	36
Exit cost and restructuring charges:				
Countrywide	588	-	32	-
LaSalle	(56)	-	(22)	-
U.S. Trust Corporation	-	35	5	19
MBNA	(4)	-	(3)	2
Cash payments	(203)	(12)	(50)	(7)
Balance, September 30	\$ 675	\$ 103	\$ 75	\$ 50

⁽¹⁾ Exit cost reserves were established in purchase accounting resulting in an increase in goodwill.

⁽²⁾ Restructuring reserves were established by a charge to merger and restructuring charges.

As of December 31, 2007, there were \$377 million of exit cost reserves related to the MBNA, U.S. Trust Corporation and LaSalle mergers, including \$187 million for severance, relocation and other employee-related costs and \$190 million for contract terminations. During the three months ended September 30, 2008, \$528 million was added to the exit cost reserves primarily related to the Countrywide acquisition, including \$453 million for severance, relocation and other employee-related costs and \$75 million for contract terminations. The \$528 million included \$56 million in exit cost reserve adjustments related to the LaSalle acquisition primarily due to lower than expected lease terminations with the offset being recorded as a reduction to goodwill. Cash payments of \$203 million during the three months ended September 30, 2008 consisted of

\$160 million in severance, relocation and other employee-related costs and \$43 million for contract

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terminations. During the nine months ended September 30, 2008, a net amount of \$613 million was added to the exit cost reserves related to the Countrywide, LaSalle and MBNA mergers, including \$538 million for severance, relocation and other employee-related costs and \$75 million for contract terminations. Cash payments of \$315 million during the nine months ended September 30, 2008 consisted of \$260 million in severance, relocation and other employee-related costs and \$55 million for contract terminations. As of September 30, 2008, exit cost reserves of \$675 million included \$465 million for Countrywide and \$194 million for LaSalle.

As of December 31, 2007, there were \$108 million of restructuring reserves related to the MBNA, U.S. Trust Corporation and LaSalle mergers, including \$104 million related to severance and other employee-related costs and \$4 million related to contract terminations. During the three and nine months ended September 30, 2008, \$12 million and \$84 million were added to the restructuring reserves, related to severance and other employee-related costs. Cash payments of \$50 million during the three months ended September 30, 2008 were all related to severance and other employee-related costs. Cash payments of \$117 million during the nine months ended September 30, 2008 consisted of \$115 million in severance and other employee-related costs and \$2 million in contract terminations.

Payments under exit cost and restructuring reserves associated with the MBNA merger were substantially completed in 2007 while payments associated with the U.S. Trust Corporation, LaSalle and Countrywide mergers will continue into 2009.

NOTE 3 Trading Account Assets and Liabilities

The following table presents the fair values of the components of trading account assets and liabilities at September 30, 2008 and December 31, 2007.

(Dollars in millions)	September 30 2008	December 31 2007
Trading account assets		
U.S. Government and agency securities ⁽¹⁾	\$ 87,778	\$ 48,240
Corporate securities, trading loans, and other	47,542	55,360
Foreign sovereign debt	14,610	17,161
Equity securities	14,352	22,910
Mortgage trading loans and asset-backed securities	10,577	18,393
Total trading account assets	\$ 174,859	\$ 162,064
Trading account liabilities		
U.S. Government and agency securities	\$ 37,366	\$ 35,375
Equity securities	17,842	25,926
Foreign sovereign debt	7,373	9,292
Corporate securities and other	5,648	6,749
Total trading account liabilities	\$ 68,229	\$ 77,342

⁽¹⁾ Includes \$56.2 billion and \$21.5 billion at September 30, 2008 and December 31, 2007 of government-sponsored enterprise obligations.

NOTE 4 Derivatives

All derivatives are recognized on the Consolidated Balance Sheet at fair value, taking into consideration the effects of legally enforceable master netting agreements that allow the Corporation to settle positive and negative positions and offset cash collateral held with the same counterparty on a net basis. For exchange-traded contracts, fair value is based on quoted market prices. For non-exchange traded contracts, fair value is based on dealer quotes, pricing models or quoted prices for instruments with similar characteristics. These fair values are further adjusted to take into account the Corporation's and counterparties' credit risk. The Corporation designates at inception whether the derivative contract is considered hedging or non-hedging for SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133) accounting purposes.

Derivatives held for trading purposes are included in derivative assets or derivative liabilities with

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changes in fair value reflected in trading account profits (losses). Other derivatives that are used as economic hedges, but not designated in a hedging relationship for accounting purposes, are also included in derivative assets or derivative liabilities with changes in fair value recorded in mortgage banking income or other income (loss). A detailed discussion of derivative trading activities and asset and liability management (ALM) activities is presented in *Note 1 Summary of Significant Accounting Principles* and *Note 4 Derivatives* to the Consolidated Financial Statements of the Corporation's 2007 Annual Report on Form 10-K.

The following table presents the contract/notional amounts and credit risk amounts at September 30, 2008 and December 31, 2007 of all the Corporation's derivative positions. These derivative positions are primarily executed in the over-the-counter market. The credit risk amounts take into consideration the effects of legally enforceable master netting agreements, and on an aggregate basis have been reduced by the cash collateral applied against derivative assets. At September 30, 2008 and December 31, 2007, the cash collateral applied against derivative assets was \$18.1 billion and \$12.8 billion. In addition, at September 30, 2008 and December 31, 2007, the cash collateral applied against derivative liabilities was \$10.0 billion. The average fair value of derivative assets, less cash collateral, for the three months ended September 30, 2008 and December 31, 2007 was \$43.7 billion and \$33.9 billion. The average fair value of derivative liabilities, less cash collateral, for the three months ended September 30, 2008 and December 31, 2007 was \$22.1 billion and \$20.7 billion.

(Dollars in millions)	September 30, 2008		December 31, 2007	
	Contract/ Notional ⁽¹⁾	Credit Risk	Contract/ Notional ⁽¹⁾	Credit Risk
Interest rate contracts				
Swaps	\$ 26,231,470	\$ 22,692	\$ 22,472,949	\$ 15,368
Futures and forwards	4,524,377	276	2,596,146	10
Written options	1,655,861	-	1,402,626	-
Purchased options	1,681,905	3,009	1,479,985	2,508
Foreign exchange contracts				
Swaps	442,839	5,070	505,878	7,350
Spot, futures and forwards	2,029,134	8,468	1,600,683	4,124
Written options	241,301	-	341,148	-
Purchased options	215,581	1,356	339,101	1,033
Equity contracts				
Swaps	30,865	2,250	56,300	2,026
Futures and forwards	20,900	318	12,174	10
Written options	257,855	-	166,736	-
Purchased options	282,074	8,175	195,240	6,337
Commodity contracts				
Swaps	5,019	974	13,627	770
Futures and forwards	11,756	64	14,391	12
Written options	22,455	-	14,206	-
Purchased options	19,335	390	13,093	372
Credit derivatives				
	2,467,386	10,876	3,046,381	7,493
Credit risk before cash collateral		63,918		47,413
Less: Cash collateral applied		18,126		12,751
Total derivative assets		\$ 45,792		\$ 34,662

⁽¹⁾ Represents the total contract/notional amount of the derivatives outstanding and includes both written and purchased protection.

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The Corporation executes the majority of its derivative positions in the over-the-counter market with large, international financial institutions, including broker/dealers and to a lesser degree with a variety of other investors. The Corporation is subject to counterparty credit risk in the event that these counterparties fail to perform under the terms of their contracts and records valuation adjustments against the derivative assets to reflect counterparty credit risk. Substantially all of the derivative transactions are executed on a daily margin basis. Therefore, events such as a credit downgrade (depending on the ultimate rating level) or a breach of credit covenants would typically require an increase in the amount of collateral required of the counterparty (where applicable), and/or allow the Corporation to take additional protective measures such as early termination of all trades. Further, as discussed above, the Corporation enters into legally enforceable master netting agreements which reduce risk by permitting the closeout and netting of transactions with the same counterparty upon the occurrence of certain events. During the three and nine months ended September 30, 2008, valuation adjustments of \$467 million and \$1.4 billion were recognized as trading account losses for counterparty credit risk. At September 30, 2008 the cumulative counterparty credit risk valuation adjustment that was netted against the derivative asset balance was \$2.0 billion.

In addition, the fair value of the Corporation's derivative liabilities is adjusted to reflect the impact of the Corporation's credit quality. During the three and nine months ended September 30, 2008, valuation adjustments of \$106 million and \$346 million were recognized as trading account profits for changes in the Corporation's credit risk. At September 30, 2008 the Corporation's cumulative credit risk valuation adjustment that was netted against the derivative liabilities balance was \$555 million.

Fair Value, Cash Flow and Net Investment Hedges

The Corporation uses various types of interest rate and foreign exchange derivative contracts to protect against changes in the fair value of its assets and liabilities due to fluctuations in interest rates and exchange rates (fair value hedges). The Corporation also uses these types of contracts to protect against changes in the cash flows of its assets and liabilities, and other forecasted transactions (cash flow hedges). During the next 12 months, net losses on derivative instruments included in accumulated OCI of approximately \$1.5 billion (\$947 million after-tax) are expected to be reclassified into earnings. These net losses reclassified into earnings are expected to reduce net interest income related to the respective hedged items.

The following table summarizes certain information related to the Corporation's derivative hedges accounted for under SFAS 133 for the three and nine months ended September 30, 2008 and 2007.

(Dollars in millions)	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Fair value hedges				
Hedge ineffectiveness recognized in net interest income	\$ (10)	\$ 35	\$ (8)	\$ (1)
Cash flow hedges				
Hedge ineffectiveness recognized in net interest income	1	(8)	(7)	(1)
Net losses on transactions which are probable of not occurring recognized in other income	-	32	-	18

The Corporation hedges its net investment in consolidated foreign operations determined to have functional currencies other than the U.S. dollar using forward foreign exchange contracts that typically settle in 90 days as well as by issuing foreign denominated debt. The Corporation recorded a net derivative gain of \$1.4 billion in accumulated OCI associated with net investment hedges for both the three and nine months ended September 30, 2008 as compared to losses of \$266 million and \$568 million for the same periods in the prior year.

Table of Contents**NOTE 5 Securities**

The amortized cost, gross unrealized gains and losses, and fair value of available-for-sale (AFS) debt and marketable equity securities at September 30, 2008 and December 31, 2007 were:

(Dollars in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale debt securities, September 30, 2008				
U.S. Treasury securities and agency debentures	\$ 906	\$ 10	\$ (5)	\$ 911
Mortgage-backed securities ⁽¹⁾	221,390	129	(8,756)	212,763
Foreign securities	5,657	13	(112)	5,558
Corporate/Agency bonds	3,790	2	(574)	3,218
Other taxable securities ⁽²⁾	26,469	9	(357)	26,121
Total taxable securities	258,212	163	(9,804)	248,571
Tax-exempt securities	9,896	1	(1,041)	8,856
Total available-for-sale debt securities	\$ 268,108	\$ 164	\$ (10,845)	\$ 257,427
Available-for-sale marketable equity securities ⁽³⁾	\$ 9,469	\$ 10,733	\$ (903)	\$ 19,299
Available-for-sale debt securities, December 31, 2007				
U.S. Treasury securities and agency debentures	\$ 749	\$ 10	\$ -	\$ 759
Mortgage-backed securities ⁽¹⁾	166,768	92	(3,144)	163,716
Foreign securities	6,568	290	(101)	6,757
Corporate/Agency bonds	3,107	2	(76)	3,033
Other taxable securities ⁽²⁾	24,608	69	(84)	24,593
Total taxable securities	201,800	463	(3,405)	198,858
Tax-exempt securities	14,468	73	(69)	14,472
Total available-for-sale debt securities	\$ 216,268	\$ 536	\$ (3,474)	\$ 213,330
Available-for-sale marketable equity securities ⁽³⁾	\$ 6,562	\$ 13,530	\$ (352)	\$ 19,740

⁽¹⁾ Substantially all securities were issued by U.S. government-backed or government-sponsored enterprises.

⁽²⁾ Includes asset-backed securities.

⁽³⁾ Represents those AFS marketable equity securities that are recorded in other assets on the Consolidated Balance Sheet.

At September 30, 2008 and December 31, 2007, both the amortized cost and fair value of held-to-maturity debt securities was \$1.3 billion and \$726 million and the accumulated net unrealized gains (losses) on AFS debt and marketable equity securities included in accumulated OCI were \$(518) million and \$6.6 billion, net of the related income tax expense (benefit) of \$(333) million and \$3.7 billion.

The Corporation recognized \$1.6 billion and \$2.7 billion of other-than-temporary impairment losses on AFS debt, primarily CDO-related, and marketable equity securities during the three and nine months ended September 30, 2008. No such losses were recognized during the three and nine months ended September 30, 2007. At September 30, 2008 and December 31, 2007, the Corporation had nonperforming AFS debt securities of \$436 million and \$180 million.

The impairment of AFS debt and marketable equity securities is based on a variety of factors, including the length of time and extent to which the market value has been less than cost; the historical and implied volatility of the security; the financial condition of the issuer of the security; and the Corporation's intent and ability to hold the security to recovery. Based on the Corporation's evaluation of the above and other relevant factors, the Corporation does not believe that the AFS debt and marketable equity securities that are in an unrealized loss position at September 30, 2008 are other-than-temporarily impaired.

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The Corporation obtained certain securities as part of the Countrywide acquisition with evidence of deterioration and for which it was probable that all contractually required payments would not be collected. The securities' par value was approximately \$4.2 billion and fair value was approximately \$2.5 billion as of the merger date.

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Certain Corporate and Strategic Investments

At September 30, 2008 and December 31, 2007, the Corporation owned approximately 11 percent, or 25.1 billion common shares and eight percent, or 19.1 billion common shares, of China Construction Bank (CCB). On July 21, 2008, under the terms of the purchase option the Corporation increased its ownership by purchasing approximately \$1.9 billion of the common shares of CCB. These recently purchased shares are accounted for at cost, recorded in other assets and are non-transferable until August 2011. The initial investment of 19.1 billion common shares is accounted for at fair value and recorded as AFS marketable equity securities in other assets with an offset to accumulated OCI. These shares became transferable in October 2008. At September 30, 2008 and December 31, 2007, the cost of the CCB investment was \$4.9 billion and \$3.0 billion and the carrying value was \$14.5 billion and \$16.4 billion. Dividend income on this investment is recorded in equity investment income. 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. The strike price of the option is based on the greater of 1.2 times the book value per share for the most recent calendar year end or the IPO price that steps up on an annual basis and is currently at 107 percent of the IPO price. When based on the IPO price the strike price is capped at 118 percent.

Additionally, the Corporation owned approximately 171.3 million and 137.0 million of preferred shares, and 51.3 million and 41.1 million of common shares of Banco Itaú Holding Financeira S.A. (Banco Itaú) at September 30, 2008 and December 31, 2007. This investment in Banco Itaú is accounted for at fair value and recorded as AFS marketable equity securities in other assets with an offset to accumulated OCI. Prior to the second quarter of 2008, these shares were accounted for at cost. Dividend income on this investment is recorded in equity investment income. At September 30, 2008 and December 31, 2007, the cost of this investment was \$2.6 billion and the fair value was \$3.7 billion and \$4.6 billion.

At September 30, 2008 and December 31, 2007, the Corporation had a 24.9 percent, or \$2.9 billion and \$2.6 billion, investment in Grupo Financiero Santander, S.A., the subsidiary of Grupo Santander, S.A. This investment is recorded in other assets and is accounted for under the equity method of accounting with income being recorded in equity investment income.

For additional information on securities, see *Note 1 – Summary of Significant Accounting Principles* to the Consolidated Financial Statements of the Corporation's 2007 Annual Report on Form 10-K.

Table of Contents**NOTE 6 Outstanding Loans and Leases**

Outstanding loans and leases at September 30, 2008 and December 31, 2007 were:

(Dollars in millions)	September 30 2008	December 31 2007
Consumer		
Residential mortgage	\$ 256,989	\$ 274,949
Home equity	151,938	114,820
Discontinued real estate ⁽¹⁾	22,081	n/a
Credit card domestic	63,012	65,774
Credit card foreign	18,338	14,950
Direct/Indirect consumer ⁽²⁾	82,849	76,538
Other consumer ⁽³⁾	3,680	4,170
Total consumer	598,887	551,201
Commercial		
Commercial domestic ⁽⁴⁾	219,303	208,297
Commercial real estate ⁽⁵⁾	63,736	61,298
Commercial lease financing	22,416	22,582
Commercial foreign	32,951	28,376
Total commercial loans	338,406	320,553
Commercial loans measured at fair value ⁽⁶⁾	5,383	4,590
Total commercial	343,789	325,143
Total loans and leases	\$ 942,676	\$ 876,344

⁽¹⁾ Includes \$20.1 billion of pay option loans and \$1.9 billion of subprime loans obtained as part of the acquisition of Countrywide. The Corporation no longer originates these products.

⁽²⁾ Includes foreign consumer loans of \$2.4 billion and \$3.4 billion at September 30, 2008 and December 31, 2007.

⁽³⁾ Includes consumer finance loans of \$2.7 billion and \$3.0 billion, and other foreign consumer loans of \$736 million and \$829 million at September 30, 2008 and December 31, 2007.

⁽⁴⁾ Includes small business commercial domestic loans, primarily card related, of \$19.4 billion and \$19.3 billion at September 30, 2008 and December 31, 2007.

⁽⁵⁾ Includes domestic commercial real estate loans of \$62.7 billion and \$60.2 billion, and foreign commercial real estate loans of \$1.0 billion and \$1.1 billion at September 30, 2008 and December 31, 2007.

⁽⁶⁾ Certain commercial loans are measured at fair value in accordance with SFAS 159 and include commercial domestic loans of \$4.0 billion and \$3.5 billion, commercial foreign loans of \$1.2 billion and \$790 million, and commercial real estate loans of \$213 million and \$304 million at September 30, 2008 and December 31, 2007. See Note 16 Fair Value Disclosures to the Consolidated Financial Statements for additional discussion of fair value for certain financial instruments.

n/a = not applicable

Nonperforming Loans and Leases

At September 30, 2008 and December 31, 2007, nonperforming loans and leases, including impaired and nonaccrual consumer loans and excluding acquired loans that were accounted for under SOP 03-3, totaled \$11.8 billion and \$5.6 billion. In addition, included in other assets were consumer and commercial nonperforming loans held-for-sale of \$848 million and \$188 million at September 30, 2008 and December 31, 2007. Impaired loans also include loans that have been modified in troubled debt restructurings where concessions to borrowers who experienced financial difficulties have been granted.

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The following table presents the recorded loan amounts, without consideration for the specific component of the allowance for loan and lease losses, that were considered individually impaired in accordance with SFAS 114 at September 30, 2008 and December 31, 2007. SFAS 114 defines impairment to include performing loans which had previously been accounted for as a troubled debt restructuring and excludes all commercial leases.

Impaired Loans

(Dollars in millions)	September 30 2008	December 31 2007
Commercial		
Commercial domestic ⁽¹⁾	\$ 1,761	\$ 1,018
Commercial real estate	3,090	1,099
Commercial foreign	48	19
Total impaired loans	\$ 4,899	\$ 2,136

⁽¹⁾ Includes small business commercial domestic loans of \$183 million and \$152 million at September 30, 2008 and December 31, 2007.

SOP 03-3

Loans acquired with evidence of credit quality deterioration since origination and for which it is probable at purchase that the Corporation will be unable to collect all contractually required payments are accounted for under American Institute of Certified Public Accountants Statement of Position 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer (SOP 03-3). Evidence of credit quality deterioration as of the purchase date may include statistics such as past due status, refreshed borrower credit scores, and refreshed loan-to-value (LTV), some of which are not immediately available as of the purchase date. The Corporation will continue to evaluate this information and other credit related information as it becomes available. SOP 03-3 addresses accounting for differences between contractual cash flows and cash flows expected to be collected from the Corporation's initial investment in loans if those differences are attributable, at least in part, to credit quality. SOP 03-3 requires acquired impaired loans be recorded at fair value and prohibits carrying over or the creation of valuation allowances in the initial accounting for loans acquired in a transfer that are within the scope of this SOP.

The fair values for loans within the scope of SOP 03-3 are determined by discounting both principal and interest cash flows expected to be collected using an observable discount rate for similar instruments with adjustments that management believes a market participant would consider in determining fair value. The Corporation estimates the cash flows expected to be collected at acquisition using internal credit risk, interest rate and prepayment risk models that incorporate management's best estimate of current key assumptions, such as default rates, loss severity and payment speeds.

As of July 1, 2008 and September 30, 2008 acquired loans within the scope of SOP 03-3 had an unpaid principal balance of \$54.4 billion and \$52.8 billion and carrying value of \$41.1 billion and \$39.9 billion. The following table provides details on loans obtained in connection with the Countrywide acquisition within the scope of SOP 03-3.

Acquired Loan Information

(Dollars in millions)	As of July 1, 2008 ⁽¹⁾
Contractually required payments including interest	\$ 77,534
Less: Nonaccretable difference	(19,574)
Cash flows expected to be collected ⁽²⁾	57,960
Less: Accretable yield	(16,841)
Fair value of loans acquired	\$ 41,119

⁽¹⁾ Date of the Countrywide acquisition.

⁽²⁾ Represents undiscounted expected principal and interest cash flows at acquisition.

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Under SOP 03-3, the excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized into interest income over the remaining life of the loan. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the nonaccretable difference. Changes in the expected cash flows from the date of acquisition will either impact the accretable yield or result in a charge to the provision for credit losses. Subsequent decreases to the expected cash flows will generally result in a charge to the provision for credit losses resulting in an increase to the allowance for loan and lease losses, and a reclassification from accretable yield to nonaccretable difference. Subsequent increases in cash flows will result in a recovery of any previously recorded allowance for loan and lease losses, to the extent applicable, and a reclassification from nonaccretable difference to accretable yield. There was no allowance for loan and lease losses related to loans acquired within the scope of SOP 03-3 as of September 30, 2008. Disposals of loans, which may include sales of loans, receipt of payments in full by the borrower, foreclosure, or troubled debt restructurings result in removal of the loan from the SOP 03-3 portfolio at its carrying amount.

The following table provides activity for the accretable yield of loans acquired from Countrywide within the scope of SOP 03-3 for the three months ended September 30, 2008.

Accretable Yield Activity

	Three Months Ended
(Dollars in millions)	September 30, 2008
Accretable yield, beginning balance	\$ 16,841
Accretions	(748)
Disposals	(413)
Reclassifications (to)/from nonaccretable difference ⁽¹⁾	-
Accretable yield, September 30	\$ 15,680

⁽¹⁾ Nonaccretable difference represents gross contractually required payments including interest less expected cash flows.

Table of Contents**NOTE 7 Allowance for Credit Losses**

The following table summarizes the changes in the allowance for credit losses for the three and nine months ended September 30, 2008 and 2007.

(Dollars in millions)	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Allowance for loan and lease losses, beginning of period	\$ 17,130	\$ 9,060	\$ 11,588	\$ 9,016
Adjustment due to the adoption of SFAS 159	-	-	-	(32)
Loans and leases charged off	(4,698)	(1,897)	(11,760)	(5,445)
Recoveries of loans and leases previously charged off	342	324	1,070	950
Net charge-offs	(4,356)	(1,573)	(10,690)	(4,495)
Provision for loan and lease losses	6,530	2,014	18,381	5,050
Other ⁽¹⁾	1,042	34	1,067	(4)
Allowance for loan and lease losses, September 30	20,346	9,535	20,346	9,535
Reserve for unfunded lending commitments, beginning of period	507	376	518	397
Adjustment due to the adoption of SFAS 159	-	-	-	(28)
Provision for unfunded lending commitments	(80)	16	(91)	25
Other	-	-	-	(2)
Reserve for unfunded lending commitments, September 30	427	392	427	392
Allowance for credit losses, September 30	\$ 20,773	\$ 9,927	\$ 20,773	\$ 9,927

⁽¹⁾ Includes the \$1.3 billion addition of the Countrywide allowance for loan losses.

NOTE 8 Securitizations

The Corporation securitizes loans which may be serviced by the Corporation or by third parties. With each securitization, the Corporation may retain all or a portion of the securities, subordinated tranches, interest-only strips, subordinated interests in accrued interest and fees on the securitized receivables, and, in some cases, over-collateralization and cash reserve accounts, all of which are called retained interests. These retained interests are recorded in other assets, AFS debt securities, and/or trading account assets and are carried at fair value or amounts that approximate fair value with changes recorded in income or accumulated OCI. Changes in the fair value for credit card related interest-only strips are recorded in card income.

Mortgage-related Securitizations

The Corporation securitizes a portion of its residential mortgage loan originations in conjunction with or shortly after loan closing. In addition, the Corporation may, from time to time, securitize commercial mortgages and first lien residential mortgages that it originates or purchases from other entities. During the three and nine months ended September 30, 2008, the Corporation converted a total of \$51.9 billion (including \$525 million originated by other entities) and \$116.7 billion (including \$12.4 billion originated by other entities), compared to \$24.9 billion (including \$2.2 billion originated by other entities) and \$62.8 billion (including \$12.6 billion originated by other entities) during the same periods in 2007, of commercial mortgages and first lien residential mortgages into mortgage-backed securities issued through government sponsored entities (GSE) or through subsidiaries of the Corporation. At September 30, 2008 and December 31, 2007, the Corporation held senior securities issued by its securitization vehicles of \$16.3 billion (\$11.9 billion issued in 2008) and \$9.2 billion (\$5.9 billion issued in 2007), substantially all of which are valued using quoted market prices. Of these senior securities, \$14.6 billion and \$7.8 billion were classified as AFS debt securities and \$1.7 billion and \$1.4 billion were classified as trading account assets at September 30, 2008 and December 31, 2007. In addition, the Corporation retained

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subordinated securities, which totaled \$42 million (none of which were issued in 2008) and \$196 million (\$137 million issued in 2007) at September 30, 2008 and December 31, 2007, which are typically valued using quantitative models, and are classified in trading account assets.

During the three and nine months ended September 30, 2008, the Corporation reported \$740 million and \$1.3 billion in gains, net of hedges, on loans converted into securities and sold, as compared to \$30 million and \$273 million during the same periods in 2007. At September 30, 2008 and December 31, 2007, the Corporation had recourse obligations of \$158 million and \$150 million with varying terms up to seven years on loans that had been securitized and sold.

Included in the information above for the third quarter of 2008 are mortgage-related securitizations related to Countrywide. During the three months ended September 30, 2008, \$37.3 billion of first lien residential mortgages were converted into mortgage-backed securities issued through a GSE or through subsidiaries of the Corporation. In addition, the Corporation reported \$525 million in gains, net of hedges, on these loans converted into securities and sold.

The Corporation sells loans with various representations and warranties related to among other things, the ownership of the loan, validity of the lien securing the loan, absence of delinquent taxes or liens against the property securing the loan, process used in selecting the loans for inclusion in a transaction, the loan's compliance with any applicable loan criteria established by the buyer, and the loan's compliance with applicable local, state and federal laws. In the event of a breach of the Corporation's representations and warranties, the Corporation may be required to either repurchase the mortgage loans with the identified defects or indemnify the investor or insurer. In such cases, the Corporation bears any subsequent credit loss on the mortgage loans. The Corporation's representations and warranties are generally not subject to stated limits. However, the Corporation's contractual liability arises only when the representations and warranties are breached. The Corporation attempts to limit its risk of incurring these losses by structuring its operations to ensure consistent production of quality mortgages and servicing those mortgages at levels that meet secondary mortgage market standards. In addition, certain of our securitizations include a corporate guarantee, which are contracts written to protect purchasers of our loans from credit losses up to a specified amount. We estimate the losses to be absorbed by the guarantees when we sell loans with guarantees and update our estimates every quarter. The Corporation records its liability for representations and warranties, and corporate guarantees in accrued expenses and other liabilities and records the related expense through mortgage banking income.

During the three and nine months ended September 30, 2008, the Corporation purchased \$3.8 billion and \$11.1 billion of mortgage-backed securities from third parties and resecuritized them, as compared to \$2.8 billion and \$16.4 billion during the same periods in 2007. Net gains, which include net interest income earned during the holding period, totaled \$26 million and \$64 million for the three and nine months ended September 30, 2008, as compared to net losses of \$4 million and net gains of \$10 million during the same periods in 2007. At September 30, 2008 and December 31, 2007 the Corporation retained \$403 million and \$540 million of the securities issued in these transactions which were recorded in trading account assets.

The Corporation has retained consumer MSR's from the sale or securitization of mortgage loans, including discontinued mortgage and home equity loans. Servicing fee and ancillary fee income on all consumer mortgage loans serviced, including securitizations, was \$1.5 billion and \$196 million during the three months ended September 30, 2008 and 2007 and \$2.0 billion and \$593 million during the nine months ended September 30, 2008 and 2007. For more information on MSR's, see *Note 17 Mortgage Servicing Rights* to the Consolidated Financial Statements.

Home Equity and Other Securitizations Acquired

With the purchase of Countrywide, the Corporation acquired residual and other interests held in its home equity securitizations which totaled \$128 million at September 30, 2008. The aggregate debt securities outstanding related to these securitizations totaled \$30.8 billion at September 30, 2008. In addition, the Corporation acquired residual and other interests held by Countrywide in its subprime mortgage and Alt-A mortgage securitizations which totaled \$20 million at September 30, 2008. The aggregate debt securities outstanding related to these securitizations totaled \$39.6 billion at September 30, 2008.

At September 30, 2008, the Corporation held senior securities issued by its securitization vehicles of \$896 million, all of which are valued using quoted market prices and which \$111 million were classified as AFS debt securities and \$785 million were classified as trading account assets. At September 30, 2008, the Corporation also held subordinated securities issued by its securitization vehicles of \$19 million, all of which are valued using quoted market prices and classified as AFS debt securities.

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Under the terms of the Corporation's home equity securitizations, advances are made to borrowers when they make a subsequent draw on their line of credit and the Corporation is reimbursed for those advances from the cash flows in the securitization. During the revolving period of the securitization, this reimbursement normally occurs within a short period after the advance. However, when the securitization transaction has begun its rapid amortization period, reimbursement of the Corporation's advance occurs only after other parties in the securitization have received all of the cash flows to which they are entitled. This has the effect of extending the time period for which the Corporation's advances are outstanding. In particular, if loan losses requiring draws on monoline insurer's policies (which protect the bondholders in the securitization) exceed a specified threshold or duration, the Corporation may not receive reimbursement for all of the funds advanced to borrowers, as the senior bondholders and the monoline insurer have priority for repayment. The available credit lines for the securitizations that have triggered or are expected to trigger a rapid amortization event are approximately \$1.2 billion at September 30, 2008. At September 30, 2008 the reserve for losses on expected future draw obligations on the home equity securitizations in or expected to be in rapid amortization was \$422 million.

Credit Card Securitizations

For the three and nine months ended September 30, 2008, the Corporation securitized \$3.3 billion and \$16.3 billion of credit card receivables resulting in \$14 million and \$62 million in gains (net of securitization transaction costs of \$3 million and \$15 million) which were recorded in card income. For the three and nine months ended September 30, 2007, the Corporation securitized \$4.6 billion and \$14.3 billion of credit card receivables resulting in \$29 million and \$71 million in gains (net of securitization transaction costs of \$1 million and \$11 million) which were recorded in card income. At September 30, 2008 and December 31, 2007, the aggregate debt securities outstanding for the Corporation's credit card securitization trusts were \$100.5 billion and \$101.3 billion.

At September 30, 2008, the Corporation held senior securities issued by its credit card securitization vehicles of \$439 million (issued in 2008). There were no senior securities held at December 31, 2007. At September 30, 2008 and December 31, 2007, the Corporation held subordinated securities issued by its securitization vehicles of \$2.2 billion (\$1.8 billion issued in 2008) and \$425 million (issued in 2007). All of these securities were classified as AFS debt securities and valued using quoted market prices at September 30, 2008 and December 31, 2007.

At September 30, 2008 and December 31, 2007, there were no recognized servicing assets or liabilities associated with any of these credit card securitization transactions.

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Key economic assumptions used in measuring the fair value of certain residual interests that continue to be held by the Corporation (included in other assets) in credit card securitizations and the sensitivity of the current fair value of residual cash flows to changes in those assumptions are as follows:

	Credit Card	
	September 30	December 31
(Dollars in millions)	2008	2007
Carrying amount of residual interests (at fair value) ⁽¹⁾	\$ 2,303	\$ 2,766
Balance of unamortized securitized loans	102,048	102,967
Weighted average life to call or maturity (in years)	0.3	0.3
Monthly payment rate	10.3-14.3 %	11.6-16.6 %
Impact on fair value of 10% favorable change	\$ 20	\$ 51
Impact on fair value of 25% favorable change	64	158
Impact on fair value of 10% adverse change	(14)	(35)
Impact on fair value of 25% adverse change	(31)	(80)
Weighted average of expected credit losses (annual rate)	7.0 %	5.3 %
Impact on fair value of 10% favorable change	\$ 209	\$ 141
Impact on fair value of 25% favorable change	522	374
Impact on fair value of 10% adverse change	(165)	(133)
Impact on fair value of 25% adverse change	(173)	(333)
Residual cash flows discount rate (annual rate)	12.5 %	11.5 %
Impact on fair value of 100 bps favorable change	\$ 2	\$ 9
Impact on fair value of 200 bps favorable change	2	13
Impact on fair value of 100 bps adverse change	(4)	(12)
Impact on fair value of 200 bps adverse change	(10)	(23)

⁽¹⁾ Residual interests include interest-only strips, subordinated interests in accrued interest and fees on the securitized receivables and cash reserve accounts which are carried at fair value or amounts that approximate fair value.

The sensitivities in the preceding table are hypothetical and should be used with caution. As the amounts indicate, changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of an interest that continues to be held by the Corporation is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities. Additionally, the Corporation has the ability to hedge interest rate risk associated with retained residual positions. The above sensitivities do not reflect any hedge strategies that may be undertaken to mitigate such risk.

Principal proceeds from collections reinvested in revolving credit card securitizations were \$37.3 billion and \$126.1 billion for the three and nine months ended September 30, 2008 compared to \$45.7 billion and \$135.0 billion for the same periods in 2007. Contractual credit card servicing fee income totaled \$544 million and \$1.6 billion for the three and nine months ended September 30, 2008 compared to \$526 million and \$1.5 billion for the same periods in 2007. Other cash flows received on retained interests, such as cash flow from interest-only strips, were \$1.4 billion and \$4.6 billion for the three and nine months ended September 30, 2008 compared to \$1.7 billion and \$4.9 billion for the same periods in 2007, for credit card securitizations.

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In September 2008, the Corporation securitized \$5.7 billion of automobile loans and recorded a loss of \$33 million on the transaction. At September 30, 2008 aggregate debt securities outstanding for the Corporation's automobile securitization vehicle were \$5.6 billion. At September 30, 2008, the Corporation held debt securities of \$4.9 billion of which \$1.6 billion were senior and \$3.3 billion were subordinated and all were classified as AFS debt securities and valued using quoted market prices. The Corporation also held a residual asset of \$35 million pertaining to this securitization. The Corporation did not securitize any automobile loans during the three and nine months ended September 30, 2007.

Managed Asset Quality Indicators

Portfolio balances, delinquency and historical loss amounts of the managed loans and leases portfolios at September 30, 2008 and December 31, 2007 and for the three and nine months ended September 30, 2008 and 2007, are presented in the following tables.

	September 30, 2008 Accruing			December 31, 2007 Accruing		
	Loans and Leases Past Due 90 Days		Nonperforming Loans and Leases ⁽¹⁾	Total Loans and Leases	Loans and Leases Past Due 90 Days or More	Nonperforming Loans and Leases
(Dollars in millions)	Total Loans and Leases	or More⁽¹⁾	Loases⁽¹⁾			
Residential mortgage ⁽²⁾	\$ 256,989	\$ 268	\$ 4,638	\$ 274,949	\$ 237	\$ 1,999
Home equity	151,938	-	2,049	114,820	-	1,340
Discontinued real estate	22,081	-	33	n/a	n/a	n/a
Credit card - domestic	151,118	4,545	n/a	151,862	4,170	n/a
Credit card - foreign	32,280	743	n/a	31,829	714	n/a
Direct/Indirect consumer	82,849	1,113	13	76,538	745	8
Other consumer	3,680	4	89	4,170	4	95
Total consumer	700,935	6,673	6,822	654,168	5,870	3,442
Commercial - domestic ^(3, 4)	219,303	850	1,749	208,297	546	1,004
Commercial real estate	63,736	204	3,090	61,298	36	1,099
Commercial lease financing	22,416	45	35	22,582	25	33
Commercial - foreign	32,951	5	48	28,376	16	19
Total commercial	338,406	1,104	4,922	320,553	623	2,155
Total managed loans and leases excluding loans measured at fair value⁽⁵⁾	1,039,341	7,777	11,744	974,721	6,493	5,597

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Total measured at fair value	5,383	-	-	4,590	-	-
Managed loans in securitizations	(102,048)	(2,958)	n/a	(102,967)	(2,757)	n/a
Total held loans and leases	\$ 942,676	\$ 4,819	\$ 11,744	\$ 876,344	\$ 3,736	\$ 5,597

- (1) Balances do not include loans accounted for in accordance with SOP 03-3 even though the customer may be contractually past due. Loans accounted for in accordance with SOP 03-3 were written down to fair value upon acquisition and accrete interest income over the remaining life of the loan.
- (2) Accruing loans and leases past due 90 days or more represent residential mortgage loans related to repurchases pursuant to the Corporation's servicing agreements with GNMA mortgage pools whose repayments are insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs.
- (3) Includes small business commercial domestic loans.
- (4) Includes small business commercial domestic accruing loans and leases past due 90 days or more of \$598 million and \$427 million and nonperforming loans and leases of \$183 million and \$152 million at September 30, 2008 and December 31, 2007.
- (5) Does not include first mortgage and home equity securitizations that were part of the Countrywide acquisition. As of September 30, 2008, the total loans and leases related to these securitizations were \$71.1 billion, with \$4.9 billion in nonperforming loans and leases. At September 30, 2008 and December 31, 2007, the remaining other consumer and commercial loan securitization vehicles were not material to the Corporation.
- n/a = not applicable

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(Dollars in millions)	Three Months Ended September 30, 2008			Three Months Ended September 30, 2007		
	Average Loans			Average Loans		
	and Leases		Net Loss Ratio ⁽¹⁾	and Leases		Net Loss Ratio ⁽¹⁾
	Outstanding	Net Losses		Outstanding	Net Losses	
Residential mortgage	\$ 260,748	\$ 242	0.37 %	\$ 274,385	\$ 13	0.02 %
Home equity	151,142	964	2.53	98,611	50	0.20
Discontinued real estate	22,031	(3)	(0.05)	n/a	n/a	n/a
Credit card domestic	153,037	2,643	6.87	142,369	1,707	4.76
Credit card foreign	33,371	353	4.21	29,633	317	4.24
Direct/Indirect consumer	85,392	845	3.94	72,978	353	1.92
Other consumer	3,723	106	11.36	4,322	78	7.18
Total consumer	709,444	5,150	2.89	622,298	2,518	1.61
Commercial domestic ⁽²⁾	220,847	644	1.16	173,488	250	0.57
Commercial real estate	63,013	262	1.65	38,732	28	0.28
Commercial lease financing	22,585	8	0.13	20,044	(3)	(0.07)
Commercial foreign	32,376	46	0.56	24,560	(4)	(0.06)
Total commercial	338,821	960	1.13	256,824	271	0.42
Total managed loans and leases excluding loans measured at fair value ⁽³⁾	1,048,265	6,110	2.32	879,122	2,789	1.26
Total measured at fair value	4,568	n/a	n/a	3,910	n/a	n/a
Managed loans in securitizations	(105,919)	(1,754)	6.59	(102,516)	(1,216)	4.71
Total held loans and leases	\$ 946,914	\$ 4,356	1.84 %	\$ 780,516	\$ 1,573	0.80 %

(Dollars in millions)	Nine Months Ended September 30, 2008			Nine Months Ended September 30, 2007		
	Average Loans			Average Loans		
	and Leases		Net Loss Ratio ⁽¹⁾	and Leases	Net Losses	Net Loss Ratio ⁽¹⁾
	Outstanding	Net Losses		Outstanding	Net Losses	
Residential mortgage	\$ 262,478	\$ 459	0.23 %	\$ 260,469	\$ 30	0.02 %
Home equity	129,402	2,383	2.46	94,179	95	0.13
Discontinued real estate	7,397	(3)	(0.05)	n/a	n/a	n/a
Credit card domestic	152,495	7,125	6.24	140,074	5,144	4.91
Credit card foreign	32,763	994	4.06	28,931	932	4.31
Direct/Indirect consumer	82,242	2,060	3.35	68,281	917	1.79
Other consumer	3,908	275	9.45	4,614	182	5.29
Total consumer	670,685	13,293	2.65	596,548	7,300	1.64
Commercial domestic ⁽²⁾	215,213	1,632	1.01	167,960	662	0.53
Commercial real estate	62,516	505	1.08	37,148	30	0.11
Commercial lease financing	22,364	29	0.17	19,828	(15)	(0.10)
Commercial foreign	31,252	44	0.18	22,221	(1)	(0.01)
Total commercial	331,345	2,210	0.89	247,157	676	0.37
Total managed loans and leases excluding loans measured at fair value ⁽³⁾	1,002,030	15,503	2.07	843,705	7,976	1.25
Total measured at fair value	4,721	n/a	n/a	1,620	n/a	n/a
Managed loans in securitizations	(106,177)	(4,813)	6.06	(100,163)	(3,481)	4.65
Total held loans and leases	\$ 900,574	\$ 10,690	1.59 %	\$ 745,162	\$ 4,495	0.80 %

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- (1) The net loss ratio is calculated by dividing annualized net losses by average outstanding loans and leases excluding loans measured at fair value for each loan and lease category.
- (2) Includes small business commercial domestic net losses of \$527 million, or 10.64 percent, and \$1.4 billion, or 9.23 percent, for the three and nine months ended September 30, 2008, compared to \$239 million, or 5.38 percent, and \$598 million, or 4.82 percent, for the same periods in 2007.
- (3) Does not include first mortgage and home equity securitizations that were part of the Countrywide acquisition. For the three months ended September 30, 2008, average total loans and leases related to these securitizations were \$72.4 billion with \$1.5 billion in net losses, or 8.33 percent. For the nine months ended September 30, 2008, average total loans and leases related to these securitizations were \$24.3 billion with \$1.5 billion in net losses, or 8.33 percent. For the three and nine months ended September 30, 2008 and 2007, the remaining other consumer and commercial loan securitization vehicles were not material to the Corporation.

n/a = not applicable

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The following table presents total assets of those VIEs in which the Corporation holds a significant variable interest and, in the unlikely event that all of the assets in the VIEs become worthless, the Corporation's maximum exposure to loss. The Corporation's maximum exposure to loss incorporates not only potential losses associated with assets recorded on the Corporation's balance sheet but also off-balance sheet commitments, such as unfunded liquidity and lending commitments and other contractual arrangements. In addition to the table below, the Corporation also provided support to certain cash funds managed within *Global Wealth and Investment Management (GWIM)* as described in more detail in *Note 12 Commitments and Contingencies* to the Consolidated Financial Statements.

(Dollars in millions)	Consolidated ⁽¹⁾		Unconsolidated	
	Total Assets	Loss Exposure	Total Assets	Loss Exposure
Variable interest entities, September 30, 2008				
Corporation-sponsored multi-seller conduits	\$ 10,932	\$ 13,110	\$ 28,363	\$ 42,440
Collateralized debt obligation vehicles	4,756	4,756	2,543	1,913
Leveraged lease trusts	5,769	5,769	-	-
Other	9,176	7,388	9,147	7,607
Total variable interest entities	\$ 30,633	\$ 31,023	\$ 40,053	\$ 51,960
Variable interest entities, December 31, 2007				
Corporation-sponsored multi-seller conduits	\$ 11,944	\$ 16,984	\$ 29,363	\$ 47,335
Collateralized debt obligation vehicles	4,464	4,311	8,324	7,410
Leveraged lease trusts	6,236	6,236	-	-
Other	13,771	12,347	8,260	5,953
Total variable interest entities	\$ 36,415	\$ 39,878	\$ 45,947	\$ 60,698

⁽¹⁾ The Corporation consolidates VIEs when it is the primary beneficiary that will absorb the majority of the expected losses or expected residual returns of the VIEs or both.

Corporation-Sponsored Multi-Seller Conduits

The Corporation administers four multi-seller conduits, three of which are unconsolidated, which provide a low-cost funding alternative to its customers by facilitating their access to the commercial paper market. These customers sell or otherwise transfer assets to the conduits, which in turn issue short-term commercial paper that is rated high-grade and is collateralized by the underlying assets. The Corporation receives fees for providing combinations of liquidity and standby letters of credit (SBLCs) or similar loss protection commitments to the conduits. Third parties participate in a small number of the liquidity facilities on a pari passu basis with the Corporation. At September 30, 2008, the Corporation's 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 to the conduits.

The Corporation is the primary beneficiary of one of the above conduits and consequently it is included in the Consolidated Financial Statements. The assets of this conduit are included in AFS and held-to-maturity debt securities, and other assets. At September 30, 2008, liquidity commitments to the conduit were mainly collateralized by credit card loans (25 percent), auto loans (11 percent), and both capital commitments and corporate and commercial loans (seven percent each). None of these assets are subprime residential mortgages. In addition, 33 percent of the Corporation's liquidity commitments were 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. Amounts advanced under these arrangements will be repaid when cash flows due under the long-term contracts are received. Approximately 65 percent of this exposure is insured. At September 30, 2008, the weighted average life of assets in the consolidated conduit was 5.5 years and the weighted average maturity of commercial paper issued by this conduit was 25 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.

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The Corporation does not consolidate the other three conduits which issued capital notes and equity interests to independent third parties as it does not expect to absorb a majority of the variability of the conduits. At September 30, 2008, the Corporation's liquidity commitments to the unconsolidated conduits were collateralized by credit card loans (24 percent), student loans (23 percent), auto loans (14 percent), and equipment loans (eight percent). Less than one percent of these assets are subprime residential mortgages. In addition, 17 percent of the Corporation's 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. Amounts advanced under these arrangements are secured by a diverse group of high quality equity investors. Outstanding advances under these facilities will be repaid when the investment funds issue capital calls. At September 30, 2008, the weighted average life of assets in the unconsolidated conduits was 2.7 years and the weighted average maturity of commercial paper issued by these conduits was 34 days.

Net revenues earned from fees associated with these commitments were \$98 million and \$245 million for the three and nine months ended September 30, 2008 compared to \$51 million and \$135 million for the same periods in 2007.

Collateralized Debt Obligation Vehicles

CDO vehicles hold diversified pools of fixed income securities. They issue multiple tranches of debt securities, including commercial paper, and equity securities. The Corporation also provides liquidity support to certain CDO vehicles.

The Corporation is the primary beneficiary of certain CDOs which are included in the Consolidated Financial Statements at September 30, 2008 and December 31, 2007. Assets held at fair value in the consolidated CDOs include AFS debt securities of \$3.8 billion and \$2.8 billion and trading account assets of \$907 million and \$1.3 billion at September 30, 2008 and December 31, 2007. Substantially all of these investments were acquired in connection with liquidity support in the form of written put options that had been provided to CDO vehicles and other liquidity support which had been provided to the CDO conduit which are discussed below. The creditors of the consolidated CDOs have no recourse to the general credit of the Corporation. The Corporation had no unrealized losses on super senior exposure in accumulated OCI at September 30, 2008.

The Corporation's exposure to unconsolidated CDOs relates principally to liquidity support in the form of written put options with a notional amount of \$1.1 billion and \$6.8 billion at September 30, 2008 and December 31, 2007. The written put options pertain to commercial paper which is the most senior class of securities issued by the CDOs and benefits from the subordination of all other securities issued by the CDOs. The Corporation is obligated 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. The underlying collateral for commitments outstanding at September 30, 2008 consists principally of commercial mortgage-backed securities, ABS and other securities, including trust preferred securities. Subprime residential mortgage-backed securities comprise less than 20 percent of total collateral. These written put options are recorded as derivatives and are carried at fair value with changes in fair value recorded in trading account profits (losses).

Prior to the third quarter of 2008, the Corporation's liquidity support to unconsolidated CDOs also included other liquidity support of \$2.3 billion at December 31, 2007 to a CDO conduit administered by the Corporation that obtained funds by issuing commercial paper to third party investors. The conduit held \$2.3 billion of assets at December 31, 2007 consisting of super senior tranches of debt securities issued by other CDOs. During the second quarter of 2008, the CDO conduit was liquidated due to a threatened downgrade of its commercial paper. In accordance with its liquidity obligation, the Corporation purchased the assets of the CDO conduit.

At September 30, 2008 and December 31, 2007, the Corporation held commercial paper with a carrying value of \$686 million and \$5.0 billion on the balance sheet that was issued by unconsolidated CDO vehicles related to these written put options. In addition, at December 31, 2007 the Corporation held commercial paper with a carrying value of \$1.6 billion related to other liquidity support.

Leveraged Lease Trusts

The Corporation's net investment in leveraged lease trusts totaled \$5.8 billion and \$6.2 billion at September 30, 2008 and December 31, 2007. These amounts, which were recorded in loans and leases, represent the Corporation's maximum loss exposure to these entities in the unlikely event that the leveraged lease investments become worthless. Debt issued by

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the leveraged lease trusts is nonrecourse to the Corporation. The Corporation has no liquidity exposure to these leveraged lease trusts.

Other

Other consolidated VIEs at September 30, 2008 and December 31, 2007 consisted primarily of securitization vehicles, including an asset acquisition conduit that holds securities on the Corporation's behalf and term securitization vehicles that did not meet QSPE status, as well as managed investment vehicles that invest in financial assets, primarily debt securities. Included within maximum exposure to loss of these VIEs was \$4.1 billion and \$7.4 billion of liquidity exposure to consolidated trusts that hold municipal bonds and \$1.1 billion and \$1.6 billion of liquidity exposure to the consolidated asset acquisition conduit at September 30, 2008 and December 31, 2007. The assets of these consolidated VIEs were recorded in trading account assets, AFS debt securities and other assets. Other unconsolidated VIEs at September 30, 2008 and December 31, 2007 consisted primarily of securitization vehicles, managed investment vehicles that invest in financial assets, primarily debt securities, and investments in affordable housing investment partnerships. Revenues associated with administration, asset management, liquidity, and other services were \$2 million and \$6 million for the three and nine months ended September 30, 2008 compared to \$4 million and \$13 million for the same periods in 2007.

NOTE 10 Goodwill and Intangible Assets

The following tables present goodwill and intangible assets at September 30, 2008 and December 31, 2007, which includes approximately \$4.1 billion of goodwill related to the acquisition of Countrywide. For more information on the Countrywide acquisition, see *Note 2 Merger and Restructuring Activity* to the Consolidated Financial Statements.

(Dollars in millions)	September 30 2008	December 31 2007
Global Consumer and Small Business Banking	\$ 44,538	\$ 40,340
Global Corporate and Investment Banking	29,569	29,648
Global Wealth and Investment Management	6,505	6,451
All Other	1,144	1,091
Total goodwill	\$ 81,756	\$ 77,530

The gross carrying values and accumulated amortization related to intangible assets at September 30, 2008 and December 31, 2007 are presented below:

(Dollars in millions)	September 30, 2008		December 31, 2007	
	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Purchased credit card relationships	\$ 7,193	\$ 2,548	\$ 7,027	\$ 1,970
Core deposit intangibles	4,594	3,173	4,594	2,828
Affinity relationships	1,664	543	1,681	406
Other intangibles	3,129	1,149	3,050	852
Total intangible assets	\$ 16,580	\$ 7,413	\$ 16,352	\$ 6,056

Amortization of intangibles expense was \$464 million and \$429 million for the three months ended September 30, 2008 and 2007 and \$1.4 billion and \$1.2 billion for the nine months ended September 30, 2008 and 2007. The Corporation estimates that aggregate amortization expense is expected to be approximately \$450 million for the fourth quarter of 2008. In addition, the Corporation estimates the aggregate amortization expense will be approximately \$1.6 billion, \$1.4 billion, \$1.2 billion, \$1.0 billion and \$840 million for 2009 through 2013, respectively.

Table of Contents**NOTE 11 Long-term Debt**

The following table presents the balance of long-term debt, the related rates and maturity dates at September 30, 2008 obtained in connection with the Countrywide acquisition:

(Dollars in millions)	September 30 2008
Long-term debt issued by Countrywide Financial Corporation and subsidiaries	
Advances from Federal Home Loan Banks	
Fixed, with a weighted average rate of 4.86%, ranging from 2.91% to 5.52%, due 2008 to 2014	\$ 44,445
Senior notes:	
Fixed, with a weighted average rate of 5.16%, ranging from 4.00% to 7.23%, due 2008 to 2036	8,536
Floating, with a weighted average rate of 4.36%, ranging from 2.93% to 7.66%, due 2008 to 2012	4,172
Convertible debentures:	
Floating, with a weighted average rate of 0.28%, ranging from 0.00% to 0.55%, due 2037	3,900
Junior subordinated notes (related to trust preferred securities):	
Fixed, with a weighted average rate of 7.04%, ranging from 6.75% to 8.05%, due 2027 to 2036	1,616
Subordinated notes:	
Fixed, 6.25%, due 2016	1,000
Total long-term debt issued by Countrywide Financial Corporation and subsidiaries	63,669
Other long-term debt issued by Bank of America Corporation and subsidiaries	194,041
Total long-term debt	\$ 257,710

Including the Countrywide acquisition, the Corporation has aggregate annual maturities on its long-term debt obligations of \$9.0 billion for the fourth quarter of 2008 and \$37.3 billion, \$44.5 billion, \$23.8 billion and \$25.7 billion for 2009 through 2012, respectively, and \$117.4 billion for all years thereafter.

Table of Contents**NOTE 12 Commitments and Contingencies**

In the normal course of business, the Corporation enters into a number of off-balance sheet commitments. These commitments expose the Corporation to varying degrees of credit and market risk and are subject to the same credit and market risk limitation reviews as those instruments recorded on the Corporation's Consolidated Balance Sheet.

Credit Extension Commitments

The Corporation enters into commitments to extend credit such as loan commitments, SBLCs and commercial letters of credit to meet the financing needs of its customers. The unfunded legally binding lending commitments shown in the following table are net of amounts distributed (e.g., syndicated) to other financial institutions of \$45.8 billion and \$39.2 billion at September 30, 2008 and December 31, 2007. At September 30, 2008, the carrying amount of these commitments, excluding fair value adjustments, was \$459 million, including deferred revenue of \$32 million and a reserve for unfunded legally binding lending commitments of \$427 million. At December 31, 2007, the comparable amounts were \$550 million, \$32 million and \$518 million. The carrying amount of these commitments is recorded in accrued expenses and other liabilities. For information regarding the Corporation's loan commitments accounted for at fair value, see *Note 16 Fair Value Disclosures* to the Consolidated Financial Statements.

(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
Credit extension commitments, September 30, 2008					
Loan commitments	\$ 165,291	\$ 104,864	\$ 89,504	\$ 25,543	\$ 385,202
Home equity lines of credit	10,005	1,811	3,221	103,430	118,467
Standby letters of credit and financial guarantees	32,709	21,921	8,307	12,710	75,647
Commercial letters of credit	3,156	39	8	1,892	5,095
Legally binding commitments ⁽¹⁾	211,161	128,635	101,040	143,575	584,411
Credit card lines	857,633	22,832	-	-	880,465
Total credit extension commitments	\$ 1,068,794	\$ 151,467	\$ 101,040	\$ 143,575	\$ 1,464,876
Credit extension commitments, December 31, 2007					
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 to VIEs disclosed in *Note 9 Variable Interest Entities* to the Consolidated Financial Statements, including \$42.4 billion and \$47.3 billion to corporation-sponsored multi-seller conduits and \$0 and \$2.3 billion to CDOs at September 30, 2008 and December 31, 2007. Also includes commitments to SPEs that are not disclosed in *Note 9 Variable Interest Entities* to the Consolidated Financial Statements because the Corporation does not hold a significant variable interest or because they are QSPEs, including \$7.8 billion and \$6.1 billion to municipal bond trusts and \$1.1 billion and \$1.7 billion to customer-sponsored conduits at September 30, 2008 and December 31, 2007.

Legally binding commitments to extend credit generally have specified rates and maturities. Certain of these commitments have adverse change clauses that help to protect the Corporation against deterioration in the borrowers' ability to pay.

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The Corporation also facilitates bridge financing (high grade debt, high yield debt and equity) to fund acquisitions, recapitalizations and other short-term needs as well as provide syndicated financing for clients. These concentrations are managed, in part, through the Corporation's established originate to distribute strategy. These client transactions are sometimes large and leveraged. They can also have a higher degree of risk as the Corporation is 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 the Corporation has a commitment and there is a market disruption or other unexpected event, there may be heightened exposure in the portfolios, and higher potential for loss, unless an orderly disposition of the exposure can be made. These commitments are not necessarily indicative of actual risk or funding requirements as the commitments may expire unused, the borrower may not be successful in completing the proposed transaction or may utilize multiple financing sources, including other investment and commercial banks, as well as accessing the general capital markets instead of drawing on the commitment. In addition, the Corporation may reduce its portion of the commitment through syndications to investors and/or lenders prior to funding. Therefore, these commitments are generally significantly greater than the amounts the Corporation will ultimately fund. Additionally, the borrower's ability to draw on the commitment may be subject to there being no material adverse change in the borrower's financial condition, among other factors. Commitments also generally contain certain flexible pricing features to adjust for changing market conditions prior to closing.

At September 30, 2008 and December 31, 2007, the Corporation's share of the leveraged finance forward calendar was \$2.3 billion and \$12.2 billion. During the nine months ended September 30, 2008, the Corporation had new transactions of \$10.3 billion, syndications of \$11.1 billion, closed but not yet syndicated of \$5.8 billion, and client terminations and other transactions of \$3.3 billion related to the leveraged finance forward calendar. The Corporation also had unfunded capital markets commercial real estate commitments of \$700 million at September 30, 2008 compared to \$2.2 billion at December 31, 2007 with the primary change resulting from \$1.2 billion of transactions that were funded. There were no leveraged finance forward calendar pre-market disruption exposures (i.e., originated prior to September 30, 2007) at September 30, 2008 compared to \$10.7 billion at December 31, 2007. The Corporation has not originated any material unfunded capital markets commercial real estate commitments subsequent to September 30, 2007.

Other Commitments**Principal Investing and Other Equity Investments**

At September 30, 2008 and December 31, 2007, the Corporation had unfunded equity investment commitments of approximately \$1.9 billion and \$2.6 billion. These commitments relate primarily to the Strategic Investments portfolio, as well as equity commitments included in the Corporation's Principal Investing business, which 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. Bridge equity commitments provide equity bridge financing to facilitate clients' investment activities. These conditional commitments are often retired prior to or shortly following funding via syndication or the client's decision to terminate. Where the Corporation has a binding equity bridge commitment and there is a market disruption or other unexpected event, there may be heightened exposure in the portfolio and higher potential for loss, unless an orderly disposition of the exposure can be made. At September 30, 2008, the Corporation did not have any unfunded bridge equity commitments and had previously funded \$1.2 billion of equity bridges which are considered held for investment. During the three and nine months ended September 30, 2008, the Corporation recorded \$34 million and \$218 million in losses related to these investments through equity investment income.

U.S. Government Guaranteed Charge Cards

At September 30, 2008 and 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 \$9.2 billion and \$9.9 billion were not included in credit card line commitments in the previous table. The outstanding balances related to these charge cards were \$266 million and \$193 million at September 30, 2008 and December 31, 2007.

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Loan Purchases

In 2005, the Corporation entered into an agreement for the committed purchase of retail automotive loans over a five-year period, ending June 30, 2010. The Corporation purchased \$9.0 billion of such loans under this agreement for the nine months ended September 30, 2008 compared to \$4.5 billion of such loans for the year ended December 31, 2007. As of September 30, 2008, the Corporation was committed for additional purchases of up to \$16.0 billion over the remaining term of the agreement of which \$6.0 billion will be purchased by June 30, 2009. All loans purchased under this agreement are subject to a comprehensive set of credit criteria.

Operating Leases

The Corporation is a party to operating leases for certain of its premises and equipment. Commitments under these leases approximate \$580 million for the remaining quarter of 2008, and \$2.2 billion, \$2.0 billion, \$1.7 billion and \$1.4 billion for 2009 through 2012, respectively, and \$9.2 billion for all years thereafter.

Other Commitments

Beginning in the second half of 2007, the Corporation provided support to certain cash funds managed within *GWIM*. The funds for which the Corporation provided support typically invest in high quality, short-term securities with a portfolio weighted average maturity of 90 days or less, including securities issued by SIVs and senior debt holdings of financial service companies. Due to market disruptions, certain investments in SIVs and senior debt securities issued by financial services companies were downgraded by the rating agencies and experienced a decline in fair value. The Corporation entered into capital commitments, which required the Corporation to provide cash to these funds in the event the net asset value per unit of a fund declined below certain thresholds. The capital commitments expire no later than the third quarter of 2010. At September 30, 2008 and December 31, 2007, the Corporation had gross (i.e., funded and unfunded) capital commitments to the funds of \$1.1 billion and \$565 million. For the three and nine months ended September 30, 2008, the Corporation incurred losses of \$358 million and \$521 million related to these capital commitments. At September 30, 2008 and December 31, 2007, the remaining loss exposure was \$160 million and \$183 million. Additionally, during the three and nine months ended September 30, 2008, the Corporation purchased \$525 million and \$1.5 billion of certain investments from the funds and recorded losses of \$272 million and \$365 million.

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

The Corporation does not consolidate the cash funds managed within *GWIM* 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 assets under management of \$174.9 billion and \$189.5 billion at September 30, 2008 and December 31, 2007.

Other Guarantees

Written Put Options

At September 30, 2008 and December 31, 2007, the Corporation provided liquidity support in the form of written put options on \$1.1 billion and \$10.0 billion of commercial paper issued by CDOs, including \$3.2 billion issued by a consolidated CDO and \$6.8 billion issued by unconsolidated CDOs at December 31, 2007. These agreements have various maturities ranging from two to five years. For more information regarding written put options, see *Note 9 Variable Interest Entities* to the Consolidated Financial Statements.

Table of Contents**Merchant Services**

The Corporation provides credit and debit card processing services to various merchants by processing credit and debit card transactions on their behalf. In connection with these services, a liability may arise in the event of a billing dispute between the merchant and a cardholder that is ultimately resolved in the cardholder's favor and the merchant defaults upon its obligation to reimburse the cardholder. A cardholder, through its issuing bank, generally has until the later of up to six months after the date a transaction is processed or the delivery of the product or service to present a chargeback to the Corporation as the merchant processor. If the Corporation is unable to collect this amount from the merchant, it bears the loss for the amount paid to the cardholder. For the three months ended September 30, 2008 and 2007, the Corporation processed \$95.7 billion and \$90.1 billion of transactions and recorded losses as a result of these chargebacks of \$5 million and \$2 million. For the nine months ended September 30, 2008 and 2007, the Corporation processed \$279.0 billion and \$264.5 billion of transactions and recorded losses as a result of these chargebacks of \$15 million and \$10 million.

At September 30, 2008 and December 31, 2007, the Corporation held as collateral \$26 million and \$19 million of merchant escrow deposits which the Corporation has the right to offset against amounts due from the individual merchants. The Corporation also has the right to offset any payments with cash flows otherwise due to the merchant. Accordingly, the Corporation believes that the maximum potential exposure is not representative of the actual potential loss exposure. The Corporation believes the maximum potential exposure for chargebacks would not exceed the total amount of merchant transactions processed through Visa and MasterCard for the last six months, which represents the claim period for the cardholder, plus any outstanding delayed-delivery transactions. As of September 30, 2008 and December 31, 2007, the maximum potential exposure totaled approximately \$152.6 billion and \$151.2 billion.

Other Guarantees

For additional information on other guarantees, see *Note 13 Commitments and Contingencies* to the Consolidated Financial Statements of the Corporation's 2007 Annual Report on Form 10-K. For additional information on recourse obligations related to residential mortgage loans sold and other guarantees related to securitizations, see *Note 8 Securitizations* to the Consolidated Financial Statements of the Corporation's 2007 Annual Report on Form 10-K.

Litigation and Regulatory Matters

The following supplements the disclosure in *Note 13 Commitments and Contingencies* to the Consolidated Financial Statements of the Corporation's 2007 Annual Report on Form 10-K and in the Corporation's Quarterly Report on Form 10-Q for the periods ended March 31, 2008 and June 30, 2008.

Auction Rate Securities Litigation and Investigations

The *Bearman, Cattell* and *Ben-Tal* putative class actions have been voluntarily dismissed. In September 2008, two civil antitrust putative class actions (*City of Baltimore v. Citigroup et al.*, and *Mayfield v. Citigroup et al.*) were filed against the Corporation and other financial institutions. These antitrust actions allege that the defendants conspired to restrain trade in auction rate securities (ARS) by artificially supporting auctions and later withdrawing that support. Plaintiff in *Bondar* has petitioned the Judicial Panel on Multi-District Litigation to consolidate all of the ARS cases nationwide (including the remaining Bank cases and the industry-wide antitrust cases), into one legal proceeding in federal court. Additionally, approximately 26 separate Financial Industry Regulatory Authority arbitrations have been filed nationwide against Banc of America Investment Services, Inc., Banc of America Securities LLC (BAS) and LaSalle Financial Services.

On September 10, 2008, Bank of America announced an agreement in principle with the Massachusetts Securities Division, without admitting or denying allegations of wrongdoing, under which it will offer to purchase at par ARS held by certain customers. On October 8, 2008, Bank of America announced agreements in principle with the Securities and Exchange Commission (SEC), the Office of the New York State Attorney General (NYAG), and the North American Securities Administrators Association. The agreements are substantially similar except that the agreement with the NYAG requires the payment of a \$50 million penalty to be allocated among and at the discretion of the settling states. In addition, the agreement with the SEC provides that the SEC reserves the right to seek an additional penalty in the event it concludes Bank of America has not satisfied its obligations under the agreement. Including the penalty discussed above, Bank of America recorded a pre-tax charge of \$363 million in connection with the purchase of ARS from clients. Most of this charge results from the difference between the purchase price and the estimated value of the securities.

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Countrywide Bond Insurance Litigation

Countrywide Financial Corporation (CFC) and other Countrywide entities have been named as defendants in an action filed by MBIA Insurance Corporation (MBIA) in New York Supreme Court. The action relates to bond insurance policies provided by MBIA with regard to certain securitized pools of home equity lines of credit and fixed-rate second lien mortgage loans. MBIA allegedly has paid claims as a result of defaults in the underlying loans, and claims that these defaults are the result of improper underwriting. The complaint alleges misrepresentation and breach of contract, among other claims, and seeks unspecified actual and punitive damages, and attorneys' fees.

Countrywide Consolidated Securities Litigation

Argent Classic Convertible Arbitrage Fund L.P. v. Countrywide Financial Corp. et al., was filed in U. S. District Court for the Central District of California allegedly on behalf of purchasers of certain Series A and B debentures issued in various private placements pursuant to a May 16, 2007 CFC offering memorandum. This matter makes allegations similar to the allegations in the *In re Countrywide Financial Corporation Securities Litigation* case and seeks unspecified damages.

Countrywide Mortgage-Backed Securities Litigation

CFC and certain other Countrywide entities, as well as BAS, have been named as defendants in two putative securities class actions (*Luther v. Countrywide Home Loans Servicing LP, et al.* and *Washington State Plumbing & Pipefitting Pension Trust v. Countrywide Financial Corporation, et al.*) filed in Los Angeles Superior Court relating to the public offering of various mortgage-backed securities. These cases have been consolidated. The cases have been allegedly brought on behalf of purchasers of certain mortgage-backed securities for which certain Countrywide entities filed registration statements and prospectus supplements. The consolidated complaint alleges, among other things, that the mortgage loans underlying these securities were improperly underwritten and failed to comply with the guidelines and processes described in the applicable registration statements and prospectus supplements. The consolidated complaint seeks unspecified compensatory damages, among other relief. In addition, a complaint has been filed in the First Judicial Court for the County of Santa Fe by three New Mexico governmental entities that allegedly acquired certain of these securities, which asserts similar claims and also seeks unspecified monetary damages and other forms of relief.

Countrywide State and Local Enforcement Actions

The state lawsuits have been settled in principle, except for substantially similar lawsuits brought by West Virginia and Indiana. The settlement provides for a loan modification program, principally for subprime and pay option ARM borrowers, and a nationwide fund of up to \$150 million for foreclosure relief programs designated by certain settling states and for payments to individuals whose property was foreclosed and, prior to foreclosure, had made few mortgage payments. The settlements are subject to the negotiation and execution of agreements and the court's approval of such agreements.

Heilig-Meyers Litigation

In *AIG Global Securities Lending Corp., et al. v. Banc of America Securities LLC*, pending in the U. S. District Court for the Southern District of New York, the plaintiffs purchased asset-backed securities issued by a trust formed by Heilig-Meyers Co., and allege that BAS, as underwriter, made misrepresentations in connection with the sale of those securities. The plaintiffs are asserting claims against BAS for violations of Section 10(b) of the Securities Exchange Act of 1934, Rule 10 b-5 and common law fraud. Plaintiffs seek approximately \$200 million in compensatory damages as well as punitive damages. The trial in the case commenced on October 27, 2008.

Interchange Antitrust Litigation and Visa-Related Litigation

Discover

The case *Discover Financial Services v. Visa USA, et al.*, has been settled. The Corporation expects that the escrow that was initially funded in connection with the Visa IPO will pay, in whole or in part, the liabilities resulting from the settlement.

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Lehman Brothers Holdings, Inc.

In September 2008, BAS, along with a number of other underwriters and individuals, was named as a defendant in a putative class action complaint filed in the U.S. District Court for the Southern District of New York, captioned *Fogel Capital Management, Inc. v. Richard S. Fuld, Jr., et al.* Plaintiffs allege that BAS and the other underwriter defendants violated Section 11 of the Securities Act of 1933 by making false or misleading disclosures in connection with a February 2008 offering of preferred stock of Lehman Brothers Holdings, Inc. Plaintiffs seek unspecified damages.

Parmalat Finanziaria S.p.A

On August 12, 2008, the District Court dismissed the class action entitled *In re Parmalat Securities Litigation* against the Corporation in its entirety.

On October 9, 2008 the Public Prosecutor of the Court of Parma, Italy filed a notice of intent to file criminal charges against twelve former and current employees of the Corporation in connection with the insolvency of Parmalat S.p.A. The notice of intent to file charges alleges that the Corporation's transactions with Parmalat contributed to the insolvency of Parmalat, that certain transactions violated the Italian usury laws, and that certain former employees of the Corporation wrongly diverted funds in connection with certain transactions.

Pension Plan Matters

Richards

On October 15, 2008, the Court granted final approval of the settlement.

NOTE 13 Shareholders Equity and Earnings Per Common Share

In October 2008, the Corporation issued common stock, preferred stock and warrants to purchase common stock. For additional information, see *Note 19 Subsequent Events* to the Consolidated Financial Statements.

Common Stock

The Corporation may repurchase shares, subject to certain restrictions, from time to time, in the open market or in private transactions through the Corporation's approved repurchase program. For the nine months ended September 30, 2008, the Corporation did not repurchase any shares of common stock and issued 107 million shares in connection with the Countrywide acquisition and 17.4 million shares under employee stock plans. The declaration of common stock dividends and the repurchase of common shares are subject to certain restrictions. For more information see *Note 19 Subsequent Events* to the Consolidated Financial Statements.

In October 2008, the Board declared a quarterly cash dividend of \$0.32 per common share payable on December 26, 2008 to common shareholders of record on December 5, 2008. In July 2008, the Board declared a third quarter cash dividend of \$0.64 per common share which was paid on September 26, 2008 to common shareholders of record on September 5, 2008. In April 2008, the Board declared a second quarter cash dividend of \$0.64 per common share which was paid on June 27, 2008 to shareholders of record on June 6, 2008. In January 2008, the Board declared a first quarter cash dividend of \$0.64 per common share which was paid on March 28, 2008 to shareholders of record on March 7, 2008.

Preferred Stock

During the first, second and third quarters of 2008, the aggregate dividends declared on preferred stock were \$190 million, \$186 million and \$473 million. The declaration of preferred stock dividends and the repurchase of preferred shares is subject to certain restrictions. For more information see *Note 19 Subsequent Events* to the Consolidated Financial Statements.

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In May and June 2008, the Corporation issued 117 thousand shares of Bank of America Corporation 8.20% Non-Cumulative Preferred Stock, Series H (Series H Preferred Stock) with a par value of \$0.01 per share for \$2.9 billion. Ownership is held in the form of depositary shares, each representing a 1/1,000th interest in a share of Series H Preferred Stock, paying a quarterly cash dividend on the liquidation preference of \$25,000 per share of Series H Preferred Stock at an annual rate of 8.20 percent. On any dividend date on or after May 1, 2013, the Corporation may redeem Series H Preferred Stock, in whole or in part, at its option, at \$25,000 per share, plus declared and unpaid dividends. The Series H Preferred Stock is not convertible.

In April 2008, the Corporation issued 160 thousand shares of Bank of America Corporation Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series M (Series M Preferred Stock) with a par value of \$0.01 per share for \$4.0 billion. The fixed rate is 8.125 percent through May 14, 2018 and then adjusts to three-month LIBOR plus 364 basis points (bps) thereafter. Ownership is held in the form of depositary shares, each representing a 1/25th interest in a share of Series M Preferred Stock, paying a semiannual cash dividend through May 14, 2018 then adjusts to a quarterly cash dividend, on the liquidation preference of \$25,000 per share of Series M Preferred Stock. On any dividend date on or after May 15, 2018, the Corporation may redeem the Series M Preferred Stock, in whole or in part, at its option, at \$25,000 per share, plus declared and unpaid dividends. The Series M Preferred Stock is not convertible.

In January 2008, the Corporation issued 240 thousand shares of Bank of America Corporation Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series K (Series K Preferred Stock) 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. Ownership is held in the form of depositary shares, each representing a 1/25th interest in a share of Series K Preferred Stock, paying a semiannual cash dividend through January 29, 2018 then adjusts to a quarterly cash dividend, on the liquidation preference of \$25,000 per share of Series K Preferred Stock. On any dividend date on or after January 30, 2018, the Corporation may redeem the Series K Preferred Stock, in whole or in part, at its option, at \$25,000 per share, plus declared and unpaid dividends. The Series K Preferred Stock is not convertible.

Also in January 2008, the Corporation issued 6.9 million shares of Bank of America Corporation 7.25% Non-Cumulative Perpetual Convertible Preferred Stock, Series L (Series L Preferred Stock) with a par value of \$0.01 per share for \$6.9 billion, paying a quarterly cash dividend on the liquidation preference of \$1,000 per share of Series L Preferred Stock at an annual rate of 7.25 percent. Each share of the Series L Preferred Stock may be converted at any time, at the option of the holder, into 20 shares of the Corporation's common stock plus cash in lieu of fractional shares. On or after January 30, 2013, the Corporation may cause some or all of the Series L Preferred Stock, at its option, at any time or from time to time, to be converted into shares of common stock at the then-applicable conversion rate if, for 20 trading days during any period of 30 consecutive trading days, the closing price of common stock exceeds 130 percent of the then-applicable conversion price of the Series L Preferred Stock. If the Corporation exercises its right to cause the automatic conversion of Series L Preferred Stock on January 30, 2013, it will still pay any accrued dividends payable on January 30, 2013 to the applicable holders of record.

The shares of the series of preferred stock discussed above are not subject to the operation of a sinking fund and have no participation rights. The holders of these series have no general voting rights. If any dividend payable on these series is in arrears for three or more semiannual or six or more quarterly dividend periods, as applicable (whether consecutive or not), the holders of these series and any other class or series of preferred stock ranking equally as to payment of dividends and upon which equivalent voting rights have been conferred and are exercisable (voting as a single class) will be entitled to vote for the election of two additional directors. These voting rights terminate when the Corporation has paid in full dividends on these series for at least two semiannual or four quarterly dividend periods, as applicable, following the dividend arrearage.

For a more detailed discussion of the Corporation's preferred stock, see *Note 14 Shareholders' Equity and Earnings per Common Share* to the Consolidated Financial Statements of the Corporation's 2007 Annual Report on Form 10-K.

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The following table presents the changes in accumulated OCI for the nine months ended September 30, 2008 and 2007, net-of-tax.

(Dollars in millions)	Securities ⁽¹⁾	Derivatives ⁽²⁾	Employee Benefit Plans	Foreign Currency ⁽⁴⁾	Total
Balance, December 31, 2007	\$ 6,536	\$ (4,402)	\$ (1,301)	\$ 296	\$ 1,129
Net change in fair value recorded in accumulated OCI	(8,405)	(95)	-	(242)	(8,742)
Net realized losses reclassified into earnings ⁽³⁾	1,351	580	35	-	1,966
Balance, September 30, 2008	\$ (518)	\$ (3,917)	\$ (1,266)	\$ 54	\$ (5,647)
Balance, December 31, 2006	\$ (2,733)	\$ (3,697)	\$ (1,428)	\$ 147	\$ (7,711)
Net change in fair value recorded in accumulated OCI	(792)	(409)	-	149	(1,052)
Net realized (gains) losses reclassified into earnings ⁽³⁾	(338)	387	92	7	148
Balance, September 30, 2007	\$ (3,863)	\$ (3,719)	\$ (1,336)	\$ 303	\$ (8,615)

(1) For the nine months ended September 30, 2008 and 2007, the Corporation reclassified net realized (gains) losses into earnings on the sale and other-than-temporary impairments of AFS debt securities of \$1.1 billion and \$(45) million, net-of-tax, and net realized (gains) losses on the sales and other-than-temporary impairments of AFS marketable equity securities of \$206 million and \$(293) million, net-of-tax.

(2) The amounts included in accumulated OCI for terminated interest rate derivative contracts were losses of \$3.8 billion and \$3.2 billion, net-of-tax, at September 30, 2008 and 2007.

(3) Included in this line item are amounts related to derivatives used in cash flow hedge relationships. These amounts are reclassified into earnings in the same period or periods during which the hedged forecasted transactions affect earnings. This line item also includes (gains) losses on AFS debt and marketable equity securities and impairment charges. These amounts are reclassified into earnings upon sale of the related security or when the other-than-temporary impairment charge is recognized.

(4) For the nine months ended September 30, 2008, the net change in fair value recorded in accumulated OCI represented \$1.6 billion in losses associated with the Corporation's foreign currency translation adjustments on its net investment in consolidated foreign operations partially offset by gains of \$1.4 billion on the related foreign currency exchange hedging results.

Earnings per Common Share

Earnings per common share is computed by dividing net income available to common shareholders by the weighted average common shares issued and outstanding. For diluted earnings per common share, net income available to common shareholders can be affected by the conversion of the registrant's convertible preferred stock. Where the effect of this conversion would have been dilutive, net income available to common shareholders is adjusted by the associated preferred dividends. This adjusted net income is divided by the weighted average number of common shares issued and outstanding for each period plus amounts representing the dilutive effect of stock options outstanding, restricted stock, restricted stock units and the dilution resulting from the conversion of the registrant's convertible preferred stock, if applicable. The effects of convertible preferred stock, restricted stock, restricted stock units and stock options are excluded from the computation of diluted earnings per common share in periods in which the effect would be antidilutive.

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The calculation of earnings per common share and diluted earnings per common share for the three and nine months ended September 30, 2008 and 2007 is presented below.

(Dollars in millions, except per share information; shares in thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Earnings per common share				
Net income	\$ 1,177	\$ 3,698	\$ 5,797	\$ 14,714
Preferred stock dividends	(473)	(43)	(849)	(129)
Net income available to common shareholders	\$ 704	\$ 3,655	\$ 4,948	\$ 14,585
Average common shares issued and outstanding	4,543,963	4,420,616	4,469,517	4,424,269
Earnings per common share	\$ 0.15	\$ 0.83	\$ 1.11	\$ 3.30
Diluted earnings per common share				
Net income available to common shareholders	\$ 704	\$ 3,655	\$ 4,948	\$ 14,585
Average common shares issued and outstanding	4,543,963	4,420,616	4,469,517	4,424,269
Dilutive potential common shares ^(1, 2)	19,545	55,301	23,989	59,196
Total diluted average common shares issued and outstanding	4,563,508	4,475,917	4,493,506	4,483,465
Diluted earnings per common share	\$ 0.15	\$ 0.82	\$ 1.10	\$ 3.25

⁽¹⁾ For the three and nine months ended September 30, 2008, average options to purchase 211 million and 176 million shares were outstanding but not included in the computation of earnings per common share because they were antidilutive. For the three and nine months ended September 30, 2007, average options to purchase 33 million and 27 million shares were outstanding but not included in the computation of earnings per common share because they were antidilutive. For the three and nine months ended September 30, 2008, 138 million and 124 million average dilutive potential common shares associated with the convertible Series L Preferred Stock issued in January of 2008 were excluded from the diluted share count because the result would have been antidilutive under the if-converted method.

⁽²⁾ Includes incremental shares from restricted stock units, restricted stock shares and stock options.

NOTE 14 Pension and Postretirement Plans

The Corporation sponsors noncontributory trustee qualified pension plans that cover substantially all officers and employees, a number of noncontributory nonqualified pension plans, and postretirement health and life plans. The Bank of America Pension Plan (the Pension Plan) provides participants with compensation credits, generally based on years of service. For account balances based on compensation credits prior to January 1, 2008, the Pension Plan allows participants to select from various earnings measures, which are based on the returns of certain funds or common stock of the Corporation. For account balances based on compensation credits subsequent to December 31, 2007, the account balance earnings rate is based on a benchmark rate. A detailed discussion of these plans is presented in *Note 16 Employee Benefit Plans* to the Consolidated Financial Statements of the Corporation's 2007 Annual Report on Form 10-K.

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As a result of the Countrywide acquisition, the Corporation assumed the obligations related to the Countrywide plans.

Net periodic benefit cost (income) of the Corporation's plans including Countrywide plans, for the three and nine months ended September 30, 2008 and 2007 included the following components:

(Dollars in millions)	Three Months Ended September 30					
	Qualified Pension Plans		Nonqualified Pension Plans		Postretirement Health and Life Plans	
	2008 ⁽¹⁾	2007	2008 ⁽¹⁾	2007	2008 ⁽¹⁾	2007
Components of net periodic benefit cost (income)						
Service cost	\$ 92	\$ 78	\$ 2	\$ 2	\$ 4	\$ 4
Interest cost	213	186	20	18	22	21
Expected return on plan assets	(364)	(322)	-	-	(3)	(2)
Amortization of transition obligation	-	-	-	-	8	8
Amortization of prior service cost (credits)	8	12	(2)	(2)	-	-
Recognized net actuarial loss (gain)	19	38	3	4	(18)	(16)
Net periodic benefit cost (income)	\$ (32)	\$ (8)	\$ 23	\$ 22	\$ 13	\$ 15

(Dollars in millions)	Nine Months Ended September 30					
	Qualified Pension Plans		Nonqualified Pension Plans		Postretirement Health and Life Plans	
	2008 ⁽¹⁾	2007	2008 ⁽¹⁾	2007	2008 ⁽¹⁾	2007
Components of net periodic benefit cost (income)						
Service cost	\$ 249	\$ 229	\$ 5	\$ 6	\$ 12	\$ 11
Interest cost	624	546	58	52	65	62
Expected return on plan assets	(1,080)	(950)	-	-	(9)	(5)
Amortization of transition obligation	-	-	-	-	24	24
Amortization of prior service cost (credits)	25	36	(6)	(6)	-	-
Recognized net actuarial loss (gain)	57	114	10	13	(54)	(47)
Recognized loss due to settlements and curtailments	-	-	-	13	-	-
Net periodic benefit cost (income)	\$ (125)	\$ (25)	\$ 67	\$ 78	\$ 38	\$ 45

⁽¹⁾ Includes the results of Countrywide. The net periodic benefit cost of the Countrywide Qualified Pension Plan was \$15 million for the three and nine months ended September 30, 2008. The net periodic benefit cost of the Countrywide Nonqualified Pension Plan was not material and Countrywide did not have a Postretirement Health and Life Plan.

During 2008, the Corporation expects to contribute \$147 million and \$101 million to its nonqualified pension plans and postretirement health and life plans. For the nine months ended September 30, 2008, the Corporation contributed \$125 million and \$76 million to these plans. The Corporation does not expect to contribute to its qualified pension plans during 2008.

NOTE 15 Income Taxes

In August 2008, the Internal Revenue Service (IRS) announced a settlement initiative related to lease-in, lease-out (LILo) and sale-in, lease-out (SILO) leveraged lease transactions. Pursuant to the settlement initiative, the Corporation received offers to settle its LILOs and SILOs and accepted these offers. According to the terms of the settlement initiative, an acceptance will not be binding until a closing agreement is executed by both parties.

The Corporation revised the assumptions associated with the projected cash flows of the relevant leases to reflect its expectation as of September 30, 2008 of receiving the tax treatment offered by the leasing settlement initiative. The recalculation resulted in an after-tax charge of \$107 million, which included a reduction of \$40 million, after tax, of accrued interest expense associated with income taxes expected to be due upon settlement.

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As of September 30, 2008 and December 31, 2007, the balance of the Corporation's unrecognized tax benefits was \$3.7 billion and \$3.1 billion. This increase resulted primarily from the acquisition of Countrywide and the evaluation of new information in the remeasurement of prior period tax positions relating to both temporary and permanent differences.

Note 16 Fair Value Disclosures

Fair Value Option

Corporate Loans and Loan Commitments

The Corporation accounts for certain large corporate loans and loan commitments which exceeded the Corporation's single name credit risk concentration guidelines at fair value in accordance with SFAS No. 159 The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). Lending commitments, both funded and unfunded, are actively managed and monitored, and, as appropriate, credit risk for these lending relationships may be mitigated through the use of credit derivatives, with the Corporation's credit view and market perspectives determining the size and timing of the hedging activity. These credit derivatives do not meet the requirements for hedge accounting under SFAS 133 and are therefore carried at fair value with changes in fair value recorded in other income. SFAS 159 allows the Corporation to account for these loans and loan commitments at fair value, which is more consistent with the manner in which they are managed. In addition, accounting for these loans and loan commitments at fair value reduces the accounting asymmetry that would otherwise result from carrying the loans at historical cost and the credit derivatives at fair value.

At September 30, 2008 and December 31, 2007, funded loans that the Corporation fair values had an aggregate fair value of \$5.38 billion and \$4.59 billion recorded in loans and leases and an aggregate outstanding principal balance of \$5.85 billion and \$4.82 billion. At September 30, 2008 and December 31, 2007, unfunded loan commitments that the Corporation fair values had an aggregate fair value of \$716 million and \$660 million recorded in accrued expenses and other liabilities and an aggregate committed exposure of \$17.3 billion and \$20.9 billion. Interest income on these loans and commitment fees on these loan commitments are recorded in interest and fees on loans and leases. At September 30, 2008 and December 31, 2007, none of these loans were 90 days or more past due and still accruing interest or have been placed on nonaccrual status. Net losses resulting from changes in fair value of these loans and loan commitments of \$187 million and \$140 million were recorded in other income during the three months ended September 30, 2008 and 2007 while net losses of \$314 million and \$180 million were recorded during the nine months ended September 30, 2008 and 2007. These gains and losses were primarily attributable to changes in instrument-specific credit risk. These changes in fair value were predominately offset by hedging activities.

Table of Contents**Loans Held-for-Sale**

The Corporation also accounts for certain LHFS at fair value. Using fair value allows a better offset of the changes in fair values of the loans and the derivative instruments used to economically hedge them without the burden of complying with the requirements for hedge accounting under SFAS 133. The Corporation does not fair value other LHFS primarily because these loans are floating rate loans that are not economically hedged using derivative instruments. Fair values for LHFS are based on quoted market prices, where available, or are determined by discounting estimated cash flows using interest rates approximating the Corporation's current origination rates for similar loans and adjusted to reflect the inherent credit risk. At September 30, 2008 and December 31, 2007, residential mortgage loans, commercial mortgage loans, and other LHFS that the Corporation fair values had an aggregate fair value of \$15.61 billion and \$15.77 billion and an aggregate outstanding principal balance of \$17.32 billion and \$16.72 billion, primarily within *GCSBB*. Interest income on LHFS is recorded in other interest income. Net gains resulting from changes in fair value of these loans during the three months ended September 30, 2008 and 2007, including realized gains (losses) on sale, of \$520 million and \$81 million were recorded in mortgage banking income, \$(176) million and \$59 million were recorded in trading account profits (losses), and \$(38) million and \$(46) million were recorded in other income. Approximately \$87 million of losses were attributable to instrument-specific credit risk during the three months ended September 30, 2008. During the nine months ended September 30, 2008 and 2007 net gains (losses), including realized gains on sale, of \$637 million and \$120 million were recorded in mortgage banking income, \$(673) million and \$(186) million were recorded in trading account profits (losses), and \$(56) million and \$(53) million were recorded in other income. Approximately \$137 million of losses were attributable to instrument-specific credit risk during the nine months ended September 30, 2008. These changes in fair value were predominately offset by hedging activities.

Structured Reverse Repurchase Agreements

The Corporation fair values certain structured reverse repurchase agreements which are hedged with derivatives. Using fair value allows the Corporation to reduce volatility in earnings without the burden of complying with the requirements of hedge accounting under SFAS 133. At September 30, 2008 and December 31, 2007, these instruments had an aggregate fair value of \$2.64 billion and \$2.58 billion and a principal balance of \$2.64 billion and \$2.54 billion recorded in federal funds sold and securities purchased under agreements to resell. Interest earned on these instruments continues to be recorded in interest income. Net gains (losses) resulting from changes in fair value of these instruments of \$(8) million and \$8 million were recorded in other income for the three months ended September 30, 2008 and 2007, while gains (losses) of \$(15) million and \$16 million were recorded for the nine months ended September 30, 2008 and 2007. The Corporation does not fair value other financial instruments within the same balance sheet category because they were not economically hedged using derivatives.

Long-term Deposits

The Corporation fair values certain long-term fixed rate deposits which are economically hedged with derivatives. At September 30, 2008 and December 31, 2007, these instruments had an aggregate fair value of \$1.74 billion and \$2.00 billion and a principal balance of \$1.75 billion and \$1.99 billion recorded in interest-bearing deposits. Interest paid on these instruments continues to be recorded in interest expense. Net gains (losses) resulting from changes in fair value of these instruments of \$43 million and \$(25) million were recorded in other income for the three months ended September 30, 2008 and 2007 while net gains (losses) of \$22 million and \$(4) million were recorded for the nine months ended September 30, 2008 and 2007. Using fair value allows the Corporation to reduce the accounting volatility that would otherwise result from the accounting asymmetry created by accounting for the financial instruments at historical cost and the economic hedges at fair value. The Corporation does not fair value other financial instruments within the same balance sheet category because they were not economically hedged using derivatives.

Table of Contents***Fair Value Measurement***

SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Corporation determines the fair values of its 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. The Corporation carries certain corporate loans and loan commitments, LHFS, structured reverse repurchase agreements, and long-term deposits at fair value in accordance with SFAS 159. The Corporation also carries at fair value trading account assets and liabilities, derivative assets and liabilities, AFS debt securities, mortgage servicing rights (MSRs), and certain other assets. A detailed discussion on how the Corporation measures fair value is presented in *Note 1 Summary of Significant Accounting Principles* to the Consolidated Financial Statements of the Corporation's 2007 Annual Report on Form 10-K.

Level 1, 2 and 3 Valuation Techniques

Financial instruments are considered Level 1 when valuation can be based on quoted prices in active markets for identical assets or liabilities. Level 2 financial instruments are valued using quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data of substantially the full term of the assets or liabilities. Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable and when determination of the fair value requires significant management judgment or estimation.

The Corporation also uses market indices for direct inputs to certain models, where the cash settlement is directly linked to appreciation or depreciation of that particular index (primarily in the context of structured credit products). In those cases, no material adjustments are made off of the index-based values. In other cases, market indices are also used as inputs to valuation, but are adjusted for trade specific factors such as rating, credit quality, vintage and other factors.

Corporate Loans and Loan Commitments

The fair values of loans and loan commitments are based on market prices, where available, or discounted cash flows using market-based credit spreads of comparable debt instruments or credit derivatives of the specific borrower or comparable borrowers. Results of discounted cash flow calculations may be adjusted, as appropriate, to reflect other market conditions or the perceived credit risk of the borrower.

Structured Reverse Repurchase Agreements and Long-term Deposits

The fair values of structured reverse repurchase agreements and long-term deposits are determined using quantitative models, including discounted cash flow models, that require the use of multiple market inputs including interest rates and spreads to generate continuous yield or pricing curves and volatility factors, which are used to value the position. The majority of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services. The Corporation does incorporate, consistent with the requirements of SFAS 157, within its fair value measurements of long-term deposits the net credit differential between the counterparty credit risk and our own credit risk. The value of the net credit differential is determined by reference to existing direct market reference costs of credit, or where direct references are not available, a proxy is applied consistent with direct references for other counterparties that are similar in credit risk. An estimate of severity of loss is also used within the determination of fair value, primarily based on historical experience, adjusted for any more recent name specific expectations.

Trading Account Assets and Liabilities and Available-for-Sale Debt Securities

The fair values of trading account assets and liabilities are primarily based on actively traded markets where prices are based on either direct market quotes or observed transactions. The fair values of AFS debt securities are generally based on quoted market prices or market prices for similar assets. Liquidity is a significant factor in the determination of the fair values of trading account assets or liabilities and AFS debt securities. 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 such as certain CDO positions and other ABS. Some of these instruments are valued using a net asset value

approach, which considers the value of the underlying securities. Underlying assets are valued using external pricing services, where available, or matrix

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pricing based on the vintages and ratings. 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.

Derivative Assets and Liabilities

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 majority 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. The fair values of derivative assets and liabilities include adjustments for market liquidity, counterparty credit quality and other deal specific factors, where appropriate. Consistent with the way the Corporation fair values long-term deposits as discussed above, the Corporation incorporates, within its fair value measurements of over-the-counter derivatives, the net credit differential between the counterparty credit risk and our own credit risk.

Mortgage Servicing Rights

The fair values of MSRs are determined using models which depend on estimates of prepayment rates, the resultant weighted average lives of the MSRs and the option adjusted spread levels. For more information on MSRs, see *Note 17 Mortgage Servicing Rights* to the Consolidated Financial Statements.

Loans Held-for-Sale

The fair values of LHFS are based on quoted market prices, where available, or are determined by discounting estimated cash flows using interest rates approximating the Corporation's current origination rates for similar loans adjusted to reflect the inherent credit risk.

Other Assets

The Corporation fair values certain other assets including AFS equity securities and certain retained residual interests in securitization vehicles. The fair values of AFS equity securities are generally based on quoted market prices or market prices for similar assets. However, non-public investments are initially valued at transaction price and subsequently adjusted when evidence is available to support such adjustments. Retained residual interests in securitization vehicles are based on certain observable inputs such as interest rates and credit spreads, as well as unobservable inputs such as estimated net charge-off and payment rates.

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Assets and liabilities measured at fair value on a recurring basis, including financial instruments that the Corporation accounts for at fair value in accordance with SFAS 159, are summarized below:

(Dollars in millions)	September 30, 2008				Assets/Liabilities at Fair Value
	Fair Value Measurements Using Level 1	Level 2	Level 3	Netting Adjustments ⁽¹⁾	
Assets					
Federal funds sold and securities purchased under agreements to resell	\$ -	\$ 2,636	\$ -	\$ -	\$ 2,636
Trading account assets	38,777	128,371	7,711	-	174,859
Derivative assets	935	614,063	9,071	(578,277)	45,792
Available-for-sale debt securities	3,224	244,474	9,729	-	257,427
Loans and leases ⁽²⁾	-	-	5,383	-	5,383
Mortgage servicing rights	-	-	20,811	-	20,811
Loans held-for-sale	-	12,123	3,487	-	15,610
Other assets ⁽³⁾	21,408	1,356	3,735	-	26,499
Total assets	\$ 64,344	\$ 1,003,023	\$ 59,927	\$ (578,277)	\$ 549,017
Liabilities					
Interest-bearing deposits in domestic offices	\$ -	\$ 1,737	\$ -	\$ -	\$ 1,737
Trading account liabilities	53,091	15,138	-	-	68,229
Derivative liabilities	1,160	588,093	7,359	(570,146)	26,466
Accrued expenses and other liabilities	-	-	1,854	-	1,854
Total liabilities	\$ 54,251	\$ 604,968	\$ 9,213	\$ (570,146)	\$ 98,286
December 31, 2007					
Assets					
Federal funds sold and securities purchased under agreements to resell	\$ -	\$ 2,578	\$ -	\$ -	\$ 2,578
Trading account assets	42,986	115,051	4,027	-	162,064
Derivative assets	516	442,471	8,972	(417,297)	34,662
Available-for-sale debt securities	2,089	205,734	5,507	-	213,330
Loans and leases ⁽²⁾	-	-	4,590	-	4,590
Mortgage servicing rights	-	-	3,053	-	3,053
Loans held-for-sale	-	14,431	1,334	-	15,765
Other assets ⁽³⁾	19,796	1,540	3,987	-	25,323
Total assets	\$ 65,387	\$ 781,805	\$ 31,470	\$ (417,297)	\$ 461,365
Liabilities					
Interest-bearing deposits in domestic offices	\$ -	\$ 2,000	\$ -	\$ -	\$ 2,000
Trading account liabilities	57,331	20,011	-	-	77,342
Derivative liabilities	534	426,223	10,175	(414,509)	22,423
Accrued expenses and other liabilities	-	-	660	-	660
Total liabilities	\$ 57,865	\$ 448,234	\$ 10,835	\$ (414,509)	\$ 102,425

⁽¹⁾ Amounts represent the impact of legally enforceable master netting agreements that allow the Corporation to settle positive and negative positions and also cash collateral held or placed with the same counterparties.

⁽²⁾ Loans and leases at September 30, 2008 and December 31, 2007 included \$22.4 billion and \$22.6 billion of leases that were not eligible for the fair value option as leases are specifically excluded from fair value option election in accordance with SFAS 159.

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⁽³⁾Other assets include equity investments held by Principal Investing, AFS equity securities and certain retained residual interests in securitization vehicles, including interest-only strips. Substantially all of other assets are eligible for, and the Corporation has not chosen to elect, fair value accounting at September 30, 2008 and December 31, 2007.

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The table below presents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three and nine months ended September 30, 2008 and 2007, including realized and unrealized gains (losses) included in earnings and OCI.

Level 3 - Fair Value Measurements

(Dollars in millions)

	Three Months Ended September 30, 2008							
	Net Derivatives ⁽¹⁾	Trading Account Assets	Available-for- Sale Debt Securities	Loans and Leases ⁽²⁾	Mortgage Servicing Rights	Loans Held-for-Sale ⁽²⁾	Other Assets ⁽³⁾	Accrued Expenses and Other Liabilities ⁽²⁾
Balance, June 30, 2008	\$ 1,317	\$ 5,646	\$ 8,324	\$ 5,014	\$ 4,250	\$ 2,011	\$ 4,013	\$ (723)
Countrywide acquisition	(185)	1,407	528	-	17,188	1,425	-	(1,212)
Included in earnings	1,795	(1,332)	(802)	(179)	(179)	(275)	(344)	22
Included in other comprehensive income	-	-	(556)	-	-	-	-	-
Purchases, issuances, and settlements	(425)	(642)	1,468	548	(448)	(219)	66	59
Transfers in to (out of) Level 3	(790)	2,632	767	-	-	545	-	-
Balance, September 30, 2008	\$ 1,712	\$ 7,711	\$ 9,729	\$ 5,383	\$ 20,811	\$ 3,487	\$ 3,735	\$ (1,854)

Three Months Ended September 30, 2007

Balance, June 30, 2007	\$ (1,301)	\$ 289	\$ 226	\$ 3,606	\$ 3,269	\$ 507	\$ 6,163	\$ (391)
Included in earnings	411	(248)	-	(79)	(151)	(45)	273	(63)
Included in other comprehensive income	-	-	(83)	-	-	-	(10)	-
Purchases, issuances, and settlements	207	412	385	998	61	(41)	(1,878)	-
Transfers in to (out of) Level 3	61	3,258	-	-	-	1,952	(40)	-
Balance, September 30, 2007	\$ (622)	\$ 3,711	\$ 528	\$ 4,525	\$ 3,179	\$ 2,373	\$ 4,508	\$ (454)

Nine Months Ended September 30, 2008

	\$ (1,203)	\$ 4,027	\$ 5,507	\$ 4,590	\$ 3,053	\$ 1,334	\$ 3,987	\$ (660)
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Balance, January 1, 2008								
Countrywide acquisition	(185)	1,407	528	-	17,188	1,425	-	(1,212)
Included in earnings	1,484	(2,103)	(1,601)	(249)	409	(380)	305	(41)
Included in other comprehensive income	-	-	(1,060)	-	-	-	-	-
Purchases, issuances, and settlements	2,048	(1,437)	457	1,042	161	(604)	(414)	59
Transfers in to (out of) Level 3	(432)	5,817	5,898	-	-	1,712	(143)	-
Balance, September 30, 2008	\$ 1,712	\$ 7,711	\$ 9,729	\$ 5,383	\$ 20,811	\$ 3,487	\$ 3,735	\$ (1,854)

Nine Months Ended September 30, 2007								
Balance, January 1, 2007	\$ 788	\$ 303	\$ -	\$ 3,947	\$ 2,869	\$ -	\$ 6,605	\$ (349)
Included in earnings	(172)	(297)	-	(78)	388	(49)	2,218	(105)
Included in other comprehensive income	-	-	(79)	-	-	-	(73)	-
Purchases, issuances, and settlements	(252)	436	376	656	(78)	107	(4,176)	-
Transfers in to (out of) Level 3	(986)	3,269	231	-	-	2,315	(66)	-
Balance, September 30, 2007	\$ (622)	\$ 3,711	\$ 528	\$ 4,525	\$ 3,179	\$ 2,373	\$ 4,508	\$ (454)

(1) Net derivatives at September 30, 2008 and 2007 included derivative assets of \$9.07 billion and \$9.00 billion and derivative liabilities of \$7.36 billion and \$9.63 billion. Net derivatives acquired in connection with Countrywide included derivative assets of \$107 million and derivative liabilities of \$292 million.

(2) Amounts represent items which are accounted for at fair value in accordance with SFAS 159 including commercial loan commitments and certain secured financings recorded in accrued expenses and other liabilities.

(3) Other assets include equity investments held by Principal Investing and certain retained interests in securitization vehicles, including interest-only strips.

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The table below summarizes gains and losses due to changes in fair value, including both realized and unrealized gains and losses, recorded in earnings for Level 3 assets and liabilities during the three and nine months ended September 30, 2008 and 2007. These amounts include those gains and losses generated by loans, LHFS and loan commitments which are accounted for at fair value in accordance with SFAS 159.

Level 3 - Total Realized and Unrealized Gains (Losses) Included in Earnings

(Dollars in millions)

	Three Months Ended September 30, 2008								
	Loans								Accrued Expenses and Other Liabilities ⁽¹⁾
	Net Derivatives	Trading Account Assets	Available-for-Sale Debt Securities	Loans and Leases ⁽¹⁾	Mortgage Servicing Rights	Held-for-Sale ⁽¹⁾	Other Assets		
Card income (loss)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (396)	\$ -	\$ (396)
Equity investment income	-	-	-	-	-	-	52	-	52
Trading account profits (losses)	1,068	(1,308)	-	3	-	(165)	-	12	(390)
Mortgage banking income (loss)	727	(24)	(25)	-	(179)	(110)	-	15	404
Other income (loss)	-	-	(777)	(182)	-	-	-	(5)	(964)
Total	\$ 1,795	\$ (1,332)	\$ (802)	\$ (179)	\$ (179)	\$ (275)	\$ (344)	\$ 22	\$ (1,294)
	Three Months Ended September 30, 2007								
Card income (loss)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (34)	\$ -	\$ (34)
Equity investment income	-	-	-	-	-	-	297	-	297
Trading account profits (losses)	332	(248)	-	-	-	(39)	-	(2)	43
Mortgage banking income (loss)	79	-	-	-	(151)	(6)	-	-	(78)
Other income (loss)	-	-	-	(79)	-	-	10	(61)	(130)
Total	\$ 411	\$ (248)	\$ -	\$ (79)	\$ (151)	\$ (45)	\$ 273	\$ (63)	\$ 98
	Nine Months Ended September 30, 2008								
Card income (loss)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (19)	\$ -	\$ (19)
Equity investment income	-	-	-	-	-	-	316	-	316
Trading account profits (losses)	718	(2,079)	-	1	-	(205)	-	8	(1,557)
Mortgage banking income (loss)	766	(24)	(25)	-	409	(175)	-	15	966
Other income (loss)	-	-	(1,576)	(250)	-	-	8	(64)	(1,882)
Total	\$ 1,484	\$ (2,103)	\$ (1,601)	\$ (249)	\$ 409	\$ (380)	\$ 305	\$ (41)	\$ (2,176)
	Nine Months Ended September 30, 2007								
Card income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 246	\$ -	\$ 246
Equity investment income	-	-	-	-	-	-	1,908	-	1,908
Trading account profits (losses)	(133)	(297)	-	-	-	(39)	-	(3)	(472)
Mortgage banking income (loss)	(39)	-	-	-	388	(6)	-	-	343
Other income (loss)	-	-	-	(78)	-	(4)	64	(102)	(120)
Total	\$ (172)	\$ (297)	\$ -	\$ (78)	\$ 388	\$ (49)	\$ 2,218	\$ (105)	\$ 1,905

⁽¹⁾ Amounts represent items which are accounted for at fair value in accordance with SFAS 159.

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The table below summarizes changes in unrealized gains or losses recorded in earnings during the three and nine months ended September 30, 2008 and 2007 for Level 3 assets and liabilities that were still held at September 30, 2008 and 2007. These amounts include changes in fair value of loans, LHFS and loan commitments which are accounted for at fair value in accordance with SFAS 159.

Level 3 Changes in Unrealized Gains (Losses) Relating to Assets Still Held at Reporting Date

(Dollars in millions)

	Three Months Ended September 30, 2008								Total
	Net Derivatives	Trading Account Assets	Available-for-Sale Debt Securities	Loans and Leases ⁽¹⁾	Mortgage Servicing Rights	Held-for-Sale ⁽¹⁾	Other Assets	Accrued Expenses and Other Liabilities ⁽¹⁾	
Card income (loss)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (323)	\$ -	\$ (323)
Equity investment income	-	-	-	-	-	-	(92)	-	(92)
Trading account profits (losses)	1,480	(1,306)	-	-	-	(144)	-	-	30
Mortgage banking income	221	-	(3)	-	(344)	(97)	-	(31)	(254)
Other income (loss)	-	-	(520)	(269)	-	-	-	(31)	(820)
Total	\$ 1,701	\$ (1,306)	\$ (523)	\$ (269)	\$ (344)	\$ (241)	\$ (415)	\$ (62)	\$ (1,459)
	Three Months Ended September 30, 2007								
Card income (loss)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (53)	\$ -	\$ (53)
Equity investment income	-	-	-	-	-	-	139	-	139
Trading account profits (losses)	475	(248)	-	-	-	(39)	-	-	188
Mortgage banking income	40	-	-	-	(229)	(6)	-	-	(195)
Other income (loss)	-	-	-	(88)	-	-	-	(97)	(185)
Total	\$ 515	\$ (248)	\$ -	\$ (88)	\$ (229)	\$ (45)	\$ 86	\$ (97)	\$ (106)
	Nine Months Ended September 30, 2008								
Card income (loss)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (223)	\$ -	\$ (223)
Equity investment income	-	-	-	-	-	-	60	-	60
Trading account profits (losses)	1,200	(2,053)	-	-	-	(186)	-	-	(1,039)
Mortgage banking income	199	-	(3)	-	174	(131)	-	(31)	208
Other income (loss)	-	-	(1,142)	(424)	-	(1)	-	(360)	(1,927)
Total	\$ 1,399	\$ (2,053)	\$ (1,145)	\$ (424)	\$ 174	\$ (318)	\$ (163)	\$ (391)	\$ (2,921)
	Nine Months Ended September 30, 2007								
Card income (loss)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 39	\$ -	\$ 39
Equity investment income	-	-	-	-	-	-	262	-	262
Trading account profits (losses)	(1)	(297)	-	-	-	(37)	-	(1)	(336)
Mortgage banking income	8	-	-	-	174	(6)	-	-	176
Other income (loss)	-	-	-	(98)	-	(2)	-	(176)	(276)
Total	\$ 7	\$ (297)	\$ -	\$ (98)	\$ 174	\$ (45)	\$ 301	\$ (177)	\$ (135)

⁽¹⁾ Amounts represented items which are accounted for at fair value in accordance with SFAS 159.

Certain assets and liabilities are measured at fair value on a non-recurring basis (e.g., LHFS, unfunded loan commitments held-for-sale, and commercial and residential reverse mortgage MSRs, all of which are carried at the lower of cost or market). The following does not reflect any hedge strategies that may be undertaken to mitigate such risk. At September 30, 2008 and December 31, 2007, LHFS that the Corporation accounts for at the lower of cost or market with an aggregate cost of \$14.16 billion and \$14.70 billion had been written down to fair value of \$13.34 billion and \$14.50 billion (of which \$2.55 billion and \$1.20 billion were measured using Level 2 inputs, and \$10.79 billion and \$13.30 billion were measured using Level 3 inputs within the fair value hierarchy). During the three months ended September 30, 2008 and 2007, losses of \$208 million and \$207 million were recorded in other income (primarily commercial mortgage LHFS and leveraged LHFS), losses of \$1 million and \$44 million were recorded in trading account profits (losses) (primarily commercial mortgage LHFS) and losses of \$31 million and \$6 million were recorded in mortgage banking income (primarily consumer mortgage LHFS). During the nine months ended September 30, 2008 and 2007, losses of \$524 million and \$233 million were recorded in other income (primarily commercial mortgage LHFS and leveraged LHFS), losses of \$195 million and \$47 million were recorded within trading account profits (losses) (primarily commercial

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mortgage LHFS) and losses of \$40 million and \$10 million were recorded in mortgage banking income (primarily consumer mortgage LHFS).

NOTE 17 Mortgage Servicing Rights

The Corporation accounts for consumer MSR at fair value with changes in fair value recorded in the Consolidated Statement of Income in mortgage banking income. The Corporation economically hedges these MSRs with certain derivatives and securities.

The following table presents activity for consumer MSRs for the three and nine months ended September 30, 2008 and 2007.

(Dollars in millions)	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Balance, beginning of period	\$ 4,250	\$ 3,269	\$ 3,053	\$ 2,869
Countrywide balance, July 1, 2008	17,188	-	17,188	-
Additions	875	271	1,910	539
Impact of customer payments	(1,425)	(187)	(1,855)	(554)
Other changes in MSR market value	(77)	(174)	515	325
Balance, September 30	\$ 20,811	\$ 3,179	\$ 20,811	\$ 3,179
Mortgage loans serviced for investors (in billions)	\$ 1,654	\$ 245		

For the three and nine months ended September 30, 2008 other changes in MSR market value were \$(77) million and \$515 million compared to \$(174) million and \$325 million for the same periods in 2007. These amounts reflect the changes in discount rates and prepayment speed assumptions, mostly due to changes in interest rates, as well as the effect of changes in other assumptions. For the three and nine months ended September 30, 2008, the amounts did not include \$(102) million and \$(106) million resulting from the actual cash received that was less than expected prepayments. For the three and nine months ended September 30, 2007, the amounts did not include \$23 million and \$63 million resulting from the actual cash received exceeding expected prepayments. The net amounts of \$(179) million and \$409 million for the current periods, and \$(151) million and \$388 million for the comparable periods in the prior year are included in the line mortgage banking income (loss) in the table Total Realized and Unrealized Gains (Losses) Included in Earnings in Note 16 Fair Value Disclosures to the Consolidated Financial Statements.

As of September 30, 2008, the fair value of consumer MSRs was \$20.8 billion. The Corporation uses an option-adjusted spread valuation approach to determine the fair value of MSRs which factors in prepayment risk. This approach consists of projecting servicing cash flows under multiple interest rate scenarios and discounting these cash flows using risk-adjusted discount rates. The key economic assumptions used in valuations of MSRs include weighted average lives of the MSRs and the option adjusted spread levels.

Key economic assumptions used in determining the fair value of MSRs at September 30, 2008 and December 31, 2007 were as follows:

(Dollars in millions)	September 30, 2008		December 31, 2007	
	Fixed	Adjustable	Fixed	Adjustable
Weighted average option adjusted spread	1.50%	6.13%	0.59%	2.54%
Weighted average life, in years	5.38	3.79	4.80	2.75

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The following table presents the sensitivity of the weighted-average lives and fair value of MSR to changes in modeled assumptions. The sensitivities in the following table are hypothetical and should be used with caution. As the amounts indicate, changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of a MSR that continues to be held by the Corporation is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities. Additionally, the Corporation has the ability to hedge interest rate and market valuation fluctuations associated with MSRs. The above sensitivities do not reflect any hedge strategies that may be undertaken to mitigate such risk.

(Dollars in millions)	September 30, 2008 Change in Weighted-Average Lives		Change in Fair Value
	Fixed	Adjustable	
Prepayment rates			
Impact of 10% decrease	0.27 years	0.17 years	\$ 757
Impact of 20% decrease	0.58	0.37	1,611
Impact of 10% increase	(0.24)	(0.15)	(677)
Impact of 20% increase	(0.46)	(0.28)	(1,288)
OAS level			
Impact of 100 bps decrease	n/a	n/a	873
Impact of 200 bps decrease	n/a	n/a	1,821
Impact of 100 bps increase	n/a	n/a	(805)
Impact of 200 bps increase	n/a	n/a	(1,551)

n/a = not applicable

Commercial and residential reverse mortgage MSRs are accounted for using the amortization method (i.e., lower of cost or market). Commercial and residential reverse mortgage MSRs totaled \$320 million and \$294 million at September 30, 2008 and December 31, 2007 and are not included in the tables above.

NOTE 18 Business Segment Information

The Corporation reports the results of its operations through three business segments: *Global Consumer and Small Business Banking (GCSBB)*, *Global Corporate and Investment Banking (GCIB)* and *Global Wealth and Investment Management (GWIM)*. The Corporation may periodically reclassify business segment results based on modifications to its management reporting methodologies and changes in organizational alignment.

Global Consumer and Small Business Banking

GCSBB provides a diversified range of products and services to individuals and small businesses. The Corporation reports *GCSBB*'s results, specifically credit card and certain unsecured lending portfolios, on a managed basis. Reporting on a managed basis 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. This basis of presentation excludes the Corporation's securitized mortgage and home equity portfolios for which the Corporation retains servicing. 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.

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The performance of the managed portfolio is important in understanding *GCSBB*'s results as it demonstrates the results of the entire portfolio serviced by the business. 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, retained excess servicing income is exposed to similar credit risk and repricing of interest rates as held loans. *GCSBB*'s managed income statement line items differ from a held basis as follows:

Managed net interest income includes *GCSBB*'s net interest income on held loans and interest income on the securitized loans less the internal funds transfer pricing allocation related to securitized loans.

Managed noninterest income includes *GCSBB*'s noninterest income on a held basis less the reclassification of certain components of card income (e.g., excess servicing income) to record securitized net interest income and provision for credit losses. Noninterest income, both on a held and managed basis, also includes the impact of adjustments to the interest-only strip that are recorded in card income as management continues to manage this impact within *GCSBB*.

Provision for credit losses represents the provision for credit losses on held loans combined with realized credit losses associated with the securitized loan portfolio.

Global Corporate and Investment Banking

GCIB provides a wide range of financial services to both the Corporation's 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.

Global Wealth and Investment Management

GWIM offers investment and brokerage services, estate management, financial planning services, fiduciary management, credit and banking expertise, and diversified asset management products to institutional clients, as well as affluent and high net-worth individuals. *GWIM* also includes the impact of migrated qualifying affluent customers, including their related deposit balances, from *GCSBB*. After migration, the associated net interest income, service charges and noninterest expense on the deposit balances are recorded in *GWIM*.

All Other

All Other consists of equity investment activities including Principal Investing, Corporate Investments and Strategic Investments, the residual impact of the allowance for credit losses and the cost allocation processes, merger and restructuring charges, and the results of certain businesses that are expected to be or have been sold or are in the process of being liquidated. *All Other* also includes certain amounts associated with ALM activities and a corresponding securitization offset which removes the securitization impact of sold loans in *GCSBB*, in order to present the consolidated results of the Corporation on a GAAP basis (i.e., held basis).

Basis of Presentation

Total revenue, net of interest expense, includes net interest income on a FTE basis and noninterest income. The adjustment of net interest income to a FTE basis results in a corresponding increase in income tax expense. 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. Net interest income of the business segments also includes an allocation of net interest income generated by the Corporation's ALM activities.

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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.

The following tables present total revenue, net of interest expense, on a FTE basis and net income for the three and nine months ended September 30, 2008 and 2007, and total assets at September 30, 2008 and 2007 for each business segment, as well as *All Other*.

Business Segments**Three Months Ended September 30**

(Dollars in millions)	Total Corporation ⁽¹⁾		Global Consumer and Small Business Banking ^(2, 3)		Global Corporate and Investment Banking ⁽²⁾	
	2008	2007	2008	2007	2008	2007
Net interest income ⁽⁴⁾	\$ 11,920	\$ 8,992	\$ 8,938	\$ 7,257	\$ 4,124	\$ 2,713
Noninterest income	7,979	7,480	6,991	4,818	413	206
Total revenue, net of interest expense	19,899	16,472	15,929	12,075	4,537	2,919
Provision for credit losses ⁽⁵⁾	6,450	2,030	6,655	3,122	779	227
Amortization of intangibles	464	429	353	327	48	41
Other noninterest expense	11,196	8,282	6,922	4,954	2,859	2,497
Income before income taxes	1,789	5,731	1,999	3,672	851	154
Income tax expense ⁽⁴⁾	612	2,033	765	1,359	318	64
Net income	\$ 1,177	\$ 3,698	\$ 1,234	\$ 2,313	\$ 533	\$ 90
Period-end total assets	\$ 1,831,177	\$ 1,578,763	\$ 506,154	\$ 402,773	\$ 753,495	\$ 739,427

(Dollars in millions)	Global Wealth and Investment Management ⁽²⁾		All Other ^(2, 3)	
	2008	2007	2008	2007
Net interest income ⁽⁴⁾	\$ 1,249	\$ 1,002	\$ (2,391)	\$ (1,980)
Noninterest income	298	1,076	277	1,380
Total revenue, net of interest expense	1,547	2,078	(2,114)	(600)
Provision for credit losses ⁽⁵⁾	150	(29)	(1,134)	(1,290)
Amortization of intangibles	55	61	8	-
Other noninterest expense	1,229	1,157	186	(326)
Income (loss) before income taxes	113	889	(1,174)	1,016
Income tax expense (benefit) ⁽⁴⁾	46	331	(517)	279
Net income (loss)	\$ 67	\$ 558	\$ (657)	\$ 737
Period-end total assets	\$ 179,347	\$ 138,725	\$ 392,181	\$ 297,838

(1) There were no material intersegment revenues among the segments.

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

(3) *GCSBB* is presented on a managed basis with a corresponding offset recorded in *All Other*.

(4) FTE basis

(5)

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Provision for credit losses represents: For *GCSBB* Provision for credit losses on held loans combined with realized credit losses associated with the securitized loan portfolio and for *All Other* Provision for credit losses combined with the *GCSBB* securitization offset.

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Nine Months Ended September 30

(Dollars in millions)	Global Consumer and Small					
	Total Corporation ⁽¹⁾		Business Banking ^(2,3)		Global Corporate and Investment Banking ⁽²⁾	
	2008	2007	2008	2007	2008	2007
Net interest income ⁽⁴⁾	\$ 33,148	\$ 26,375	\$ 24,636	\$ 21,378	\$ 11,540	\$ 7,709
Noninterest income	24,848	28,753	17,856	13,953	2,116	6,576
Total revenue, net of interest expense	57,996	55,128	42,492	35,331	13,656	14,285
Provision for credit losses ⁽⁵⁾	18,290	5,075	19,655	8,626	1,665	384
Amortization of intangibles	1,357	1,209	1,015	987	145	125
Other noninterest expense	29,225	25,906	16,805	13,806	8,007	8,621
Income before income taxes	9,124	22,938	5,017	11,912	3,839	5,155
Income tax expense ⁽⁴⁾	3,327	8,224	1,849	4,393	1,441	1,914
Net income	\$ 5,797	\$ 14,714	\$ 3,168	\$ 7,519	\$ 2,398	\$ 3,241
Period-end total assets	\$ 1,831,177	\$ 1,578,763	\$ 506,154	\$ 402,773	\$ 753,495	\$ 739,427

(Dollars in millions)	Global Wealth and Investment Management ⁽²⁾				All Other ^(2,3)	
	2008	2007	2008	2007	2008	2007
	Net interest income ⁽⁴⁾	\$ 3,380	\$ 2,872	\$ (6,408)	\$ (5,584)	
Noninterest income	2,368	2,875	2,508	5,349		
Total revenue, net of interest expense	5,748	5,747	(3,900)	(235)		
Provision for credit losses ⁽⁵⁾	512	(20)	(3,542)	(3,915)		
Amortization of intangibles	175	93	22	4		
Other noninterest expense	3,661	3,090	752	389		
Income (loss) before income taxes	1,400	2,584	(1,132)	3,287		
Income tax expense (benefit) ⁽⁴⁾	529	958	(492)	959		
Net income (loss)	\$ 871	\$ 1,626	\$ (640)	\$ 2,328		
Period-end total assets	\$ 179,347	\$ 138,725	\$ 392,181	\$ 297,838		

(1) There were no material intersegment revenues among the segments.

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

(3) *GCSBB* is presented on a managed basis with a corresponding offset recorded in *All Other*.

(4) FTE basis

(5) Provision for credit losses represents: For *GCSBB* Provision for credit losses on held loans combined with realized credit losses associated with the securitized loan portfolio and for *All Other* Provision for credit losses combined with the *GCSBB* securitization offset.

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GCSBB is reported on a managed basis which includes a securitization impact adjustment which has the effect of presenting securitized loans in a manner similar to the way loans that have not been sold are presented. *All Other* results include a corresponding securitization offset which removes the impact of these securitized loans in order to present the consolidated results of the Corporation on a held basis. The tables below reconcile *GCSBB* and *All Other* to a held basis by reclassifying net interest income, all other income and realized credit losses associated with the securitized loans to card income.

GCSBB Reconciliation

	Three Months Ended September 30, 2008			Three Months Ended September 30, 2007		
	Managed	Securitization	Held	Managed	Securitization	Held
(Dollars in millions)	Basis ⁽¹⁾	Impact ⁽²⁾	Basis	Basis ⁽¹⁾	Impact ⁽²⁾	Basis
Net interest income ⁽³⁾	\$ 8,938	\$ (2,207)	\$ 6,731	\$ 7,257	\$ (2,085)	\$ 5,172
Noninterest income:						
Card income	2,296	507	2,803	2,588	896	3,484
Service charges	1,822	-	1,822	1,519	-	1,519
Mortgage banking income	1,756	-	1,756	243	-	243
Insurance premiums	709	(44)	665	266	(58)	208
All other income	408	(10)	398	202	(12)	190
Total noninterest income	6,991	453	7,444	4,818	826	5,644
Total revenue, net of interest expense	15,929	(1,754)	14,175	12,075	(1,259)	10,816
Provision for credit losses	6,655	(1,754)	4,901	3,122	(1,259)	1,863
Noninterest expense	7,275	-	7,275	5,281	-	5,281
Income before income taxes	1,999	-	1,999	3,672	-	3,672
Income tax expense ⁽³⁾	765	-	765	1,359	-	1,359
Net income	\$ 1,234	\$ -	\$ 1,234	\$ 2,313	\$ -	\$ 2,313

	Nine Months Ended September 30, 2008			Nine Months Ended September 30, 2007		
	Managed	Securitization	Held	Managed	Securitization	Held
(Dollars in millions)	Basis ⁽¹⁾	Impact ⁽²⁾	Basis	Basis ⁽¹⁾	Impact ⁽²⁾	Basis
Net interest income ⁽³⁾	\$ 24,636	\$ (6,402)	\$ 18,234	\$ 21,378	\$ (5,956)	\$ 15,422
Noninterest income:						
Card income	7,583	1,768	9,351	7,567	2,528	10,095
Service charges	5,130	-	5,130	4,385	-	4,385
Mortgage banking income	2,820	-	2,820	842	-	842
Insurance premiums	1,203	(152)	1,051	662	(193)	469
All other income	1,120	(28)	1,092	497	(28)	469
Total noninterest income	17,856	1,588	19,444	13,953	2,307	16,260
Total revenue, net of interest expense	42,492	(4,814)	37,678	35,331	(3,649)	31,682
Provision for credit losses	19,655	(4,814)	14,841	8,626	(3,649)	4,977
Noninterest expense	17,820	-	17,820	14,793	-	14,793
Income before income taxes	5,017	-	5,017	11,912	-	11,912
Income tax expense ⁽³⁾	1,849	-	1,849	4,393	-	4,393
Net income	\$ 3,168	\$ -	\$ 3,168	\$ 7,519	\$ -	\$ 7,519

(1) Provision for credit losses represents provision for credit losses on held loans combined with realized credit losses associated with the securitized loan portfolio.

(2) The securitization impact 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

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	Three Months Ended September 30, 2008			Three Months Ended September 30, 2007		
	Reported	Securitization	As	Reported	Securitization	As
(Dollars in millions)	Basis ⁽¹⁾	Offset ⁽²⁾	Adjusted	Basis ⁽¹⁾	Offset ⁽²⁾	Adjusted
Net interest income ⁽³⁾	\$ (2,391)	\$ 2,207	\$ (184)	\$ (1,980)	\$ 2,085	\$ 105
Noninterest income:						
Card income	537	(507)	30	739	(896)	(157)
Equity investment income (loss)	(326)	-	(326)	852	-	852
Gains (losses) on sales of debt securities	(2)	-	(2)	7	-	7
All other income (loss)	68	54	122	(218)	70	(148)
Total noninterest income	277	(453)	(176)	1,380	(826)	554
Total revenue, net of interest expense	(2,114)	1,754	(360)	(600)	1,259	659
Provision for credit losses	(1,134)	1,754	620	(1,290)	1,259	(31)
Merger and restructuring charges	247	-	247	84	-	84
All other noninterest expense	(53)	-	(53)	(410)	-	(410)
Income (loss) before income taxes	(1,174)	-	(1,174)	1,016	-	1,016
Income tax expense (benefit) ⁽³⁾	(517)	-	(517)	279	-	279
Net income (loss)	\$ (657)	\$ -	\$ (657)	\$ 737	\$ -	\$ 737

	Nine Months Ended September 30, 2008			Nine Months Ended September 30, 2007		
	Reported	Securitization	As	Reported	Securitization	As
(Dollars in millions)	Basis ⁽¹⁾	Offset ⁽²⁾	Adjusted	Basis ⁽¹⁾	Offset ⁽²⁾	Adjusted
Net interest income ⁽³⁾	\$ (6,408)	\$ 6,402	\$ (6)	\$ (5,584)	\$ 5,956	\$ 372
Noninterest income:						
Card income	1,796	(1,768)	28	2,137	(2,528)	(391)
Equity investment income	652	-	652	3,467	-	3,467
Gains on sales of debt securities	349	-	349	70	-	70
All other income (loss)	(289)	180	(109)	(325)	221	(104)
Total noninterest income	2,508	(1,588)	920	5,349	(2,307)	3,042
Total revenue, net of interest expense	(3,900)	4,814	914	(235)	3,649	3,414
Provision for credit losses	(3,542)	4,814	1,272	(3,915)	3,649	(266)
Merger and restructuring charges	629	-	629	270	-	270
All other noninterest expense	145	-	145	123	-	123
Income (loss) before income taxes	(1,132)	-	(1,132)	3,287	-	3,287
Income tax expense (benefit) ⁽³⁾	(492)	-	(492)	959	-	959
Net income (loss)	\$ (640)	\$ -	\$ (640)	\$ 2,328	\$ -	\$ 2,328

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

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

(3) FTE basis

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The following table presents reconciliations of the three business segments (*GCSBB*, *GCIB* and *GWIM*) total revenue, net of interest expense, on a FTE basis and net income to the Consolidated Statement of Income. The adjustments presented in the table below include consolidated income and expense amounts not specifically allocated to individual business segments.

(Dollars in millions)	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Segments total revenue, net of interest expense ⁽¹⁾	\$ 22,013	\$ 17,072	\$ 61,896	\$ 55,363
Adjustments:				
ALM activities	338	19	846	121
Equity investment income (loss)	(326)	852	652	3,467
Liquidating businesses	54	199	221	867
FTE basis adjustment	(278)	(375)	(894)	(1,099)
Managed securitization impact to total revenue, net of interest expense	(1,754)	(1,259)	(4,814)	(3,649)
Other	(426)	(411)	(805)	(1,041)
Consolidated revenue, net of interest expense	\$ 19,621	\$ 16,097	\$ 57,102	\$ 54,029
Segments net income	\$ 1,834	\$ 2,961	\$ 6,437	\$ 12,386
Adjustments, net of taxes:				
ALM activities	(261)	(71)	(424)	(111)
Equity investment income (loss)	(205)	537	411	2,184
Liquidating businesses	37	98	90	534
Merger and restructuring charges	183	53	424	170
Other	(411)	120	(1,141)	(449)
Consolidated net income	\$ 1,177	\$ 3,698	\$ 5,797	\$ 14,714

(1) FTE basis

NOTE 19 Subsequent Events

In October 2008, the Corporation issued 455 million shares of common stock at \$22.00 per share which resulted in proceeds of \$9.8 billion, net of underwriting expenses.

In October 2008, in connection with the Troubled Asset Relief Program (TARP) Capital Purchase Program, established as part of the Emergency Economic Stabilization Act of 2008, the Corporation issued to the U.S. Treasury Department (U.S. Treasury) 600 thousand shares of Bank of America Corporation Fixed Rate Cumulative Perpetual Preferred Stock, Series N (Series N Preferred Stock) with a par value of \$0.01 per share for \$15.0 billion. The Series N Preferred Stock initially pays quarterly dividends at a five percent annual rate that increases to nine percent after five years on a liquidation preference of \$25,000 per share. The Series N Preferred Stock has a call feature after three years. In connection with this investment, the Corporation also issued to the U.S. Treasury 10-year warrants to purchase approximately 73.1 million shares of Bank of America Corporation common stock at an exercise price of \$30.79 per share. Upon the request of the U.S. Treasury, at any time, the Corporation has agreed to enter into a deposit arrangement pursuant to which the Series N Preferred Stock may be deposited and depositary shares, representing 1/25th of a share of Series N Preferred Stock, may be issued. The Corporation has agreed to register the Series N Preferred Stock, the warrants, the shares of common stock underlying the warrants and the depositary shares, if any, for resale under the Securities Act of 1933, as soon as practicable after the issuance of the Series N Preferred Stock and the warrants.

In connection with the sale of the Series N Preferred Stock, Merrill Lynch entered into an agreement with the U.S. Treasury which allows Merrill Lynch to sell preferred stock and 10-year warrants to the U.S. Treasury for a purchase price of \$10.0 billion prior to January 31, 2009 under certain circumstances. The U.S. Treasury has agreed with the Corporation that if the closing of the Merrill Lynch acquisition occurs prior to any such sale of preferred stock by Merrill Lynch to the

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U.S. Treasury, the U.S. Treasury will purchase, and the Corporation will issue, 400 thousand additional shares of Series N Preferred Stock (or a substantially similar series) and warrants to purchase approximately 48.7 million additional shares of common stock at an exercise price of \$30.79, for an aggregate purchase price of \$10.0 billion.

As required under the TARP Capital Purchase Program in connection with the sale of the Series N Preferred Stock to the U.S. Treasury, dividend payments on, and repurchases of, the Corporation's outstanding preferred and common stock are subject to certain restrictions. For as long as any Series N Preferred Stock is outstanding, no dividends may be declared or paid on the Corporation's outstanding preferred and common stock until all accrued and unpaid dividends on Series N Preferred Stock are fully paid. In addition, the U.S. Treasury's consent is required on any increase in dividends declared on shares of common stock in excess of \$0.32 per share before the third anniversary of the issuance of the Series N Preferred Stock unless the Series N Preferred Stock is redeemed by the Corporation or transferred in whole by the U.S. Treasury. Further, the U.S. Treasury's consent is required for any repurchase of any equity securities or trust preferred securities except for repurchases of Series N Preferred Stock or repurchases of common shares in connection with benefit plans consistent with past practice before the third anniversary of the issuance of the Series N Preferred Stock unless redeemed by the Corporation or transferred in whole by the U.S. Treasury.

Table of Contents**Bank of America Corporation and Subsidiaries****Management's Discussion and Analysis of Financial Condition and Results of Operations**

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Throughout the MD&A, we use certain acronyms and

abbreviations which are defined in the Glossary beginning on page 171.

Table of Contents**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This report on Form 10-Q contains certain statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. 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. These statements are not historical facts, but instead represent Bank of America Corporation and its subsidiaries (the Corporation) current expectations, intentions or forecasts of future events, circumstances or results. These statements are not guarantees of future results or performance and involve certain risks, uncertainties and assumptions that are difficult to predict and often are beyond the Corporation's control. Actual outcomes and results may differ materially from those expressed in, or implied by, our forward-looking statements. You should not place undue reliance on any forward-looking statement and should consider all uncertainties and risks discussed in this report, including under Item 1A. Risk Factors, as well as those discussed under Item 1A. Risk Factors of the Corporation's 2007 Annual Report on Form 10-K and in any of the Corporation's other subsequent SEC filings. Forward-looking statements speak only as of the date they are made, and the Corporation undertakes no obligation to update any forward-looking statement to reflect the impact of circumstances or events that arise after the date the forward-looking statement was made.

In addition to the risk factors discussed under Item 1A. Risk Factors in this report and Item 1A. Risk Factors of the Corporation's 2007 Annual Report on Form 10-K, other possible events or factors that could cause results or performance to differ materially from those expressed in our forward-looking statements include the following: negative economic conditions that adversely affect the general economy, housing prices, the job market, consumer confidence and spending habits which may affect, among other things, the level of nonperforming assets, charge-offs and provision expense; changes in interest rates 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; estimates of fair value of certain of the Corporation's assets and liabilities, which could change in value significantly from period to period; legislative and regulatory actions in the United States and internationally 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; increased competition with other large and well-capitalized banks and financial institutions; the Corporation's ability to grow its core businesses; the Corporation's 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 identify and 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 September 30, 2008, the Corporation had \$1.8 trillion in assets and approximately 247,000 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.

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2008 Economic Environment

During the third quarter, market and economic conditions were severely impacted where credit conditions rapidly deteriorated and financial markets experienced widespread illiquidity and elevated levels of volatility. Concerns about future economic growth, oil prices, lower consumer confidence, rapid contraction of credit availability and lower corporate earnings continued to challenge the economy. The rate of unemployment continued to increase, reaching its highest level in nearly five years. Mortgage, corporate and the related counterparty credit spreads widened and heightened concerns about the impact of monoline insurers (monolines), auction rate securities (ARS), and structured investment vehicles (SIVs) adversely impacted the financial markets. As a result of these unparalleled market conditions, federal government agencies including the U.S. Treasury Department (U.S. Treasury) and the Federal Reserve Board initiated several actions which changed the landscape of the U.S. financial services industry. For more information related to these initiatives, see the Regulatory Initiatives discussion below.

The deteriorating economy continued to negatively impact the credit quality of our loan portfolios with more rapid deterioration occurring in the latter part of the most recent quarter. The stress consumers experienced from depreciating home prices, rising unemployment and tighter credit conditions resulted in a higher level of bankruptcy filings during the quarter as well as higher levels of delinquencies and losses in our consumer and small business portfolios. Housing value declines, a slowdown in consumer spending and the turmoil in the global financial markets also impacted our commercial portfolios where we experienced higher levels of losses, particularly in the homebuilder sector of our commercial real estate portfolio. Commercial criticized utilized exposures have also increased due to broader-based economic pressures. During the first nine months of 2008, we increased the allowance for credit losses across most portfolios. For more information on credit quality, see the Credit Risk Management discussion beginning on page 123.

The market dislocations continued to significantly impact our results. We have incurred additional losses on CDOs and related subprime exposure and continue to reduce our exposure to these vehicles. Further, we have also incurred losses associated with investments in certain equity securities (e.g., Fannie Mae and Freddie Mac) and have incurred estimated losses on our commitment to buy back ARS from our clients as discussed in Recent Events below. For more information on CDOs, the related ongoing exposure and the impacts of the continuing market dislocations (e.g., leveraged finance and CMBS writedowns), see the *Capital Markets and Advisory Services (CMAS)* discussion beginning on page 91.

The market dislocations have continued to impact certain SIVs and have recently begun to impact senior debt issued by financial services companies. During the first nine months of 2008, we provided additional support to certain cash funds managed within *GWIM* by utilizing existing capital commitments and purchasing certain investments from these funds. Further, one of the SIV investments that we purchased from these funds was restructured resulting in additional losses. For more information on our cash fund support, see the *GWIM* discussion beginning on page 99.

Market conditions also impacted the ratings of certain 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, in certain situations, recognized losses related to some of these exposures during the first nine months of 2008. For more information related to our monoline exposure, see the Industry Concentrations discussion on page 146.

The above conditions, together with deterioration in the overall economy, will continue to affect these and other global markets in which we do business and will adversely impact our results throughout the remainder of 2008 and into 2009. The degree of the impact is dependent upon the duration and severity of such conditions.

Regulatory Initiatives

On October 3, 2008, the President signed into law the Emergency Economic Stabilization Act of 2008 (EESA). Pursuant to the EESA, the U.S. Treasury has authority to, among other things, invest in financial institutions and purchase mortgages, mortgage-backed securities and certain other financial instruments from financial institutions, in an aggregate amount up to \$700 billion, for the purpose of stabilizing and providing liquidity to the U.S. financial markets.

On October 14, 2008, in connection with the Troubled Asset Relief Program (TARP) Capital Purchase Program, established as part of the EESA, the U.S. Treasury announced a plan to invest up to \$250 billion in certain eligible financial institutions in the form of non-voting, senior preferred stock initially paying quarterly dividends at a five percent annual

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rate. When the U.S. Treasury makes such preferred investments in any company, it will also receive 10-year warrants to acquire common shares having an aggregate market price of 15 percent of the amount of the senior preferred investment. In connection with the U.S. Treasury announcement, we were identified as one of the nine financial institutions to participate in the first \$125 billion of U.S. Treasury investments. As a result, we issued to the U.S. Treasury 600 thousand shares of Bank of America Corporation Fixed Rate Cumulative Perpetual Preferred Stock, Series N (Series N Preferred Stock) with a par value of \$0.01 per share for \$15.0 billion. The Series N Preferred Stock initially pays quarterly dividends at a five percent annual rate that increases to nine percent after five years. The Series N Preferred Stock has a call feature after three years. In connection with this investment, we also issued to the U.S. Treasury warrants to purchase approximately 73.1 million shares of Bank of America Corporation common stock at an exercise price of \$30.79 per share.

In connection with the sale of the Series N Preferred Stock, Merrill Lynch & Co., Inc. (Merrill Lynch) entered into an agreement with the U.S. Treasury which allows Merrill Lynch to sell preferred stock and 10-year warrants to the U.S. Treasury for a purchase price of \$10.0 billion prior to January 31, 2009 under certain circumstances. The U.S. Treasury has agreed with the Corporation that if the closing of the Merrill Lynch acquisition occurs prior to any such sale of preferred stock by Merrill Lynch, the U.S. Treasury will purchase, and the Corporation will issue, 400 thousand additional shares of Series N Preferred Stock (or a substantially similar series) and warrants to purchase approximately 48.7 million additional shares of common stock at an exercise price of \$30.79, for an aggregate purchase price of \$10.0 billion.

Under the TARP Capital Purchase Program, dividend payments on, and repurchases of, our outstanding preferred and common stock are subject to certain restrictions. For more information on these restrictions, see *Note 19 Subsequent Events* to the Consolidated Financial Statements.

As part of the regulatory initiatives, the FDIC implemented the Temporary Liquidity Guarantee Program (TLGP) to strengthen confidence and encourage liquidity in the banking system. The TLGP is comprised of the Debt Guarantee Program (DGP) and the Transaction Account Guarantee Program (TAGP). The DGP will guarantee all newly issued senior unsecured debt (e.g., promissory notes, unsubordinated unsecured notes and commercial paper) up to prescribed limits issued by participating entities beginning on October 14, 2008 and continuing through June 30, 2009. For eligible debt issued by that date, the FDIC will provide the guarantee coverage until the earlier of the maturity date of the debt or June 30, 2012. The TAGP will offer full guarantee for noninterest-bearing deposit accounts held at FDIC-insured depository institutions. The unlimited deposit coverage will be voluntary for eligible institutions and would be in addition to the \$250,000 FDIC deposit insurance per account that was included as part of the EESA. The TAGP coverage became effective on October 14, 2008 and will continue for participating institutions until December 31, 2009.

Initially, these programs were provided at no cost for the first 30 days. On November 3, 2008, the FDIC extended the opt-out period to December 5, 2008 to provide eligible institutions additional time to consider the terms before making a final decision regarding participation in the program. An entity that chooses not to opt out of either or both programs will become a participating entity and will be assessed fees for participation. Participants in the DGP will be charged an annualized fee equal to 75 basis points (bps) multiplied by the debt issued, and calculated for the maturity period of that debt, or through June 30, 2012, whichever is earlier. Any eligible entity that has not chosen to opt out of the TAGP will be assessed, on a quarterly basis, an annualized 10 bps fee on balances in noninterest-bearing transaction accounts that exceed the existing deposit insurance limit of \$250,000. Details of these programs are being finalized by regulators. We have agreed in principle to participate in these programs.

In addition to the TLGP, in September 2008, the U.S. Treasury implemented the Temporary Guarantee Program for Money Market Funds. This is a voluntary and temporary program that is in effect through December 18, 2008 with the possibility of being extended. The program provides for a guarantee with respect to a fixed number of shares held by certain shareholders as of September 19, 2008, to receive \$1.00 per share in the event that a participating fund no longer has a \$1.00 per share net asset value and liquidates. With respect to such shares covered by the program, the guarantee payment would be equal to any shortfall between the amount received by a shareholder in a liquidation and \$1.00 per share. The eligible money market mutual funds pay a fee to the U.S. Treasury to participate in the program. Several money market funds managed within *GWIM* currently participate in the program.

In September and October 2008, the Federal Reserve Board announced the creation of the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF), the Commercial Paper Funding Facility (CPFF) as well as the Money Market Investor Funding Facility (MMIFF). These facilities were created to provide liquidity to the U.S. short-term debt markets in an effort to increase the availability of credit. Under the AMLF, nonrecourse loans are provided to U.S. financial institutions for the purchase of U.S. dollar-denominated high-quality asset-backed commercial paper from money market mutual funds under certain conditions. The program is intended to assist money market funds that hold such paper in meeting demands for redemptions by investors and to foster liquidity in the asset-backed commercial paper market and money markets more generally. Financial institutions will bear no credit risk associated with commercial paper purchased under the AMLF. Under the CPFF, registered issuers will be allowed to sell commercial paper through a

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primary dealer to the CPFF subject to certain fees. Pricing will be based on whether the commercial paper is secured or unsecured. In addition, there are issuer-based limits on the amount of commercial paper the facility will hold. Upon implementation of the MMIFF, senior secured funding will be provided to a series of special purpose vehicles to finance the purchase of U.S. dollar-denominated certificates of deposits and commercial paper with a remaining maturity of 90 days or less issued by highly rated financial institutions and from qualifying investors including U.S. money market mutual funds. We have participated in some of the above programs.

In July 2008, the President signed into law the Housing and Economic Recovery Act of 2008. This Act has several provisions including the establishment of a voluntary program that permits the Federal Housing Administration (FHA) to refinance eligible mortgages for certain qualified borrowers. Some of this Act's other provisions include changes to the FHA program, increases in the limits on the principal balances of mortgage loans that the FHA and government-sponsored enterprises (GSEs) can purchase, creating a new regulator for the GSEs, and establishing a registration system for loan originators.

In May 2008, federal bank regulators in the U.S. proposed amendments to the rules regarding Unfair and Deceptive Acts or Practices (UDAP) and Truth in Lending that would restrict certain credit and charge card practices and require expanded disclosures to consumers. Similar legislative initiatives have been proposed. The proposed regulatory amendments include, among other matters, rules relating to the imposition by card issuers of interest rate increases on outstanding balances and the allocation of payments in respect of outstanding balances with different interest rates. If new regulations are adopted as proposed, we would likely make significant changes to our card practices. Also in the May 2008 proposal, federal bank regulators proposed new regulations under the same UDAP authority and under the Truth in Savings Act that would require banks to offer consumer deposit customers the opportunity to opt out of overdraft services and fees. If the new regulations are adopted as proposed, we would need to make significant changes in the manner in which we process transactions that affect consumer deposit accounts.

We are continuing to evaluate these proposals, our participation in the above programs and their impact on our financial condition and results of operations.

Recent Events

In October 2008, prior to the U.S. Treasury's announcement of the TARP Capital Purchase Program discussed above, we issued 455 million shares of common stock at \$22.00 per share resulting in proceeds of \$9.8 billion, net of underwriting expenses.

In October 2008, the Board of Directors (the Board) declared a regular quarterly cash dividend on common stock of \$0.32 per share, payable on December 26, 2008 to common shareholders of record on December 5, 2008, as compared to the quarterly cash dividend on common stock of \$0.64 per share paid on September 26, 2008 to common shareholders of record on September 5, 2008. The 50 percent reduction in our regular quarterly cash dividend on common stock was a result of our earnings. In addition in October 2008, we declared aggregate dividends on preferred stock of \$297 million, and in the third quarter of 2008 declared aggregate dividends on preferred stock of \$473 million. For further discussion on our liquidity and capital, see Liquidity Risk and Capital Management beginning on page 116.

Also in October 2008, in connection with the Housing and Economic Recovery Act of 2008, we announced the creation of a home retention program that was developed in conjunction with several state attorneys general that will systematically modify troubled mortgages with up to \$8.4 billion in interest rate and principal reductions for up to 400,000 Countrywide Financial Corporation (Countrywide) customers. This program is eligible to those borrowers who financed their primary residence with subprime or pay option adjustable rate mortgages serviced by Countrywide and originated prior to December 31, 2007. We hold approximately 12 percent of the eligible loans for investment while the remaining 88 percent are loans that we service but do not own. The program is a proactive loan modification process to provide relief to eligible borrowers who are seriously delinquent or are likely to become seriously delinquent as a result of loan features, such as rate resets or payment recasts. Modification options, among others, include FHA refinancing under the Housing and Economic Recovery Act of 2008; interest rate reductions, which may be granted automatically; and principal reductions on certain pay option adjustable rate mortgages. Under this program, eligible borrowers will not be charged loan modification fees, and prepayment penalties will be waived for qualifying subprime and pay option adjustable rate mortgages Countrywide or its affiliates own. In addition, borrowers in participating states will have access to several programs to provide further financial relief. These foreclosure prevention efforts will reduce foreclosures and the related losses providing a solution for customers and protecting investors. This program is in line with the Corporation's original expectations upon acquisition and is not expected to impact the Corporation's purchase accounting adjustments.

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In September 2008, we announced an agreement to acquire Merrill Lynch in an all-stock transaction. The transaction has been approved by the board of directors of each company. Merrill Lynch common shareholders would receive 0.8595 of a share of Bank of America Corporation common stock in exchange for one share of Merrill Lynch common stock. In addition, Merrill Lynch non-convertible preferred shareholders would receive Bank of America Corporation preferred stock having substantially identical terms. Merrill Lynch convertible preferred stock will remain outstanding and will thereafter be convertible into Bank of America common stock at an equivalent exchange ratio. The acquisition would add Merrill Lynch's more than 16,000 financial advisors and its interest in BlackRock, Inc., a publicly traded investment management company. In addition, the acquisition is expected to increase our underwriting capabilities for debt and equity offerings, as well as our ability to advise on global mergers and acquisitions. The completion of this transaction is subject to closing conditions, and shareholder and regulatory approvals, and is expected to close on or around December 31, 2008.

In September 2008, we provided a \$7.5 billion bilateral secured credit facility to Merrill Lynch, which is collateralized by a variety of assets including corporate and commercial real estate loans. The facility matures on the earlier of March 26, 2009 or the completion or termination date of the pending acquisition of Merrill Lynch. Based on collateral delivered as of September 30, 2008, \$3.2 billion was available under the facility of which \$3.0 billion was outstanding. In October 2008, we provided a \$10.0 billion committed unsecured bank revolving credit facility to Merrill Lynch with borrowings guaranteed by the FDIC under the TLGP. This facility will be available to Merrill Lynch until January 30, 2009 but may expire at an earlier date if the pending acquisition of Merrill Lynch is terminated or consummated prior to January 30, 2009 or if Merrill Lynch elects to participate in the TARP Capital Purchase Program.

In September 2008, we announced an agreement in principle with the Massachusetts Securities Division under which we will offer to purchase at par ARS held by certain customers. The offer will cover approximately \$4.5 billion in ARS held by an estimated 5,600 of our customers. Further in October 2008, we announced other agreements in principle with the SEC, the Office of the New York State Attorney General (NYAG), and the North American Securities Administrators Association. These agreements are substantially similar except that the agreement with the NYAG requires the payment of a penalty. During the third quarter, we provided for estimated losses on our commitment to buy back ARS from our clients of \$313 million in other income and recorded a penalty of \$50 million in other general operating expense.

On July 1, 2008, the Corporation acquired Countrywide through its merger with a subsidiary of the Corporation. Under the terms of the agreement, Countrywide shareholders received 0.1822 of a share of Bank of America Corporation common stock in exchange for one share of Countrywide common stock. The acquisition of Countrywide significantly improved our mortgage originating and servicing capabilities while making us a leading mortgage originator and servicer. For more information related to our Countrywide acquisition, see *Note 2 Merger and Restructuring Activity* to the Consolidated Financial Statements.

Recent Accounting Developments

On September 15, 2008, the FASB released exposure drafts which would amend SFAS 140 and FIN 46R. As written, the proposed amendments would eliminate the concept of a QSPE and change the standards for consolidation of VIEs. The changes would be effective for both existing and newly created entities as of January 1, 2010. If adopted as written, the amendments would likely result in the consolidation of certain QSPEs and VIEs that are not currently recorded on the Consolidated Balance Sheet. These consolidations may result in an increase in outstanding loans and on-balance sheet funding, higher provision and allowance for credit losses as well as changes in the timing of recognition and location of where items are classified on our income statement. In addition, regulatory capital amounts and ratios may be negatively impacted based on the outcome of the FASB and regulatory agencies' decisions. However, the impact on the Corporation cannot be determined until the FASB issues the final amendments to SFAS 140 and FIN 46R and the banking regulators provide guidance on how these amendments will impact regulatory capital. See *Note 1 Summary of Significant Accounting Principles* to the Consolidated Financial Statements for a further discussion of recently issued accounting pronouncements.

Table of Contents**Performance Overview**

Net income was \$1.2 billion, or \$0.15 per diluted common share for the three months ended September 30, 2008, as compared to \$3.7 billion, or \$0.82 per diluted common share, for the three months ended September 30, 2007. Net income was \$5.8 billion, or \$1.10 per diluted common share for the nine months ended September 30, 2008, as compared to \$14.7 billion, or \$3.25 per diluted common share, for the nine months ended September 30, 2007.

Table 1**Business Segment Total Revenue and Net Income**

	Three Months Ended September 30				Nine Months Ended September 30			
	Total Revenue ⁽¹⁾		Net Income		Total Revenue ⁽¹⁾		Net Income	
(Dollars in millions)	2008	2007	2008	2007	2008	2007	2008	2007
Global Consumer and Small Business Banking ⁽²⁾	\$ 15,929	\$ 12,075	\$ 1,234	\$ 2,313	\$ 42,492	\$ 35,331	\$ 3,168	\$ 7,519
Global Corporate and Investment Banking	4,537	2,919	533	90	13,656	14,285	2,398	3,241
Global Wealth and Investment Management	1,547	2,078	67	558	5,748	5,747	871	1,626
All Other ⁽²⁾	(2,114)	(600)	(657)	737	(3,900)	(235)	(640)	2,328
Total FTE basis	19,899	16,472	1,177	3,698	57,996	55,128	5,797	14,714
FTE adjustment	(278)	(375)	-	-	(894)	(1,099)	-	-
Total Consolidated	\$ 19,621	\$ 16,097	\$ 1,177	\$ 3,698	\$ 57,102	\$ 54,029	\$ 5,797	\$ 14,714

⁽¹⁾ Total revenue is net of interest expense, and is on a FTE basis for the business segments and *All Other*. For more information on a FTE basis, see Supplemental Financial Data beginning on page 71.

⁽²⁾ *GCSBB* is presented on a managed basis with a corresponding offset recorded in *All Other*.

The table above presents total revenue and net income for the business segments and *All Other* and the following discussion presents a summary of the related results. For more information on these results, see Business Segment Operations beginning on page 78.

For the three months ended September 30, 2008, *GCSBB*'s net income decreased as higher revenue was more than offset by increased provision for credit losses and noninterest expense. Total revenue increased from merger-related and organic average loan and deposit growth, as well as higher mortgage banking income due to the acquisition of Countrywide. Higher provision for credit losses resulted from the impacts of the housing weakness and slowing economy. Noninterest expense increased due to the addition of Countrywide and LaSalle Bank Corporation (LaSalle).

In addition to the drivers discussed above, during the nine months ended September 30, 2008, *GCSBB*'s results were favorably impacted by the *Card Services* portion of the Visa IPO transactions. For more information on *GCSBB*, see page 79.

For the three months ended September 30, 2008, *GCIB*'s net income increased due to higher revenue, partially offset by increased commercial credit costs and noninterest expense. Revenue increased due to an increase in net interest income, primarily market-based, and service charges. Market-based disruptions continue to impact our *CMAS* business. The higher provision for credit losses was due to the impact of the housing markets slowdown on the homebuilder loan portfolio and higher commercial domestic net charge-offs.

In addition to the drivers discussed above, during the nine months ended September 30, 2008, *GCIB*'s results were favorably impacted by the *Treasury Services* portion of the Visa IPO transactions. For more information on *GCIB*, see page 87.

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For the three months ended September 30, 2008, *GWIM*'s net income decreased due to lower revenue and higher provision for credit losses. Total revenue decreased as higher net interest income was more than offset by losses related to the support of certain cash funds. The increase in provision for credit losses was driven by deterioration in the housing markets. Noninterest expense increased due to the addition of LaSalle. In addition, total revenue and noninterest expense were adversely impacted by losses and a penalty associated with the ARS settlement.

In addition to the drivers discussed above, during the nine months ended September 30, 2008, *GWIM*'s results were impacted by the July 1, 2007 acquisition of U.S. Trust Corporation. For more information on *GWIM*, see page 99.

For the three months ended September 30, 2008, *All Other*'s net income decreased due to losses in equity investment income, higher credit costs related to our ALM residential mortgage portfolio and an increase in merger and restructuring charges.

In addition to the drivers discussed above, during the nine months ended September 30, 2008, *All Other*'s results were impacted by the absence of our Latin America operations, which were sold in the first quarter of 2007. For more information on *All Other*, see page 105.

Financial Highlights

Net Interest Income

Net interest income on a FTE basis increased \$2.9 billion to \$11.9 billion and \$6.8 billion to \$33.1 billion for the three and nine months ended September 30, 2008 compared to the same periods in 2007. The increases were driven by the acquisitions of Countrywide and LaSalle, strong loan and deposit growth, hedge income, and the contribution from market-based net interest income related to our *CMAS* business, which benefited from the steepening of the yield curve and product mix. The net interest yield on a FTE basis increased 32 bps to 2.93 percent and 26 bps to 2.86 percent for the three and nine months ended September 30, 2008 compared to the same periods in 2007, due to increased yields on market based activity, the beneficial impact of the current interest rate environment and hedge income. Partially offsetting these increases were the additions of lower yielding assets from the Countrywide and LaSalle acquisitions. For more information on net interest income on a FTE basis, see Tables 8 and 9 on pages 75 and 77.

Noninterest Income

Table 2

Noninterest Income

Three Months Ended September 30 Nine Months Ended September 30

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(Dollars in millions)	2008	2007	2008	2007
Card income	\$ 3,122	\$ 3,595	\$ 10,212	\$ 10,486
Service charges	2,722	2,221	7,757	6,493
Investment and brokerage services	1,238	1,378	3,900	3,720
Investment banking income	474	389	1,645	1,801
Equity investment income (loss)	(316)	904	1,330	3,747
Trading account profits (losses)	(384)	(1,388)	(1,810)	491
Mortgage banking income	1,674	155	2,564	516
Insurance premiums	678	235	1,092	548
Gains on sales of debt securities	10	7	362	71
Other income (loss)	(1,239)	(16)	(2,204)	880
Total noninterest income	\$ 7,979	\$ 7,480	\$ 24,848	\$ 28,753

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Noninterest income increased \$499 million to \$8.0 billion and decreased \$3.9 billion to \$24.8 billion for the three and nine months ended September 30, 2008 compared to the same periods in 2007.

Card income on a held basis decreased \$473 million and \$274 million primarily due to the unfavorable change in value of the interest-only strip and decreases in various fees, partially offset by an increase in debit card income. In addition, the decrease during the nine months ended September 30, 2008 was partially offset by an increase in cash advance fees.

Service charges grew \$501 million and \$1.3 billion resulting from new account growth in deposit accounts and the beneficial impact of the LaSalle acquisition.

Investment and brokerage services decreased \$140 million for the three months ended September 30, 2008 primarily due to the absence of fees related to Marsico Capital Management, LLC (Marsico) which was sold in late 2007. Investment and brokerage services increased \$180 million for the nine months ended September 30, 2008 primarily due to the U.S. Trust Corporation and LaSalle acquisitions, partially offset by the sale of Marsico.

Investment banking income increased \$85 million for the three months ended September 30, 2008 driven by increased debt underwriting activity as customers' demand for liquidity rose. Investment banking income decreased \$156 million for the nine months ended September 30, 2008, driven by reduced advisory fees due to current market disruptions.

Equity investment income decreased \$1.2 billion and \$2.4 billion due to a reduction in gains from our Principal Investing portfolio attributable to the lack of liquidity in the marketplace when compared to the same periods in the prior year and other-than-temporary impairments taken on certain equity securities, including Freddie Mac and Fannie Mae. In addition, during the three months ended September 30, 2007, we recorded a \$353 million dividend from China Construction Bank (CCB) which included a special dividend of \$184 million due to CCB's share listing.

Trading account losses were \$384 million and \$1.8 billion driven by continued losses related to CDO exposure and the continuing impact of the market disruptions on various parts of our *CMAS* business. For more information on the impact of these events refer to the *GCIB* discussion beginning on page 87.

Mortgage banking income increased \$1.5 billion and \$2.0 billion primarily as a result of the Countrywide acquisition, which drove increases in servicing income of \$881 million and \$1.1 billion and production income of \$639 million and \$981 million.

Insurance premiums increased \$443 million and \$544 million primarily due to the acquisition of Countrywide's life and casualty, and reinsurance businesses.

Other income (loss) decreased \$1.2 billion and \$3.1 billion due to impairment writedowns of \$789 million and \$1.9 billion associated with CDOs classified as AFS debt securities and \$145 million and \$648 million of writedowns associated with our leveraged finance loans and commitments. We also recorded losses of \$630 million and \$886 million associated with the support provided to certain cash funds managed within *GWIM* and writedowns related to certain SIV investments that were purchased from the funds. In addition, during the three months ended September 30, 2008 we recorded losses of \$313 million on a commitment to buy back auction-rate securities from clients. These decreases were partially offset by a \$283 million gain on the sale of a card portfolio as well as a \$224 million gain on the sale of our prime brokerage business, both of which occurred in the third quarter of 2008.

Provision for Credit Losses

The provision for credit losses increased \$4.4 billion to \$6.5 billion and \$13.2 billion to \$18.3 billion for the three and nine months ended September 30, 2008 compared to the same periods in 2007. Deterioration in the housing markets, particularly in geographic areas that have experienced the most significant home price declines, as well as the impacts of a slowing economy and seasoning drove higher credit costs.

For more information on credit quality, see Provision for Credit Losses beginning on page 151.

Table of Contents*Noninterest Expense***Table 3***Noninterest Expense*

(Dollars in millions)	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Personnel	\$ 5,198	\$ 4,169	\$ 14,344	\$ 13,931
Occupancy	926	754	2,623	2,211
Equipment	440	336	1,208	1,018
Marketing	605	552	1,813	1,644
Professional fees	424	258	1,071	770
Amortization of intangibles	464	429	1,357	1,209
Data processing	755	463	1,905	1,372
Telecommunications	288	255	814	750
Other general operating	2,313	1,411	4,818	3,940
Merger and restructuring charges	247	84	629	270
Total noninterest expense	\$ 11,660	\$ 8,711	\$ 30,582	\$ 27,115

Noninterest expense increased \$2.9 billion and \$3.5 billion for the three and nine months ended September 30, 2008 compared to the same periods in 2007, primarily due to the acquisitions of Countrywide and LaSalle. The nine months ended September 30, 2008 was also impacted by the reversal of certain Visa-related litigation costs associated with the completion of the Visa IPO and a reduction in performance-based incentive compensation expense due in part to modifications to certain employee incentive programs primarily in *GCIB*.

Income Tax Expense

Income tax expense was \$334 million for the three months ended September 30, 2008 compared to \$1.7 billion for the same period in 2007 resulting in an effective tax rate of 22.1 percent and 31.0 percent. Income tax expense was \$2.4 billion for the nine months ended September 30, 2008 compared to \$7.1 billion for the same period in 2007 resulting in an effective tax rate of 29.6 percent and 32.6 percent. The decreases in the effective tax rates reflect the impact of lower pre-tax income offset by a decrease in the relative percentage of our earnings taxed solely outside of the U.S. and the remeasurement of tax positions in accordance with FIN 48. For more information on income tax expense, see *Note 15 Income Taxes* to the Consolidated Financial Statements.

Assets

At September 30, 2008, total assets were \$1.8 trillion, an increase of \$115.4 billion from December 31, 2007. The increase in total assets was primarily attributable to the acquisition of Countrywide, which impacted various line items including loans and leases, debt securities, mortgage servicing rights and other assets. Partially offsetting these increases was a decrease in federal funds sold and securities purchased under agreements to resell, primarily due to the sale of our equity prime brokerage business. In addition to the acquisition of Countrywide, debt securities also increased due to net purchases of securities and the securitization of residential mortgage loans into mortgage-backed securities which we retained.

Average total assets for the three and nine months ended September 30, 2008 increased \$325.1 billion, or 21 percent, and \$254.0 billion, or 16 percent, from the same periods in 2007 primarily due to higher loans and leases and debt

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securities. The increase in average loans and leases was attributable to organic growth and the Countrywide and LaSalle acquisitions. The increase in debt securities was driven by the same factors as noted above and the LaSalle merger.

Liabilities and Shareholders' Equity

At September 30, 2008, total liabilities were \$1.7 trillion, an increase of \$101.2 billion from December 31, 2007. The increase in total liabilities was attributable to the acquisition of Countrywide, which impacted various line items including deposits, long-term debt, and accrued expenses and other liabilities. Deposits increased \$68.9 billion due to the addition of Countrywide and the benefit we received from a consumer and business flight-to-safety resulting from market instability. Partially offsetting these increases was a decrease in commercial paper and other short-term borrowings due in part to the sale of our equity prime brokerage business.

Average total liabilities for the three and nine months ended September 30, 2008 increased \$293.2 billion, or 20 percent, and \$227.0 billion, or 16 percent, from the same periods in 2007. The increase in average total liabilities was attributable to higher deposits and long-term debt to support growth in overall assets, the assumption of liabilities associated with Countrywide and LaSalle, and the funding of the LaSalle acquisition.

Period end shareholders' equity was \$161.0 billion at September 30, 2008, an increase of \$14.2 billion from December 31, 2007, due to the issuance of preferred stock of \$19.7 billion, net income of \$5.8 billion and stock issued in the Countrywide acquisition of \$4.2 billion, partially offset by dividend payments of \$9.5 billion and a decrease in accumulated OCI of \$6.8 billion. The decrease in accumulated OCI was due in part to the decrease in the fair value of our CCB investment during 2008.

Average shareholders' equity for the three and nine months ended September 30, 2008 compared to the same periods in 2007, increased \$32.0 billion and \$27.0 billion due to the same period-end factors discussed above except that accumulated OCI increased due to the fair value adjustment related to our investment in CCB.

Impact of Countrywide Acquisition

Effective July 1, 2008, Countrywide's results of operations are included in the Corporation's consolidated results. For the three and nine months ended September 30, 2008, the Countrywide acquisition contributed \$644 million to net interest income on a FTE basis, \$1.7 billion to noninterest income, \$2.0 billion to noninterest expense and \$259 million to net income. The acquisition of Countrywide did not have a significant impact on the provision for credit losses as impaired loans acquired from Countrywide were initially recorded at fair value. At July 1, 2008, the Countrywide acquisition contributed \$86.2 billion to total loans and leases, \$17.4 billion to securities, \$17.2 billion to MSR, and \$63.0 billion to total deposits.

The majority of Countrywide's ongoing operations are recorded in *MHEIS*. Countrywide's acquired first mortgage portfolio was recorded in *All Other* and is managed as part of our overall ALM activities. For more information on Countrywide's impact in *MHEIS*, see the *MHEIS* discussion beginning on page 85. For more information related to the Countrywide acquisition, see *Note 2 - Merger and Restructuring Activity* to

the Consolidated Financial Statements.

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Selected Quarterly Financial Data

(Dollars in millions, except per share information)	2008 Quarters			2007 Quarters	
	Third	Second	First	Fourth	Third
Income statement					
Net interest income	\$ 11,642	\$ 10,621	\$ 9,991	\$ 9,165	\$ 8,617
Noninterest income	7,979	9,789	7,080	3,639	7,480
Total revenue, net of interest expense	19,621	20,410	17,071	12,804	16,097
Provision for credit losses	6,450	5,830	6,010	3,310	2,030
Noninterest expense, before merger and restructuring charges	11,413	9,447	9,093	10,269	8,627
Merger and restructuring charges	247	212	170	140	84
Income (loss) before income taxes	1,511	4,921	1,798	(915)	5,356
Income tax expense (benefit)	334	1,511	588	(1,183)	1,658
Net income	\$ 1,177	\$ 3,410	\$ 1,210	\$ 268	\$ 3,698
Average common shares issued and outstanding (in thousands)	4,543,963	4,435,719	4,427,823	4,421,554	4,420,616
Average diluted common shares issued and outstanding (in thousands)	4,563,508	4,457,193	4,461,201	4,470,108	4,475,917
Performance ratios					
Return on average assets	0.25 %	0.78 %	0.28 %	0.06 %	0.93 %
Return on average common shareholders' equity	1.97	9.25	2.90	0.60	11.02
Return on tangible shareholders' equity ⁽¹⁾	5.54	16.40	6.31	1.60	21.90
Total ending equity to total ending assets	8.79	9.48	9.00	8.56	8.77
Total average equity to total average assets	8.73	9.20	8.77	8.32	8.51
Dividend payout	n/m	88.67	n/m	n/m	77.97
Per common share data					
Earnings	\$ 0.15	\$ 0.73	\$ 0.23	\$ 0.05	\$ 0.83
Diluted earnings	0.15	0.72	0.23	0.05	0.82
Dividends paid	0.64	0.64	0.64	0.64	0.64
Book value	30.01	31.11	31.22	32.09	30.45
Market price per share of common stock					
Closing	\$ 35.00	\$ 23.87	\$ 37.91	\$ 41.26	\$ 50.27
High closing	37.48	40.86	45.03	52.71	51.87
Low closing	18.52	23.87	35.31	41.10	47.00
Market capitalization	\$ 159,672	\$ 106,292	\$ 168,806	\$ 183,107	\$ 223,041
Average balance sheet					
Total loans and leases	\$ 946,914	\$ 878,639	\$ 875,661	\$ 868,119	\$ 780,516
Total assets	1,905,691	1,754,613	1,764,927	1,742,467	1,580,565
Total deposits	857,845	786,002	787,623	781,625	702,481
Long-term debt	264,934	205,194	198,463	196,444	175,265
Common shareholders' equity	142,303	140,243	141,456	141,085	131,606
Total shareholders' equity	166,454	161,428	154,728	144,924	134,487
Asset quality⁽²⁾					
Allowance for credit losses ⁽³⁾	\$ 20,773	\$ 17,637	\$ 15,398	\$ 12,106	\$ 9,927
Nonperforming assets ⁽⁴⁾	13,576	9,749	7,827	5,948	3,372
Allowance for loan and lease losses as a percentage of total loans and leases outstanding ⁽⁵⁾	2.17 %	1.98 %	1.71 %	1.33 %	1.21 %
Allowance for loan and lease losses as a percentage of total nonperforming loans and leases ⁽⁵⁾	173	187	203	207	300
Net charge-offs	\$ 4,356	\$ 3,619	\$ 2,715	\$ 1,985	\$ 1,573
Annualized net charge-offs as a percentage of average loans and leases outstanding ⁽⁵⁾	1.84 %	1.67 %	1.25 %	0.91 %	0.80 %
Nonperforming loans and leases as a percentage of total loans and leases outstanding ⁽⁵⁾	1.25	1.06	0.84	0.64	0.40
Nonperforming assets as a percentage of total loans, leases and foreclosed properties ^(4, 5)	1.45	1.13	0.90	0.68	0.43
Ratio of the allowance for loan and lease losses at period end to annualized net charge-offs	1.17	1.18	1.36	1.47	1.53
Capital ratios (period end)					
Risk-based capital:					
Tier 1	7.55 %	8.25 %	7.51 %	6.87 %	8.22 %
Total	&nb				